INTERNATIONAL MONETARY FUND

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BENIN

May 2023

SECOND REVIEW UNDER THE EXTENDED FUND FACILITY AND THE EXTENDED CREDIT FACILITY ARRANGEMENTS—PRESS RELEASE; STAFF REPORT; DEBT SUSTAINABILITY ANALYSIS AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BENIN

In the context of the Second Review under the Extended Fund Facility and the Extended Credit Facility Arrangements, 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 17, 2023, following discussions that ended on April 5, 2023, with the officials of Benin on economic developments and policies underpinning the Fund-supported program under the Extended Fund Facility and the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 4, 2023.
- 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 IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 23/158

IMF Executive Board Completes the Second Review under the Extended Fund Facility and the Extended Credit Facility Arrangements for Benin and Approves US$68 million Disbursement

FOR IMMEDIATE RELEASE

- IMF Board completed the Second Review under the 42-month blended EFF/ECF arrangement for Benin, providing the country with immediate access to about US$68 million.
- Program performance has been robust, with all end-September and end-December 2022 performance criteria and indicative targets met and all structural benchmarks implemented.
- After three years of warranted policy accommodation, fiscal consolidation is underway, underpinned by robust tax collection and spending reprioritization to shield social programs and help meet Benin's large development and security-related needs.

Washington, DC: On May 17, 2023, the Executive Board of the International Monetary Fund completed the Second Review of Benin's Fund-supported program. The 42-month blended EFF/ECF, approved on July 8, 2022 (see PR 22/252), seeks to help Benin address pressing financing needs, support the country's National Development Plan centered on achieving the Sustainable Development Goals (SDGs), and catalyze donor support. This review completion allows for the immediate disbursement of SDR 50.82 million (about US$68 million) toward budget support, bringing total disbursements under the program so far to SDR 267.42 million (about US$360 million).

The Beninese economy is gaining strength despite multiple exogenous shocks and challenges. Economic activity is estimated to have expanded by 6.3 percent in 2022, buoyed by construction and a good harvest season. While the outlook is favorable, supported by the expansion of the new special economic zone and the modernization of the Port of Cotonou, the protracted war in Ukraine and the challenging regional security situation pose important risks to external accounts and food security.

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

"The authorities' balanced policy response to external shocks, supported by frontloaded financing under the EFF/ECF, has allowed Benin to meet unanticipated spending needs related to the protracted war in Ukraine and spillovers from regional security risks while preserving macroeconomic stability.

"Revenue-based fiscal consolidation is underway, after three years of warranted policy accommodation amidst repeated and severe exogenous shocks. The fiscal strategy, with convergence to an overall fiscal deficit of 3 percent of GDP by 2025, is consistent with the

700 19th Street NW
Washington, DC 20431
USA

West African Economic and Monetary Union-wide stance and the program's debt sustainability objectives.

"The pending Medium-Term Revenue Mobilization Strategy (MTRS), aimed at expanding the tax base and enhancing the overall efficiency of the tax system, will create fiscal space for Benin's large development needs over time and help preserve debt sustainability.

"The recently established social registry is much-needed to channel timely support to vulnerable households in a world more prone to shocks. Its swift full operationalization is critical to improve the targeting and efficiency of social programs as their coverage expands.

"The structural reform agenda is advancing, including with the completion and publication of the IMF governance diagnostic, the adoption of a financial inclusion strategy, the digitalization of land title requests, and the submission to Parliament of a draft law to ensure the sustainability of the authorities' flagship school feeding program.

Going forward, the authorities' demonstrated commitment to reform is a mitigating factor vis-à-vis heightened global uncertainty, regional security risks and longstanding and intensifying climate change vulnerabilities."

INTERNATIONAL MONETARY FUND

BENIN

May 4, 2023

SECOND REVIEW UNDER THE EXTENDED FUND FACILITY AND THE EXTENDED CREDIT FACILITY ARRANGEMENTS

EXECUTIVE SUMMARY

Backdrop. Frontloaded financing under the 42-month Extended Fund Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements—approved by the IMF Executive Board in July 2022—has supported the authorities' balanced policy response to exogenous shocks, helping boost business confidence and support the economic recovery. Nevertheless, there are important socio-economic headwinds from geoeconomic fragmentation, food insecurity, and the regional security situation. The authorities' continued commitment to reform will help keep the economy on a sustainable path.

Policy discussions. The Second EFF/ECF review focused on i) delivering on the 2023 budget—the program's first year of fiscal consolidation; ii) strengthening social safety nets and tackling food insecurity; iii) enhancing the anti-corruption and AML/CFT frameworks, building on the recent IMF governance diagnostic; and iv) gauging the authorities' climate agenda.

Program performance. Performance under the program has been robust. All quantitative performance criteria (QPCs) and indicative targets (ITs) for end-September and end-December 2022 were met. The structural reform agenda is advancing—the IMF governance diagnostic was completed and published by the authorities and a financial inclusion strategy adopted; the two other end-April structural benchmarks (SBs) on digitalizing land title requests and submitting to Parliament a draft law to ensure the sustainability of the school feeding program were also met.

Risks to the program. Risks to the program are elevated but remain manageable. They include higher need for security spending than expected, a prolonged impact of the war in Ukraine, spillovers from weaker global demand, and social discontent. The authorities' continued commitment to fiscal responsibility and renewed focus on social issues are important mitigating factors.

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

Discussions were held in Cotonou during March 22-April 5, 2023. The mission comprised Mr. Lonkeng (head), Mr. Zouhar (Resident Representative), Ms. Daly, Messrs. Bennouna and Specht (all AFR), Ms. Bloch (FAD), and Mr. Houessou (local economist). The mission was supported by Mses. Eckling and Ndome-Yandun (both HQ) and Nononsi (local office). Mses. Namethe and Thomas and Mr. McDonnell (LEG) joined the discussions virtually. Ms. Boukpessi (OED) attended the meetings in-person. The mission met with Senior Minister of Economy and Finance Wadagni, Senior Minister of Development and Coordination of the Governmental Action Bio Tchané, the Special Advisor to the President Dagnon, Minister of Justice and Legislation Quenum (at the time), National Director of the Central Bank of West African States (BCEAO) Assilamehoo, Director of the Military Cabinet of the President General Bada, other senior government officials, representatives of the National Assembly, the civil society, the donor community (African Development Bank, World Food Programme, Food and Agricultural Organization, UNICEF), the farmers' association, the banking association, and other private sector representatives, as well as university students.

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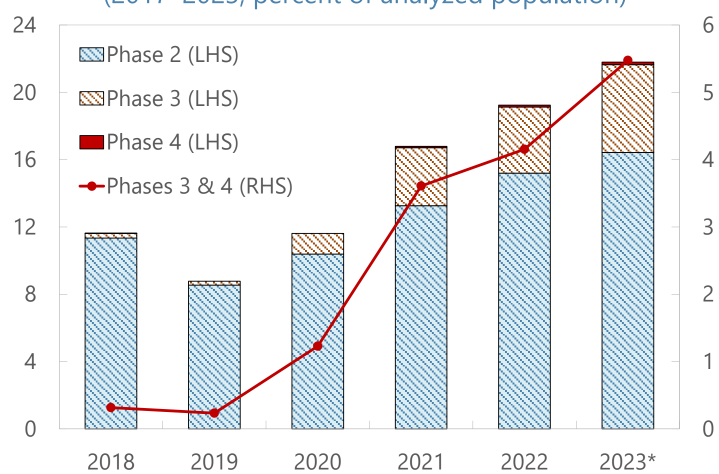
CONTEXT

1. **Front-loaded financing under the EFF/ECF is supporting Benin's balanced policy response to external shocks, boosting business confidence, and supporting the recovery.** Economic activity expanded by an estimated average of 6.3 percent in 2022, lifted by construction, agriculture, transport, and trade. There is growing euphoria around the new Special Economic Zone (SEZ), with clothing lines and new factories to transform locally produced cashews and soy already operational.

2. **Notwithstanding the positive macroeconomic picture, food security is fragile, compounding the legacy of recent shocks and stress from security threats at Benin's northern border** (Text Figure 1). This insecurity, driven by higher staple food prices (Text Figure 3b), has brought agricultural structural impediments to the fore, including weather-related vulnerabilities and productivity constraints (Annex V). Benin also remains vulnerable to weather-related shocks—with floods causing a sharp drop in cotton production in 2022—and to spillovers from regional security threats. The fear of terrorism has often led to school closures, undermining human capital accumulation.

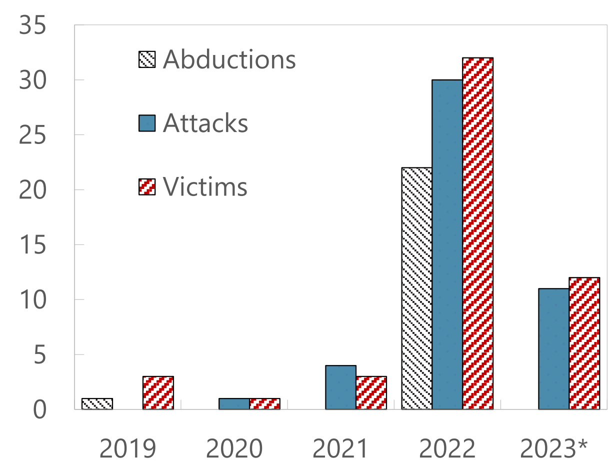
Text Figure 1. Benin: Food Insecurity and Security Threats

Text Figure 1a. Prevalence of Food Insecurity[1/] in Benin
(2017–2023, percent of analyzed population)



*rolling average includes data for March-May 2023

Text Figure 1b. Terrorist Incidents in Benin
(2019–2023*, number of people affected)



*as of April 4, 2023

Sources: Integrated Food Security Phase Classification (1a), UNDSS (1b), and IMF staff calculations.
1/ The IPC Acute Food Insecurity (IPC AFI) classification distinguishes different levels of severity of acute food insecurity in five distinct phases: (1) Minimal/None, (2) Stressed, (3) Crisis, (4) Emergency, (5) Catastrophe/Famine.

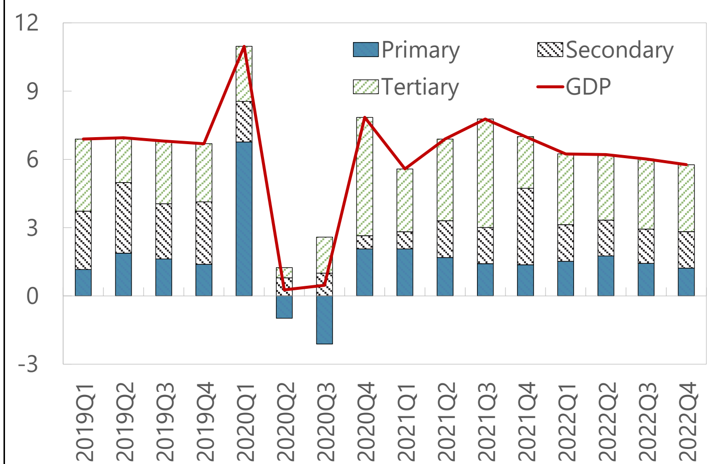
3. **The authorities remain committed to reforms despite these challenges.** After three years of warranted fiscal accommodation amid repeated and severe shocks, the envisaged revenue-based fiscal consolidation underway (from this year) will help create fiscal space toward Benin's large development needs while preserving debt sustainability. On the structural front, the authorities are developing a homegrown action plan to implement key recommendations from the recently completed IMF governance diagnostic.

4. The January legislative elections were smooth. The international community hailed the peaceful conduct and the return of the opposition to Parliament (the ruling coalition retained majority with 81 out of 109 seats). Support for the program is expected to continue. The new assembly features greater representation of women—partly reflecting recent electoral system reforms—that could help consolidate recent progress in gender equity in Benin (Annex III).

RECENT ECONOMIC DEVELOPMENTS

5. Economic recovery continues.

Text Figure 2. Benin: Contributions to Growth, 2019-22
(percentage points)



Sources: Beninese authorities and IMF staff calculations.

- **Real GDP** growth is estimated at 6.3 percent (y/y) for 2022, close to pre-crisis levels, driven by a rebound in agriculture (excluding cereals and cotton), trade, transport activities, and construction, with the latter partly reflecting a ramp-up in public investment (¶16) (Text Figure 2). The performance in agriculture was partly supported by fertilizers subsidies.

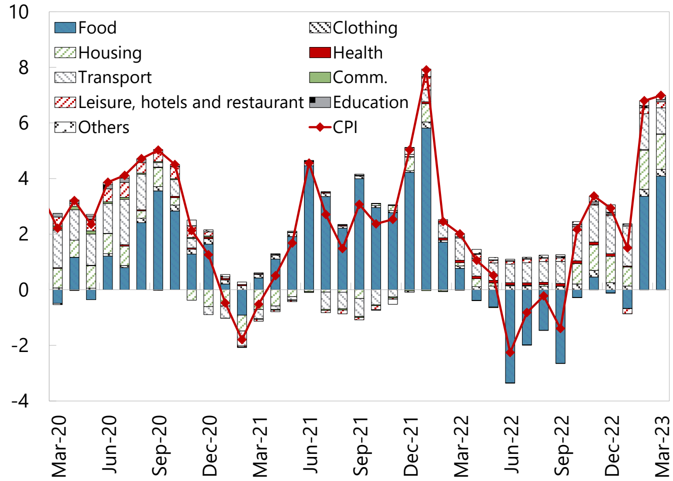
- **Inflation and deflator.** There was a notable decoupling between inflation and the deflator in 2022 (1.4 and 4.1 percent respectively) as producers' costs soared while government subsidies helped contain the price of consumer goods. Inflation has since risen to 5 percent (y/y) in 2023:Q1, mainly driven by food prices, due to unfavorable cereals harvest in 2022/23, housing and transport (Text Figure 3a).

- **The current account deficit** is estimated to have widened to 6.3 percent of GDP in 2022 reflecting ToT deterioration, amid the war in Ukraine (the downward revision of oil prices was more than offset by lower cotton prices), a sharp drop in cotton production amid floods as well as increased public spending. The large current account deficit was partly financed by FDI in the construction sector and higher-than-expected external project loans.

- **Private credit** grew strongly (21 percent (y/y) at end-December 2022), buoyed by construction and trade, consistent with firm's positive expectations for 2023 (Text Figure 4a). NPLs have remained on a downward trend (7.2 percent, y/y, at end-December 2022, from 11.1 percent at end-June 2022). After peaking at around 1,000 bps in mid-2022, Benin's EMBI spreads declined to 727 bps at mid-April (Text Figure 4b).

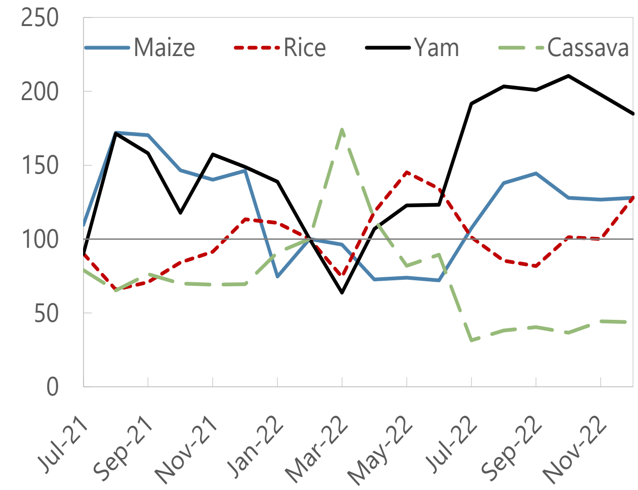
Text Figure 3. Benin: Recent Developments

Text Figure 3a. Benin: Contributions to Inflation
(March 2020 - March 2023, y/y)



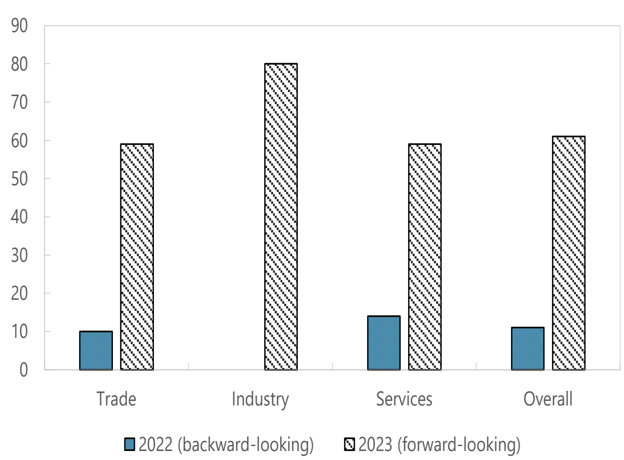
Source: Beninese authorities and IMF staff calculations.

Text Figure 3b. Benin: Prices of Main Staples in Benin
(Price per unit in FCFA, Feb 2022=100)



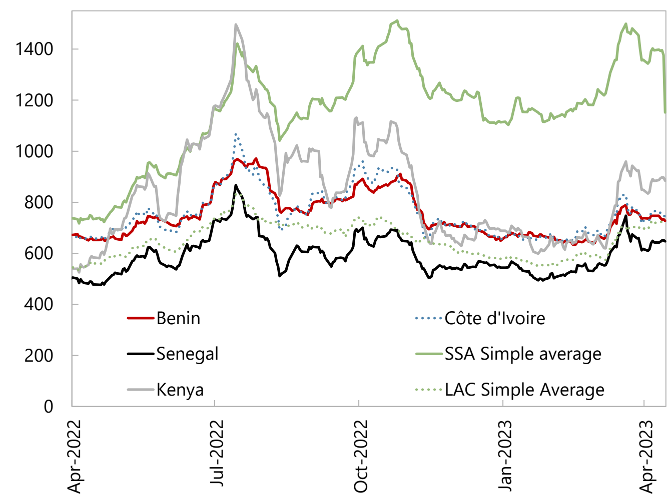
Source: Beninese authorities and IMF staff calculations.

Text Figure 4a. Benin: Firms' Expectations
(Percentage of firms expecting good business activity in 2023, as of December 2022)



Source : Chambre de Commerce et d'Industrie du Benin.

Text Figure 4b. Benin: Selected Emerging Market Sovereign Bond Spreads
(4/1/2022 - 4/14/2023)



Source: Bloomberg.

6. The authorities stepped up tax collection and re-prioritized spending in response to a more protracted war in Ukraine.

- **The 2022 fiscal deficit was 5.5 percent of GDP, in line with the program** (Text Table 1). Debt was 2 ppts of GDP higher than previously projected, driven by additional regional issuances (totaling 3 ppts of GDP) to pre-empt adverse market conditions.

Text Table 1. Benin: 2022 Fiscal Outturn

	Billions of CFA francs			Percent GDP		
	First Review	Actual	Difference	First Review	Actual	Difference
Total revenue and grants	**1509.2**	**1553.2**	**44.0**	**13.9**	**14.3**	**0.4**
Total revenue	1454.6	1498.6	44.0	13.4	13.8	0.4
Tax revenue	1241.4	1320.7	79.3	11.5	12.2	0.7
Nontax revenue	213.1	177.8	-35.3	2.0	1.6	-0.3
Grants	54.6	54.6	0.0	0.5	0.5	0.0
Total expenditure and net lending	**2114.5**	**2149.4**	**34.9**	**19.5**	**19.8**	**0.3**
Current expenditure	1246.7	1198.1	-48.6	11.5	11.0	-0.5
Current primary expenditure	1046.8	1019.5	-27.3	9.7	9.4	-0.3
Wage bill	468.0	458.5	-9.4	4.3	4.2	-0.1
Pensions and scholarships	116.2	92.9	-23.3	1.1	0.9	-0.2
Current transfers	306.8	320.6	13.8	2.8	3.0	0.1
Expenditure on goods and services	155.8	147.4	-8.4	1.4	1.4	-0.1
Interest	199.9	178.7	-21.2	1.8	1.6	-0.2
Capital expenditure	867.8	954.9	87.1	8.0	8.8	0.8
Financed by domestic resources	534.6	577.9	43.3	4.9	5.3	0.4
Financed by external resources	333.2	377.0	43.7	3.1	3.5	0.4
Net Lending	0.0	-3.6	-3.6	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)	**-605.3**	**-596.2**	**9.1**	**-5.6**	**-5.5**	**0.1**

Source: Beninese authorities and IMF staff calculations.

- **Tax collection was strong in 2022 despite fuel-related tax giveaways.** In addition to some measures in the original tax package performing better-than-expected, the authorities adopted additional tax revenue measures (Box 1). Tax revenues were also boosted by the reclassification of around 0.7 ppt of GDP in items previously considered non-tax revenue (non-tax revenue also improved by 0.3 ppt of GDP outside the reclassification).[1]

- **The authorities re-prioritized spending.** They generated additional space from stronger revenues and lower current expenditure (owing to the rationalization of purchases of goods and services and transfers to entities and closure of some non-essential public entities), which they channeled to capital expenditure, notably an acceleration of road projects and construction of a local market, and priority social spending (see ¶13). The over execution of externally financed capital expenditure went mostly to social sectors.

[1] The reclassification the aims to comply with the June 2022 WAEMU decision and the GFSM considering “taxes on the use or permission to use good or to carry out activities” (e.g., embarkation taxes, radio taxes) as tax revenue.

OUTLOOK AND RISKS

7. **Macroeconomic conditions will continue to improve gradually, in line with previous forecasts** (Text Table 2).

- The near-term growth forecast is unchanged at 6 percent. Inflation is expected to increase to 3.5 percent in 2023, driven by second-rounds effect from the removal of administrative price controls on selected products, the January adjustment in electricity tariffs (¶16) and increases in public sector wages and the minimum wage in December 2022.
- Benin continues to be assessed at moderate risk of external and overall debt distress (see DSA).
- Over the medium term, growth would be at its potential of 6 percent, with inflation expected to stabilize at 2 percent, consistent with the peg to the euro; the current account deficit would be in the range of 4–5 percent of GDP.

8. **Risks to the outlook are balanced**.

- On the downside (Annex I), a more protracted war in Ukraine could further strain external accounts. Further pressure on international oil and food prices and the resulting purchasing power erosion could compound food insecurity and fuel social discontent. The intensification of regional conflicts could disrupt transit trade. Uncertainty surrounding the post-electoral policy direction in Nigeria could disrupt transit trade and take a toll on international tax revenue. Moreover, Benin remains vulnerable to extreme climate events (Annex IV) with severe damage on infrastructure, cotton exports proceeds and food insecurity.
- On the upside, an orderly development of the SEZ (¶20) could boost the agroindustry and the textile industry with upside potential on income, including for farmers, considering that SEZ industries would source their inputs from local commodity markets. SEZ-related FDI could foster economic diversification, promote Benin's move up the value chain and strengthen the country's external position. A sustained modernization and expansion of the Port of Cotonou could enhance competitiveness and complement the ongoing industrial drive.

PROGRAM PERFORMANCE

9. **Program performance remains strong, with all end-September 2022 indicative targets (Its) and end-December 2022 quantitative performance criteria (QPCs) and Its met** (Text Table 3). The fiscal overperformance was supported by tax collection. The contracting and guaranteeing of external debt remained within the present value QPC. Benin has not accumulated external or domestic arrears. Priority social spending was well-above the program floor, driven in part by the expansion of the flagship school feeding program to more schools and higher spending under the Insurance for Human Capital Development (ARCH).

Text Table 2. Benin: Key Macroeconomic Indicators

	Average 2017-19	2020	2021	2022	2023	2024	2025	2026	2027	2028
		Est.	Est.	Est.[1]			Projections			
Real GDP (percent change)	6.4	3.8	7.2	6.3	6.0	6.0	6.0	6.0	6.0	6.0
CPI inflation, average (percent)	0.6	3.0	1.7	1.4	3.5	2.0	2.0	2.0	2.0	2.0
Overall balance (commitment basis, incl grants)	-2.6	-4.7	-5.7	-5.5	-4.3	-3.7	-2.9	-2.9	-2.9	-2.9
Tax revenue	10.2	10.5	11.0	12.2	12.7	13.2	13.7	14.0	14.4	14.8
Primary expenditure	14.8	17.1	17.6	18.2	17.3	17.2	16.9	17.3	17.8	18.2
Current account balance	-4.2	-1.7	-4.2	-6.3	-5.9	-5.6	-5.1	-4.9	-4.4	-4.2
Public debt	40.6	46.1	50.3	54.2	53.8	53.5	52.4	51.4	50.5	49.6

Source: Beninese authorities and IMF staff estimates and projections.

1/ 2022 value for the current account balance is projected.

Text Table 3. Benin: Quantitative Performance Criteria and Indicative Targets, 2022[1]

(Billions of CFA francs)

	December 31, 2021	June 30, 2022			September 30, 2022				December 31, 2022			
		PC			Indicative Target				Performance Criteria			
	Est.	Prog.	Actual	Status	Prog.	Adjusted	Actual	Status	Prog.	Adj.	Prel.	Status
A. Quantitative performance criteria[2]												
Basic primary balance (floor)[3]	-148.5	-77.3	3.8	Met	-154.4		-60.9	Met	-127.6	-135.7	-98.8	Met
Net domestic financing (ceiling)[4]	-380.8	290	129	Met	431	434	264	Met	377	362	216	Met
B. Continuous quantitative performance criteria (ceilings)												
Accumulation of external payments arrears	0.0	0.0	0.0	Met	0.0		0.0	Met	0.0		0.0	Met
Accumulation of domestic payments arrears	0.0	0.0	0.0	Met	0.0		0.0	Met	0.0		0.0	Met
Ceiling on the present value of new external debt contracted or guaranteed by the government[5]	1,016.0	620	294	Met	620		349	Met	620	628	484	Met
C. Indicative Targets[2]												
Tax revenue (floor)	1,082.3	578.9	617.2	Met	876.7		959.4	Met	1,232.9	1,303.9 [6]	1,320.7	Met
Priority social expenditure (floor)[7]	150.0	46.2	76.5	Met	92.5		100.9	Met	149.1		189.9	Met

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

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

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

[5]Annual limit. 2022.

[6]Modified amount to reflect the resclassiciation of FCFA 71 billion in non-tax revenues.

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

10. **All Structural Benchmarks (SBs) were met** (Table 11). An IMF governance diagnostic was conducted and published by the authorities[2], and the financial inclusion strategy adopted, meeting the related end-February and end-March SBs, respectively. The authorities finalized a draft law to ensure the sustainability of their flagship school feeding program (end-April 2023 SB). Building on the online land registry (e-cadaster)[3] and the new law establishing the Land Court, the end-April 2023 SB on digitalization of the processing of land titles requests to reduce delays was also met.

[2] https://finances.bj/diagnostic-de-la-gouvernance-au-benin-rapport-technique-du-fmi-fevrier-2023/

[3] https://cadastre.bj

POLICY DISCUSSIONS

A. Entrenching Revenue-based Fiscal Consolidation to Preserve Debt Sustainability

11. Fiscal policy will continue to be calibrated to keep the risk of debt distress moderate. To help Benin meet food-security related spending pressures (¶17) as well as large long-term development needs, and smooth fiscal adjustment, convergence to the overall fiscal deficit of 3 percent of GDP has been postponed to 2025 (from 2024). This is in line with the WAEMU stance and consistent with the key debt sustainability objective of the program, complemented by a strong Medium-Term Revenue Mobilization Strategy (MTRS) to anchor tax collection from 2024 onwards. The baseline overall fiscal deficit for 2023 remains at 4.3 percent of GDP (with the potential to increase up to 4.7 ppts of GDP should the external budget support adjustor kick-in; TMU ¶17). Achieving the implied 1.2 ppts of GDP in fiscal consolidation (Text Table 4), similar in size with the original budget, require sustained tax efforts and further spending reprioritization to shield priority social spending and ensure social cohesion, as approved with the 2023 budget, given higher tax and spending levels last year.

Text Table 4. Benin: Fiscal Adjustment Between 2022 and 2023
(Percent of GDP)

Overall adjustment (A+B+C+D+E)	**1.2**
A. New spending pressures	**-0.7**
Security risk spending scale up	-0.2
Wage bill increase	-0.5
B. Tax revenue mobilization (net)	**0.6**
C. Correction for exceptional non-tax revenues [1]	**-0.3**
D. Spending Measures	**1.6**
Reduction in one-off spending [2]	0.2
Spending reprioritization [3]	1.3
E. Grants	**0.1**

Source: Beninese authorities and IMF staff estimates and projections.
1/ Non-tax revenues were exceptional in 2022 due to a one-off increase in port related revenues.
2/ Includes temporary measures such as the payment of World Food Programme debt.
3/ Capital expenditure and recurrent expenditure reductions to accommodate priority spending.

12. Revenue-based fiscal consolidation requires maintaining the tax collection momentum in 2023 and accelerating the design of the MTRS.

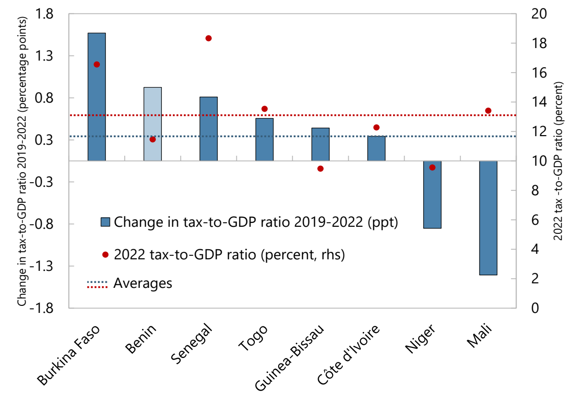
- Considering that part of the tax revenue overperformance in 2022 was related to the clearance of tax arrears for which yields would normalize overtime, the authorities should not only ensure that all the tax measures planned in the 2023 budget are implemented, but also implement the newly identified ones. The improvement in the tax-to-GDP ratio for 2023–25 is maintained at 1.5 ppts of GDP, which implies additional tax effort (Box 1) to lock-in the strong 2022 tax performance and create space for much-needed social spending. The nominal tax ITs have been raised accordingly, compared to the First Review.

- Accelerating the development of a MTRS (SB for end-September 2023)—aimed at expanding the tax base and improving the overall efficiency of the system—is fundamental to anchor revenue mobilization efforts. The MTRS will inform tax policy measures under next year's budget, to be submitted to Parliament by mid-October 2024.

Box 1. Benin: Recent Tax Performance and Next Steps in Domestic Revenue Mobilization[1/]

Domestic revenue mobilization is one of Benin's most pressing policy priorities—considering the country's large development needs—and a key pillar of the EFF/ECF. At 11.5 percent in 2022, Benin's tax-to-GDP ratio is below WAEMU peers and below the country's tax potential.[2] The ongoing revenue collection momentum should be maintained to support development and adequate access to basic public services, while safeguarding fiscal space for timely response to shocks.

Box 1 Figure 1. WAEMU: Change in the Tax-to-GDP Ratios, 2019–22 (Percent of GDP)[1]



Source: Beninese authorities' and IMF staff calculations.

1/ The tax-to-GDP ratio for Burkina Faso excludes exceptional VAT reimbursements in 2022 (0.3 ppt of GDP), while the ratio for Benin excludes reclassifications from non-tax to tax revenue in 2022 (0.7 ppt of GDP).

Benin implemented important tax reforms in recent years, which translated into resilience to recent shocks, notwithstanding the still narrow tax base. The relative resilience of Benin's tax collection to the COVID-19 pandemic and the subsequent war in Ukraine (Box 2 Figure 1) partly reflects a structural shift in revenue administration since 2017, through the digitalization and streamlining of core tax processes (e.g., e-payment, electronic VAT invoice, automated value and weight checks at customs). The government re-affirmed its commitment to revenue mobilization by adopting longstanding reforms in corporate and personal income taxation as part of the 2022 tax code and by establishing a tax expenditure rationalization strategy (end-November 2022 SB under the EFF/ECF).

The authorities implemented additional revenue measures to compensate for tax giveaways related to the war in Ukraine. As in many countries worldwide, the Beninese government adopted a number of tax exemptions (to the tune of 1 ppt of GDP; Box 1 Table 1) to contain the socio-economic fallout from rising import cost amid the war in Ukraine (Box 2 Table 2). To remain within the parameters of the program, the authorities also adopted compensatory tax measures, limiting the impact of tax giveaways on the budget, and even exceeding the end-September and end-December 2022 tax targets under the program (Text Table 3). The additional measures in 2022 spanned tax policy and revenue administration, including tax arrears collection (0.6 ppt of GDP) and changes in the taxation of gambling, electronic communication, and corporate income (about 0.2 ppt of GDP) (Box 1 Table 2).

Box 1 Table 1. Benin: Tax Giveaways Related to the War in Ukraine
(Percent of GDP)

Total tax revenue loss	**1.0**
Fuel	0.4
Rice	0.3
Fertilizer	0.2
Vegetable oil	0.1
Wheat flour	0.01

Source: Beninese authorities and IMF staff calculations.

In the same vein, the authorities have identified additional tax measures to limit the extent of spending cuts in 2023, considering that expenditure was increased in 2022 commensurate with higher revenues (¶13). While some of the offsetting 2022 tax measures "permanently" changed tax policy parameters (e.g., tax base expansion and rate increases), the exceptional yields from the clearance of tax arrears in 2022 are bound to normalize overtime. The new measures therefore come on top of those already in the original 2023 budget and will help limit the extent of spending reversal. They include the move to transactional values at customs, the expansion of standardized invoices and application of the minimum tax on the sale of used vehicles (previously implemented measures are also maintained).

Box 1. Benin: Recent Tax Performance and Next Steps in Domestic Revenue Mobilization[1/] (concluded)

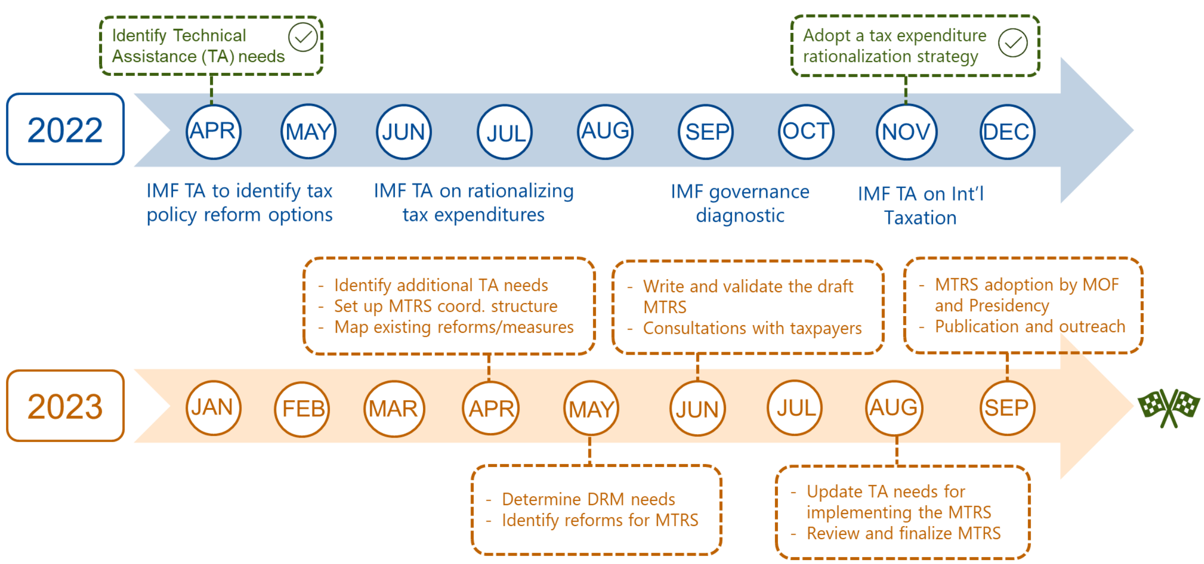
Moving forward, the Medium-Term Revenue Mobilization Strategy (MTRS) will pave the way for robust resource mobilization to help meet Benin's large development needs. The authorities developed a roadmap toward the elaboration of the MTRS (Box Figure 2). The strategy will delineate the future direction of tax policy and revenue administration to underpin the reform of the country's tax system. Careful assessment of the timing and complementarity of reforms will be crucial—Benin's history suggests that tax administration reforms are more effective at raising revenues when they are combined with tax policy measures.[2] Coordinating extensive technical support from development partners underway (as well as leveraging previous technical support), and consulting taxpayers in designing the MTRS, as contemplated by the authorities, will be critical for its successful implementation.

Box 1 Table 2. Benin—Additional Yields from Tax Measures in 2022 and 2023
(Percent of GDP)

	2022 Outturns	2023 Projected
Net Additional Yields Relative to the Previous Year (A+B+C)	**0.5**	**0.6**
A. Domestic taxation	**0.9**	**1.0**
Taxes on gambling	0.1	0.0
CIT reform	0.1	0.1
Expansion of standardized invoices reform		0.1
Minimum tax on the sale of used vehicles		0.1
Clearance of domestic tax arrears	0.6	0.4
Other domestic tax measures	0.1	0.2
B. International taxation	**1.0**	**0.3**
Continued application of transaction values	0.2	0.1
Improved control of customs valuation	0.3	0.2
Clearance of custom duties arrears	0.0	0.1
Other int'l tax measures	0.5	-0.1
C. Tax giveaways and other revenue-reducing effects	**-1.3**	**-0.7**
***Memo item:* Identified contingency measures for 2023**		***0.5***

Source: Beninese authorities and IMF staff calculations.

Box 1 Figure 2. Benin's Road Towards the MTRS.



1/ Prepared by Carolina Bloch (FAD).
2/ See IMF Benin Selected Issues Paper "Tax potential and options for domestic revenue mobilization" (Country Report 22/246).

13. It will be critical to continue prioritizing spending.

- In 2022, capital expenditure was 0.8 ppt of GDP higher than anticipated as the authorities used additional space created by revenues and efficiency gains in recurrent spending—through reduction in travel and closure of non-essential entities—to accelerate investment in road, social and other development projects.

- Given higher capital expenditure in 2022 along with higher budgeted current transfers for 2023 (mainly for subsidies on still costly imported fertilizers), the authorities will implement a sharper moderation of non-priority capital expenditure than envisaged at the time of the First Review to support the overall adjustment. The spending adjustment is deemed realistic by staff, considering that the planned moderation in capital expenditure reflects rephasing of some projects that were advanced to 2022, and the expected reduction in recurrent expenditure partly falls on one-off spending items.

- The authorities' strategy for tackling security risks will continue to rely on a "civilian approach" with budgeted spending scale-up for 2023 at 1.0 ppt of GDP over pre-existing spending, in line with previous forecasts.

14. Benin is expected to maintain a prudent borrowing strategy aimed at containing borrowing costs and mitigating refinancing risks. While the baseline continues to rely on domestic financing, liquidity conditions have tightened significantly on the regional security market in recent months though the authorities' strong policy track record supports Benin's ability to issue. Further additional pre-emptive issuances by the authorities last year (2.9 percent of GDP) could be used for budget financing or liability management this year, mitigating risks to domestic financing. Continued efforts to maximize concessional external borrowing will also be important. In this connection, the authorities should continue to seek to secure additional budget support from development partners. The authorities remain open to climate-related financing opportunities, building on their existing SDG Bond Framework (Annex IV).

B. Reforming Energy Subsidies, Strengthening Social Safety Nets, and Containing Food Insecurity

15. While progress has been made on reducing fuel subsidies, a more comprehensive reform will safeguard needed fiscal space.

- Following pump price hikes in 2022, the 2023 fuel subsidy bill is projected to be contained at 0.22 ppt of GDP before receding further to 0.12 in

Text Table 5. Benin: Estimated Cost of Fuel Subsidies—No Adjustment Scenario (2022–2024)[1]

		2022 Prel	2023	2024
A. Diesel	CFAF billions	94.4	22.5	13.4
	Percent of GDP	0.87	0.19	0.10
B. Gasoline	CFAF billions	17.1	3.6	1.8
	Percent of GDP	0.16	0.03	0.01
C. Total (A+B)	CFAF billions	111.5	26.0	15.2
	Percent of GDP	1.03	0.22	0.12

[1] The estimates correspond to a passive scenario in which pump prices remain unchanged at their current levels (international oil price forecasts are from the latest WEO).
Source: Beninese authorities and IMF staff calculations.

2024, mainly reflecting further normalization of international oil prices and the US dollar (Text Table 5).

- While the fiscal cost of fuel subsidy is limited under the current baseline, the budget is exposed to international oil prices and changes in fuel pricing in Nigeria.[4] The government will assess the alignment of the current pricing mechanism to international standards with IMF support, with the aim of developing a medium-term plan for reforming fuel subsidies. Such a plan should include a mechanism to compensate the vulnerable in the pump prices adjustment process.

16. More generally, phasing out administrative controls would level the playing for all economic agents, make the economy more flexible and improve efficiency. The authorities are phasing out administrative price controls introduced following Russia's invasion of Ukraine (they also moved to transactional values at customs in October 2022). They suspended the pause on electricity tariffs adjustment adopted during the COVID-19 pandemic earlier this year. While these changes may exert some pressure on inflation in the near-term, they would improve the allocation of resources in the economy.

17. Strengthening social safety nets remains paramount in a world more prone to shocks. The authorities plan to expand the recently established social registry to all social assistance programs, including their flagship Insurance for Human Capital Development (ARCH). The social registry data are already being used in some social programs for targeting purposes. Solidifying the institutional framework for the registry's management and ensuring adequate human resources to continuously update the underlying data will be crucial to ensure their effectiveness. The authorities also continue to improve the effectiveness of health-related spending, including to address shortcomings identified in the audit of COVID-19-related spending, by improving maintenance of medical equipment and stepping up training for healthcare personnel.

18. Food security is a pressing policy priority for the authorities.

- The authorities' innovative school feeding program provides daily hot meals to almost 1.2 million students in 75 percent of public primary schools, with plans to reach 100 percent by 2026 (Annex V). The SB on submitting a draft school feeding law was recently met and will ensure the sustainability of the program by guaranteeing an appropriate legal and institutional framework, a local procurement strategy, as well as a financing strategy (MEFP, ¶21).

- Sustainably alleviating food insecurity in Benin, however, requires increased efforts to boost productivity of staples and agricultural resilience to climate shocks (Annex V). Climate reforms would also benefit from Fund support under the RSF (Annex IV).

[4] A fuel subsidy reform in Nigeria would reduce the incentive to smuggle gasoline, leading to higher demand for formal gasoline in Benin, and a higher subsidy bill, unless pump prices are adjusted.

C. Leveraging the Governance Diagnostic to Strengthen Institutions

19. The authorities are developing a homegrown action plan, which they intend to complete by end-June 2023, to implement key recommendations from a recent IMF governance diagnostic (MEFP ¶23). The diagnostic was published by the authorities at end-February; it will inform the next wave of reforms to strengthen the rule of law and the anti-corruption and AML/CFT frameworks in Benin.

20. Drawing on the overall encouraging findings of the diagnostic (Box 2), program conditionality is being augmented with new SBs, as anticipated at program inception. The diagnostic noted notable progress in Benin in the areas of public finance and the rule of law, and emphasized room for improvement in the legal and institutional framework for fighting corruption, transparency in certain procedures, and an occasional lack of resources. By fostering predictability and improving the business climate, governance reforms will bolster the institutional foundations of private sector-led inclusive growth.

- **Rule of law.** The authorities will operationalize the Commercial Court of Appeals with staffing, funding, and equipment (***newly proposed SB for end-November 2023***), filling an important gap in Benin's judicial framework including for corporate dispute resolution and promoting transparency.

- **Anti-corruption.** The legal and institutional framework for the fight against corruption has been deeply modified in recent years, including with the dissolution of the National Authority for the Fight against Corruption (ANLC) and its replacement by a High Commission for the Prevention of Corruption (HCPC) in April 2020. The authorities will operationalize the HCPC and strengthen its legal framework to ensure its independence and powers, in consultation with IMF staff (***newly proposed SB for end-June 2024***).

- **AML/CFT framework.** Benin has already embarked on a series of reforms to strengthen its AML/CFT framework, including by conducting sectoral ML/TF risk assessments, operationalizing the Committee for the Coordination of Activities in the Area of AML/CFT (CNCA), and undertaking legislative amendments to address gaps in the AML/CFT legal framework. The authorities will take steps to mitigate the considerable money laundering risks faced by the real estate sector including through developing a legal framework for the collection, verification, and publication of transferees' beneficial ownership (BO) information for land transfers (MEFP ¶25).

- **Transparency.** In accordance with the September 2022 regulation allowing procurement agencies to collect beneficial ownership (BO) information on companies awarded public procurement contracts, the authorities have been publishing the BO information regularly.[5] Drawing on the findings of the recent IMF Fiscal Safeguards Review, the authorities will update the list of bank accounts of public organizations before the end of August 2023 and close at least half of those obligated to deposit funds in the Treasury, repatriating the balances to the

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

public Treasury, by end-June 2024 **(*newly proposed SB for end-June 2024*).** In addition, to foster transparency in public procurement, the authorities will systematically conduct and publish audits of public contracts. They will also regularize the publication of SOEs financial statements (MEFP ¶19).

- **Special Economic Zone.** A law governing the SEZ regime was adopted by the National Assembly in December 2022 (MEFP, ¶12). While the law incorporates some recommendations from FAD on investment incentives, staff encouraged the authorities to enhance transparency in their selection and monitoring process and to duly account for associated tax administration challenges.

- **Financial sector.** Effort is underway to bring the two undercapitalized banks in compliance with prudential regulations—preliminary data suggests that the first bank has successfully completed its recapitalization (pending approval from auditors and the WAMU Banking Commission). The BCEAO and the Banking Commission, together with auditors, are closely assessing scenarios to bring the second bank to conformity with prudential norms, including through new capital injections. The authorities adopted the national financial inclusion strategy (2023–27) aligned with the regional strategy. They will issue a decree about the composition and attributions of the monitoring committee to initiate the implementation of the strategy.

PROGRAM ISSUES

21. Burden sharing and financing assurances. The program is fully financed for the next 12 months, with strong financing prospects through the end of the program, and upside potential on budget support. For 2023, budget support is expected from both the World Bank ($150 million in loans linked to an upcoming Development Policy Operation) and the European Union (about $10 million in grants), with the potential for additional support from the African Development Bank or EU, which could allow for a higher fiscal deficit (by up to 0.4 ppt of GDP) *as per* the program adjustor (TMU ¶7).

22. Program monitoring and conditionality. Program performance will continue to be monitored through semi-annual program reviews based on QPCs, Its (Table 7), and SBs (Table 11). Structural conditionality has been augmented to include new SBs on operationalizing the Commercial Court of Appeal and HCPC and streamlining government accounts in commercial banks to support reforms to the Treasury Single Account (TSA) (¶20).

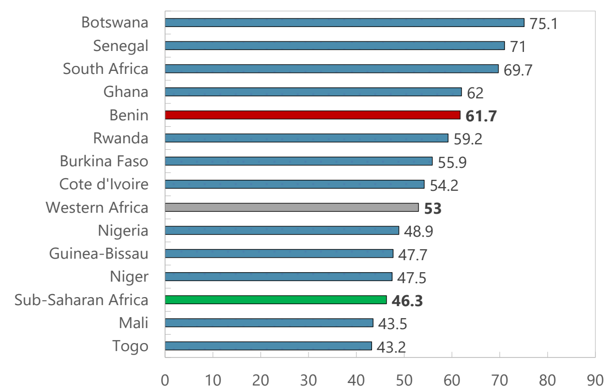
23. The authorities' 2018-25 National Development Plan (NDP) fulfills the Poverty Reduction and Growth Strategy (PRGS) requirements (Annex II)**.** The plan was developed in consultation with multiple stakeholders (including the World Bank) and identifies priorities that are consistent with program objectives, including inclusive growth through job creation and human capital accumulation, particularly for vulnerable groups, including girls.

Box 2. Benin: Key Findings of the IMF Governance Diagnostic[1]

At the authorities' request, a joint FAD/LEG/MCM governance diagnostic was conducted to help identify vulnerabilities to corruption in Benin and highlight areas for improvement. This box presents the main findings of the diagnostic, which was published in line with the end-February 2023 SB under the EFF/ECF.[2]

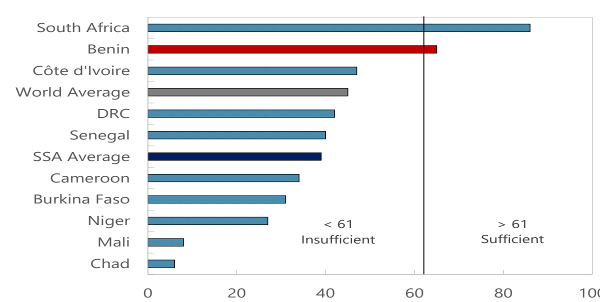
Perceptions of corruption in Benin decreased significantly in recent years but remain prevalent, resulting in some areas still vulnerable to corruption. Benin's score for control of corruption in the Worldwide Governance Indicators recently improved dramatically (from 35.58 in 2016 to 50.48 in 2021). According to the 2022 Afrobarometer, a large majority of Beninese citizens (70 percent) believe corruption is decreasing. And although Benin remains among the countries for which perceptions of corruption are highest, sectors vulnerable to corruption, such as the judiciary or public procurement and customs, were perceived significantly more favorably in 2022 than in 2021, with the shares of survey respondents identifying those areas as widely affected by corruption dropping from 48 to 32 and 52 to 41 percent, respectively.[3/] Moreover, Benin scored favorably amongst SSA peers in the "Justice and the Rule of Law" sub-index of the 2022 Ibrahim Index of African Governance (Text Figure 1), well-ahead of all WAEMU peers but Senegal, with a score of 61.7 out of 100—denoting some room for improvement.

Box 2 Figure 1. Benin and SSA: Ibrahim Index of African Governance (IIAG) Sub-Score for Rule of Law and Justice, 2022[1/]



Source: Ibrahim Index of African Governance (IIAG), 2022.
1/ The Rule of Law and Justice index sub-score is a composite of eight indicators sourced from the African Institute for Development Policy, Varieties of Democracy, World Justice Project, World Economic Forum, Freedom House, and Bertelsmann Stiftung. Some of these indicators are derived from perceptions-based data.

Box 2 Figure 2. Benin and SSA: Budget Transparency, 2021[1/]



Source: International Budget Partnership, 2021.
1/ The Open Budget Survey assesses public availability of budget information, opportunities for the public to participate in the budget process, and the role and effectiveness of formal oversight institutions. The results are based on a questionnaire comprising 145 scored questions which is completed by researchers typically based in the surveyed country. This indicator is derived from perceptions-based data.

Recent and ongoing reforms have yielded noteworthy dividends. Progress has been notable in fiscal governance (e.g., successful implementation of program budgets, initiation of an internal audit and control reform, creation of a Court of Auditors), tax policy (strengthening of governance of tax expenditures), AML/CFT (strengthening of the legal framework and adoption of an action plan following the GIABA report), and rule of law (accessibility of legislation, creation of a commercial court, and development of e-procedures). This is corroborated by the results of the 2021 Open Budget Survey (Text Figure 2) which places Benin second in Africa (after South Africa) in budget transparency, with a score of 65 out of 100.

However, sustained efforts will be needed to overcome governance weaknesses and vulnerabilities to corruption. Areas for improvement are related to (i) weaknesses in the legal and institutional anti-corruption framework, (ii) limitations in the effectiveness of application of AML/CFT preventive measures, risk-based supervision in higher risk sectors (e.g., real estate), and investigation and prosecution of money laundering, (iii) lack of transparency on certain specific procedures (e.g., disciplinary framework and appointment processes for

Box 2. Benin: Key Findings of the IMF Governance Diagnostic[1] (Concluded)

magistrates, follow-up on private investment projects benefiting from tax expenditures) and (iv) multiple instances of lack of capacity and/or resources.

1/ Prepared by David McDonnell (LEG), based on the joint FAD/LEG/MCM governance diagnostic led by Claude Wendling (FAD).

2/ https://finances.bj/diagnostic-de-la-gouvernance-au-benin-rapport-technique-du-fmi-fevrier-2023/

3/ These indicators are derived from perceptions-based data. Afrobarometer interviewed a representative, random, and stratified sample of 1,200 Beninese adults from 1/9/22 to 1/22/22. The margin of error is +/- 3 percent, with a 95 percent confidence level.

24. Capacity to repay the Fund is assessed as adequate.

- The total amount of outstanding credit from the Fund will amount to 543.9 percent of quota in 2023 and increases to 549.8 percent of quota in 2024 (Table 9). In addition, total obligations based on existing and prospective credit will peak at 0.5 percent of GDP (3 percent of total revenues excluding grants and 2 percent of exports) in 2029.

- Financial risks to the Fund are limited given the adequate capacity to repay the Fund and moderate risk of overall debt distress. While access under the program was frontloaded in 2022 when needs were highest, the overall financing envelop of the program is less than 4 percent of Benin's GDP, program performance has been robust, with the authorities remaining committed to their reform agenda. Moreover, the IMF Fiscal Safeguards Review (FSR) and governance diagnostic, frontloaded under the program, were re-assuring. Regarding Fund exposure, following the temporary increase in in the GRA access limits (SM/23/44), Benin is no longer subject to the High Combined Credit Exposure (HCCE) procedure. On operational risks, although Benin is facing security threats at its Northern borders, safety risks to Fund staff are low given that the Fund's local office is located in Cotonou.

25. Contingency plans. The authorities should continue to maintain security spending within the budgeted envelope and reprioritize spending—including by delaying non-priority capital expenditure on new projects—should exogenous shocks materialize and prompt additional spending. They should also stand ready to adopt additional revenue measures should the yields of the budgeted ones fall below expectations. In the event of a fuel subsidy reform in Nigeria, Benin should adjust pump prices further in the near-term to limit budgetary cost of fuel subsidies (see ¶15).

26. Safeguards assessment. The BCEAO has implemented all recommendations provided in the 2018 safeguards assessment. The assessment found that the BCEAO had broadly appropriate governance arrangements and a robust control environment. An update assessment is currently in progress.

27. Capacity development remains well-aligned with program objectives. CD continues to prioritize governance, revenue mobilization, PFM and upgrading the statistical system.

STAFF APPRAISAL

28. The authorities' balanced policy response, supported by frontloaded financing under the EFF/ECF, has boosted business confidence, bolstering the recovery. Macroeconomic conditions are expected to improve gradually. The robust fiscal performance amid significant shocks and the steady progress in the structural reform agenda are laudable. Nevertheless, risks from geoeconomic fragmentation and important social challenges like food insecurity remain. Continued commitment to debt sustainability and structural reforms are warranted to keep the economy on a sustainable path.

29. Maintaining the momentum in tax collection and spending reprioritization will support revenue-based fiscal consolidation from this year. The authorities should seek to preserve gains from tax policy measures implemented in 2022 and press ahead with planned measures in the 2023 budget. Maintaining a high-quality composition of fiscal adjustment that preserves priority social spending will be important to ensuring consolidation does not undermine growth and social cohesion.

30. The fiscal strategy, with a convergence to the WAEMU regional fiscal norm shifted to 2025, is consistent with the WAEMU-wide stance and is warranted. Converging to the overall fiscal deficit of 3 percent of GDP by 2025 will help smooth fiscal adjustment and meet Benin's large development needs; it is consistent with debt sustainability. Maintaining a prudent borrowing strategy will also be important for fiscal sustainability.

31. A swift development of a Medium-Term Revenue Strategy (MTRS) aimed at expanding the tax base and enhancing the efficiency of the tax system will create fiscal space for Benin's large development needs over time. The strategy should lay out the broad direction of tax policy and revenue administration, accounting for synergy between these two arms of revenue mobilization as well as institutional reforms. It should be underpinned by technical analysis tailored to Benin, leveraging previous and ongoing technical support from development partners. Consultation with taxpayers in the process, as planned by the authorities, will help secure buy-in.

32. While the authorities have significantly reduced energy subsidies, more comprehensive reforms are needed to durably create additional fiscal space. The authorities' plans to assess the current pricing mechanism for petroleum products, with IMF technical assistance, is an important step in this direction. In this context, it would be important to develop a predictable mechanism for adequately compensating the most vulnerable as integral part of the reform.

33. Strengthening social safety nets remains paramount in a world more prone to shocks. Accelerating the operationalization of the recently established social registry, including by integrating it into all social programs, will facilitate targeting, particularly as these programs are being scaled up. Bolstering the registry's institutional framework and ensuring adequate human resources will be important for its effectiveness. Operationalizing the new draft law on improving the organization and governance of the school feeding program, as the government expands it to more schools, will help fend-off food insecurity risks and ensure the sustainability of the program.

34. Enhancing the rule of law, the anti-corruption and AML/CFT frameworks, in line with the recommendations from the recent IMF Governance Diagnostic, will solidify the institutional foundations of private sector-led, inclusive growth. Staff encourage the steadfast implementation of the authorities' national action plan—being developed through a consultative process—for addressing the diagnostic's main recommendations. In particular, operationalizing the commercial court of appeal and the anti-corruption agency will help strengthen the rule of law and tackle corruption. Ongoing efforts to address deficiencies in the AML/CFT framework should continue, with particular focus on mitigating money laundering in the real estate sector, including through developing a legal framework for the collection, verification, and publication of transferees' beneficial ownership (BO) information for land transfers. Sustained improvements in public financial management (PFM) will help consolidate recent progress and further enhance transparency. In this regard, the ongoing streamlining of public bank accounts in commercial banks will support TSA reform, consistent with recommendations from the recent IMF Fiscal Safeguards Review.

35. It would be critical to ensure transparency in the implementation of the SEZ regime. This will help level the playing field among participants and limit revenue leakages. SEZ-related arrangements should account for associated revenue administration challenges. Moreover, it would be important to permanently phase out administrative price controls in the economy to promote efficiency.

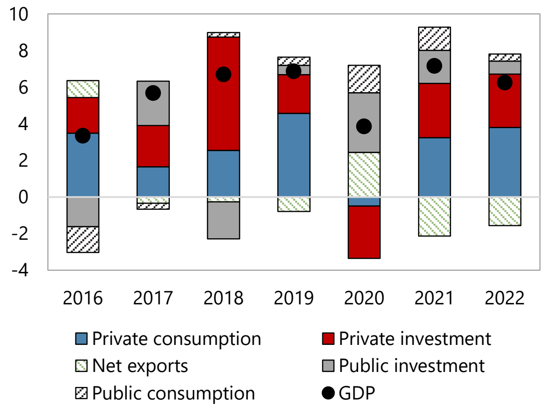
36. Remaining vigilant against financial sector risks and continuing to promote financial inclusion will support sustainable growth. Continued efforts are needed to bring the two under-capitalized banks back to prudential norms. The authorities should move ahead with the implementation of the recently adopted national financial inclusion strategy.

37. Given the continued strong program performance and commitment to reforms, staff recommends the completion of the second review under the EFF and ECF arrangements.

Figure 1. Benin: Recent Developments, 2015-23

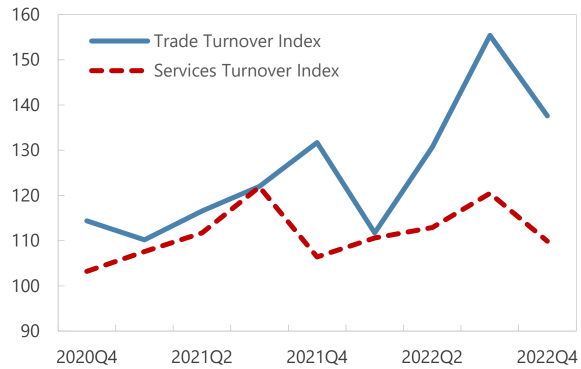
Private demand recovered in 2021–22 following the collapse during COVID-19, more than offsetting the drop in net external demand amid the war in Ukraine and supply chains disruption.

Decomposition of Growth
(percent)



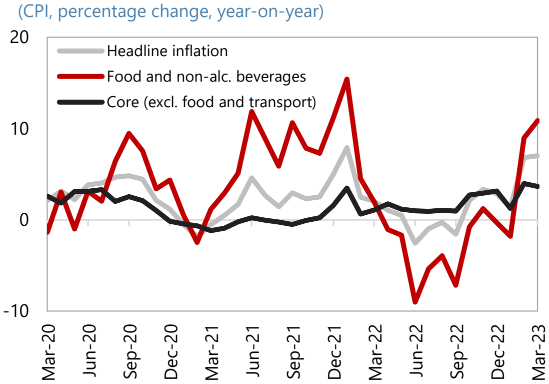
The high frequency trade turnover index remains on an upward trend, while services are steady.

Economic Activity
(Indices and sub-indices with base 2015=100)



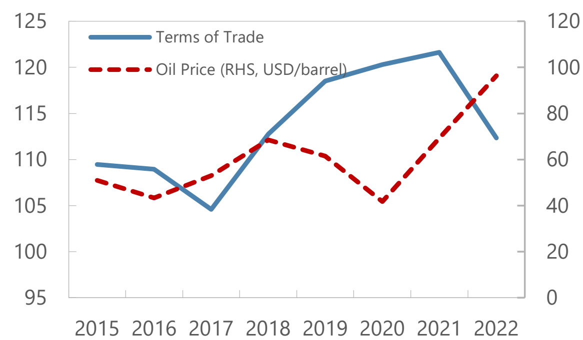
After decreasing markedly (and even going in negative territory in 2022), mainly owing to overall strong harvest and government subsidies, inflation has picked up in early 2023.

Inflation
(CPI, percentage change, year-on-year)



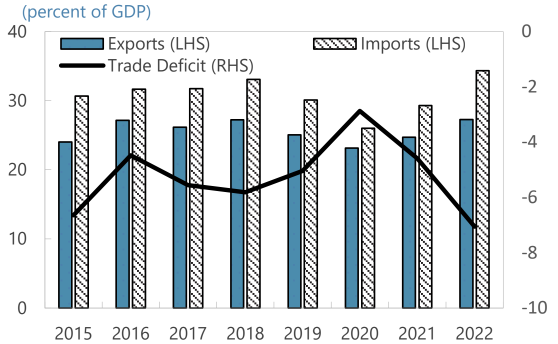
The terms of trade deteriorated sharply in 2022 amid the war in Ukraine...

Terms of Trade
(total)

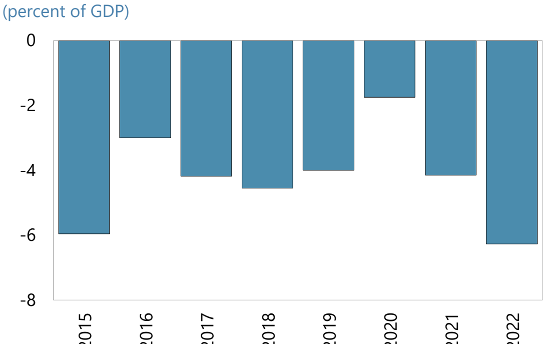


... contributing to widening the trade and current account deficits.

Trade Balance, Goods and Services
(percent of GDP)



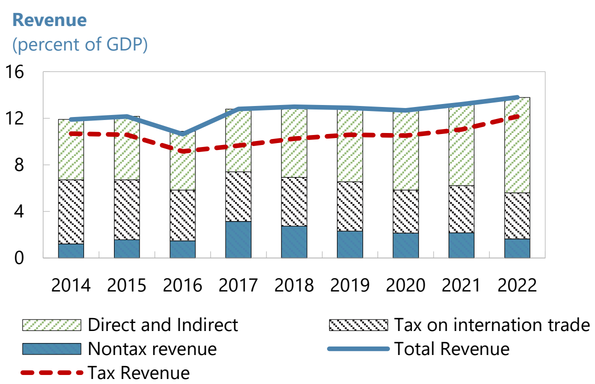
Current Account Balance
(percent of GDP)



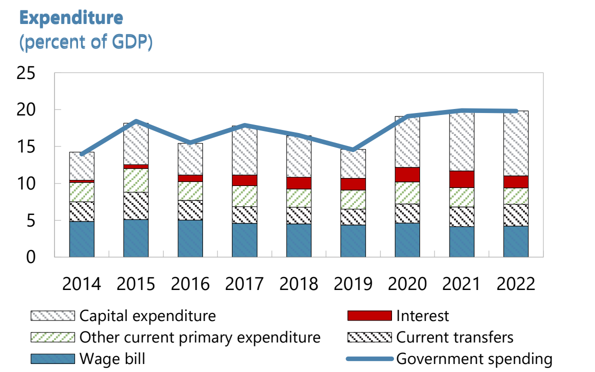
Sources: Beninese authorities, BCEAO, and IMF staff calculations.

Figure 2. Benin: Fiscal Developments, 2014-22

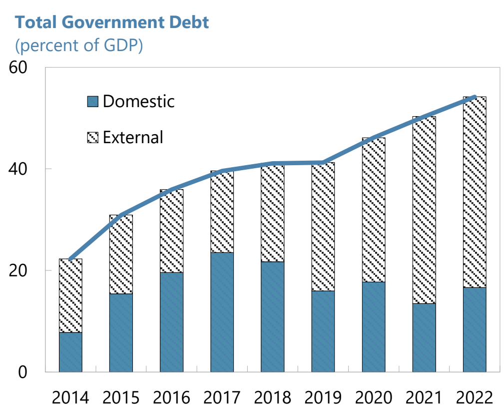
Tax revenue continued its upward trajectory after a decrease in 2020 which was partially induced by lower trade taxes as a result of the Nigeria border closure.



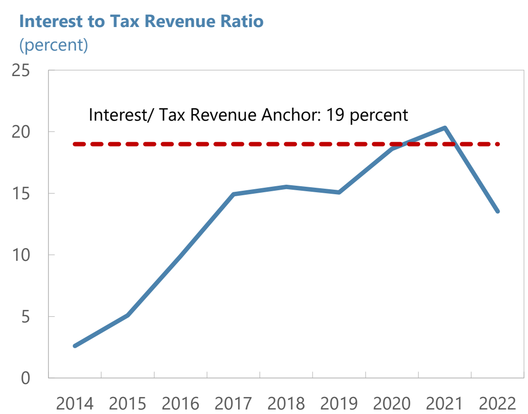
The government increased capital expenditure to support aggregate demand while closing the country's infrastructure gap.



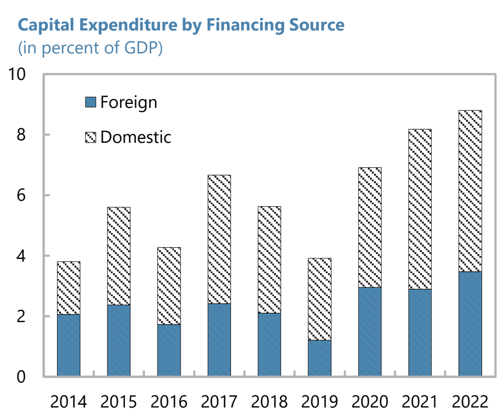
While public debt has trended up, mainly due to warranted fiscal accommodation in the face of severe and repeated shocks…



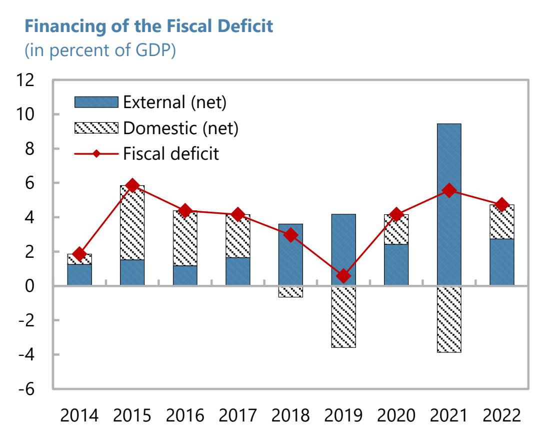
…the interest-to-tax revenue ratio has declined, falling below the program anchor.



The increase in capital expenditure in 2022 was mostly domestically financed …



… while the deficit was mostly externallyfinanced.

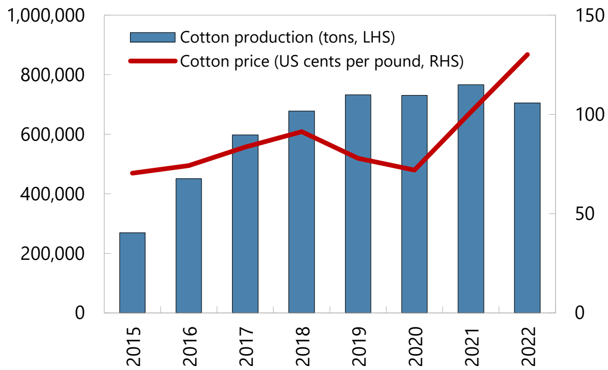


Sources: Beninese authorities and IMF staff calculations.

Figure 3. Benin: Real and External Sector Developments, 2015-23

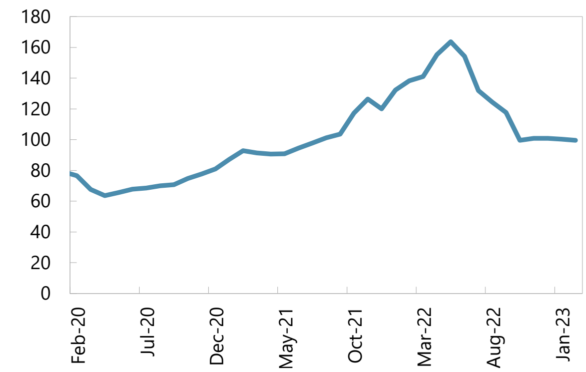
Cotton production dropped in 2022—due to floods—after having nearly tripled in volume since 2015 …

Cotton Production and Price



… the price of cotton has declined in recent months but had remained above its 2021 level in 2022.

International Cotton Prices
(US cents per pound)

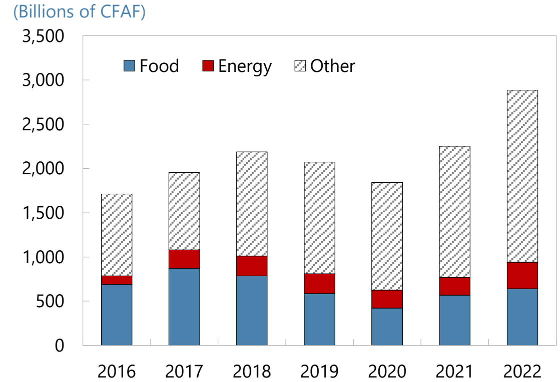


Cotton export receipts increased in 2022, contributing to overall higher exports.

Composition of Exports
(Billions of CFAF)

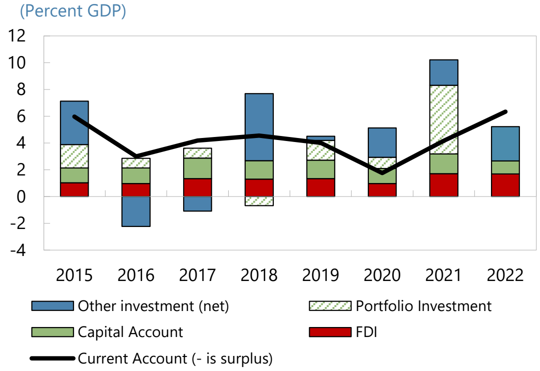
Imports also increased in 2022, partly reflecting persistent food and energy prices pressures as well as increased public spending to meet security-related needs …

Composition of Imports
(Billions of CFAF)



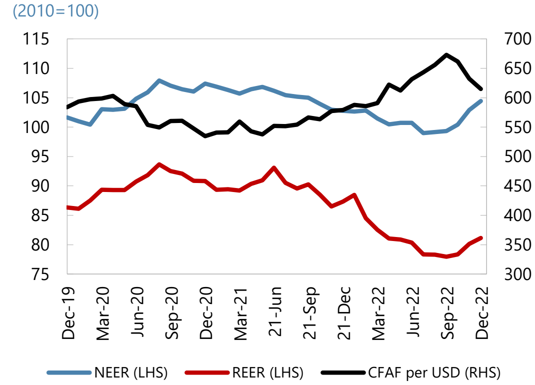
… and widening the current account deficit.

Current Account Deficit and Financing Sources
(Percent GDP)



The CFA franc depreciated against the US dollar in 2022, helping revert some of its recent real appreciation.

Exchange Rates
(2010=100)

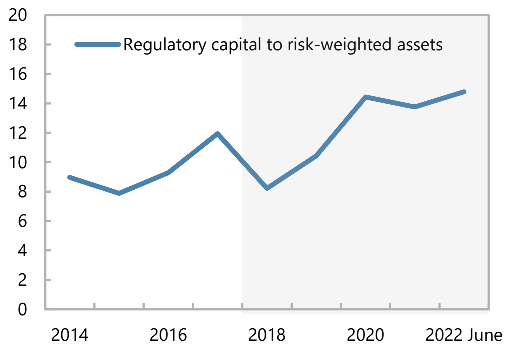


Sources: Beninese authorities, WEO, Bloomberg, and IMF staff calculations. Some data for 2022 is preliminary.

Figure 4. Benin: Financial Sector Developments, 2014-22

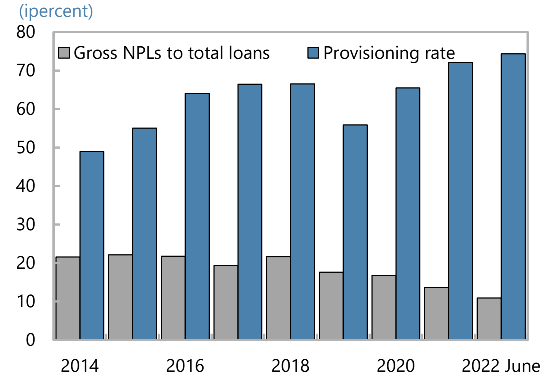
The banking system remains well capitalized overall, although two banks are undercapitalized.

Capital Adequacy Ratio
(percent of risk-weighted assets)



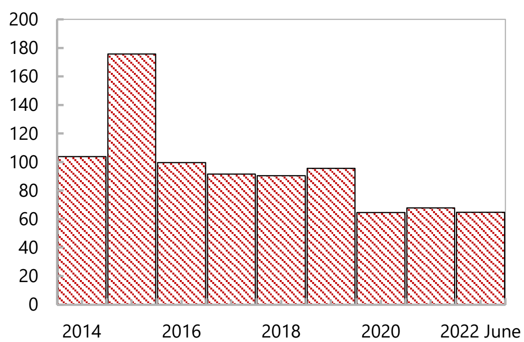
The credit portfolio quality continues improving, with still high provisioning.

Gross NPLs to Total Loans and Provisioning Rate
(percent)



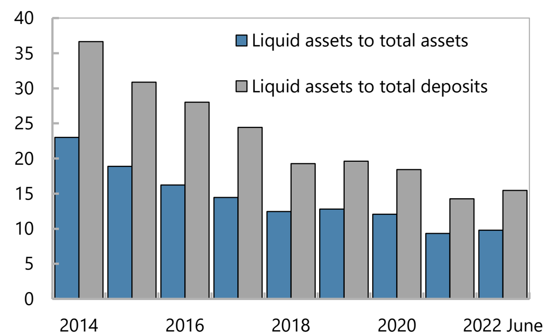
Lending concentration decreased slightly in 2022 but remained elevated...

Concentration: Credit to the Five Largest Borrowers
(percent of total assets)



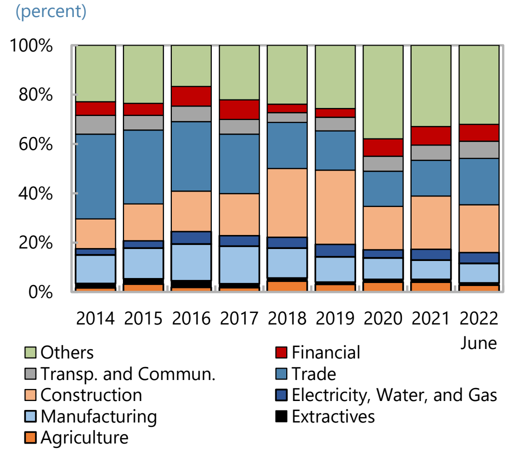
... while liquidity ratios stabilized in June 2022 after a decline in recent years.

Liquid Assets as a Share of Total Assets/Deposits
(percent)



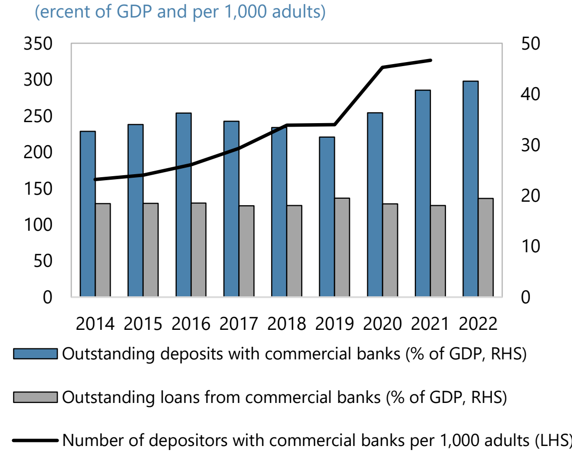
Lending to the trade sector continued to expand in 2022, while lending to the construction sector slightly down.

Credit Provided, by Sector
(percent)



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

Commercial Bank Deposit and Loan Composition
(ercent of GDP and per 1,000 adults)



Sources: Beninese authorities, BCEAO, and IMF staff calculations.

Table 1. Benin: Selected Economic and Financial Indicators, 2019-28

	2019	2020	2021	2022		2023		2024	2025	2026	2027	2028
			Est.	First Review	Est.	First Review	Proj.	Projections				
						(annual percent change)						
National Income and Prices												
Real GDP per capita	3.8	1.0	4.1	3.1	3.3	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Real GDP	6.9	3.8	7.2	6.0	6.3	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Nominal GDP	6.5	6.8	8.9	10.5	10.7	8.6	9.6	8.1	8.1	8.1	8.1	8.1
GDP deflator	-0.3	2.9	1.6	4.2	4.1	2.5	3.3	2.0	2.0	2.0	2.0	2.0
Consumer price index (average)	-0.9	3.0	1.7	2.5	1.4	3.0	3.5	2.0	2.0	2.0	2.0	2.0
Consumer price index (end of period)	0.3	1.2	5.0	2.5	2.9	3.0	3.5	2.0	2.0	2.0	2.0	2.0
External Sector												
Terms of trade (minus = deterioration)	5.1	1.5	1.1	3.4	-7.6	-0.5	-2.2	0.4	0.1	0.0	-0.1	0.0
Real effective exchange rate (minus = deterioration)	-3.1	3.7	-0.8	...	...	...	...	...	...	...	...	...
Money and Credit												
Credit to the private sector	11.9	-5.7	9.2	8.0	21.4	10.3	9.0	11.0	...	...	...	...
Broad money (M2)	6.0	17.3	16.7	10.5	13.0	8.6	9.6	8.1	...	...	...	...
					(percent of GDP, unless otherwise indicated)							
Central Government Finance												
Total revenue	12.9	12.7	13.2	13.4	13.8	13.8	14.0	14.5	15.0	15.3	15.8	16.2
of which: Tax revenue [1]	*10.6*	*10.5*	*11.0*	11.5	*12.2*	11.9	*12.7*	*13.2*	*13.7*	*14.0*	*14.4*	*14.8*
Grants	1.2	1.7	0.9	0.5	0.5	0.6	0.6	0.7	0.7	0.6	0.6	0.6
Total expenditure and net lending	14.6	19.1	19.9	19.5	19.8	18.7	19.0	18.9	18.5	18.9	19.4	19.8
Overall balance (commitment basis, including grants)	-0.5	-4.7	-5.7	-5.6	-5.5	-4.3	-4.3	-3.7	-2.9	-2.9	-2.9	-2.9
Overall balance (cash basis, including grants)	-0.6	-4.2	-5.6	-5.7	-4.7	-4.3	-5.0	-3.7	-2.9	-2.9	-2.9	-2.9
Domestic financing, net	-3.6	1.7	-3.9	3.3	2.0	2.2	2.9	1.3	-1.5	0.6	0.2	0.2
External financing, net	4.2	2.4	9.5	2.3	2.7	2.2	2.1	2.4	4.4	2.3	2.7	2.7
External Sector												
Balance of goods and services	-5.0	-2.8	-4.4	-6.0	-6.4	-5.5	-6.2	-6.1	-5.5	-5.3	-4.9	-4.8
Exports of goods and services	24.9	22.4	23.5	26.5	24.9	25.8	23.1	23.2	23.0	22.9	22.9	22.8
Imports of goods and services	-29.9	-25.1	-27.8	-32.5	-31.4	-31.2	-29.3	-29.3	-28.5	-28.2	-27.8	-27.6
Current account balance, including official transfers	-4.0	-1.7	-4.2	-6.1	-6.3	-5.5	-5.9	-5.6	-5.1	-4.9	-4.4	-4.2
Overall balance of payments	0.5	3.4	6.1	-0.9	-1.2	-0.5	-0.9	-0.4	2.1	0.3	1.2	1.6
Public Debt (End Period)												
Total public debt	41.2	46.1	50.3	52.8	54.2	53.2	53.8	53.5	52.4	51.4	50.5	49.6
External public debt	25.3	28.4	36.8	38.6	37.6	39.0	38.1	38.3	39.4	38.6	37.9	37.6
Domestic public debt	16.0	17.7	13.5	14.3	16.6	14.2	15.7	15.2	13.0	12.8	12.7	12.0
Memorandum Items												
Nominal GDP (CFAF billions)	8,432	9,009	9,810	10838	10,855	11771	11,891	12,855	13,895	15,024	16,238	17,552
Nominal GDP (US$ billions)	14.4	15.7	17.7	...	...	...	...	...	...	...	...	...
Nominal GDP per capita (US$)	1,171.0	1,239.7	1,360.4	...	...	...	...	...	...	...	...	...
US$ exchange rate (average)	585.9	574.8	554.2	...	...	...	...	...	...	...	...	...
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	77.9	71.9	101.2	140.0	130.1	120.7	94.4	92.6	90.3	90.3	90.3	90.3
International price of oil (U.S. dollars a barrel)	61.4	41.8	69.2	98.2	96.4	85.5	73.1	68.9	67.0	65.4	64.0	62.8

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

[1] Projections from 2022 onward reflect reclassification of taxes on the use or permission to use goods or to carry out activities as tax revenues (71 billion in 2022) to align with WAEMU/GFS practices.

Table 2. Benin: Consolidated Central Government Operations, 2019-28[1]

(Billions of CFA Francs)

	2019	2020	2021	2022		2023		2024	2025	2026	2027	2028
			Est.	First Review	Est.	First Review	Proj.	Projections				
Total Revenue and Grants	**1,185.7**	**1,296.3**	**1,387.7**	**1,509.2**	**1,553.2**	**1,699.5**	**1,742.3**	**1,949.2**	**2,171.5**	**2,397.8**	**2,672.7**	**2,959.2**
Total revenue	1,088.0	1,142.1	1,295.7	1,454.6	1,498.6	1,623.8	1,666.6	1,859.5	2,079.4	2,301.0	2,568.1	2,846.1
Tax revenue [2]	893.3	947.8	1,082.3	1,241.4	1,320.7	1,395.0	1,512.3	1,692.7	1,899.1	2,106.1	2,341.2	2,600.8
Tax on international trade	358.0	331.5	397.4	463.3	429.8	528.0	532.8	592.0	667.7	744.5	829.0	922.4
Direct and indirect taxes	535.3	616.3	684.9	778.1	890.9	867.0	979.6	1,100.7	1,231.4	1,361.6	1,512.2	1,678.4
Nontax revenue [2]	194.8	194.2	213.4	213.1	177.8	228.8	154.3	166.8	180.3	195.0	226.9	245.3
Grants	97.7	154.2	92.0	54.6	54.6	75.7	75.7	89.7	92.1	96.7	104.6	113.0
Project grants	66.8	46.9	54.6	54.6	54.6	61.7	61.7	66.7	72.1	75.1	81.2	87.8
Budgetary grants	30.8	107.3	37.4	0.0	0.0	14.0	14.0	23.0	20.0	21.6	23.4	25.3
Total Expenditure and Net Lending	**1,227.3**	**1,719.9**	**1,949.4**	**2,114.5**	**2,149.4**	**2,205.7**	**2,253.6**	**2,424.9**	**2,574.4**	**2,833.5**	**3,143.6**	**3,468.2**
Current expenditure	900.8	1,095.6	1,145.1	1,246.7	1,198.1	1,297.4	1,338.5	1,461.5	1,584.1	1,728.2	1,883.2	2,042.9
Current primary expenditure	766.2	919.4	925.2	1,046.8	1,019.5	1,111.3	1,140.9	1,250.9	1,362.5	1,492.0	1,632.9	1,775.5
Wage bill [3]	369.7	416.5	407.8	468.0	458.5	560.7	561.8	617.0	666.9	706.1	763.2	825.0
Pensions and scholarships	90.5	92.9	90.5	116.2	92.9	120.4	107.7	122.9	132.8	158.6	171.4	185.3
Current transfers	180.9	233.0	259.2	306.8	320.6	277.4	321.1	347.1	382.1	428.2	479.0	519.5
Expenditure on goods and services	125.1	176.9	167.6	155.8	147.4	152.9	150.3	163.9	180.6	199.1	219.2	245.7
Interest	134.6	176.3	219.9	199.9	178.7	186.1	197.6	210.6	221.6	236.2	250.3	267.3
Domestic debt	106.8	105.7	153.1	86.8	84.1	82.0	97.5	103.9	111.6	104.6	112.9	122.9
External debt	27.8	70.6	66.8	113.1	94.5	104.0	100.1	106.7	110.0	131.6	137.4	144.5
Capital expenditure	330.4	622.4	802.6	867.8	954.9	908.3	915.2	963.3	990.3	1,105.2	1,260.4	1,425.3
Financed by domestic resources	228.3	356.4	519.0	534.6	577.9	531.7	538.5	511.0	501.4	579.4	692.1	811.0
Financed by external resources [4]	102.1	266.0	283.7	333.2	377.0	376.7	376.7	452.4	488.9	525.9	568.3	614.3
Net lending	-3.9	1.8	1.7	0.0	-3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Commitment Basis, Incl. Grants)	**-41.6**	**-423.6**	**-561.7**	**-605.3**	**-596.2**	**-506.2**	**-511.3**	**-475.6**	**-402.9**	**-435.7**	**-470.9**	**-509.0**
Primary balance [5]	-4.6	-401.5	-433.8	-460.0	-472.2	-395.8	-389.5	-354.7	-273.4	-296.2	-325.2	-354.7
Basic primary balance [6]	93.5	-133.7	-148.5	-126.8	-98.8	-19.2	-12.8	97.7	215.5	229.6	243.2	259.6
Change in arrears	0.0	0.0	0.0	-7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	0.0	0.0	-7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: net change in arrears stock	*19.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	0.0	0.0
Float	-7.3	48.7	15.3	-2.4	82.2	-2.4	-82.2	0.0	0.0	0.0	0.0	0.0
Overall Balance (Cash Basis, Incl. Grants)	**-48.9**	**-374.9**	**-546.4**	**-615.3**	**-514.0**	**-508.6**	**-593.6**	**-475.6**	**-402.9**	**-435.7**	**-470.9**	**-509.0**
Financing	**48.9**	**374.9**	**546.4**	**615.3**	**514.0**	**508.6**	**593.6**	**475.6**	**402.9**	**435.7**	**470.9**	**509.0**
Domestic financing	-302.9	156.4	-380.8	362.5	216.1	254.4	339.4	163.2	-206.3	88.4	39.4	26.6
Bank financing	7.7	259.4	-123.4	258.6	78.1	139.3	223.3	37.7	-341.9	-24.3	-82.4	-105.0
Net use of IMF resources	14.5	168.1	94.2	177.8	176.2	120.7	116.7	6.1	-14.1	-38.5	-61.7	-82.1
Disbursements	*25.7*	*171.3*	*94.2*	*180.9*	*181.6*	*129.7*	*125.4*	*51.7*	*44.0*	*0.0*	*0.0*	*0.0*
Repayments	*-11.2*	*-3.2*	*0.0*	*-3.1*	*-5.4*	*-9.0*	*-8.7*	*-45.7*	*-58.1*	*-38.5*	*-61.7*	*-82.1*
Other [7]	-6.8	91.2	-217.6	80.8	-98.1	18.7	106.6	31.7	-327.8	14.2	-20.7	-22.9
Nonbank and regional financing [8]	-310.6	-103.0	-257.4	103.9	138.0	115.0	116.0	125.4	135.6	112.7	121.8	131.6
External financing	351.9	218.5	927.3	252.9	297.9	254.2	254.2	312.5	609.3	347.3	431.5	482.4
Project financing [4]	35.2	219.1	229.0	278.6	322.3	315.0	315.0	385.7	416.8	450.7	487.1	526.6
Budgetary assistance	33.3	49.9	28.2	96.1	96.1	100.7	100.7	93.3	54.6	75.1	81.2	87.8
Eurobond issuance	325.0	0.0	983.9	0.0	0.0	0.0	0.0	0.0	312.1	0.0	0.0	0.0
Amortization due	-41.7	-50.5	-313.9	-121.9	-120.5	-161.4	-161.4	-166.5	-174.3	-178.6	-136.8	-131.9
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	8,432	9,009	9,810	10,838	10,855	11,771	11,891	12,855	13,895	15,024	16,238	17,552

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

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

[2]Projections from 2022 onward reflect reclassification of taxes on the use or permission to use good or to carry out activities as tax revenues (71 billion in 2022) to align with WAEMU/GFS practices.

[3]2020-27 includes wages of wages of trainee "aspirant" employees previously reflected in goods and services.

[4]Projections from 2022 onward include financing from BOAD.

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

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

[7]Includes financing by Beninese banks.

[8]Includes financing by regional commercial banks.

Table 3. Benin: Consolidated Central Government Operations, 2019-28[1]

(Percent of GDP)

	2019	2020	2021	2022		2023		2024	2025	2026	2027	2028
			Est.	First Review	Est.	First Review	Proj.	Projections				
Total Revenue and Grants	**14.1**	**14.4**	**14.1**	**13.9**	**14.3**	**14.4**	**14.7**	**15.2**	**15.6**	**16.0**	**16.5**	**16.9**
Total revenue	12.9	12.7	13.2	13.4	13.8	13.8	14.0	14.5	15.0	15.3	15.8	16.2
Tax revenue [2]	10.6	10.5	11.0	11.5	12.2	11.9	12.7	13.2	13.7	14.0	14.4	14.8
Tax on international trade	4.2	3.7	4.1	4.3	4.0	4.5	4.5	4.6	4.8	5.0	5.1	5.3
Direct and indirect taxes	6.3	6.8	7.0	7.2	8.2	7.4	8.2	8.6	8.9	9.1	9.3	9.6
Nontax revenue [2]	2.3	2.2	2.2	2.0	1.6	1.9	1.3	1.3	1.3	1.3	1.4	1.4
Grants	1.2	1.7	0.9	0.5	0.5	0.6	0.6	0.7	0.7	0.6	0.6	0.6
Project grants	0.8	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Budgetary grants	0.4	1.2	0.4	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Total Expenditure and Net Lending	**14.6**	**19.1**	**19.9**	**19.5**	**19.8**	**18.7**	**19.0**	**18.9**	**18.5**	**18.9**	**19.4**	**19.8**
Current expenditure	10.7	12.2	11.7	11.5	11.0	11.0	11.3	11.4	11.4	11.5	11.6	11.6
Current primary expenditure	9.1	10.2	9.4	9.7	9.4	9.4	9.6	9.7	9.8	9.9	10.1	10.1
Wage bill [3]	4.4	4.6	4.2	4.3	4.2	4.8	4.7	4.8	4.8	4.7	4.7	4.7
Pensions and scholarships	1.1	1.0	0.9	1.1	0.9	1.0	0.9	1.0	1.0	1.1	1.1	1.1
Current transfers	2.1	2.6	2.6	2.8	3.0	2.4	2.7	2.7	2.8	2.9	3.0	3.0
Expenditure on goods and services	1.5	2.0	1.7	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.4	1.4
Interest	1.6	2.0	2.2	1.8	1.6	1.6	1.7	1.6	1.6	1.6	1.5	1.5
Domestic debt	1.3	1.2	1.6	0.8	0.8	0.7	0.8	0.8	0.8	0.7	0.7	0.7
External debt	0.3	0.8	0.7	1.0	0.9	0.9	0.8	0.8	0.8	0.9	0.8	0.8
Capital expenditure	3.9	6.9	8.2	8.0	8.8	7.7	7.7	7.5	7.1	7.4	7.8	8.1
Financed by domestic resources	2.7	4.0	5.3	4.9	5.3	4.5	4.5	4.0	3.6	3.9	4.3	4.6
Financed by external resources [4]	1.2	3.0	2.9	3.1	3.5	3.2	3.2	3.5	3.5	3.5	3.5	3.5
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (Commitment Basis, Incl. Grants)	**-0.5**	**-4.7**	**-5.7**	**-5.6**	**-5.5**	**-4.3**	**-4.3**	**-3.7**	**-2.9**	**-2.9**	**-2.9**	**-2.9**
Primary balance [5]	-0.1	-4.5	-4.4	-4.2	-4.4	-3.4	-3.3	-2.8	-2.0	-2.0	-2.0	-2.0
Basic primary balance [6]	1.1	-1.5	-1.5	-1.2	-0.9	-0.2	-0.1	0.8	1.6	1.5	1.5	1.5
Change in arrears	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: net change in arrears stock	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	0.0	0.0
Float	-0.1	0.5	0.2	0.0	0.8	0.0	-0.7	0.0	0.0	0.0	0.0	0.0
Overall Balance (Cash Basis, Incl. Grants)	**-0.6**	**-4.2**	**-5.6**	**-5.7**	**-4.7**	**-4.3**	**-5.0**	**-3.7**	**-2.9**	**-2.9**	**-2.9**	**-2.9**
Financing	**0.6**	**4.2**	**5.6**	**5.7**	**4.7**	**4.3**	**5.0**	**3.7**	**2.9**	**2.9**	**2.9**	**2.9**
Domestic financing	-3.6	1.7	-3.9	3.3	2.0	2.2	2.9	1.3	-1.5	0.6	0.2	0.2
Bank financing	0.1	2.9	-1.3	2.4	0.7	1.2	1.9	0.3	-2.5	-0.2	-0.5	-0.6
Net use of IMF resources	0.2	1.9	1.0	1.6	1.6	1.0	1.0	0.0	-0.1	-0.3	-0.4	-0.5
Disbursements	0.3	1.9	1.0	1.7	1.7	1.1	1.1	0.4	0.3	0.0	0.0	0.0
Repayments	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.4	-0.4	-0.3	-0.4	-0.5
Other [7]	-0.1	1.0	-2.2	0.7	-0.9	0.2	0.9	0.2	-2.4	0.1	-0.1	-0.1
Nonbank and regional financing [8]	-3.7	-1.1	-2.6	1.0	1.3	1.0	1.0	1.0	1.0	0.7	0.8	0.8
External financing	4.2	2.4	9.5	2.3	2.7	2.2	2.1	2.4	4.4	2.3	2.7	2.7
Project financing [4]	0.4	2.4	2.3	2.6	3.0	2.7	2.6	3.0	3.0	3.0	3.0	3.0
Budgetary assistance	0.4	0.6	0.3	0.9	0.9	0.9	0.8	0.7	0.4	0.5	0.5	0.5
Eurobond issuance	3.9	0.0	10.0	0.0	0.0	0.0	0.0	0.0	2.2	0.0	0.0	0.0
Amortization due	-0.5	-0.6	-3.2	-1.1	-1.1	-1.4	-1.4	-1.3	-1.3	-1.2	-0.8	-0.8
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	8,432	9,009	9,810	10,838	10,855	11,771	11,891	12,855	13,895	15,024	16,238	17,552
Memo Items												
Interest-to-tax revenue ratio (percent)	15	19	20	16	14	13	13	12	12	11	11	10
Wage bill to tax ratio (percent)	41	44	38	38	35	40	37	36	35	34	33	32

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

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

[2]Projections from 2022 onward reflect reclassification of taxes on the use or permission to use good or to carry out activities as tax revenues (0.7 percent of GDP in 2022).

[3]2020-27 includes wages of wages of trainee "aspirant" employees previously reflected in goods and services.

[4]Projections from 2022 include financing from BOAD.

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

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

[7] Includes financing by Beninese banks.

[8] Includes financing by regional commercial banks.

Table 4. Benin: Balance of Payments, 2019-28

(Billions of CFA Francs)

	2019	2020	2021	2022		2023		2024	2025	2026	2027	2028
			Est.	First Rev.	Est.	First Rev.	Proj.			Projections		
Current account balance	**-337.3**	**-157.3**	**-407.4**	**-664.6**	**-680.6**	**-647.0**	**-697.2**	**-725.0**	**-702.6**	**-731.7**	**-713.9**	**-729.6**
Current Account Balance (Excl. Budget Support Grants)	-368.1	-264.6	-444.8	-664.6	-680.6	-661.0	-711.2	-748.0	-722.6	-753.4	-737.3	-754.8
Trade balance[1]	-260.4	-89.7	-195.4	-389.9	-442.2	-363.2	-453.7	-473.5	-428.9	-439.9	-414.0	-430.4
Exports, f.o.b.[1]	1,790.9	1,720.5	2,019.9	2,562.3	2,389.5	2,694.7	2,399.3	2,611.0	2,793.6	3,006.4	3,242.7	3,493.6
Of which: re-exports	*841.3*	*739.1*	*925.1*	*942.4*	*927.2*	*1,041.5*	*1,041.7*	*1,159.0*	*1,267.3*	*1,387.0*	*1,521.2*	*1,669.4*
Of which: cotton	*325.5*	*319.3*	*404.7*	*633.6*	*498.9*	*590.6*	*361.4*	*381.6*	*387.4*	*403.6*	*421.1*	*437.2*
Imports, f.o.b.[1]	-2,051.4	-1,810.2	-2,215.4	-2,952.2	-2,831.7	-3,057.8	-2,853.1	-3,084.5	-3,222.4	-3,446.4	-3,656.7	-3,924.0
Of which: fuel	*-223.6*	*-199.4*	*-198.2*	*-374.6*	*-298.4*	*-323.3*	*-215.9*	*-196.9*	*-184.3*	*-173.7*	*-164.1*	*-154.4*
Services (net)	-162.4	-160.5	-232.6	-257.0	-257.3	-279.1	-281.9	-304.8	-329.4	-356.2	-385.0	-416.1
Income (net)	-41.5	-69.7	-105.0	-53.2	-58.7	-59.2	-66.2	-74.5	-82.7	-91.3	-90.7	-81.7
Current transfers (net)	127.1	162.6	125.5	35.5	77.6	54.4	104.6	127.8	138.4	155.7	175.8	198.6
Private transfers	77.6	55.0	76.9	35.5	77.6	40.4	90.6	104.8	118.4	134.1	152.4	173.3
Public transfers	49.4	107.6	48.7	0.0	0.0	14.0	14.0	23.0	20.0	21.6	23.4	25.3
Capital Account Balance	**116.3**	**100.5**	**143.8**	**100.0**	**103.3**	**111.0**	**115.0**	**124.3**	**134.3**	**142.4**	**153.9**	**166.4**
Financial Account Balance (+=Inflow)	**262.6**	**361.8**	**858.2**	**466.4**	**451.9**	**481.4**	**471.3**	**543.2**	**855.2**	**630.9**	**758.5**	**845.2**
Direct investment	112.0	87.6	168.1	178.2	178.6	188.9	189.3	200.6	212.6	246.6	286.0	317.4
Portfolio investment[2]	125.0	76.4	503.8	0.0	0.0	0.0	0.0	0.0	312.1	0.0	0.0	0.0
Medium- and long-term public capital	168.4	324.3	182.5	252.9	297.9	254.2	254.2	312.5	297.1	347.3	431.5	482.4
Project loans	35.2	219.1	229.0	278.6	322.3	315.0	315.0	385.7	416.8	450.7	487.1	526.6
Budgetary assistance loans	33.3	49.9	28.2	96.1	96.1	100.7	100.7	93.3	54.6	75.1	81.2	87.8
Amortization due	-41.7	-50.5	-313.9	-121.9	-120.5	-161.4	-161.4	-166.5	-174.3	-178.6	-136.8	-131.9
Other Medium- and long-term private capital	-142.7	-126.5	3.9	35.3	-24.6	38.3	27.8	30.1	33.4	37.0	41.0	45.4
Errors and omissions	3.9	2.0	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	**45.6**	**306.9**	**597.5**	**-98.2**	**-125.5**	**-54.6**	**-110.9**	**-57.5**	**286.9**	**41.6**	**198.6**	**282.0**
Change in net foreign assets, BCEAO ('-' = Increase)	**-45.6**	**-306.9**	**-597.5**	**-82.7**	**-56.1**	**-75.1**	**-14.5**	**5.8**	**-330.9**	**-41.6**	**-198.6**	**-282.0**
Change in gross foreign assets, BCEAO ('-' = Increase)	-31.0	-138.8	-495.5	-85.8	-61.5	-84.2	-23.3	-39.9	-389.0	-80.1	-260.3	-364.1
Use of IMF resources, net	-14.5	-168.1	-94.2	3.1	5.4	9.0	8.7	45.7	58.1	38.5	61.7	82.1
Debt relief[3]	0.0	0.0	-7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap				180.9	**181.6**	129.7	**125.4**	**51.7**	**44.0**	**0.0**	**0.0**	**0.0**
IMF EFF/ECF				180.9	181.6	129.7	125.4	51.7	44.0			
Others												
						(Percent of GDP)						
Current Account Balance	**-4.0**	**-1.7**	**-4.2**	**-6.1**	**-6.3**	**-5.5**	**-5.9**	**-5.6**	**-5.1**	**-4.9**	**-4.4**	**-4.2**
Trade balance of goods[1]	-3.1	-1.0	-2.0	-3.6	-4.1	-3.1	-3.8	-3.7	-3.1	-2.9	-2.5	-2.5
Exports, f.o.b.[1]	*21.2*	*19.1*	*20.6*	*23.6*	*22.0*	*22.9*	*20.2*	*20.3*	*20.1*	*20.0*	*20.0*	*19.9*
Imports, f.o.b.[1]	*-24.3*	*-20.1*	*-22.6*	*-27.2*	*-26.1*	*-26.0*	*-24.0*	*-24.0*	*-23.2*	*-22.9*	*-22.5*	*-22.4*
Services	-1.9	-1.8	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
Income	-0.5	-0.8	-1.1	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5
Current transfers	1.5	1.8	1.3	0.3	0.7	0.5	0.9	1.0	1.0	1.0	1.1	1.1
Capital account	1.4	1.1	1.5	0.9	1.0	0.9	1.0	1.0	1.0	0.9	0.9	0.9
Financial account	3.1	4.0	8.7	4.3	4.2	4.1	4.0	4.2	6.2	4.2	4.7	4.8
Overall Balance	**0.5**	**3.4**	**6.1**	**-0.9**	**-1.2**	**-0.5**	**-0.9**	**-0.4**	**2.1**	**0.3**	**1.2**	**1.6**
Memorandum items:												
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	77.9	71.9	101.2	140.0	130.1	120.7	94.4	92.6	90.3	90.3	90.3	90.3
International price of oil (U.S. dollars a barrel)	61.4	41.8	69.2	98.2	96.4	85.5	73.1	68.9	67.0	65.4	64.0	62.8
Nominal GDP (CFAF billion)	8,432	9,009	9,810	10,838	10,855	11,771	11,891	12,855	13,895	15,024	16,238	17,552

Sources: Beninese authorities; IMF staff estimates and projections.

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

[2] 2025 portfolio flows relate to projected Eurobond issuance.

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

Table 5. Benin: Monetary Survey, 2019-25

	2019	2020	2021	2022		2023	2024	2025
			Est.	First Rev.	Est.	Proj.	Proj.	Proj.
				(CFAF billion)				
Net foreign assets	**1233.1**	**1549.3**	**2131.3**	**2210.2**	**2152.8**	**2176.0**	**2215.9**	**2604.9**
Central Bank of West African States (BCEAO)	314.4	269.8	138.2	36.2	-165.6	-267.8	-279.7	65.3
Banks	918.7	1279.5	1993.1	2174.0	2318.4	2443.9	2495.6	2539.6
Net domestic assets	**1108.9**	**1198.6**	**1075.3**	**1325.0**	**1471.5**	**1794.4**	**2076.4**	**2034.5**
Domestic credit	1449.9	1720.9	1712.8	1835.2	2126.2	2293.3	2515.8	3006.0
Net claims on central government	-200.6	58.8	-64.6	-64.6	9.9	9.9	9.9	9.9
Credit to the nongovernment sector[1]	1650.5	1662.1	1777.4	1899.8	2116.3	2283.4	2505.9	2996.1
Of which: Credit to the private sector	1485.0	1399.7	1528.9	1651.3	1856.1	2023.2	2245.6	2735.9
Other items[2]	341.0	522.3	637.5	510.2	654.8	498.9	439.4	971.5
Broad money (M2)	**2342.0**	**2747.9**	**3206.5**	**3535.2**	**3624.3**	**3970.5**	**4292.3**	**4639.4**
Currency	569.4	713.7	764.5	837.1	868.5	951.5	1028.6	1111.8
Bank deposits	878.4	1040.5	1393.8	1539.9	1655.9	1814.0	1961.1	2119.6
Other deposits	894.2	993.8	1048.2	1158.1	1099.9	1205.0	1302.6	1408.0
			(Change, in percent of beginning-of-period broad money)					
Net foreign assets	**2.2**	**13.5**	**21.2**	**2.7**	**0.7**	**0.6**	**1.0**	**9.1**
Central Bank of West African States (BCEAO)	-5.0	-1.9	-4.8	-3.0	-9.5	-2.8	-0.3	8.0
Banks	7.1	15.4	26.0	5.7	10.1	3.5	1.3	1.0
Net domestic assets	**3.9**	**3.8**	**-4.5**	**7.8**	**12.4**	**8.9**	**7.1**	**-1.0**
Domestic credit	-4.6	11.6	-0.3	3.8	12.9	4.6	5.6	11.4
Net claims on central government	-14.4	11.1	-4.5	0.0	2.3	0.0	0.0	0.0
Credit to the nongovernment sector	9.9	0.5	4.2	3.8	10.6	4.6	5.6	11.4
Other items	-8.4	7.7	4.2	-4.0	0.5	-4.3	-1.5	12.4
Broad money (M2)	**6.0**	**17.3**	**16.7**	**10.5**	**13.0**	**9.6**	**8.1**	**8.1**
Currency	2.2	6.2	1.9	2.5	3.2	2.3	1.9	1.9
Bank deposits	2.8	6.9	12.9	4.6	8.2	4.4	3.7	3.7
Other deposits	1.0	4.3	2.0	3.4	1.6	2.9	2.5	2.5
Memorandum items:								
Velocity of broad money	3.7	3.5	3.3	3.2	3.2	3.1	3.1	3.1
Broad money (percent of GDP)	27.8	30.5	32.7	32.6	33.4	33.4	33.4	33.4
Credit to the private sector (annual percentage change)	11.9	-5.7	9.2	8.0	21.4	9.0	11.0	21.8
Nominal GDP (CFAF billion)	8,432	9,009	9,810	10,838	10,855	11,891	12,855	13,895
Nominal GDP growth (annual percentage change)	6.5	6.8	8.9	10.5	10.7	9.6	8.1	8.1

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 6. Benin: External Financing Requirements and Sources, 2021-25

	2021	2022	2023	2024	2025	Cumulative 2022-25
			Projections			Projection
		(CFAF billion, unless otherwise indicated)				
1. Gross financing requirements	**1,453**	**857**	**887**	**909**	**1,228**	**3,881**
Current account balance (excl. grants)	445	681	711	748	723	2,862
Debt Amortization (excl. regional market securities/IMF)	314	121	161	167	174	623
IMF Repurchases/repayments	0	5	9	46	58	118
Change in NFA (excl. IMF) ("+" = increase)	692	51	6	-51	273	278
Errors and Omissions	3	0	0	0	0	0
2. Available financing	**1,054**	**563**	**647**	**741**	**1,109**	**3,060**
Foreign direct investment (net)	168	179	189	201	213	781
Other net flows [1]	602	24	81	88	408	600
of which: Eurobond	*984*	*0*	*0*	*0*	*312*	312
Project (official external)	284	360	377	452	489	1,678
Grants	*55*	*55*	*62*	*67*	*72*	255
Loans	*229*	*306*	*315*	*386*	*417*	1,423
3. Financing Gap (1-2)	**399**	**295**	**240**	**168**	**119**	**821**
Budget support (Multilateral)	66	96	115	116	75	402
Grants	*37*	*0*	*14*	*23*	*20*	*57*
Loans	*28*	*96*	*101*	*93*	*55*	*345*
Vaccination Support (WB)		17	*0*	*0*	*0*	*17*
Exceptional Financing	333	182	125	52	44	403
IMF	94	182	125	52	44	403

Source: Beninese authorities; IMF staff estimates and projections

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

Table 7. Benin: Quantitative Performance Criteria and Indicative Targets, 2023-24
(Billions of CFA Francs)

	March 31, 2023	June 30, 2023		September 30, 2023	December 31, 2023	March 31, 2024	June 30, 2024
	Indicative target	Performance Criteria		Indicative target	Performance Criteria	Indicative target	Indicative target
	Prog.	Prog.	Revised	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria[2]							
Basic primary balance (floor)[3]	3.8	-1.6		-97.6	-13.1	17.5	26.6
Net domestic financing (ceiling)[4]	130	205		372	348	104	200
B. Continuous quantitative performance criteria (ceilings)							
Accumulation of external payments arrears	0.0	0.0		0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0		0.0	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government[5]	620	620		620	620	620	620
C. Indicative Targets[2]							
Tax revenue (floor)	321.5	669.5	694.5 [6]	1,071.9	1,480.0	398.5	826.8
Priority social expenditure (floor) [7]	16.4	50.9		105.9	170.1	22.1	56.0

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

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

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

[5]Annual limit.

[6]Tax revenue IT revised to account for reclassification of some non-tax revenues.

[7]Includes internally and externally financed expenditures related to government interventions that directly reduce poverty in the areas of education, health and nutrition, social safety nets, access to electricity, water and sanitation, microfinance, and security and civil protection. Excludes salary expenditures. 2024 amounts to be determined on mission.

Table 8. Benin: Financial Stability Indicators, 2016-22

	2016 Dec.	2017 Dec.	2018 [1] Dec.	2019 June	2019 Dec.	2020 June	2020 Dec.	2021 June	2021 Dec.	2022 June
Regulatory capital to risk-weighted assets	9.3	11.9	8.2	9.6	10.4	10.0	14.4	13.4	14.2	14.8
Core capital to risk-weighted assets	7.4	10.2	7.2	8.7	9.7	9.3	13.6	12.6	13.3	13.9
Provisions to risk-weighted assets	16.0	16.4	12.6	11.1	10.3	11.4	11.3	10.1	8.4	7.7
Capital to total assets	3.7	4.7	5.1	5.6	5.4	4.7	6.7	6.4	6.4	6.7
Composition and quality of assets										
Total loans to total assets	39.6	43.5	46.1	47.5	48.5	45.3	42.5	40.9	37.6	39.3
Concentration: Credit to the 5 largest borrowers	99.6	91.6	90.4	99.6	95.5	94.9	64.6	76.9	67.8	64.7
Credit by sector [2]										
Agriculture, Forestry, and Fishing	1.9	1.8	4.4	2.6	3.1	3.6	4.0	4.3	3.6	2.8
Extractive Industries	2.6	1.5	1.2	1.0	0.9	1.4	1.1	1.4	0.8	0.9
Manufacturing	15.0	15.2	12.2	11.0	10.2	10.5	8.7	7.5	8.2	7.9
Electricity, Water, and Gas	5.0	4.4	4.3	5.2	5.2	4.8	3.2	4.9	4.0	4.5
Buildings and Public Works	16.3	17.0	27.9	28.8	30.0	27.7	17.6	20.7	22.4	19.3
Commerce, Restaurants, and Hotels	28.2	24.1	18.7	18.7	15.9	15.3	14.3	14.4	14.4	18.8
Transportation and Communication	6.2	5.9	3.9	5.0	5.6	6.3	6.0	6.7	5.7	7.0
Financial and Business Services	7.9	8.0	3.4	3.3	3.5	5.9	7.2	9.0	6.1	6.8
Other Services	16.7	22.1	23.9	24.4	25.7	24.5	37.8	31.0	34.9	32.1
Non-Performing Loans (NPLs)										
Gross NPLs to Total loans	21.8	19.4	21.6	20.2	17.7	16.4	16.8	14.9	12.6	10.9
Provisioning rate	64.0	66.4	66.5	59.0	55.9	64.6	65.5	70.9	73.3	74.3
Net NPLs to total loans	9.1	7.5	8.5	9.4	8.6	6.5	6.5	4.8	3.7	3.1
Net NPLs to capital	96.9	69.2	77.2	80.0	77.8	62.4	41.4	31.0	21.7	18.1
Earnings and profitability										
Average cost of borrowed funds	3.2	3.0	3.2	…	2.4	…	1.4	…	2.2	…
Average interest rate on loans	7.8	7.4	7.5	…	6.4	…	6.8	…	5.4	…
Average interest margin [3]	4.6	4.3	4.3	…	4.0	…	5.4	…	3.2	…
After-tax return on average assets (ROA)	0.0	0.0	0.1	…	0.5	…	0.6	…	1.0	…
After-tax return on average equity (ROE)	0.5	0.4	1.9	…	7.0	…	7.6	…	13.9	…
Noninterest expenses/net banking income	73.2	76.9	74.8	…	78.5	…	67.0	…	64.3	…
Salaries and wages/net banking income	32.3	33.9	32.4	…	32.9	…	27.6	…	27.1	…
Liquidity										
Liquid assets to total assets	16.2	14.5	12.5	11.7	12.8	11.5	12.1	9.0	9.7	9.8
Liquid assets to total deposits	28.0	24.4	19.3	16.8	19.6	18.0	18.4	13.3	15.2	15.4
Total loans to total deposits	79.4	84.4	83.4	77.9	82.3	79.5	72.9	67.7	65.2	67.4
Total deposits to total liabilities	57.9	59.2	64.6	69.3	65.4	63.7	65.5	67.6	63.4	63.5
Demand deposits to total liabilities [4]	24.4	26.3	29.4	31.3	28.5	27.0	30.0	29.5	31.8	30.6
Term deposits to total liabilities	33.5	32.9	35.1	38.0	36.9	36.7	35.5	38.0	31.7	33.0

Source: BCEAO.

Note: … = not available.

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

[2] Credits reported to the Central Risk Office

[3] Excluding taxes on banking operations.

[4] Including savings accounts.

Table 9. Benin: Indicators of Capacity to Repay the IMF, 2023-34

(CFAF Billions)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
IMF obligations based on existing credit (millions of SDRs)												
Principal	8.0	55.1	69.6	45.7	69.8	76.3	71.5	56.0	38.5	38.5	0.0	0.0
Charges and interest[2]	7.8	10.1	8.2	6.8	6.3	5.2	4.1	3.0	1.9	0.7	0.0	0.0
Total obligations based on existing and prospective credit												
Principal												
Millions of SDRs	8.0	55.1	69.6	45.7	72.6	96.7	108.0	100.9	86.1	86.1	43.0	17.7
Billions of CFA francs	6.6	45.7	58.1	38.5	61.7	82.1	91.8	85.7	73.1	73.1	36.6	15.0
Percent of government revenue	0.4	2.5	2.8	1.7	2.4	2.9	2.9	2.4	1.9	1.7	0.8	0.3
Percent of exports of goods and services	0.2	1.5	1.8	1.1	1.7	2.0	2.1	1.8	1.4	1.3	0.6	0.2
Percent of GDP	0.1	0.4	0.4	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.1	0.1
Percent of quota	6.4	44.5	56.2	36.9	58.7	78.1	87.3	81.5	69.5	69.5	34.8	14.3
Charges and interest												
Millions of SDRs	9.3	17.4	17.4	17.0	16.4	14.8	11.5	8.8	6.3	3.8	1.7	0.6
Billions of CFA francs	7.7	14.5	14.5	14.3	14.0	12.6	9.7	7.5	5.3	3.2	1.4	0.5
Outstanding IMF credit												
Millions of SDRs	673.3	680.7	663.8	618.0	545.4	448.8	340.7	239.9	153.8	67.7	24.7	7.0
Billions of CFA francs	554.2	564.4	554.5	520.5	463.3	381.2	289.4	203.8	130.7	57.5	21.0	6.0
Percent of government revenue	33.3	30.4	26.7	22.6	18.0	13.4	9.2	5.8	3.4	1.3	0.4	0.1
Percent of exports of goods and services	20.2	18.9	17.4	15.1	12.4	9.4	6.6	4.3	2.6	1.0	0.4	0.1
Percent of GDP	4.7	4.4	4.0	3.5	2.9	2.2	1.5	1.0	0.6	0.2	0.1	0.0
Percent of quota	543.9	549.8	536.2	499.2	440.5	362.5	275.2	193.7	124.2	54.7	20.0	5.7
Net use of IMF credit (millions of SDRs)	144.4	7.3	-16.9	-45.7	-72.6	-96.7	-108.0	-100.9	-86.1	-86.1	-43.0	-17.7
Disbursements (including prospective ones)	152.4	62.4	52.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	8.0	55.1	69.6	45.7	72.6	96.7	108.0	100.9	86.1	86.1	43.0	17.7
Memorandum items:												
Nominal GDP (billions of CFA francs)	11,891	12,855	13,895	15,024	16,238	17,552	18,968	20,494	22,138	23,910	25,818	27,874
Exports of goods and services (billions of CFA francs)	2,743	2,983	3,195	3,455	3,734	4,037	4,362	4,713	5,091	5,499	5,938	6,410
Government revenue (billions of CFA francs)	1,667	1,860	2,079	2,301	2,568	2,846	3,152	3,508	3,900	4,331	4,806	5,328
CFAF/SDR (period average)	823	829	835	842	850	850	850	850	850	850	850	850
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

Sources: IMF staff estimates and projections.

[1] Data are projections

[2] On July 14, 2021, the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through July 2023 and possibly longer. The Board also decided to extend zero interest rate on ESF until end June 2021 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of the SDR rate, the following interest rates are assumed beyond June 2021: 0/0/0/0 percent per annum for the ECF, SCF, RCF and ESF, respectively. The Executive Board will review the interest rates on concessional lending by end-June 2021 and every two years thereafter.

Table 10. Benin: Schedule of Disbursements Under the ECF/EFF Arrangements

Availability date	Amount (SDR Million)			Percent of Quota[1]			Conditions for disbursement/purchases
	Total	ECF	EFF	Total	ECF	EFF	
July 8, 2022	108.30	36.10	72.20	87.48	29.16	58.32	Executive Board approval of the ECF/EFF arrangements
November 21, 2022	108.30	36.10	72.20	87.48	29.16	58.32	Observance of end-June 2022 performance criteria, and completion of the first review under the arrangements.
May 1, 2023	50.82	16.94	33.88	41.04	13.68	27.36	Observance of end-December 2022 performance criteria, and completion of the second review under the arrangements.
November 1, 2023	101.58	33.86	67.72	82.06	27.36	54.70	Observance of end-June 2023 performance criteria, and completion of the third review under the arrangements.
May 1, 2024	31.20	10.40	20.80	25.20	8.40	16.80	Observance of end-December 2023 performance criteria, and completion of the fourth review under the arrangements.
November 1, 2024	31.20	10.40	20.80	25.20	8.40	16.80	Observance of end-June, 2024 performance criteria, and completion of the fifth review under the arrangements.
May 1, 2025	26.20	8.70	17.50	21.16	7.03	14.14	Observance of end-December 2024 performance criteria, and completion of the sixth review under the arrangements.
October 31, 2025	26.458	8.849	17.609	21.37	7.15	14.22	Observance of end-June 2025 performance criteria, and completion of the seventh review under the arrangements.
Total	484.058	161.349	322.709	391.00	130.33	260.67	

Sources: IMF Staff Estimates

1/ Benin's quota is 123.8 million SDR.

Table 11. Benin: Structural Benchmarks, 2023–24

Reform area	Structural benchmark	Due date	Status
Governance and Transparency	Conduct and publish a governance diagnostic.	End-February 2023	Met
Financial Inclusion	Transpose the WAEMU’s regional financial inclusion strategy (adopted by the WAEMU Council of Ministers in 2016) at the national level and design a comprehensive financial inclusion strategy for Benin.	End-March 2023	Met
Food security	Submit to parliament a draft law to improve the organization and governance of the school feeding program (PNASI), covering the following aspects: (i) a sustainable financing strategy which includes the sharing of responsibilities between the central government, municipalities, and schools; (ii) a prioritization of coverage of the regions most susceptible to food insecurity risks; (iii) the adaptation and clarification of standards required for the delivery of food products to school canteens in order to promote the participation of local farmers; and (iv) gradually transferring the management of the PNASI to the Beninese authorities through the establishment of the National Institution in charge of school feeding.	End-April 2023	Met
Land titling	Digitalize the processing of land titles requests, including through designing the land management application (*e-terre*) and developing its functionalities, providing training to ANDF (*Agence Nationale du Domaine et du Foncier)* staff on the use of the new system and embedding data management tools to the new application.	End-April 2023	Met
Revenue Mobilization	Develop a medium-term revenue mobilization strategy (MTRS).	End-September 2023	
Public Financial Management	Prepare a statement containing a quantitative analysis of fiscal risks in all key areas, including macroeconomic risks, public enterprises, debt management, contingent liabilities, natural disasters, pension and social securities, as part of the 2024 draft budget law documentation.	End-October 2023	

Table 11. Benin: Structural Benchmarks, 2023–24 (concluded)

Reform area	Structural benchmark	Due date	Status
Public Financial Management	Publish all the criteria for the appraisal and selection of major investment projects, along with feasibility studies.	End-December 2023	
Rule of law	Operationalize the Commercial Court of Appeal with staffing, funding, and equipment to help fill an important gap in Benin's judicial framework and promote greater transparency.	End-November 2023	**Newly proposed**
Anti-corruption	Operationalize the HCPC (*Haut Commissariat à la Prévention de la Corruption*) and strengthen its legal framework to ensure its independence and powers, in consultation with IMF staff	End-June 2024	**Newly proposed**
Public Financial Management	Update the list of bank accounts of public organizations before the end of August 2023 and close at least half of those subject to the obligation to deposit funds in the Treasury and not benefiting from an exemption authorization from the MEF, while repatriating the balances to the public Treasury, no later than the end of June 2024	End-June 2024	**Newly proposed**

Annex I. Risk Assessment Matrix

Source of Risks	Relative Likelihood/ Time Horizon	Excepted Impact if Realized	Recommended Policy Response
External Risks			
Increased security risks, including due to intensification of regional conflicts	**High** **Short to Medium Term**	**High** Escalation of Russia's war in Ukraine and intensification of regional security threats could potentially result on disruptions of trade, remittances, FDI and financial flows with large adverse effects on activity and public finances, and complicate policy implementation.	Enhance State presence in communities at risk through improved access to basic public services; improve public spending efficiency and commit to a credible medium-term fiscal consolidation.
Abrupt global slowdown or recession	**Medium** **Short to Medium Term**	**High** A new bout of global financial tightening, possibly combined with volatile commodity prices could lead to spiking risk premia, debt distress, widening of external imbalances and fiscal pressures.	Bolster the institutional foundations of private sector led inclusive growth; accelerate business environment reforms to support economic diversification; seek highly concessional financing.
Sharp rise in food and energy prices amid the war in Ukraine	**Medium** **Short to Medium Term**	**High** A succession of supply disruptions and demand fluctuations could lead to recurrent commodity price volatility, external and fiscal pressures, and social and economic that could exacerbate purchasing power erosion and delay addressing pre-existing social challenges.	Rely on cost-effective targeted measures in response to the food and energy price shock and reduce non-priority spending to preserve programmed fiscal targets; bolster investors' confidence through careful communication on policy actions, and maintain prudent debt policy and management; mobilize more concessional financing.
Adverse developments in Nigeria	**Medium** **Short to Medium Term**	**High** Slower recovery and adverse security situation would reduce trade revenues, and growth in Nigeria, Benin's main trading partner, with adverse impact on Benin's re-exports, customs revenue, and informal trade.	Reduce trade dependence vis-à-vis Nigeria by moving away gradually from the transit-centered "entrepot" growth model; improve the business environment to support economic diversification and private sector development.
Higher frequency of extreme climate events	**Medium** **Medium Term**	**High** Extreme climate events could cause more severe damage to infrastructure and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures and increasing food insecurity risks.	Accelerate reforms to strengthen resilience through irrigation and improved productivity in agriculture; mitigate the immediate impact on the poor including through targeted transfers and emergency assistance.
Domestic Risks			
Policy implementation risks, due to widespread social discontent and political instability	**Medium** **Short Term**	**High** Social tensions could increase political polarization, undermine economic activity, disrupt the reform agenda, and exert pressure on the budget.	Strengthen social safety nets to mitigate the impact on the poor; enhance the delivery of basic public services; ensure transparency and accountability in public spending and improve the efficiency of public investment.
Increased systemic financial instability	**Medium** **Short to Medium Term**	**Medium** A surge in non-performing loans could deteriorate confidence and lower capital, affecting banking sector stability and credit to the private sector.	Enhance monitoring of financial sector developments; consult with the WAEMU banking commission and communicate with banks on measures needed to ensure a prompt resolution of NPLs and adequate capitalization.

Annex II. Poverty Reduction and Growth Strategy[1]

This Annex summarizes the authorities' 2018-25 National Development Plan, which fulfills the Poverty Reduction and Growth Strategy Requirements. The EFF/ECF and the PRGS are well aligned on the need for enhanced revenue mobilization to create much-needed fiscal space for development needs. The PRGS has also been assessed positively by the World Bank.

1. **Benin adopted a Poverty Reduction and Growth Strategy in 2018 with the 2018–25 National Development Plan (NDP).** The NDP is anchored on achieving Sustainable Development Goals (SDGs) and aims for sustainable and inclusive growth of at least 10 percent by 2025 based on the development of agroindustry, services, and tourism, within a more effective national and local governance framework, by focusing on the development of human capital and infrastructure. The NDP also focuses on poverty reduction, aiming to reduce the income poverty rate from 40 percent in 2015 to 23.2 percent by 2025.

Text Table 1. Benin: National Development Plan (PND; 2018–25): Main Numerical Targets

(Percent unless otherwise indicated)

Indicators	2015	2025
Human Development Ranking	167	150
GDP/capita (USD)	789	950
Economic growth rate	2.1	10
Income poverty rate	40	23.2
Non-monetary poverty rate	29.1	<10
Investment rate (percent of GDP)	24.6	33
GDP from tourism as a proportion of total GDP (2011)	2.6	8
Share of value added of the industrial sector/GDP	13	20
Informal GDP/GDP	62.0	<50
Life expectancy	62	65
Population growth rate	3.5	3.0
Literacy rate	43.1	55.0
Lower secondary school completion rate	45.0	70.0
Upper secondary school completion rate	28.0	45.0
Secondary school enrollment	47.0	70.0
Maternal mortality rate per 100,000 births 100,000 births (2013 RGPH)	335.5	<200
Infant and child mortality rate (2014 MICS)	0.115	<0.1
Doing Business classification (World Bank)	155.0	130.0
Rank in the Corruption Perceptions Index (2017 Transparency)	85.0	<50
Road Network Condition Index	73.0	80.0
Accident rates related to the state of road infrastructure	9.0	7.0
National electrification rate	34.7	51.3
Proportion of households using improved cookstoves for cooking	17.6	0.5
Coverage rate of broadband internet services for companies and indivduals		80.0
e-Government Development Index		0.5
Banking rate (2017)	19.0	>25
Internet penetration rate	19.4	>50
Rate of precarious employment (2005-14)	87.7	<60
Rate of health insurance and social protection coverage	8.4	>40
Rate of access to electricity	38.8	>60
Rate of access to drinking water in rural areas	41.4	100.0
Lineage of rural trails developed (2017)	4,958km	>8,000km

Source: Benin's National Development Plan (PND; 2018–25).

2. **The NDP is broken down into four key strategic objectives which target six main outcomes** (Text Figure 1)**.** The strategic objectives include: (i) developing healthy, competent, and competitive human capital; (ii) sustainably increasing the productivity and competitiveness of the Beninese economy; (iii) ensuring sustainable management of the living environment, adapting to climate change; and (iv) consolidating the rule of law and good governance. Targeted outcomes include: (i) Benin's healthy and qualified human capital; (ii) accelerated progress on structural transformation in the economy; (iii) a diversified and productive agricultural sector that ensures food security and synergy with the agroindustry; (iv) management of urban and rural development and resilience to climate change and natural disasters; (v) peaceful and inclusive governance in Benin; and (vi) people's access to quality public services. To assess progress toward these targeted outcomes, the authorities have set specific numerical targets (Text Table 1).

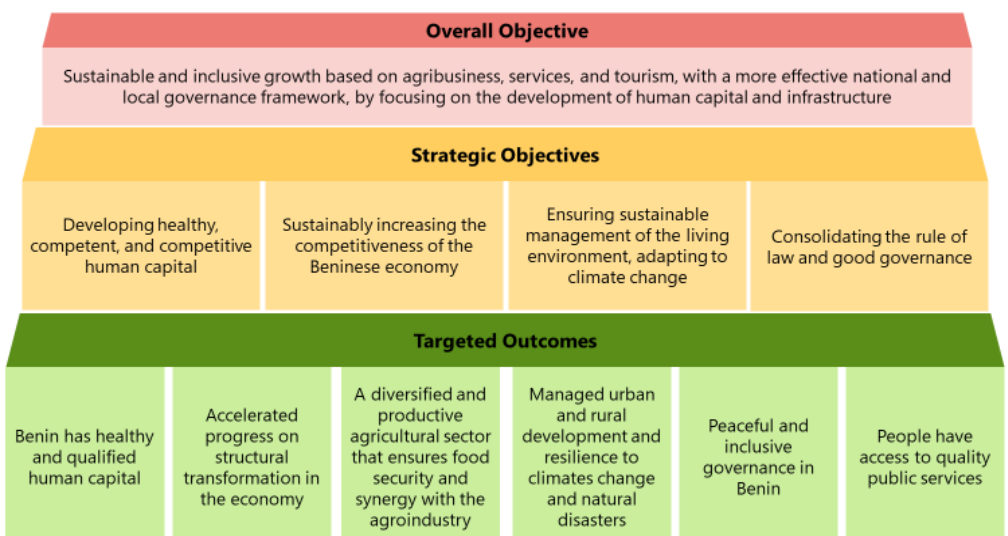
3. **The goals and strategies of Benin's PRGS are well aligned with EFF/ECF objectives.** Alignment with the NDP was an important consideration in program design, and the duration of the program (42-month) was deliberately aligned with the NDP horizon, with the longer duration expected to provide the

[1] Prepared by Deirdre Daly (AFR).

time needed to implement far-reaching reforms in areas such as governance. The Fund-supported program's focus on revenue mobilization and spending efficiency aims to create space to meet spending needs under the NDP. The NDP specifically targets establishing and strengthening access to social protection systems and access to basic public services, the second pillar of Benin's IMF-supported program. Finally, the reinforcement of the rule of law and governance frameworks are shared objectives under both the NDP and EFF/ECF—considerable progress has already been made with the completion of the IMF governance diagnostic and ongoing development of a home-grown action plan to implement key recommendations from the diagnostic.

4. **Although economic circumstances have changed since the drafting of the PRGS, the overall strategic objectives remain relevant.** Benin has experienced a series of external shocks since 2018 including the Nigeria border closure between August 2019 and December 2020, the COVID-19 pandemic, the higher cost of living since Russia's invasion of Ukraine, and spillovers from a deteriorating regional security situation. While these shocks have diverted resources to pressing financing needs and made implementing the NDP more challenging, the authorities have remained committed to the reform agenda. They developed an SDG Bond Framework, which they used to issue the first ever SDG bond by an African sovereign in 2021 to support the NDP. Efforts to improve human capital and infrastructure with an emphasis on SDGs remains an appropriate focus for sustainable private sector led growth that benefits all Beninese.

Text Figure 1. Benin: National Development Plan (PND; 2018–25): Objectives and Targeted Outcomes



Source: Benin's National Development Plan (PND; 2018–25).

Annex III. Recent Initiatives to Promote Gender Equity[1]

1. **Benin made considerable efforts in promoting gender equity over the years.** Gender equity is enshrined in the Constitution since 1990, and a National Gender Policy was adopted in 2009. Recent areas of reforms have included girls' education, reproductive health, legislative representation, incorporating gender considerations in budget formulation and fighting gender-based violence.

2. **To affirm this policy orientation, Benin has stepped-up gender-based budgeting, launched in 2013.** The authorities published the first edition of the Gender Budget Report as an annex to the 2022 budget, using a standardized framework to assess gender sensitivity of budgeted items. Every ministry has a dedicated gender unit to monitor objectives in this area; the 2023 report will be extended from seven pilots to all ministries.

3. **The country's National Development Plan (PND; 2018–2025) embeds gender considerations, receiving support from the World Bank and other development partners for its implementation.**

- Advancing gender equity is one of the three pillars of the World Bank's 2021–23 Development Policy Financing series. The program has already helped strengthen legal protections against gender-based violence, expand access to sexual and reproductive health services, and keep girls in school, including through free secondary education. The authorities also have a cash transfer program to support girls staying in school in cooperation with UNCEF and funding from the Netherlands, targeting structural causes of child marriage.

- The 2022 tax code modified a provision whereby child allowance was exclusively channeled to men in marital couples; the World Bank is supporting a study to further understand gender gaps in the tax system.

- On the institutional front, a 2019 reform the electoral code reserved a seat for a woman in each of the electoral districts, which helped increase representation of women in Parliament in the January 2023 election, from 5.5 to 25.7 percent, above the median for Sub-Saharan Africa at 22 percent.

- Notwithstanding important progress in promoting gender equity, areas for improvement remain. With the female literacy rate at 35 percent, the literacy gap between women and men remains high at 21.9 percent. And although Benin performs relatively well in female labor force participation (69.3 percent among the population aged 15 and over), women are more likely to work part-time or in the informal economy as in many developing countries, a source of vulnerability. Gender-based violence also remains prevalent. The improved gender representativity in Parliament could help further advance gender equity in Benin.

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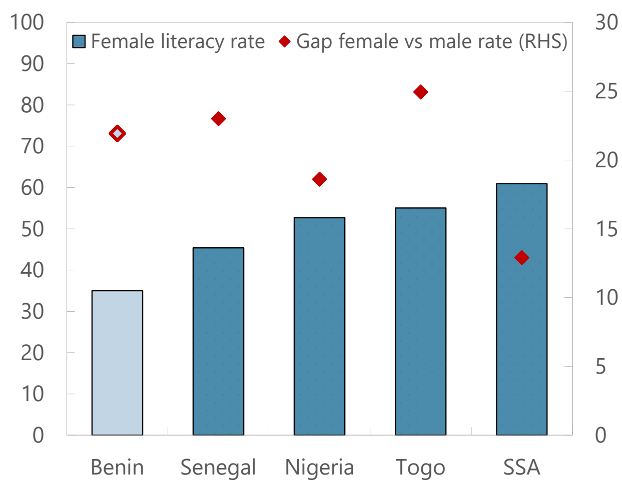
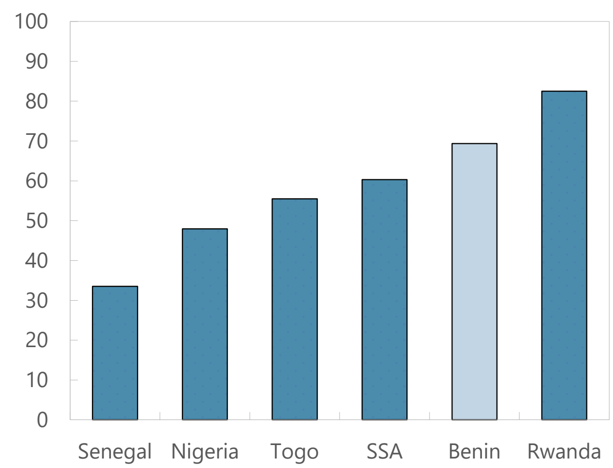
Text Figure 1. Benin: Female Adult Literacy Rate, 2018-2021	Text Figure 2. Benin: Female Labor Force Participation, 2021
(Percent of population aged 15+)	(Percent of population aged 15+)
	
Source: World Bank Development Indicators (WDI)	Source: International Labor Organization

Annex IV. Addressing Vulnerability to Climate Change[1]

1. **Climate adaptation and mitigation are important policy priorities for Benin.** The country was ranked as the 16th most vulnerable country to climate shocks in the most recent Notre Dame Global Adaptation Initiative (ND-GAIN) index out of a sample of 182 countries in 2020. Key physical risks include rising temperatures and precipitation, sea level rise and coastal erosion, and more frequent floods and droughts. Although Benin's contributions to global greenhouse gas emissions are small (0.05 percent of global emissions) climate change mitigation is also a concern particularly given ongoing land degradation and the need to avoid carbon "lock-in" as the economy develops.

2. **Building on strong constitutional foundations, the authorities are stepping-up efforts to address climate change. Benin has a longstanding commitment to protecting the environment, entrenched in the Constitution since 1990.** The country adopted national climate change legislation in 2018, established a National Policy for the Management of Climatic Changes for 2021–30, and a national climate change adaption plan in May 2022. A Climate Change Report was included in the 2023 budget. The government also set up a national commission in February 2023 tasked with reforming the forestry sector to ensure it is more sustainably managed.

3. **Financing needs to address climate change are considerable.** Based on Benin's Nationally Determined Contributions for 2021, the authorities have estimated that achieving ambitious emissions targets (over 20 percent reduction by 2030) and adapting to the adverse effects of climate change will require around US$30 billion in additional financing. The authorities could leverage their gender-budgeting approach (Annex III) to trace the use of climate funds.

4. **The government formally requested Fund support under the Resilience and Sustainability Facility (RSF) last year to support their climate agenda.** Benin is a good candidate for the RSF. A Climate-PIMA (C-PIMA) was completed in March and a draft World Bank Climate Country Diagnostic Report (CCDR) expected by Spring 2023. The authorities have expressed interest in follow-up capacity development to implement the C-PIMA recommendations (including for the budget report). The WB CCDR aims to identify priority actions to foster climate-resilient development and optimize financing. The WB has also incorporated climate change into its forthcoming DPO series for Benin, with strengthening response and resilience to climate shocks as a key pillar, as well as project selection, and technical assistance budgeting. Benin developed an innovative SDG bond framework, which supported its issuance of the first ever African SDG bond by an African sovereign ($500 million) in 2021. Such a mechanism can potentially be leveraged to catalyze private climate finance under the RSF.

[1] Prepared by Deirdre Daly (AFR).

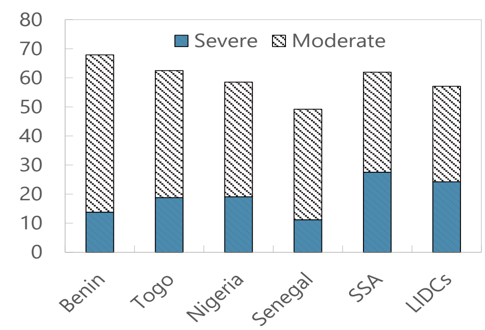
Annex V. Food Insecurity in Benin: Tackling Structural Challenges in Agriculture[1]

Food insecurity in Benin has been exacerbated by severe and repeated shocks on the population, including COVID-19, soaring fuel and food prices amid the war in Ukraine as well as security threats in the region. While the government's policy response has somewhat mitigated the impact on the most vulnerable, alleviating food insecurity in a durable manner requires continued efforts to boost productivity in agriculture and improve its resilience to weather-related events, especially given mounting demographic pressures over the next decades. This annex presents an overview of structural vulnerabilities in agriculture in Benin and explores reform options to tackle them.

1. **While recent hikes in international food and fertilizer prices triggered renewed attention to food security, the availability of and access to nutritious food has been on the policy agenda in Benin for several years.** In 2017, the government revitalized and expanded an existing national school canteen program (*Integrated National School Feeding Program—PNASI*), in collaboration with the World Food Program (WFP), taking a multisectoral approach with health and nutrition activities as well as a plan for local food supply. While WFP continues to implement the program, the authorities are fully financing the direct costs of providing daily hot meals to almost 1.2 million children, with a coverage of over 75 percent of public primary schools. With every invested dollar estimated to generate up to $5.2 in economic benefits, the PNASI appears to be a cost-effective investment in food security and human capital for Benin,[2] and its continuity will be ensured through a school feeding draft law which is currently under review (***SB for end-April 2023***).

2. **Despite efforts to improve food security in Benin, a substantial share of the population remains food insecure (Text Figure 1), and structural challenges in agriculture have constrained further progress.** Recent procurement challenges for the school feeding program due to the unavailability of locally produced maize and white cowpeas (*niébé*) have once again evidenced the need for increased supply of high-quality and safe food stuffs.[3] Pressures on production systems are likely to increase over the next years, considering Benin's high population growth and fertility rates (2.6 percent and 4.9 births per woman, respectively). Benin's population is projected to almost

Text Figure 1. Benin: Prevalence of Moderate and Severe Food Insecurity
(percent of population, 2019-2021 averages)



Source: FAO.

[1] Prepared by Hicham Bennouna and Markus Specht (both AFR). The annex benefited from discussions with Celine Thevenot (FAD) on the Food Insecurity Assessment Tool (FIAT).

[2] World Food Programme (WFP). 2019. Programme d'alimentation scolaire du Bénin : Analyse Coût-Bénéfice.

[3] WFP. 2022. Country Brief Benin December 2022.

double by 2050, growing by 89 percent between 2022 and 2050.[4]

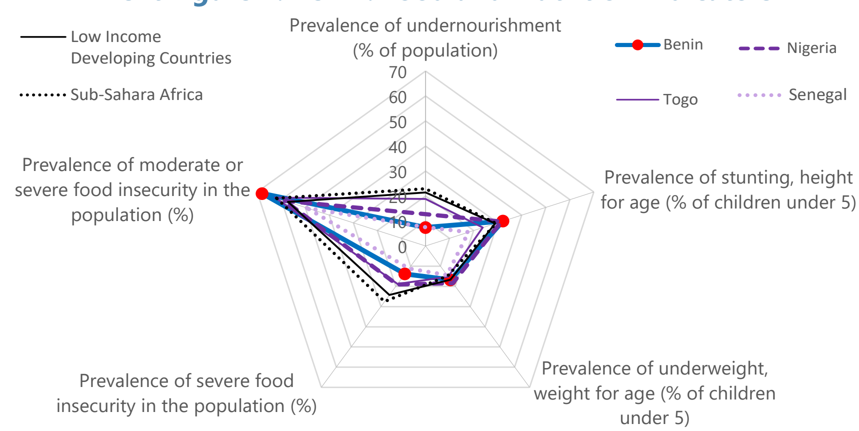
3. **Although Benin compares favorably with regional peers on the prevalence of acute hunger, the country faces considerable structural challenges to long-term food security.**

- At 2.3 percent in November 2022, Benin recorded the lowest proportion of population in (food) crisis among the 17 West African nations analyzed in the *Cadre Harmonisé* (compared to the regional average of 7.4 percent in Phases 3–5 of the Integrated Food Security Phase Classification).

- However, while government support and a strong harvest season have averted immediate crisis, FAO data shows that, on average, a higher proportion of the population in Benin was moderately food insecure from 2019 to 2021 than in structural and regional peers (Text Figure 1),[5] emphasizing the need for structural changes.

- Moreover, a high prevalence of stunting amongst children under five in Benin (Text Figure 2) suggests a nutrient-deficient diet and heightens risks of potentially irreversible loss of growth and cognitive functions,[6] with long-term consequences including poor educational performance, low adult wages, and lost productivity.[7]

Text Figure 2. Benin: Food and Nutrition Indicators



Sources: FAO, UNICEF, WHO, World Bank.

- The structural nature of Benin's food security challenge is also corroborated by the Global Food Security Index, which identifies quality, safety as well as sustainability and adaptation as areas of substantial vulnerability in Benin (see First Review Staff Report, page 16).[8]

4. **The Beninese agricultural sector faces major structural bottlenecks in addition to weather shocks and security-related risks**. While the sector employs more than two-thirds of the active population, it accounts for only about one quarter of GDP (but over three-quarters of export proceeds, with

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[4] Population Reference Bureau (PRB), 2022.

[5] Based on the Food Insecurity Experience Scale (FIES), a household is classified as "moderately or severely food insecure" when at least one adult in the household has reported to have been exposed, at times during the year, to low quality diets and might have been forced to also reduce the quantity of food they would normally eat.

[6] See for instance De Sanctis and others (2021).

[7] See for instance McGovern and others (2017).

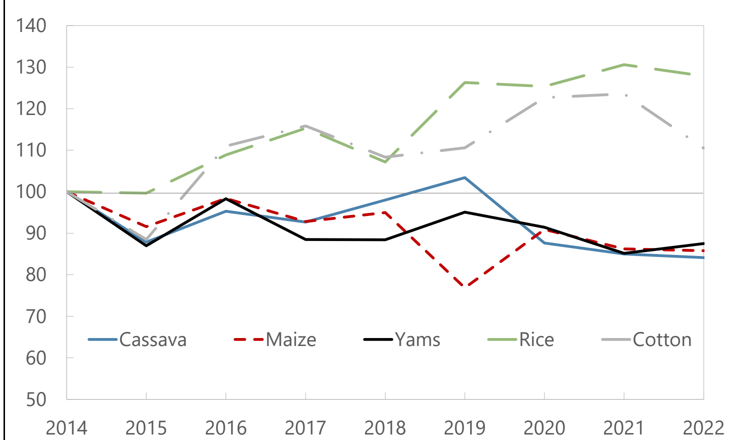
[8] Integrated Food Security Phase Classification (IPC). 2022. Cadre Harmonisé : Résultats de l'analyse de l'insécurité alimentaire et nutritionnelle aiguë courante en octobre-décembre 2022 et projetée en juin-août 2023

the latter driven by cotton).[9] Productivity therefore remains relatively low, reflecting a range of structural bottlenecks, including strong dependence on weather conditions and weak recourse to climate-resistant technologies.

5. **A major impediment giving rise to structural deficiencies is the poor organization of subsistence and staple crop farmers compared with agriculturalists focused on cash crops**. This discrepancy results in sub-optimal allocation of inputs (e.g., improved seeds, fertilizer, and pesticides) and partly lead to low levels of mechanization and irrigation, and relatively low access to finance. Irrigated areas, for instance, were estimated to represent less than 2 percent (53,000 ha) of Benin's total cropped area in 2019, against an estimated range of 4–7 percent in SSA (compared with 30–45 percent in South Asia).[10] Regarding mechanization, FAO estimates suggest that some 9,000 tractors are needed to meet the labor force demand in agriculture.[11] With the number of conflict-related fatalities nearly tripling since 2019, the deterioration of the security situation is a crucial compounding factor of vulnerabilities through displacement of workers and disruption of agricultural livelihoods.

6. **Cotton—Benin's traditional export product—has outperformed most staples in terms of production and yield increases over the last decade.** Cotton production almost tripled since 2015, reaching nearly 800,000 tons in 2021. This strong performance reflects the well-functioning organization of different stakeholders in the sector as well as substantial increases in harvested areas, which doubled from 2015/2016 to reach 600,000 ha in 2021 (compared to 1.5 million ha for all cereals). This has allowed Benin to consolidate its position as the lead cotton producer in West Africa. Yields of major staple crops, however, including maize, yam, and cassava, have been stagnant or on a downward trend for the last years (Text Figure 3), and although Benin outperforms WAEMU peers in rice yields, the country compares less favorably on staples like cassava and maize (Text Figure 4).

Text Figure 3. Benin: Yields of Main Staples and Cotton, 2014-2022 (2014=100)



Source: Beninese authorities and IMF staff estimates.

7. **The constrained performance of staples reflects scarcity of inputs, such as fertilizers, pesticides, high-yielding varieties, and certified seeds.** According to the agriculture sector performance report, only 2.3 and 8.3 percent of certified seed demand was met for maize and rice in 2021, respectively. Weaknesses in Benin's seed system include poor coordination and compliance with norms, weak estimation of seed demand, lack of quality control, and capacity issues. Moreover, cotton benefitted from the bulk of

[9] National Development Plan, 2018-25.

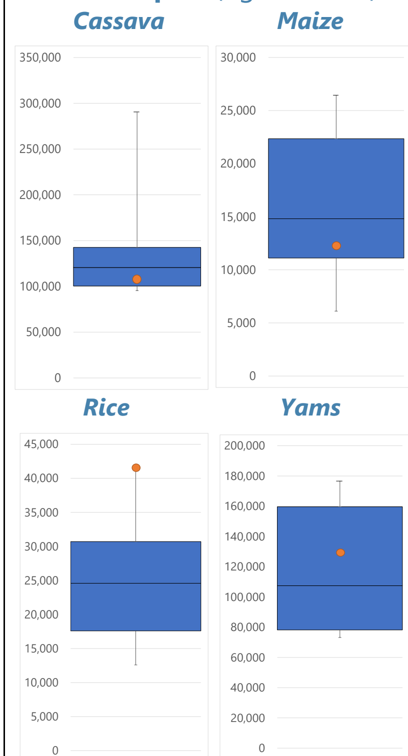
[10] Meier and others (2018); Xie and others (2018) and You and others (2011).

[11] The Persistent Food Crisis and Inflation in the West Africa Region: A golden opportunity for Benin? (worldbank.org)

fertilizers (88.6 percent) and pesticides (43 percent) in 2021.[12] However, empirical evidence suggests a positive impact of cotton fertilizer use on staple production, possibly pointing to residual effects or fertilizer diversion from cash to food crops.[13] Going forward, by leveraging the well-functioning organization of the cotton sector, there is significant potential for positive spillovers to staple-farming, for instance through the *Beyond Cotton* program, which encourages smallholder cotton farmers to plant rotating crops such as maize. Moreover, promoting local transformation of cottonseed into cottonseed oil presents an important opportunity to integrate the cotton sector into food production chains.

8. **While most staple foods in Benin are produced domestically, import ratios remain high for some food items**. Food consumption represents about 37 percent of the consumption basket of the representative household, with sizable regional differences. Food availability plays an important role in the welfare of Beninese (especially among low-income households who devote an even higher share of their income to food consumption). Overall, domestically produced items make up over 70 percent of the consumption basket. Rice and yams are the major staples, as proxied by their share of daily caloric intake, followed by cassava and maize (Text Figure 5a). While cassava, yams, and maize are almost fully supplied domestically, the reliance on imported rice is higher in Benin compared to regional peers, notwithstanding relatively high yields and a strong rice production (Text Figure 5b).[14]

Text Figure 4. Benin and WAEMU members: Yield for Main Staples (hg/ha, 2021)



Source: FAOSTAT.

Note: The orange dots represent Benin. The boxplots indicate, from top to bottom, the maximum, 75th percentile, median, 25th percentile, and minimum.

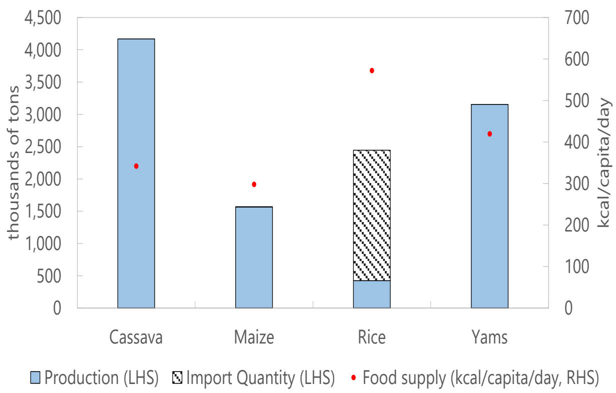
9. **Efforts to increase supply and boost productivity of main staples should continue, while promoting diversification to reduce the country's vulnerability to climate change risks and commodity cycles.** Through its local procurement strategy and extension services for small-scale farmers, the Integrated School Feeding Program provides crucial opportunities to address the causes of low productivity in small-scale staple crop farming. While smallholder farmers contributed only 300 tons of food stuffs to school canteens in 2021, WFP expects to procure 7,000 tons from such farmers in 2023, reducing the reliance of the program on imported products. The performance of major staples during the most recent harvest season was encouraging, with an overall production increase of 2.7 compared to the 2020/21 agricultural campaign.

[12] In 2020, cotton benefitted from 94 percent of fertilizers and 99.6 percent of pesticides.

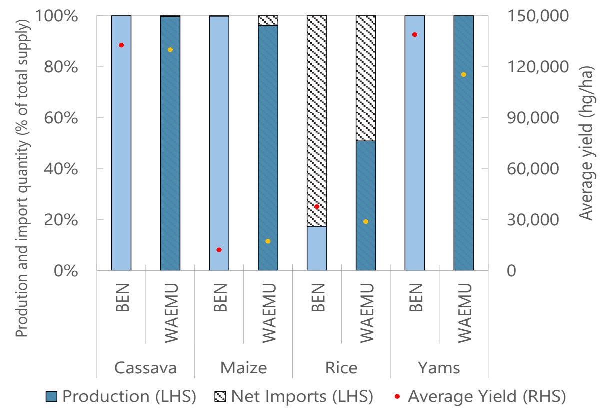
[13] Minot and others (2000).

[14] Rice production was around 520,000 tons, an increase of almost 40 percent compared to the average of the last five years.

Text Figure 5a. Benin: Import Dependence of Major Staples in Benin



Text Figure 5b. Benin: Import Dependence of Major Staples in Benin and across WAEMU Members



Source: FAOSTAT and IMF staff calculations.

10. The Beninese government is taking steps to improve the performance of agriculture—thus strengthening food security. There are crucial opportunities to increase efficiency in agriculture, considering the authorities' plans to (i) enhance yields of main staples by instilling best farming practices through the *Conseil Agricole* and encouraging better organization of farmers, (ii) leverage the role of *Fonds National de Développement Agricole* (FNDA) to accelerate access to finance, and (iii) avoid distortional interventions by the government in the pricing mechanism to reap the benefits of the ongoing agro-industrial development in an inclusive and sustained manner.[15] The agricultural sector is expected to benefit from a budget of 100 billion CFA francs (0.9 percent of GDP) in the 2023 budget law, an increase of 13.5 percent compared to 2022. PAG-II aims to ensure national food self-sufficiency for rice by 2026. This initiative would reduce smuggling activity to Nigeria—that has reflected policy interventions by the Nigerian government to restrict access to FX for importing foodstuffs—and reap the benefit of regional trade integration. Moreover, there are ongoing efforts to mobilize investment for climate change adaptation, enhance processing, storage and conservation of agricultural products and leverage the SEZ to accelerate the move up in the value chain and promote export diversification. Meanwhile, the recently established social registry provides the necessary infrastructure for various social assistance programs to protect the vulnerable in Benin.

[15] Government's Action Program (PAG II; 2021–26)

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Appendix I. Letter of Intent

Cotonou, May 3, 2023

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

Dear Managing Director,

I am pleased to advise that we are making significant strides in implementing our economic reform program, supported by the IMF under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) arrangements. We met all the program's quantitative targets for end-September and end-December 2022 and fully implemented the structural benchmarks that were agreed with the Fund.

Thanks to our tax revenue mobilization efforts, complemented by the IMF's frontloaded financial support under the program, our economy recorded a higher growth rate than-expected at 6.3 percent, driven by agriculture, agroindustry, construction, trade, and transportation. Agriculture was supported by subsidies on fertilizers, a key component of our policy response to mitigate the high cost of living induced by the ongoing war in Ukraine. Combined with other support measures, this helped contain inflation to 1.4 percent in 2022.

On the fiscal front, the robust tax revenue performance in 2022 allowed us to boost public investment and allocate more resources to priority social spending, in line with the "highly social" mandate of our administration. We increased the minimum wage and public sector wages after several years of quasi freeze, while ensuring a higher adjustment for low-income earners among civil servants to improve their purchasing power. These measures were in line with our commitments under the Fund-supported program.

The year 2023 is off to a good start with the recent legislative elections leading to a better representation of women among legislators. The new configuration of the National Assembly should foster the political-economic debate on needed reforms to promote sustained and inclusive growth. However, the uncertainty surrounding the global economic outlook is a major source of concern for our population; it is compounding the impact of ongoing monetary policy tightening on borrowing costs.

After three years of policy accommodation, we are putting greater emphasis on fiscal consolidation to preserve public debt sustainability and contribute to the collective effort to strengthen the external viability of our monetary union. In this context, we intend to bring spending back to its trend level through the gradual elimination of some temporary non-targeted subsidy measures. In this regard, we eliminated the pause on the electricity tariffs adjustment—adopted since the COVID-19 pandemic—in January 2023 and intend to further prioritize spending.

We will maintain our "civilian approach" to tackling spillovers from regional security threats in the northern part of the country. Sustained efforts to achieve our tax potential, anchored in our pending medium-term revenue mobilization strategy, should help create fiscal space for social spending in line with the Sustainable Development Goals (SDGs). We will continue to mobilize technical and budget support from our development partners. We also look forward to IMF support through its new Resilience and Sustainability Fund (RSF), which will enable us to anchor our ongoing reforms to address vulnerabilities to climate change.

Building on the IMF's governance diagnostic, which we requested to support the first pillar of the Government Action Program (PAG; 2021–26) on strengthening the rule of law and governance, we are developing an action plan to implement the diagnostic’s main recommendations. At the same time, we continue to make significant progress in implementing the action plan to strengthen our AML/CFT framework, with particular focus on mitigating risk from the real estate sector.

On the social front, and considering that the world has become more prone to shocks, we intend to accelerate the operationalization of the social registry and use it into all our social programs, including the Insurance for Human Capital Development (ARCH).

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

We will fulfil the commitments set forth in the MEFP and agree to provide the IMF with information pertaining to the implementation of the measures agreed upon and on program execution, as set out in the attached Technical Memorandum of Understanding (TMU; Attachment II). Considering the achievements under the program to date and the commitments presented in the MEFP, the government is requesting the completion of the Second Review under the EFF and ECF arrangements, and the disbursement of 50.82 million SDRs.

To implement these priorities and bolster its credibility among the international community and the public, the Government intends to maintain a productive relationship with its development partners and various stakeholders. To this end, we plan to work closely with the Fund to support our strategy to promote growth through investments in human capital and infrastructure. In line with the government’s objective to foster transparency, we consent to the publication of this letter, its attachments, and the Staff Report associated with our request for support.

Very truly yours,

/s/

Romuald Wadagni

Senior Minister of State, Minister of Economy, and Finance

Attachments (2):

1. Memorandum of Economic and Financial Policies

2. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

BACKGROUND

1. The Government of Benin has placed economic and social resilience at the heart of public policy in response to the multiple crises that are slowing down economies worldwide and putting the most vulnerable in difficulty. This recalibration of public policy is necessary to ensure the effectiveness of the "highly social" mandate which is the backbone of all our government's initiatives over the five-year period 2021-2026. The socio-economic and governance reforms are underpinned by the Government's Action Program (PAG 2021–26), which is fully consistent with the National Development Program (PND; 2018-2025), the anchor of the government's actions. These reforms are supported by the International Monetary Fund through the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements for 2022–25.

2. The EFF/ECF's quantitative targets for end-September and end-December 2022 were fully met, and the structural benchmarks implemented.

The structural benchmarks (SBs) due by March 31, 2023, namely the finalization and publication of the IMF governance diagnostic and the adoption of a financial inclusion strategy, have been achieved. We also implemented the two end-April 2023 SBs related to our school feeding program and land titling (see Table 2).

The trajectory of macroeconomic indicators (¶4–5; Table 1) attests, on the one hand, to the resilience of the national economy in the face of successive crises and, on the other hand, to sound economic management, including active public debt management.

3. Fiscal consolidation under the EFF/ECF is underway this year as planned. With the agreed fiscal accommodation earlier in the program, public expenditure stood at 19.8 percent of GDP in 2022, resulting in an overall budget deficit balance of 5.5 percent of GDP. The deficit is projected at 4.3 percent of GDP in 2023, with the possibility for an additional deficit of 0.4 percent of GDP if budget support exceeds the envelope initially foreseen under the EFF/ECF.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

4. Overall, economic recovery is strengthening despite uncertainty.

Economic activity expanded by 6.3 percent in 2022, driven by a good harvest season and strong momentum in the construction sector driven by progress on infrastructure projects under PAG-II. This dynamism is also supported by increased connectivity of rural areas and development of the glo-djigbé special economic zone.

The inflation rate has been contained at 1.4 percent in 2022 as a result of measures introduced by the government, including tax exemptions on energy products, fertilizers and selected foodstuffs, and a rebate on freight. Some inflationary pressures are expected in 2023, reflecting, among other things, the shift to transactional value at the customs and the increases in public sector wages and the minimum wage in December 2022, after several years of quasi-freeze.

The current account deficit is estimated to have widened mainly driven by the increase in international food and oil prices, the expansion in economic activity, and the increase in imports related to infrastructure projects. FDI is estimated to have increased by 21.9 percent in 2022 reaching CFAF 205 billion after having reached CFAF 168 billion in 2021, in connection with the construction of the Niger-Benin oil pipeline and the installation of new foreign companies in the special economic zone.

5. **Economic growth in 2023 and in the medium term is expected to be in line with the program's initial projections.** The Beninese economy should continue to grow. Domestic economic activity in 2023 will take place in a context marked mainly by: (i) the strengthening of the industrial sector through the continued installation of new large industrial units in the GDIZ, particularly in the agroindustry and textile industry; (ii) the acceleration of the major socio-economic infrastructure projects planned under the PAG 2021–2026 such as the expansion of the port of Cotonou, the extension of the road network, and the rainwater sanitation program for secondary towns; (iii) and the development of cultural tourism with the completion of the construction of museums and tourist facilities.

6. **However, this outlook remains subject to significant downside risks.**

The recent deterioration of the security situation in the Sahel raises the risk of an increase in terrorist attacks from neighboring countries, which could aggravate food insecurity and exacerbate social tensions.

A substantial tightening of financing conditions in the regional government securities market could adversely affect debt dynamics. Likewise, difficulty in accessing foreign exchange reserves by the operators could hinder private sector development.

A deteriorating economic environment resulting in a significant drop in cotton prices, our main export product, could affect the contribution of the agricultural sector to income generation and the balance of payments. Similarly, sustained increases in food and energy prices, should the war in Ukraine persist, would further increase the cost of living for Beninese households.

In addition, Benin remains vulnerable to the effects of climate change such as recurrent floods and droughts.

CONSOLIDATING FISCAL CONSOLIDATION TO PRESERVE DEBT SUSTAINABILITY

Following warranted three years of flexibility due to severe exogenous shocks, the fiscal consolidation in 2023 will contribute to strengthening the macroeconomic stability and preserving debt sustainability. The implementation of a robust revenue mobilization strategy will anchor our fiscal discipline and strengthen the credibility of the medium-term fiscal framework. Combined with increased prioritization and efficiency in public spending, this will help maintain public spending at high levels in line with SDGs.

A. Reinforce the Consolidation of Public Finances

Implementation of the 2022 Finance Law

7. We have met all the quantitative targets of the EFF/ECF for end-December 2022 and continue to implement the budget in a prudent manner. The overall fiscal deficit at the end of 2022 was 5.5 percent of GDP, slightly better than envisaged at program inception (5.6 percent of GDP). The other quantitative targets, namely the basic primary balance, net domestic financing, the ceiling on new external commitments, and the avoidance of arrears accumulation, were all met, in some cases with wide margins.

8. The level of tax revenue at the end of 2022 was well above the forecast in the budget law. This improvement is the result of several factors, including the strengthening of the mechanisms for collecting arrears, actions to combat tax evasion, and the implementation of several tax measures, including (i) revamping the tax on salaries and wages; (ii) expanding the tax base of the levy on sales of electronic communications services to include domestic money withdrawals and transfers; (iii) increase in the rate of the gambling tax; and (iv) the phasing out the VAT exemptions on rice and motorcycles from the tax on tobacco products; and (v) removing the VAT exemption on rice and four-stroke motorcycles. In addition, the review of fees and levies, in line with WAEMU and GFS norms, resulted in the reclassification of non-tax revenues amounting to 0.7 percent of GDP as tax revenues.

9. Public expenditure has risen sharply, supported by robust tax collection. This partly reflects the government's deliberate efforts to support households purchasing power (subsidies for energy products, agricultural inputs, etc.), consolidate projects under delegated contracting authority, strengthen the recruitment of police and defense officers, gradual clear of past salary arrears owed to government employees. We have also accelerated capital spending, including the development of rural roads and the construction of local markets.

The 2023 Finance Law

10. After three-years of warranted fiscal accommodation, the 2023 Budget Law reinforces fiscal consolidation with a view to achieving the convergence criteria set at the regional level. 2023 is the first year of fiscal consolidation towards a gradual return to the regional benchmark of 3 percent despite the ongoing suspension of the WAEMU convergence pact. Although the gradual consolidation is maintained for 2023 (from a 5.5 percent deficit to 4.3 percent), the convergence to the overall deficit below 3 percent has been postponed to 2025 (from 2024), consistent with the WAEMU-wide stance. This should lead to a more gradual pace of consolidation. Thus, the fiscal consolidation strategy targets a deficit of 4.3 percent of GDP in 2023, and 3.7 percent in 2024. The deficit will then be reduced to 2.9 percent in 2025, slightly below the current regional norm of 3 percent of GDP. Fiscal consolidation will be driven mainly by improved tax revenues and unwinding of shock-related expenditures, as well as increased efficiency in public spending. This strategy will allow us to maintain fiscal space for social spending.

11. Revenue mobilization, the cornerstone of our reform program, will be anchored on the pending medium term revenue mobilization strategy (MTRS) at the 2028 horizon. The MTRS will highlight the levers in terms of sequencing of actions for its operationalization. New tax policy and tax administration measures are being identified for inclusion in the tax reform matrix. We have established an action plan to ensure, with the technical support of the IMF and AFD, the completion of the MTRS by end of September 2023 (**structural benchmark for end-September 2023**).

12. Meanwhile, we have included in the 2023 Budget Law a set of fiscal measures to lock in and build on the strong performance recorded in 2022. (See Text Table 1). We have also started to operationalize the strategy for rationalizing tax expenditures. Recent measures include the adoption of the decrees implementing the Law No. 2022-38 of January 3, 2023, establishing the regime for special economic zones in the Republic of Benin. The entry into force of the law and its implementing decrees should reinforce the ongoing tax expenditure rationalization measures.

Text Table 1. Actions Already Carried Out in the Tax Expenditure Rationalization Strategy

• Revision of the SEZ law and proposal for a tiered exemption
• Removal of the exemption on salaries for SEZ employees
• Proposal to remove the exemption on the salary and wages tax
• Revising the scope of the SEZ by requiring a minimum export share of turnover and adopting reporting requirements covering beneficial owners and related party transactions between the SEZ and the domestic economy
• The decrees implementing the law on the SEZ set a 20% import quota for products manufactured on the market
• Removal of the measure of free and penalty-free registration of acts prior to the Amending Finance Law for the 2016 management and the Amending Finance Law for the 2020 management

13. Our fiscal policy continues to preserve fiscal sustainability. The policy of broadening the tax base, digitization of services, revitalization of policies for the collection of unpaid taxes and the shift to accrual accounting will serve as levers to increase government revenues. With respect to government spending, credit allocations to ministries remain linked to economic policy. The appropriations for the general operations of the budgetary administrative units are almost stable compared to 2022, while investment appropriations are expected to increase in order to enhance the resilience of the national economy. The trajectory of the wage bill is defined so as to initiate a gradual return to compliance with the Community ratio, notwithstanding the new measures envisaged.

14. In this context, the level of current expenditures is set in a way as to ensure the efficiency of the expenditure necessary for the expansion of the budgetary space. This allocation mechanism will allow the State to gradually unwind expenses related to measures introduced by the Government to protect the purchasing power of the population in the face of the repercussions of the COVID-19 and the increase in the cost of living in connection with the war in Ukraine (tax exemptions on consumer goods, tariff subsidies for electricity consumption since 2020, etc.).

15. We will pursue the reform of subsidies on petroleum products. To this end, we have requested IMF technical assistance to evaluate our current pricing mechanism for petroleum products, which dates back to 2004. This will allow us to assess alignment of petroleum product pricing to international standards, while accounting for the constraints imposed by successive crises and the specificities of our local fuel market.

16. Improving the efficiency of public spending remains an important dimension of budget management with a particular emphasis on the implementation of public investments. A budget allocation policy targeting in priority projects already being implemented. To further improve our public investment management system, we will systematically publish, starting at end-December 2023, all the evaluation and selection criteria for major investment projects, as well as the related feasibility studies ***(Structural benchmark for end December 2023).*** In addition, with the migration to program-based budget management, we will continue to develop internal budgetary control mechanisms, while ensuring better monitoring of the use of budgetary appropriations, in line with parliamentary spending authorizations.

17. The overall financing strategy for the medium term 2023–2026 will continue to emphasize diversification of financing sources and active debt management. Following the fourth increase in BCEAO monetary policy rates in March 2023 and the rise in yields on external financing, Benin expects a tightening of financing conditions. In this context, the government has started to implement precautionary policies by conducting liability management operations and creating precautionary lines of credit. Benin will pursue its strategy of diversifying its sources of financing with innovative financing options, such as those focusing on environmental, social and governance (ESG) criteria.

18. We have good prospects for mobilizing additional budget support, compared to the projected level of the initial budget law for 2023. This will allow us to increase public spending and more specifically social spending beyond the levels targeted in the 2023 budget law, in accordance with the technical memorandum of understanding under the EFF/ECF (see paragraph 7).

19. We will continue to improve transparency in public financial management, building on the recommendations **of the 2021 Fiscal Transparency Evaluation and the Fiscal Safeguards Review report.**

- The review of the organic law on finance laws (LOLF) will be accelerated with a view to aligning the publication deadlines for management and audit reports, in particular the audit report on the execution of the budget law and the reports on the monitoring of the execution of the finance law with international standards.

- In the same vein, we will prepare a statement on quantitative analysis of fiscal risks in key areas by end-October 2023, with IMF technical support, and annex to the 2024 draft Budget Law ***(Structural Benchmark for end-October 2023****).*

- In addition, we will regularly publish, starting from June 2023, the approved financial balance sheets of public enterprises in accordance with the regulation and disseminate information on liquidations and privatizations.

- **In the area of cash management, we will strengthen, with the technical support of the IMF, the technical and** operational **framework of the Treasury Single Account (TSA).** We will update the list of bank accounts of public organizations by end-August 2023 and close at least half of those subject to the obligation to deposit funds in the Treasury and not benefiting from a derogatory authorization from the Minister of Economy and Finance, while repatriating the balances to the public treasury by end-June 2024 at the latest ***(New Structural Benchmark for end-June 2024)***.

STRENGTHENING SOCIAL PROTECTION MECHANISMS AND CONTAINING FOOD INSECURITY

A. Reaffirming the "Highly Social Mandate"

20. To consolidate progress towards the Sustainable Development Goals (SDGs), we will accelerate the implementation of social interventions for the benefit of vulnerable groups.

- **In terms of social protection**, the generalization of health insurance under the Insurance for Human Capital Development (ARCH) project in all communes in Benin has increased the number of beneficiaries (extreme poor) who hold the national biometric card (required to access ARCH services) to approximately 791,000 people across 61 communes in Benin.

- **We have improved targeting of social programs** by further capitalizing on the recently finalized Social Registry (RSU). We plan to expand the RSU to account for vulnerability to climate change. The recruitment of a contractor is underway to complete the full operationalization of the RSU. In addition, the current revision of the holistic social protection policy will allow us to refine the priorities in the social area, with the support of the technical and financial partners.

21. As a result of multiple shocks, it is urgent to implement measures to contain food insecurity and keep children in school. To mitigate rising food insecurity risks, we have worked to strengthen the sustainability of the successful school canteen program. To this end, Cabinet adopted a draft law on April 26 to improve the organization and governance of the National Integrated School Feeding Program (PNASI) by ensuring a sustainable financing framework, the prioritization of areas most susceptible to food insecurity, and the involvement of local farmers, for consideration by the National Assembly ***(structural benchmark at the end of April 2023)***.

B. Building Resilience to Climate Change

22. Strengthening Benin's resilience to climate change is a key part of the government's policy. Building on the legislative and regulatory frameworks and on the tools already available, we will strengthen the anchoring of adaptation and mitigation measures in public policies. We will rely in particular on the assessments recently conducted with the support of the International Monetary Fund and the World Bank, namely the C-PIMA assessment and the Climate Change and Development Report (CCDR), to identify major reforms aimed at mitigating and adapting to the effects of climate change. We have requested IMF support under the new Resilience and Sustainability Trust (RST) to anchor our climate reforms.

STRENGTHEN GOVERNANCE, TRANSPARENCY, RULE OF LAW AND THE AML/CFT FRAMEWORK

23. The Government reiterates its commitment to consolidating the governance and the rule of law frameworks, which constitute the first pillar of the PAG-II. In this regard, we have published the report on the governance diagnostic recently conducted with the technical support of the IMF and are developing an action plan based on the diagnostic recommendations, which we plan to finalize by end-June 2023. In the meantime, efforts to improve governance will continue with the operationalization of the High Commission for the Prevention of Corruption (HCPC), while strengthening its legal framework to ensure its independence and powers in consultation with the IMF staff, by the end of June 2024 ***(new structural benchmark proposed for the end of June 2024).***

24. We will pursue reforms aimed at transparency in public spending. In accordance with the regulation allowing procurement agencies to collect beneficial ownership (BO) information adopted in September 2022, we have been publishing the BO information regularly.[1] In terms of public procurement, we have mobilized technical assistance to facilitate the implementation of e-procurement. In order to strengthen transparency in public procurement, the Public Procurement Regulatory Authority (ARMP) will continue to carry out annual technical and independent audits of contracts awarded by contracting authorities, ensuring the selection of a representative sample in terms of monetary volume, procedures used, the level of execution of contracts concluded and the specificity of the mission entrusted to these contracting authorities. The results of these audits, which could be the subject of in-depth investigations by the ARMP, will be regularly published on its website and disseminated to all contracting authorities.

- In addition, we have strengthened the human and financial resources of the Audit Court to enable it to fully carry out its mission.

25. We will continue to strengthen our AML/CFT framework to comply with international standards and support anti-corruption efforts. To this end, we are taking steps to finalize sectoral ML/TF risk assessments, commence the risk-based supervision of higher-risk designated non-financial sectors, and correct gaps in the legal framework related to the criminalization of money laundering and terrorism financing and the confiscation of proceeds and instrumentalities of crime. In particular, to reduce the risk of money laundering in the real estate sector, we will put in place, by the end of November 2023, the legal framework for the collection, verification, and publication of beneficial ownership information of transferees at the time of land title transfers. We will also adopt an action plan for the operationalization of this legal instrument by end November 2023, which sets out the timelines for the commencement of the collection and verification by notaries of transferees' beneficial ownership information as well as of the regular publication of this information.

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

ACCELERATING STRUCTURAL REFORMS

A. A Resilient and Inclusive Financial Sector

26. We will continue to work to strengthen the stability of the financial system. The process of bringing the two banks that do not meet the minimum capital adequacy standard into compliance with the core capital requirement is well underway. One of the banks has successfully completed its recapitalization and is now in compliance with prudential rules, pending approval from auditors and the Abidjan-based WAMU Banking Commission. As for the second undercapitalized bank, the BCEAO and the Banking Commission are closely assessing with the auditors the alternative scenarios to bring it to conformity with prudential norms, including through new capital injections.

27. We adopted a regional financial inclusion strategy last March, following an inclusive and participatory process. This strategy aims to correct market failures and eliminate non-market barriers to accessing financial services. It will ultimately allow access to financial services for the population of Benin currently excluded from the formal financial system, thereby contributing to the reduction of poverty and vulnerability. The strategy focuses on strengthening the institutional, legal, and regulatory framework, developing and improving the supply of financial products and services and promoting financial education.

B. Shifting Towards Private Sector Led Growth

28. We remain convinced of the primary role of the private sector in the economic development of the country. To this end, the main reform implemented consisted in the adoption of a new law on the promotion of small and medium-sized enterprises which created the Agency for the Development of Small and Medium-sized Enterprises (ADPME), the one-stop shop for SME promotion. We have carried out a complete review of the legal and regulatory framework for the promotion of special economic zones to improve their operation and make procedures more flexible.

29. We will continue our efforts to improve the business climate and address obstacles to private initiative.

- We intend to improve the promotion of the business climate by strengthening the existing provision including the Inter-ministerial Committee for Investment Promotion (CIPI) and the Investment and Export Promotion Agency (APIEX).
- In addition, and as part of the ongoing modernization of the land and property administration, we intend to finalize before the end of April 2023 the efforts to dematerialize the land titles with a view to modernizing the land and property administration, in particular through (1) designing the land management application and developing its functionalities; (2) providing training to ANDF staff on the use of the new system; and (3) embedding data management tools in the land management application (e-land) (***structural benchmark for the end of April 2023)***.
- The special court of land affairs created by Law No. 2022-16 of November 19, 2022, will be made operational with the appointment of staff and judges, provision of budget, and provision of effective premises at the beginning of April 2023, well ahead of the timeline anticipated in the IMF's governance diagnostic. We will continue to enrich the institutional landscape of the justice sector by also making the Commercial Court of Appeal operational by providing it with staffing, funding, and

equipment necessary to fill the gap in the commercial justice system and promote greater transparency ***(new structural benchmark proposed for the end of November 2023)***. In addition, we are committed to establishing a commercial registry, making information available to the public by the end of October 2023, which will allow us to comply with the standards of the Organization for the Harmonization of Business Law in Africa (OHADA).

C. Modernizing our Statistical System

- **The availability of reliable data and their timely publication are necessary to inform economic policy decisions.** In order to improve the degree of compliance with the e-GDDS standards, we will clarify the institutional framework for the administration of the National Summary Data Pages (NSDPs) and strengthen the technical, human and financial resources of the National Statistical System (NSS). In addition, in order to accelerate our adherence to the SDDS, we will, with the IMF support (i) deepen the knowledge of NSS actors about the SDDS; (ii) take stock of the NSS to evaluate the gaps ; and (iii) proceed with the setting up of a monitoring unit to ensure the regular publication of the data.

Table 1. Benin: Proposed Quantitative Performance Criteria and Indicative Targets, 2023-24[1]

	March 31, 2023	June 30, 2023		September 30, 2023	December 31, 2023	March 31, 2024	June 30, 2024
	Indicative target	Performance Criteria		Indicative target	Performance Criteria	Indicative target	Indicative target
	Prog.	Prog.	Revised	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria[2]							
Basic primary balance (floor)[3]	3.8	-1.6		-97.6	-13.1	17.5	26.6
Net domestic financing (ceiling)[4]	130	205		372	348	104	200
B. Continuous quantitative performance criteria (ceilings)							
Accumulation of external payments arrears	0.0	0.0		0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0		0.0	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government[5]	620	620		620	620	620	620
C. Indicative Targets[2]							
Tax revenue (floor)	321.5	669.5	694.5 [6]	1,071.9	1,480.0	398.5	826.8
Priority social expenditure (floor) [7]	16.4	50.9		105.9	170.1	22.1	56.0

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

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

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

[5]Annual limit.

[6]Tax revenue IT revised to account for reclassification of some non-tax revenues.

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

Table 2. Benin: Structural Benchmarks for 2023–24

Reform area	Structural benchmark	Due date	Status
Governance and Transparency	Conduct and publish a governance diagnostic.	End-February 2023	Met
Financial Inclusion	Transpose the WAEMU's regional financial inclusion strategy (adopted by the WAEMU Council of Ministers in 2016) at the national level and design a comprehensive financial inclusion strategy for Benin.	End-March 2023	Met
Food security	Submit to parliament a draft law to improve the organization and governance of the school feeding program (PNASI), covering the following aspects: (i) a sustainable financing strategy which includes the sharing of responsibilities between the central government, municipalities, and schools; (ii) a prioritization of coverage of the regions most susceptible to food insecurity risks; (iii) the adaptation and clarification of standards required for the delivery of food products to school canteens in order to promote the participation of local farmers; and (iv) gradually transferring the management of the PNASI to the Beninese authorities through the establishment of the National Institution in charge of school feeding.	End-April 2023	Met
Land titling	Digitalize the processing of land titles requests, including through designing the land management application (*e-terre*) and developing its functionalities, providing training to ANDF (*Agence Nationale du Domaine et du Foncier)* staff on the use of the new system and embedding data management tools to the new application.	End-April 2023	Met
Revenue Mobilization	Develop a medium-term revenue mobilization strategy (MTRS).	End-September 2023	
Public Financial Management	Prepare a statement containing a quantitative analysis of fiscal risks in all key areas, including macroeconomic risks, public enterprises, debt management, contingent liabilities, natural disasters, pension and social securities, as part of the 2024 draft budget law documentation.	End-October 2023	

Table 2. Benin: Structural Benchmarks for 2023-24 (concluded)

Reform area	Structural benchmark	Due date	Status
Public Financial Management	Publish all the criteria for the appraisal and selection of major investment projects, along with feasibility studies.	End-December 2023	
Rule of law	Operationalize the Commercial Court of Appeal with staffing, funding, and equipment to help fill an important gap in Benin's judicial framework and promote greater transparency.	End-November 2023	**Newly proposed**
Anti-corruption	Operationalize the HCPC (*Haut Commissariat à la Prévention de la Corruption*) and strengthen its legal framework to ensure its independence and powers, in consultation with IMF staff	End-June 2024	**Newly proposed**
Public Financial Management	Update the list of bank accounts of public organizations before the end of August 2023 and close at least half of those subject to the obligation to deposit funds in the Treasury and not benefiting from an exemption authorization from the MEF, while repatriating the balances to the public Treasury, no later than the end of June 2024	End-June 2024	**Newly proposed**

Attachment II. Technical Memorandum of Understanding

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

PROGRAM ASSUMPTIONS

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

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

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

DEFINITIONS

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

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

   a. **Debt** is understood to mean a current – as opposed to a contingent – liability, created under a contractual agreement for the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time, and these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take several forms; the primary ones being as follows:

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

i. 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;

ii. 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

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

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

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

d. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD SOFR is 2.73 percent and will remain fixed for the duration of the program.[1] The spread of six-month

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

Euro LIBOR over six-month USD SOFR is -500 basis points. The spread of six-month GBP SONIA over six-month USD SOFR is -0.0 basis point. For interest rates on currencies other than Euro and GBP, the spread over six months USD SOFR is -500 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 bps) will be added.

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

QUANTITATIVE PERFORMANCE CRITERIA

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

Definition

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

6. The balances at end-June and end-December 2023 (PCs) and the balances at end-September 2023, end-March and end-June 2024 (ITs) must be equal to or greater than the amounts indicated in Table 1 of the MEFP.

Adjustor

7. For 2023, the floor on the basic primary fiscal balance (cumulative since January 1, 2023) will be adjusted downward by the amount of additional budget support (as defined in Paragraph 9) beyond the programmed 100.7 CFAF billion, for an amount up to CFAF 46 billion at end-December 2023.

B. Ceiling on Net Domestic Financing of the Government

Definitions

8. Net domestic financing of the government is defined as the sum of (i) the net position (difference between the government’s claims and debt) vis-à-vis the central bank and

commercial banks and (ii) financing of the government through the issuance (net of redemptions) of securities to individuals or legal entities outside the banking system or to nonresident banks domiciled in the West African Economic and Monetary Union (WAEMU).

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

Performance Criteria and Indicative Targets

10. Net domestic financing at end-June and end-December 2023 (both PCs) and net domestic financing at end-September 2023, end-March and end-June 2024 (both ITs) must be equal to or less than the amounts indicated in Table 1 attached to the MEFP.

Adjustor

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

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

- If at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be raised pro tanto, up to a maximum of CFAF 50 billion.

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

Definition

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

Continuous Performance Criteria

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

Table 2. Benin: Expected Net External Budgetary Assistance[1]
(Billions of CFA francs)

December 31, 2022	-120.1
March 31, 2023	-126.9
June 30, 2023	-168.0
September 30, 2023	-127.6
December 31, 2023	-154.0
March 31, 2024	-91.2
June 30, 2024	-163.1
September 30, 2024	-142.3

1/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.

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

Definition

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

Continuous Performance Criterion

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

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

Definition

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

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

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

Adjustor

19. For 2023, the ceiling on the present value of new External debt contracted or guaranteed by the government (cumulative since January 1, 2023) will be adjusted upward by the present value equivalent of the amount of additional budget support beyond the programmed 100.7 CFA billion, for an amount up to CFA 46 billion at end-December 2023.

Continuous Performance Criterion

20. The present value of new external borrowing contracted or guaranteed by the government should not exceed CFAF 620 billion in 2023 (Table 3). Changes to this ceiling may be made (subject to approval by the IMF Executive Board) based on the results of the public debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

Table 3. Benin: Borrowing Plan in 2023
(Billions of CFA francs)

PPG external debt	Volume of new debt in 2023		PV of new debt in 2023 (program purposes)	
	FCFA billion	Percent	FCFA billion	Percent
By sources of debt financing	**909.5**	**100**	**619.9**	**100**
Concessional debt, of which	**530.8**	**58**	**269.0**	**43**
Multilateral debt	408.3	45	193.7	31
Bilateral debt	122.4	13	75.3	12
Non-concessional debt, of which	**378.7**	**42**	**350.9**	**57**
Semi-concessional	118.2	13	90.4	15
Commercial terms	260.5	29	260.5	42

INDICATIVE TARGETS

F. Floor on Tax Revenue

Definition

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

22. The revenue will be calculated cumulatively from the beginning of the calendar year. Revenue collections at end-June, end-September, and end-December 2023 as well as end-March and end-June 2024 and must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The tax revenue floor is an IT for the entire duration of the program.

G. Priority Social Spending

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

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

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

Table 4. Benin: Priority Social Spending Coverage

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

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

Indicative Target

26. Priority Social spending at end-June, end-September, and end-December 2023 as well as end-March and end-June 2024 must be equal to or greater than the amounts indicated in Table 1 of the MEFP.

INFORMATION FOR PROGRAM MONITORING

I. Data on Performance Criteria and Indicative Targets

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

Monthly:

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

Quarterly:

- The price structure of petroleum products;
- The employment index and the traffic of merchandise at the Port of Cotonou, within 25 days of the end of the month;
- The Industrial production index and the turnover index, within three months of the end of the quarter;

- High priority social spending (Table 4), including health, education, social protection and security, by functional classification of expenditure, within eight weeks after the end of the quarter;
- Data pertaining to the amount of exceptional payment orders or other exceptional measures, within six weeks of the end of the quarter;
- Stock-flow adjustment table;
- National account statistics, within three months of the end of the quarter.
- Total new Eurobond issuances provided on quarterly basis, within two weeks after the end of the quarter.

J. Other Information

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

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

BENIN

May 4, 2023

SECOND REVIEW UNDER THE EXTENDED FUND FACILITY AND THE EXTENDED CREDIT FACILITY ARRANGEMENTS—DEBT SUSTAINABILITY ANALYSIS

Approved By
Annalisa Fedelino and Geremia Palomba (IMF), and Manuela Francisco and Abebe Adugna (IDA)

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

Benin Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Moderate* [2]
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Limited space to absorb shocks*
Application of judgment	*No*

Benin remains at moderate risk of external and overall debt distress, unchanged from the previous DSA (December 2022). All projected external debt burden indicators remain below high-risk thresholds under the baseline scenario. Nevertheless, the space to absorb shocks remains limited. External debt burden indicators breach high-risk thresholds in select stress tests, particularly commodity price and export-related shocks. The high debt service-to-revenue ratio continues to leave debt vulnerable to revenue underperformance or shifts in market sentiment that could increase rollover costs. Moreover, although the baseline present value (PV) of the public debt-to-GDP ratio remains below its prudent benchmark, it is vulnerable to natural disasters as illustrated by the shock scenario, based on Benin's exposure to such events. Sustained revenue mobilization efforts, along with continued prudent borrowing and active debt management strategy, will be important for mitigating the risk of debt distress.

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

[2] Benin retains a medium-rated debt-carrying capacity, given the 2.99 Composite Indicator, which is based on the October 2022 WEO and the 2021 CPIA.

PUBLIC DEBT COVERAGE

1. **This Debt Sustainability Analysis (DSA) covers central government and central bank debt as well as guarantees provided by the central government (Text Table 1).**[3] Central bank debt borrowed on behalf of the government (i.e., debt to the IMF) is included as external debt. External debt is defined on a currency basis owing to data limitations, except for debt from the regional development bank (BOAD), which is included as external debt for the purpose of the DSA.

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

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

2. **Debt coverage remains fairly comprehensive but does not include non-guaranteed SOE debt and the non-financial debts of other government entities.**[4] Benin received a high score for sectoral coverage on the IDA Debt Reporting heat map for 2022. Although public debt does not include non-guaranteed SOE debt, the authorities recently published the outstanding stock of non-guaranteed SOE debt (comprising 13 SOEs) in their annual fiscal risk report, which stood at 1.9 percent of GDP at end-2021. They also included details on on-lending to SOEs in quarterly debt bulletins in 2021, as part of IDA's Sustainable Development Finance Policy (SDFP) and most recent Development Policy Operations.[5] Also, under the SDFP, the Debt Management Office and the Directorate in charge of SOEs (General Directorate of State Participations and Denationalization, DGPED) established a monitoring system following the adoption by ministerial order of a risk-based framework for granting SOE guarantees. More information on the finances of the SOEs (particularly income statements) and their debt is needed to fully incorporate them into the baseline. The authorities have also published details on the non-financial debt held by local governments, including communes (e.g., supplier credit or debt to the central government), which was estimated 0.3 ppt of GDP at end-2021. These entities have not contracted financial debt and cannot do so

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

[3] Other non-financial government debts would include items as defined by GFSM 2001/2014, including accounts payable, claims toward social security, deposits of public entities held within the Treasury, appropriations relating to letters of comfort, and actuarial liabilities for civil servants' pensions.

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

without the agreement of the central government. The authorities see consolidating the general government fiscal accounts as an important prerequisite for broadening debt coverage, particularly incorporating the financial statements of the SOEs (both on the revenue and expenditure sides) for inclusion in the DSA. Expanding the coverage of fiscal accounts remains an important medium-term capacity development priority being supported by AFRITAC-West.[6]

Text Table 2. Benin: Contingent Liability Stress Test

		Default		Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt			
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.3	Estimated local debt not captured in the central government sector at end-2021.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	1.9	The stock of SOE's debt not captured in the central government sector is estimated at 1.9 percent of GDP at end-2021.
4	PPP	35	percent of PPP stock	2.4	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			9.6	

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%.

3. **The contingent liabilities shock has been calibrated to reflect risk associated with debt not captured in the baseline and other risks.** The total shock stands at 9.6 percent of GDP and includes 1.9 percent of GDP in SOE debt based on the latest available data (end-2021), 0.3 percent of GDP for local government debt based on the latest reported estimate, 2.4 percent of GDP for PPPs based on the capital stock from the World Bank's PPP database (6.8 ppts of GDP), and the default setting for financial market risk (5.0 percent of GDP) (Text Table 2).[7] Benin's debt policy and management score was rated at 4.5 out of 6 in the 2020 and 2021 CPIA evaluations, with higher values corresponding to debt management strategies more conducive to minimizing budgetary risks and ensuring debt sustainability.

BACKGROUND

A. Recent Debt Developments

4. **Benin's public debt continued its upward trend through 2022.**[8] Public debt rose to 54.2 percent of GDP in 2022 (from 50.3 percent of GDP in 2021) due to higher spending to meet urgent

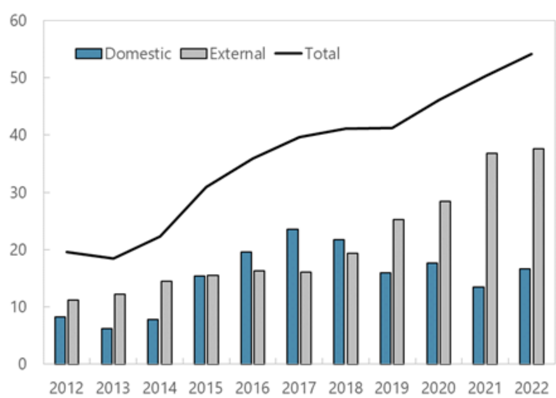
[5] See Annex IX in Benin: 2022 Article IV Consultation and Requests for an Extended Arrangement under the Extended Fund Facility and an Arrangement under the Extended Credit Facility (IMF Country Report 22/245).

[7] Contingent liabilities have not materialized from these entities in recent years.

[7] Benin does not currently have any arrears vis-à-vis external creditors. Public domestic debt arrears are commitments to domestic suppliers that were validated in a 2019 audit (totaling 0.1 ppt of GDP as of end-June 2022), which do not suggest government solvency or liquidity problems given their small size.

needs (with less grants), the USD appreciation against the CFA franc, and some additional pre-emptive domestic issuances—the authorities issued FCFA 300 billion (2.9 percent of GDP) on the regional security market as part of their active debt management strategy to preempt adverse market conditions. These resources are currently held at the BCEAO.[9] In January 2023, Benin also agreed with China on the cancelation of the outstanding debt on two interest-free loans totaling FCFA 3.5 billion (or 0.3 percent of GDP).

Text Figure 1. Benin: Total Public Debt
(2011–22, percent of GDP)



Sources: Country authorities and IMF staff estimates and projections.

Text Table 3. Benin: Local Currency Denominated Debt by Time to Maturity as of End-2022[1]
(Percent of GDP)

Less than one year	3.1
1-3 years	5.0
4-7 years	4.1
More than 7 years	6.3
Total (percent GDP)	18.5

1/ Includes debt owed to BOAD

5. **Proactive liability management has helped smooth out the public debt service profile, reduce costs, and roll over risks.** The overall public debt service-to-revenue ratio is expected to average 35 percent in 2023-27. On the external side, debt service costs benefited from the 2021 reimbursement of about 65 percent of the 2019 Eurobond falling due in 2024–26. On the domestic side, an issuance of a US$300 million external commercial loan in 2018 backed by a World Bank partial guarantee was used to reprofile costly short term-domestic debt. Although near-term domestic debt service is significant, averaging 4.3 percent of GDP in 2023–25, Benin has aimed to mitigate rollover risks through proactive debt management such as recent liability issuances throughout 2022 to preempt adverse market conditions (which could be used in the future for financing or rollover needs) and by issuing longer maturities on the regional market, with a third of the FCFA-denominated debt stock having a time to maturity of over seven years (Text Table 3). In 2022, gross bond FCFA issuances totaled around 5.1 percent of GDP, with an average interest rate of 5.2 percent and maturity of 6 years (including two seven-year bonds and one ten-year bond). This is an improvement over issuances immediately after COVID-19 (March 2020–December 2021) which had average interest rate of 6.0 percent and maturity of 5 years. As of end-2022, the FCFA-denominated debt was made up of 34 percent of bonds with maturities of seven years or more (Text Table 3).

[8] This DSA includes all debt service associated with these issuances. Given that the timeframe for drawing on these resources is currently undefined, the DSA assumes that they are maintained as precautionary resources implying upside to the projected baseline debt stock.

6. **The composition of debt has shifted gradually toward external debt in recent years, where borrowing costs were comparatively lower (Text Table 4).** The largest shares of debt at end-2022 were held by multilateral creditors and international bond holders at 38 percent and 19 percent, respectively. Domestic public debt made up about 31 percent of the debt stock, with a large portion of securities on the regional financial market. Benin also has also taken advantage of innovative financing to lower borrowing costs in the past issuing Africa's first ever SDG bond in 2021 (€500 million, 12.5-year maturity at 4.95 percent).

B. Macroeconomic Assumptions

7. **Macroeconomic assumptions underlying the DSA projections are consistent with the Second Review baseline with limited changes from the previous DSA (December 2022)** (Text Table 5). Compared with the previous DSA, the baseline incorporates a modest increase in near-term revenues and grants, and shift in the convergence to the 3 percent overall fiscal deficit from 2024 to 2025, in line with the WAEMU-wide fiscal stance. The main assumptions are as follows:

- **Real GDP Growth.** Near-term growth remains unchanged at 6 percent. Over the medium-term, large-infrastructure investment consistent with the authorities' development objectives[10] and some recovery in private investment bolstered by the authorities' efforts to improve competitiveness (e.g., acceleration of the Special Economic Zone, promotion of SMEs) will continue to support growth, which is expected to remain around potential at 6 percent.[11] Similarly, longer-term projections remain conservative at 5.7 percent converging to the steady-state.

- **Inflation and GDP deflator.** Inflation for 2023 is now projected at 3.5 percent of GDP (compared with 3 percent at the First Review), as lower import prices partly offset base effects from lower than anticipated inflation in 2022. As a result, the GDP deflator is slightly higher over the medium-term, averaging 2.2 percent over 2022-26 compared with 2.1 percent in the previous DSA. The GDP deflator is expected to converge around 2 percent over the long term.

- **Primary fiscal balance.** The primary deficit (including grants) is expected to narrow to 2.6 percent of GDP in 2023 as fiscal policy shifts toward revenue-based fiscal consolidation. In line with the current WAEMU-wide stance, the baseline assumes that the overall fiscal deficit would converge to the regional fiscal norm of 3 percent of GDP in 2025 (compared with 2024 in the previous DSA). As such, the medium-term fiscal primary deficit is slightly wider averaging 1.7 percent of GDP (compared with 1.5 percent of GDP in the previous DSA). The delayed convergence maintains debt

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

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

sustainability while allowing for a smoother fiscal adjustment to help Benin meet persistent spending pressures and large development needs. Fiscal consolidation will be supported by revenue mobilization, spending prioritization, efficiency gains in public investment, and unwinding of temporary spending measures (related to COVID-19 and Russia's invasion of Ukraine). Over the long-term while the government's ambitious development plan will generate spending needs, the authorities have a solid track record of fiscal prudence and prioritizing debt sustainability, with the latter further bolstered by the strong public consensus on keeping debt under control.

- **Revenues and grants.** Revenues and grants for 2023 are higher at 14.7 percent of GDP (compared with 14.4 percent in the previous DSA), owing to stronger tax efforts, which offset reductions due to one-off increases in non-tax revenues in 2022 and a modest increase in grant financing in GDP terms compared with the previous DSA. The authorities expect to lock in the strong 2022 tax revenue performance (beyond the recent reclassification of some non-tax revenues as tax revenues),[12] with continued gains from corporate and personal income tax reforms and the move to transactional values at customs. Tax revenues will also benefit from new reforms already approved in the 2023 budget such as the expansion of standardized invoices and application of the minimum tax on the sale of used vehicles. Over the medium-term, revenue mobilization will be underpinned by the pending Medium-Term Revenue Mobilization Strategy (a structural benchmark for end-September 2023 under the IMF-supported program), which will focus on expanding the tax base and improving efficiency, particularly through the rationalization of tax expenditures.

- **Total expenditure.** Total expenditure will be slightly higher in the near-term at 19.0 percent of GDP in 2023 (compared with 18.7 percent in the previous DSA), as the authorities meet additional priority spending needs related to security risks and the war in Ukraine through higher revenue, with the overall fiscal deficit remaining unchanged.

- **Fiscal adjustor.** While the baseline overall deficit remains at 4.3 percent of GDP in 2023, it has the potential to increase up to 4.7 ppt of GDP if the authorities can mobilize additional external budget support as allowed under the IMF program. This would smooth fiscal adjustment with limited impact on the overall debt profile given the concessional nature of such financing.

- **Current account deficit.** The current account deficit is expected to widen to 5.9 percent of GDP in 2023 compared with 5.5 percent of GDP in the previous DSA owing to a further deterioration in the terms of trade and lower base effects in 2022. The current account deficit is expected to improve over the medium and long term, hovering close to 4 percent of GDP, supported by fiscal consolidation and ongoing reforms to boost competitiveness offsetting projected declines in cotton export receipts as international prices moderate. FDI is also expected to see modest gains in the medium-term from 1.6 percent of GDP in 2023 to 1.8 percent of GDP in 2028 as reforms help improve investor confidence.

[12] The authorities reclassified 0.7 ppt of GDP in non-tax revenues as tax revenues to align with WAEMU and GFS standards.

Text Table 4. Benin: Decomposition of Public Debt and Debt Service by Creditor, 2022–24[1]

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In US$ millions)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ millions)*			*(Percent GDP)*		
Total	9494.6	100	54.2	1503	1144	995	8.6	6.0	4.8
External	6584.2	69.3	37.6	351	398	501	2.0	2.1	2.4
Multilateral creditors[2]	3593	37.8	20.5	135	154	222	0.8	0.8	1.1
IMF	706	7.4	4.0						
World Bank	1536	16.2	8.8						
ADB/AfDB/IADB	486	5.1	2.8						
Other Multilaterals	865	9.1	4.9						
Arab Bank for Economic Development	54	0.6	0.3						
BOAD	324	3.4	1.8						
Nordic Development Fund	14	0.1	0.1						
ECOWAS Bank for Investment and Developme	37	0.4	0.2						
European Investment Bank	72	0.8	0.4						
IFAD	65	0.7	0.4						
OPEC	37	0.4	0.2						
Islamic Development Bank	263	2.8	1.5						
Bilateral Creditors	514	5.4	2.9	31	39	39	0.2	0.2	0.2
Paris Club	121	1.3	0.7	2	5	5	0.0	0.0	0.0
France	121	1.3	0.7						
Non-Paris Club	392	4.1	2.2	29	34	33	0.2	0.2	0.2
China	299	3.1	1.7						
India	16	0.2	0.1						
Kuwait	39	0.4	0.2						
Saudi Arabia	37	0.4	0.2						
Bonds	1775	18.7	10.1	82	95	156	0.5	0.5	0.8
Commercial creditors	702	7.4	4.0	104	110	84	0.6	0.6	0.4
MUFG Bank	213	2.2	1.2						
RABOBANK	151	1.6	0.9						
Bank of China	17	0.2	0.1						
Societe General	69	0.7	0.4						
UKEF	57	0.6	0.3						
Banco de Brazil	74	0.8	0.4						
Deutche Bank	49	0.5	0.3						
NTXS	35	0.4	0.2						
BPI France	9	0.1	0.0						
Credit Suisse	28	0.3	0.2						
Domestic[3]	2910	30.7	16.6	1152	746	495	6.6	3.9	2.4
Held by residents, total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Held by non-residents, total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
T-Bills	51	0.5	0.3						
Bonds	2688	28.3	15.3						
Loans[4]	222	2.3	1.3						
Memo items:									
Collateralized debt	0		0.0						
Contingent liabilities	306		1.7						
o/w: Public guarantees	9		0.1						
o/w: Other explicit contingent liabilities[5]	297		1.7						
Nominal GDP			17522	17522	19172	20632			

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

2/"Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies

3/Breakdown of debt by resident not availble due to data limitations in tracking holders of regional securities in secondary markets.

4/Includes central bank on lending related to the SDR allocation and guaranteed debt.

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

Sources: Country authorities; and staff estimates and projections

8. Consistent with the authorities' borrowing plan, this DSA assumes that the authorities will continue to maintain a prudent borrowing strategy, maximizing concessional resources to the extent possible. The baseline includes financing from the IMF-supported program as well as higher financing from the World Bank in line with the latest IDA allocations.[13] IDA financing fulfilling a larger share of Benin's financing needs has helped improve the nominal interest rate on public debt, which averages 3.7 percent (compared with 4.0 percent in the previous DSA).[14] The external borrowing plan for contracting debt in 2023 mostly consists of concessional and semi concessional loans from multilateral and bilateral creditors (Text Table 6). Given the authorities' intent to maintain regular market access, the DSA also continues to assume regular market access following the conclusion of the program including a US$500 million Eurobond issuances in 2025 and the assumption that existing Eurobond repayments will be rolled over in 2030-42. This will be contingent on market conditions, with the potential for additional issuances if conditions improve. The authorities also remain open to opportunities to leverage their existing SDG bond framework for climate-related financing opportunities such as Green/Blue bonds. Grant-equivalent financing is expected to decline on average over the long-term as a share of GDP as Benin's relative income increases. The DSA also assumes that an average of around 40 percent of gross financing needs per year will be filled by domestic financing. While conditions on the regional market have tightened in recent months, Benin's strong policy track record supports its ability to issue and the pre-emptive issuances in 2022 (not included in the financing for 2023 under the baseline) provide an important contingency should market conditions tighten further (¶8). Over the long-term, Benin is also expected to rely more on domestic sources of financing as the domestic debt market deepens.[15]

9. Public debt is projected to decline over the medium to long term as a result of prudent fiscal policy and steady growth. Debt is expected to be around 54 percent of GDP at end-2023, reflecting fiscal policy accommodation to contain the socio-economic fallout from the protracted COVID-19 pandemic, the war in Ukraine, and mitigation of security risks, public debt is projected to decline to 46 percent by 2033 as fiscal deficits are contained and growth converges to its potential. The debt trajectory is predicated on the authorities implementing a revenue-based fiscal consolidation to ensure convergence to WAEMU regional fiscal norms.

[13] Updated IDA assumptions reflect the IDA20 allocations and the fact that Benin has recently graduated to "gap" country status and is no longer eligible for new grants. They also include updates to the terms of IDA financing, including the assumption that a portion of the allocation will be in the form of shorter (12-year) maturity loans during FY23-25.

[14] Assumptions on financing terms remain unchanged, including for international market borrowing (6 percent interest rate, consistent with sufficiently attractive borrowing conditions for the authorities to engage in international issuances) and regional market borrowing (5.5-6.9 percent depending on maturity). In the event international market conditions were not favorable, the authorities could choose to substitute with regional market borrowing.

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

Text Table 5. Benin: Baseline Macroeconomic Assumptions for Debt Sustainability Analysis

	2022	2023	2024	2025	2026	2027	2028	Medium-term 2023-28	Long-term 2029-43
GDP Growth (percent)									
Current DSA	6.3	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.7
Previous DSA[1]	6.0	6.0	5.9	6.1	6.0	6.0	5.9	6.0	5.7
GDP Deflator (percent)									
Current DSA	4.1	3.3	2.0	2.0	2.0	2.0	2.0	2.2	2.0
Previous DSA	4.2	2.5	1.9	2.1	2.0	2.0	2.0	2.1	2.0
Current account deficit (percent GDP)									
Current DSA	-6.3	-5.9	-5.6	-5.1	-4.9	-4.4	-4.4	-5.0	-4.4
Previous DSA	-6.1	-5.5	-4.7	-4.7	-4.5	-4.1	-4.1	-4.6	-4.1
Exports (percent GDP)									
Current DSA	24.9	23.1	23.2	23.0	22.9	22.9	22.9	23.0	22.9
Previous DSA	26.5	25.8	24.8	24.3	24.1	23.8	23.8	24.4	23.8
Primary Balance (percent GDP)									
Current DSA	-3.9	-2.6	-2.1	-1.3	-1.3	-1.4	-1.4	-1.7	-1.3
Previous DSA	-3.7	-2.7	-1.1	-1.2	-1.3	-1.3	-1.3	-1.5	-1.5
Revenue and grants (percent GDP)									
Current DSA	14.3	14.7	15.2	15.6	16.0	16.5	16.9	15.8	19.3
Previous DSA	13.9	14.4	15.1	15.6	15.9	16.3	16.8	15.7	19.3
Total expenditure (percent GDP)									
Current DSA	19.8	19.0	18.9	18.5	18.9	19.4	19.8	19.1	22.0
Previous DSA	19.5	18.7	18.0	18.5	18.8	19.2	19.7	18.8	22.2
Overall balance (percent GDP)									
Current DSA	-5.5	-4.3	-3.7	-2.9	-2.9	-2.9	-2.9	-3.3	-2.9
Previous DSA	-5.6	-4.3	-2.9	-2.9	-2.9	-2.9	-2.9	-3.1	-2.9

1/December 2022 First EFF/ECF Review.

Source: IMF staff estimates and projections

Text Table 6. Benin: External Borrowing Plan 2023 (Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2023		PV of new debt in 2023 (program purposes)	
	FCFA billion	Percent	FCFA billion	Percent
By sources of debt financing	**909.5**	**100**	**619.9**	**100**
Concessional debt, of which	**530.8**	**58**	**269.0**	**43**
Multilateral debt	408.3	45	193.7	31
Bilateral debt	122.4	13	75.3	12
Non-concessional debt, of which	**378.7**	**42**	**350.9**	**57**
Semi-concessional	118.2	13	90.4	15
Commercial terms	260.5	29	260.5	42

10. Macro-fiscal projections are realistic (Figures 3-4). The three-year primary adjustment falls just at the top quartile for past adjustments in LICs with IMF-supported programs, which remains realistic given that during the period Benin is recovering from large shocks (COVID-19, the war in Ukraine), with adjustments supported reductions in one-off spending and recovery in revenues. The growth path does not exceed those derived from typical fiscal multipliers for LICs. Public and private investment rates are similar to the previous DSA as is the modest contribution of public investment to growth. While unexpected changes in public debt have been large over the last 5-years, these can be explained by significant shocks during the sample period including the Nigeria border closure and COVID-19. These have been largely driven by the primary deficit, real exchange rate depreciation, and other debt creating flows. In terms of drivers, GDP growth is expected to be debt-reducing in the projections; the real interest rate and primary deficit would be debt-increasing. This is in broadly in line with historical trends, though significant past contributions from residual factors could add to debt.

11. The macroeconomic outlook is subject to a number of risks, which remain tilted to the downside. Further increases in international food and oil prices—amidst the ongoing war in Ukraine—would exert pressure on external accounts while further eroding the purchasing power of the vulnerable, thus potentially fueling social tensions. Negative shocks from Nigeria could disrupt transit trade and take a toll on revenues (including taxes). A shift in global risk appetite or further tightening of liquidity conditions on the regional security market could complicate medium-term rollover risks. Higher than anticipated security outlays could weigh heavily on the budget. Moreover, Benin remains susceptible to natural disasters and acute and chronic climate change risks.

C. Country Classification and Determination of Stress Test Scenarios

12. Benin's debt carrying capacity continues to be classified as medium. Based on a calculation of a composite indicator reflecting factors such as the 2021 WB CPIA index and the October 2022 WEO (real growth rates, reserve coverage, remittances, and world growth), Benin has a CI score of 2.99 (Text Table 7). As a result, this DSA continues to use the same external debt burden thresholds and total public benchmarks for countries with medium debt carrying capacity (Text Table 8).

13. Stress tests generally follow standardized settings, with the addition of tailored stress tests to capture risks related to contingent liabilities, natural disasters, commodity prices, and market financing. Given Benin's high vulnerability to natural disasters and climate change (particularly from flooding and coastal erosion), the standard natural disaster shock has been applied. Commodity exports (cotton) make up a significant part of the export base (35 percent of exports excluding reexported products in 2021), leaving it open to potential price shocks. Finally, outstanding Eurobonds may leave Benin exposed to rollover risk in the event of a change in global risk sentiment—though the current maturity profile mitigates this risk over the next two years.

DEBT SUSTAINABILITY RESULTS

A. External Debt Sustainability

14. All external debt burden indicators are below their policy-dependent thresholds in the baseline (Table 1, Figure 1). The PV of total PPG external debt to GDP is expected to remain well below the threshold throughout the projection period and follow a steadily declining path, averaging 29 percent of GDP in 2023-27 and 28 percent of GDP in the long-term. Compared with the previous DSA, the PV of total PPG external debt to GDP will peak at 30 percent of GDP in 2025 (compared with a peak of 33 percent of GDP in the previous DSA). The debt service-to-revenue ratio will temporarily near the threshold in 2030 (when large Eurobond repayments are falling due). However, the PV of debt-to-exports and PV of debt service-to-exports ratios both remain below their thresholds, peaking in 2025 and 2030, respectively.

Text Table 7. Benin: Calculation of Debt-Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.660	1.41	47%
Real growth rate (in percent)	2.719	6.021	0.16	5%
Import coverage of reserves (in percent)	4.052	44.277	1.79	60%
Import coverage of reserves^2 (in percent)	-3.990	19.604	-0.78	-26%
Remittances (in percent)	2.022	0.817	0.02	1%
World economic growth (in percent)	13.520	2.898	0.39	13%
CI Score			2.99	100%
CI rating			Medium	

15. Stress tests highlight Benin's vulnerability to shocks, particularly those related to commodity prices and exports. Three out of four debt-burden indicators breach their thresholds under certain stress tests, with commodity price (the most severe shock in the PV of debt-to-GDP and exports and the debt service to revenue indicators) and export shocks (the most severe shock in the debt service-to-exports ratio) causing significant breaches. These shocks illustrate risks posed by limited economic diversification. The debt service-to-revenue ratio experiences breaches in several stress tests, but these are largely related to large Eurobond related repayments, where risks could be managed via prudent debt management**.** Although the historical scenario is relatively more severe than the baseline, the calibration period of 2013–2022 captures particularly severe periods in Benin's economy including the impact of COVID-19, the Nigeria border closure, and the 2015 downturn. Moreover, compared with the historical record, continued efforts to mobilize revenues and active debt management are expected to help stabilize debt levels.

Text Table 8. Benin: Debt Burden Thresholds and Benchmarks

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

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

16. The granularity assessment indicates that Benin has limited space to absorb shocks (Figure 5). Under the module, which allows qualifying the moderate risk of debt-distress, Benin is assessed as having limited space because the debt service-to-revenue ratio would breach the threshold under a median observed shock scenario, resulting in a downgrade to high-risk.

17. The market-financing module suggests that market risks are moderate (Figure 6). Although EMBI spreads are above the benchmark, reflecting the recent global financial market volatility, gross financing needs remain well below the respective benchmark, and potential for heightened liquidity needs is moderate. The debt-service to revenue and debt service-to-export ratios would exceed their thresholds in 2030 under the market financing shock, given the repayment profile discussed above (which by design does not incorporate possible liability management operations that would help manage these risks).

B. Total Public Debt Sustainability

18. Total public PPG remains below its respective benchmark in the baseline (Figure 2 and Table 2). The present value of public debt averages 41 percent of GDP over the projection period, well below the 55 percent benchmark. Although the public debt -to-GDP ratio has increased over the projection period in nominal terms, the present value of public debt at the end of the projection period is lower at 39 percent of GDP (compared with 43 percent in the previous DSA) driven by slightly improved financing terms given the increase in World Bank financing.

19. Stress tests indicate that public debt is most vulnerable to commodity price shocks and natural disasters. For the PV of debt-to-GDP ratio, a commodity price shock would be the most extreme shock, with the PV of debt-to-GDP breaching the benchmark in 2033 and significant increases in the debt-to-revenue ratio. A natural disaster shock would also have a significant negative impact with debt service-to-revenue ratios reaching 46 percent in 2028).

RISK RATING AND VULNERABILITIES

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

21. Sustained revenue mobilization efforts along with a prudent borrowing and debt management strategy will be important for mitigating the risk of debt distress. As highlighted by the granularity assessment, Benin has limited space to absorb shocks owing to the narrow space between the debt service to revenue ratios and high-risk thresholds in years where large Eurobond bullet repayments are due. Continuing proactive liability management to facilitate the rollover of these payments, maximizing concessional borrowing, and implementing measures to bring tax revenues closer to Benin's potential will help mitigate risks to debt distress. Benin is already taking actions in this regard with pre-emptive issuances to hedge against adverse market conditions in 2022 and additional measures to maintain the revenue collection momentum under the 2023 budget, the adoption of a tax expenditure rationalization strategy in November 2022, and the ongoing development of a medium-term revenue mobilization strategy.

Authorities' Views

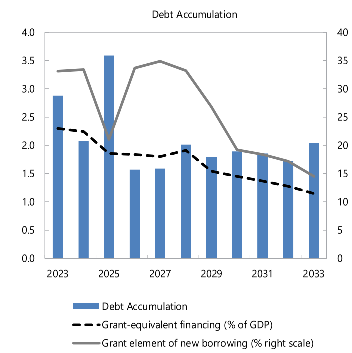
22. The authorities agree with the assessment that Benin remains at a moderate risk of external debt distress but see more space to absorb shocks. They remain of the view that debt from BOAD should be classified as domestic debt given the institution's governance structure and the regional arrangement that makes the FCFA currency union a consolidated unit (classifying such debt as domestic would further improve the external debt profile). The authorities also see a greater scope for domestic financing and at longer maturities and lower cost in the medium term. They remain committed to preserving debt sustainability, mitigating refinancing risks, and containing borrowing costs through a combination of revenue mobilization, active debt management, and prudent borrowing.

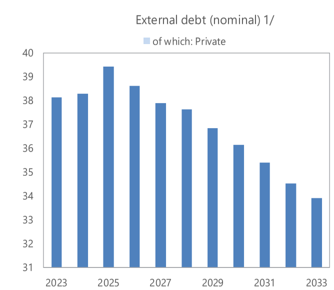
Table 1. Benin: External Debt Sustainability Framework, Baseline Scenario, 2020–2043

(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
xternal debt (nominal) 1/	28.4	36.8	37.6	38.1	38.3	39.4	38.6	37.9	37.6	33.9	23.7	22.2	37.0
of which: public and publicly guaranteed (PPG)	28.4	36.8	37.6	38.1	38.3	39.4	38.6	37.9	37.6	33.9	23.7	22.2	37.0
hange in external debt	3.2	8.4	0.8	0.6	0.2	1.1	-0.8	-0.7	-0.3	-0.6	-1.4		
lentified net debt-creating flows	-1.3	-0.8	5.2	2.2	2.0	1.4	1.0	0.5	0.3	0.2	0.2	2.2	0.8
Non-interest current account deficit	1.3	3.4	5.5	5.0	4.8	4.3	4.0	3.6	3.3	3.3	3.4	4.2	3.8
Deficit in balance of goods and services	2.8	4.4	6.4	6.2	6.1	5.5	5.3	4.9	4.8	4.8	4.8	5.6	5.2
Exports	22.4	23.5	24.9	23.1	23.2	23.0	22.9	22.9	22.8	22.8	22.8		
Imports	25.1	27.8	31.4	29.3	29.3	28.5	28.2	27.8	27.6	27.6	27.6		
Net current transfers (negative = inflow)	-1.8	-1.2	-1.4	-1.4	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.9	-1.5
of which: official	-0.7	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2		
Other current account flows (negative = net inflow)	0.2	0.2	0.5	0.2	0.2	0.3	0.2	0.2	0.0	0.0	0.1	0.5	0.1
Net FDI (negative = inflow)	-1.0	-1.7	-1.6	-1.6	-1.6	-1.5	-1.6	-1.8	-1.8	-2.1	-2.7	-1.6	-1.8
Endogenous debt dynamics 2/	-1.6	-2.5	1.3	-1.2	-1.3	-1.3	-1.3	-1.3	-1.3	-1.0	-0.5	-0.4	-1.2
Contribution from nominal interest rate	0.5	0.7	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.4	0.8
Contribution from real GDP growth	-0.9	-1.8	-2.3	-2.0	-2.1	-2.1	-2.2	-2.1	-2.1	-1.9	-1.3	-1.0	-2.1
Contribution from price and exchange rate changes	-1.2	-1.5	2.9	...	...	...	...	...	...	...	...	0.25	...
Residual 3/	4.5	9.2	-4.4	-1.7	-1.8	-0.3	-1.9	-1.2	-0.5	-0.8	-1.6	0.4	-1.1
of which: exceptional financing	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
ustainability indicators													
V of PPG external debt-to-GDP ratio	...	...	28.9	28.8	28.8	30.0	29.3	28.8	28.5	26.8	20.6		
V of PPG external debt-to-exports ratio	...	...	116.0	124.7	123.9	130.6	128.1	125.8	124.9	117.6	90.2		
PG debt service-to-exports ratio	5.5	8.7	8.3	8.9	10.7	10.7	10.1	9.0	9.0	10.3	10.4		
PG debt service-to-revenue ratio	9.7	15.5	15.0	14.7	17.1	16.5	15.2	13.1	12.6	12.6	11.1		
ross external financing need (Billion of U.S. dollars)	0.5	1.3	1.6	1.7	1.8	1.8	1.9	1.9	2.0	3.2	7.2		
ey macroeconomic assumptions													
eal GDP growth (in percent)	3.8	7.2	6.3	6.0	6.0	6.0	6.0	6.0	6.0	5.9	5.4	5.5	5.9
DP deflator in US dollar terms (change in percent)	4.9	5.4	-7.3	4.2	1.2	1.7	1.6	1.5	2.0	2.0	2.0	-0.6	2.0
ffective interest rate (percent) 4/	2.1	3.0	2.0	2.5	2.3	2.2	2.4	2.4	2.3	2.6	3.3	1.9	2.4
rowth of exports of G&S (US dollar terms, in percent)	-2.3	18.6	4.5	2.3	7.9	6.8	7.3	7.3	7.8	8.0	7.5	9.5	7.2
rowth of imports of G&S (US dollar terms, in percent)	-8.6	25.1	10.9	3.1	7.2	4.8	6.8	5.9	7.5	8.0	7.5	8.8	6.9
rant element of new public sector borrowing (in percent)	...	...	...	33.2	33.4	21.0	33.6	34.9	33.2	14.5	10.3	...	25.9
overnment revenues (excluding grants, in percent of GDP)	12.7	13.2	13.8	14.0	14.5	15.0	15.3	15.8	16.2	18.6	21.4	12.6	16.3
id flows (in Billion of US dollars) 5/	0.3	0.2	0.1	0.7	0.8	0.7	0.8	0.8	0.8	0.5	0.6		
rant-equivalent financing (in percent of GDP) 6/	...	...	...	2.3	2.2	1.9	1.8	1.8	1.9	1.1	0.8	...	1.7
rant-equivalent financing (in percent of external financing) 6/	...	...	...	40.7	42.1	29.3	43.8	45.5	42.8	27.9	32.8	...	36.4
ominal GDP (Billion of US dollars)	16	18	17	19	21	22	24	26	28	41	86		
ominal dollar GDP growth	8.9	12.9	-1.5	10.5	7.2	7.7	7.7	7.5	8.1	8.0	7.5	4.9	8.1
lemorandum items:													
V of external debt 7/	...	...	28.9	28.8	28.8	30.0	29.3	28.8	28.5	26.8	20.6		
In percent of exports	...	...	116.0	124.7	123.9	130.6	128.1	125.8	124.9	117.6	90.2		
otal external debt service-to-exports ratio	5.5	8.7	8.3	8.9	10.7	10.7	10.1	9.0	9.0	10.3	10.4		
V of PPG external debt (in Billion of US dollars)			5.0	5.5	5.9	6.7	7.0	7.4	7.9	11.0	17.6		
ᴾVt-PVt-1)/GDPt-1 (in percent)				2.9	2.1	3.6	1.6	1.6	2.0	2.0	0.4		
on-interest current account deficit that stabilizes debt ratio	-1.9	-5.0	4.7	4.5	4.7	3.1	4.8	4.3	3.6	3.9	4.8		

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





ources: Country authorities; and staff estimates and projections.

/ Includes both public and private sector external debt.

/ 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.

/ 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.

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

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

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

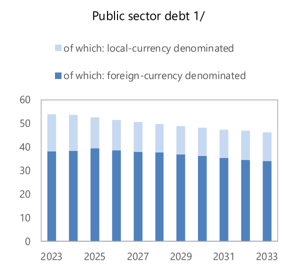
Table 2. Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020-43

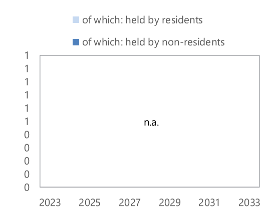
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	46.1	50.3	54.2	53.8	53.5	52.4	51.4	50.5	49.6	46.2	43.4	38.0	49.9
of which: external debt	28.4	36.8	37.6	38.1	38.3	39.4	38.6	37.9	37.6	33.9	23.7	22.2	37.0
Change in public sector debt	4.9	4.1	3.9	-0.4	-0.3	-1.1	-1.0	-0.9	-0.9	-0.6	-0.1		
Identified debt-creating flows	1.4	3.9	7.1	-0.6	-0.5	-1.1	-1.0	-0.9	-0.8	-0.5	-0.1	2.4	-0.7
Primary deficit	2.7	3.5	3.9	2.6	2.1	1.3	1.3	1.4	1.4	1.4	1.0	2.4	1.6
Revenue and grants	14.4	14.1	14.3	14.7	15.2	15.6	16.0	16.5	16.9	19.3	22.0	13.4	16.9
of which: grants	1.7	0.9	0.5	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6		
Primary (noninterest) expenditure	17.1	17.6	18.2	17.3	17.2	16.9	17.3	17.8	18.2	20.6	23.0	15.8	18.5
Automatic debt dynamics	-3.3	0.5	-0.2	-3.3	-2.6	-2.4	-2.3	-2.3	-2.2	-1.9	-1.1	-0.5	-2.3
Contribution from interest rate/growth differential	-0.9	-2.0	-2.9	-3.3	-2.6	-2.4	-2.3	-2.3	-2.2	-1.9	-1.1	-1.1	-2.3
of which: contribution from average real interest rate	0.7	1.1	0.0	-0.2	0.5	0.6	0.6	0.6	0.6	0.7	1.1	0.7	0.6
of which: contribution from real GDP growth	-1.5	-3.1	-3.0	-3.1	-3.0	-3.0	-3.0	-2.9	-2.8	-2.6	-2.2	-1.8	-2.8
Contribution from real exchange rate depreciation	-2.4	2.5	2.7	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	1.9	-0.1	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of 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)	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	2.0	0.0	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.5	0.3	-3.2	0.2	0.2	0.0	0.0	0.0	-0.1	-0.1	0.0	1.0	0.0
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	45.4	44.1	43.5	42.5	41.6	40.8	39.9	38.7	40.0		
PV of public debt-to-revenue and grants ratio	...	...	317.1	300.7	286.7	272.0	260.6	248.1	236.9	200.8	181.7		
Debt service-to-revenue and grants ratio 3/	42.5	76.7	60.7	40.5	34.6	37.8	30.0	33.7	26.7	26.3	30.1		
Gross financing need 4/	10.8	14.2	16.0	8.6	7.3	7.2	6.1	6.9	5.9	6.4	7.7		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.8	7.2	6.3	6.0	6.0	6.0	6.0	6.0	6.0	5.9	5.4	5.5	5.9
Average nominal interest rate on external debt (in percent)	2.1	2.8	2.1	2.5	2.3	2.2	2.4	2.3	2.3	2.6	3.3	1.9	2.4
Average real interest rate on domestic debt (in percent)	3.5	7.2	8.7	2.0	3.5	3.6	3.7	3.8	3.9	4.1	4.3	4.9	3.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.8	9.3	8.0	...	...	...	...	...	...	...	...	3.4	...
Inflation rate (GDP deflator, in percent)	2.9	1.6	4.1	3.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.1	2.1
Growth of real primary spending (deflated by GDP deflator, in percent)	36.7	10.3	9.7	0.8	5.6	4.2	8.2	9.2	8.5	8.3	15.3	9.5	7.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-2.2	-0.7	0.0	3.0	2.4	2.4	2.3	2.2	2.3	1.9	1.2	-1.0	2.3
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**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

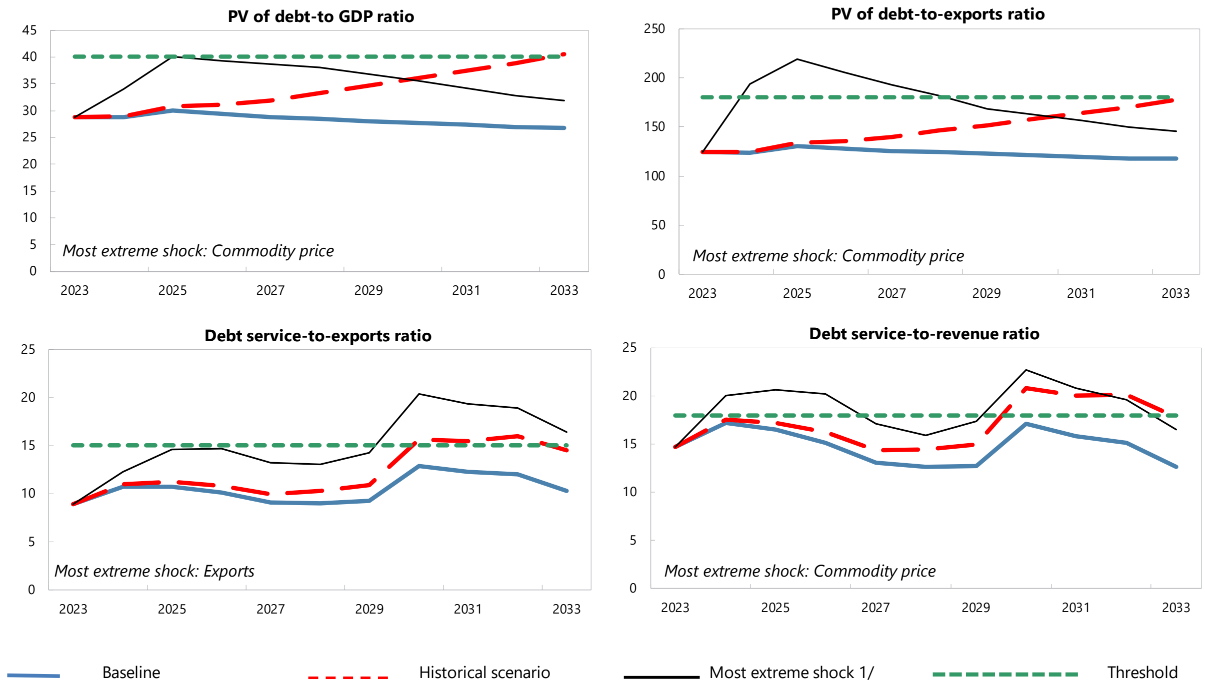
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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

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

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

Figure 1. Benin: Indicators of Public Guaranteed External Debt Under Alternatives Scenarios, 2023–2033[2]



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

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

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.6%	2.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	18
Avg. grace period	6	4

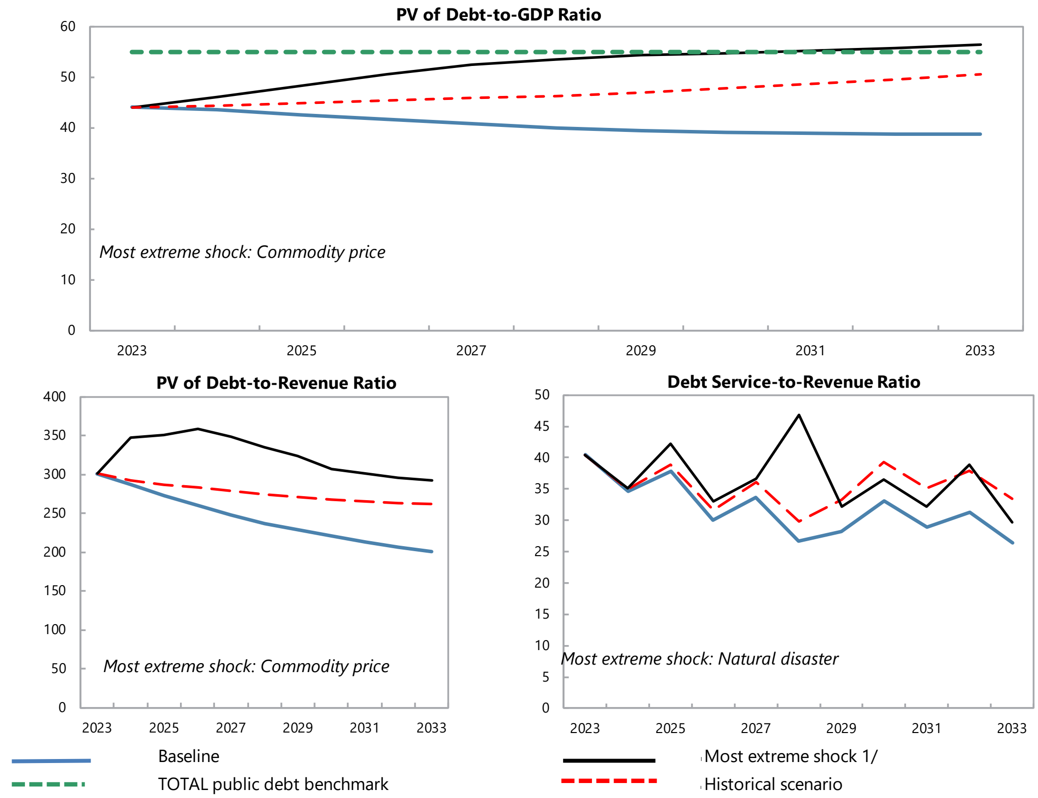
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities and staff estimates and projections.

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

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

Figure 2. Benin: Indicators of Public Debt Under Alternatives Scenarios, 2023–2033



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	59%	59%
Domestic medium and long-term	39%	39%
Domestic short-term	2%	2%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.6%	2.9%
Avg. maturity (incl. grace period)	21	18
Avg. grace period	6	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.2%	4.2%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.4%	3.4%

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

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023–2033 (percent of GDP)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	PV of debt-to GDP ratio										
Baseline	29	29	30	29	29	28	28	28	27	27	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	29	29	31	31	32	33	35	36	37	39	**41**
B. Bound Tests											
B1. Real GDP growth	29	30	32	32	31	31	30	30	29	29	29
B2. Primary balance	29	30	33	33	32	32	32	31	31	30	30
B3. Exports	29	32	38	37	36	36	35	34	33	32	31
B4. Other flows 3/	29	30	32	32	31	31	30	30	29	28	28
B5. Depreciation	29	36	34	33	33	33	32	32	32	32	32
B6. Combination of B1-B5	29	33	34	33	32	32	31	31	31	30	30
C. Tailored Tests											
C1. Combined contingent liabilities	29	33	35	34	33	34	34	33	33	32	32
C2. Natural disaster	29	34	36	35	34	35	35	35	34	34	34
C3. Commodity price	29	34	40	39	39	38	37	35	34	33	32
C4. Market Financing	29	32	34	33	32	32	31	31	30	30	30
Threshold	40	40	40	40	40	40	40	40	40	40	40
	PV of debt-to-exports ratio										
Baseline	125	124	131	128	126	125	123	121	120	118	118
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	125	125	134	136	140	146	152	158	164	170	178
B. Bound Tests											
B1. Real GDP growth	125	124	131	128	126	125	123	121	120	118	118
B2. Primary balance	125	128	145	142	140	139	138	136	134	132	131
B3. Exports	125	154	**212**	**208**	**204**	**201**	**197**	**191**	**186**	**180**	177
B4. Other flows 3/	125	129	141	138	136	135	132	130	127	125	123
B5. Depreciation	125	124	118	116	114	113	112	111	111	110	110
B6. Combination of B1-B5	125	142	135	151	149	148	145	143	141	138	137
C. Tailored Tests											
C1. Combined contingent liabilities	125	144	151	148	145	150	147	145	143	142	141
C2. Natural disaster	125	150	157	155	153	158	156	155	153	153	152
C3. Commodity price	125	**194**	**219**	**206**	**193**	**182**	169	162	156	150	146
C4. Market Financing	125	124	131	128	126	126	123	121	119	117	117
Threshold	180	180	180	180	180	180	180	180	180	180	180
	Debt service-to-exports ratio										
Baseline	9	11	11	10	9	9	9	13	12	12	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	9	11	11	11	10	10	11	**16**	**15**	**16**	15
B. Bound Tests											
B1. Real GDP growth	9	11	11	10	9	9	9	13	12	12	10
B2. Primary balance	9	11	11	11	10	10	10	14	13	13	12
B3. Exports	9	12	15	15	13	13	14	**20**	**19**	**19**	**16**
B4. Other flows 3/	9	11	11	10	9	9	10	14	13	13	11
B5. Depreciation	9	11	11	10	9	9	9	12	11	11	9
B6. Combination of B1-B5	9	11	13	12	11	11	11	**15**	15	14	12
C. Tailored Tests											
C1. Combined contingent liabilities	9	11	11	11	10	10	10	14	13	13	11
C2. Natural disaster	9	11	12	11	10	10	11	14	14	13	12
C3. Commodity price	9	14	15	14	12	12	13	**18**	**17**	**16**	14
C4. Market Financing	9	11	11	10	9	9	13	**16**	12	12	10
Threshold	15	15	15	15	15	15	15	15	15	15	15
	Debt service-to-revenue ratio										
Baseline	15	17	16	15	13	13	13	17	16	15	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	15	18	17	16	14	14	15	**21**	**20**	**20**	18
B. Bound Tests											
B1. Real GDP growth	15	18	18	16	14	14	14	**18**	17	16	14
B2. Primary balance	15	17	17	16	14	14	14	**19**	17	17	14
B3. Exports	15	17	17	17	15	14	15	**21**	**19**	**18**	16
B4. Other flows 3/	15	17	17	16	14	13	14	**18**	17	16	14
B5. Depreciation	15	**22**	**21**	**18**	16	15	15	**20**	**18**	18	15
B6. Combination of B1-B5	15	**18**	**18**	17	15	14	15	**19**	18	17	14
C. Tailored Tests											
C1. Combined contingent liabilities	15	17	17	16	14	13	14	**18**	17	16	14
C2. Natural disaster	15	17	18	16	14	14	14	**18**	17	16	14
C3. Commodity price	15	**20**	**21**	**20**	17	16	17	**23**	**21**	**20**	16
C4. Market Financing	15	17	16	16	14	13	**18**	**22**	16	15	12
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, 2023–2033 (percent of GDP)

	Projections 1/										
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
					PV of Debt-to-GDP Ratio						
Baseline	44	43	43	42	41	40	39	39	39	39	39
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	44	44	45	45	46	46	47	48	49	50	51
B. Bound Tests											
B1. Real GDP growth	44	46	47	47	47	47	48	48	49	50	51
B2. Primary balance	44	45	48	47	46	45	44	44	43	43	43
B3. Exports	44	46	49	48	47	46	45	44	44	43	42
B4. Other flows 3/	44	45	45	44	43	42	42	41	41	40	40
B5. Depreciation	44	50	47	44	42	40	38	36	35	33	32
B6. Combination of B1-B5	44	43	45	44	43	41	41	40	39	39	39
C. Tailored Tests											
C1. Combined contingent liabilities	44	52	51	50	49	47	47	46	46	45	45
C2. Natural disaster	44	53	52	51	50	49	49	48	48	48	48
C3. Commodity price	44	46	48	51	52	53	54	55	**55**	**56**	**56**
C4. Market Financing	44	43	43	42	41	40	40	39	39	39	38
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
					PV of Debt-to-Revenue Ratio						
Baseline	301	287	272	261	248	237	229	220	213	206	201
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	301	292	287	284	278	274	271	268	265	263	262
B. Bound Tests											
B1. Real GDP growth	301	300	301	295	287	280	276	272	268	265	263
B2. Primary balance	301	299	306	293	279	265	255	245	236	228	221
B3. Exports	301	303	316	303	288	274	263	250	239	229	220
B4. Other flows 3/	301	295	288	275	262	250	241	231	222	214	208
B5. Depreciation	301	328	301	279	256	236	220	204	191	179	168
B6. Combination of B1-B5	301	286	286	273	258	245	235	225	216	208	201
C. Tailored Tests											
C1. Combined contingent liabilities	301	343	325	311	296	281	270	259	250	241	233
C2. Natural disaster	301	351	334	321	306	291	281	271	262	254	247
C3. Commodity price	301	348	351	359	348	335	323	307	301	296	292
C4. Market Financing	301	287	272	261	249	238	229	220	212	205	200
					Debt Service-to-Revenue Ratio						
Baseline	40	35	38	30	34	27	28	33	29	31	26
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	40	35	39	32	36	30	33	39	35	38	34
B. Bound Tests											
B1. Real GDP growth	40	36	41	33	37	31	33	39	35	38	34
B2. Primary balance	40	35	39	32	36	32	35	36	31	34	30
B3. Exports	40	35	38	31	35	28	30	36	32	34	29
B4. Other flows 3/	40	35	38	30	34	27	29	34	30	32	27
B5. Depreciation	40	35	41	33	36	29	29	36	31	33	27
B6. Combination of B1-B5	40	34	38	31	34	27	32	33	29	31	27
C. Tailored Tests											
C1. Combined contingent liabilities	40	35	41	32	36	45	31	35	31	37	28
C2. Natural disaster	40	35	42	33	37	47	32	36	32	39	30
C3. Commodity price	40	40	45	36	41	32	34	45	40	42	37
C4. Market Financing	40	35	38	31	34	27	33	38	29	31	26

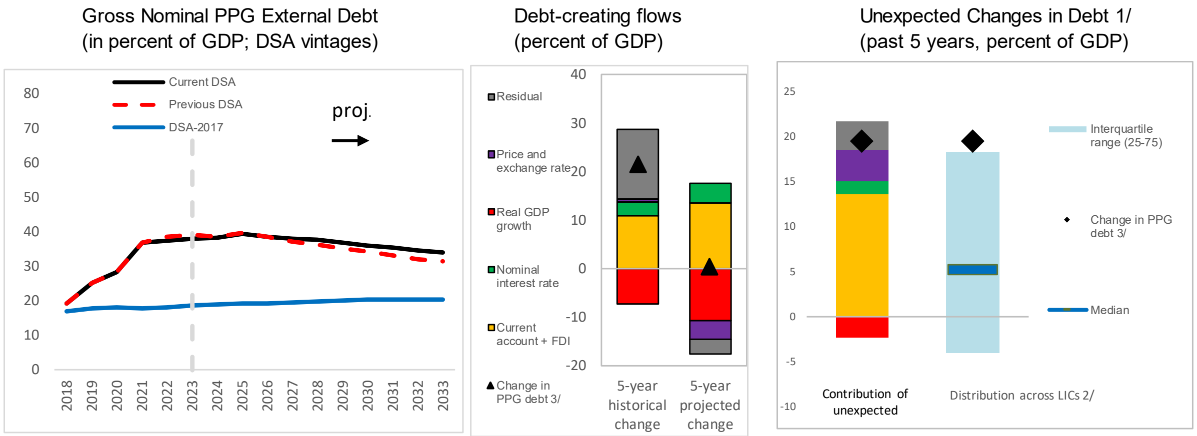
Sources: Country authorities; and staff estimates and projections.

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

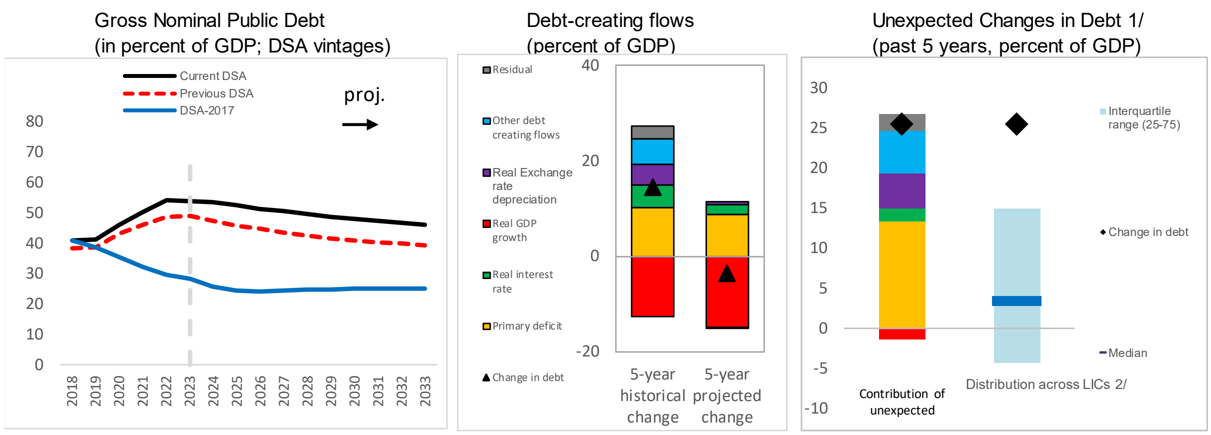
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

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



Public debt



Sources: Country authorities; and staff estimates and projections.

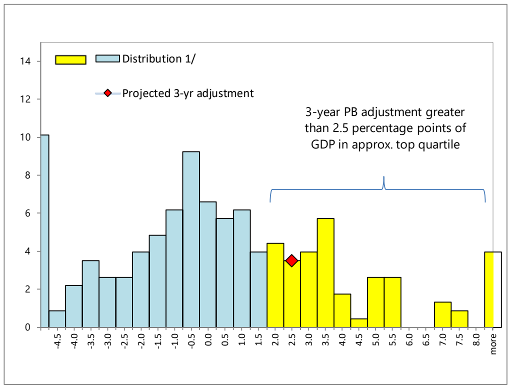
1/ Difference between anticipated and actual contributions on debt ratios.

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.

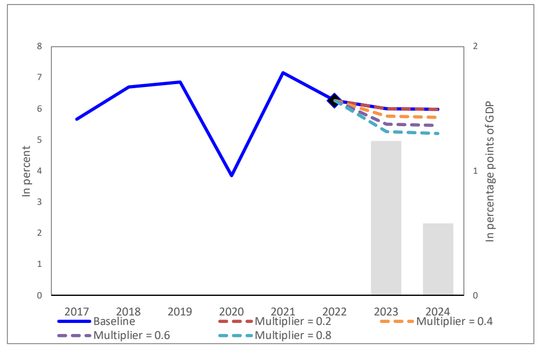
Figure 4. Benin: Realism Tools

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



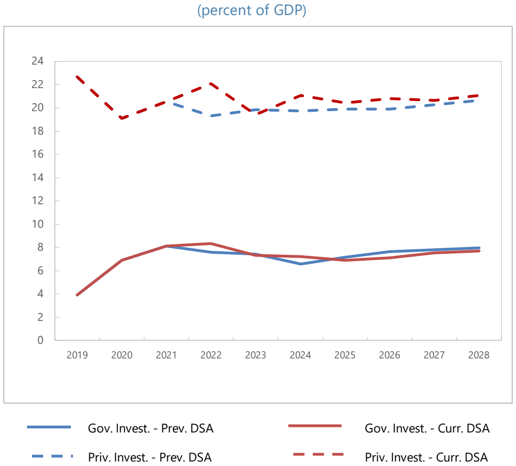
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

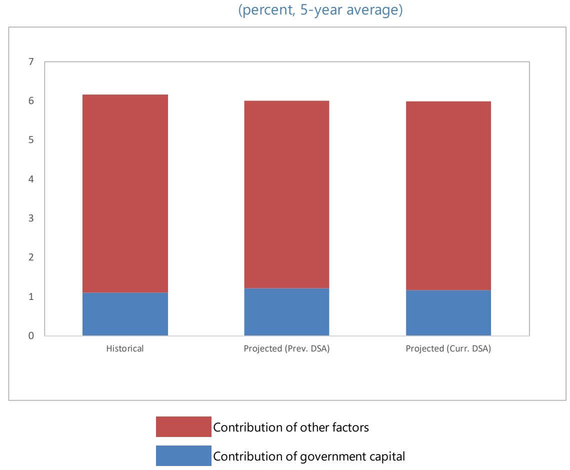


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



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



Sources: Country authorities; and staff estimates and projections

Figure 5. Benin: Qualification of the Moderate Category, 2022–2033 1/

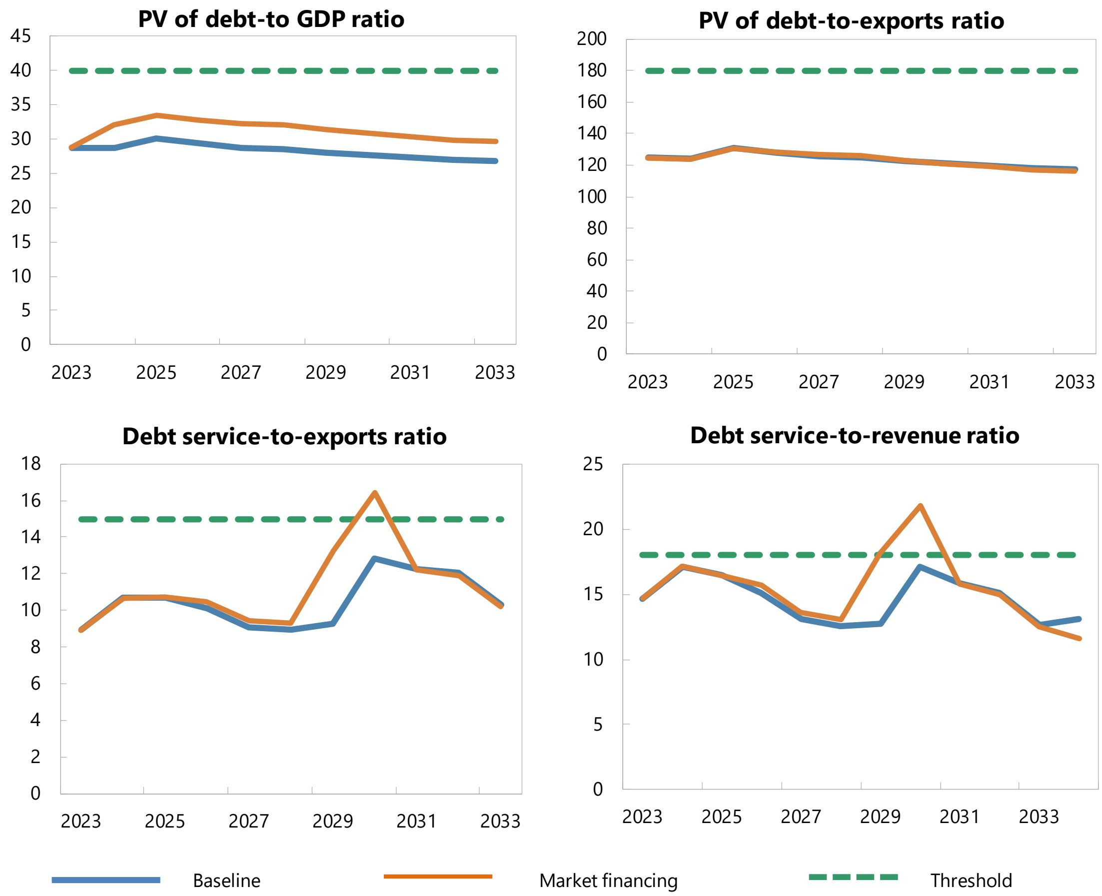
Sources: Country authorities; and staff estimates and projections.

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

Figure 6. Benin: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	9	732
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spread as of April 13, 2023



Sources: Country authorities; and staff estimates and projections.

Statement by Mr. Sylla, Executive Director for Benin
Mr. N'Sonde, Alternate Executive Director and
Mrs. Boukpessi, Advisor to the Executive Director
Wednesday, May 17, 2023

Introduction

1. Our Beninese authorities would like to thank the Executive Board, Management, and Staff for the Fund's continued engagement with Benin. The current program supported by the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF), approved in July 2022, has helped sustain the nation's efforts in enhancing macroeconomic stability, advancing the economy's structural transformation while supporting progress towards the Sustainable Development Goals (SDGs). It plays a catalytic role to mobilize external resources to meet pressing and development financing needs. The IMF staff report in the context of the second review under the ECF/EFF arrangements has appropriately highlighted the significant achievements of Benin in the recent period and the policies being implemented to tackle the challenges currently facing the economy.

2. The Beninese economy continues to perform well, surpassing sub-Saharan African average, with growth almost returning to pre-crisis levels at above 6 percent. However, the country still faces challenges, including the continued spillover effects of the ongoing war in Ukraine, rising food insecurity, and deteriorating Sahel security. The authorities' response, supported by the frontloaded financing under the EFF/ECF, has relied on recalibrating policies and reforms under the National Development Program—*Plan National de Développement (PND 2018-25)*, which is implemented through the Government Action Program II—*Programme d'Action du Gouvernement* (*PAG II, 2021-2026*). The program is amply oriented towards social sectors, ensuring that economic and social resilience remains a key objective of public policies.

Program Performance

3. Program performance over the period under review continued to be strong. All end-September and end-December 2022 performance criteria (PCs), continuous PCs and indicative targets (ITs) were met, some with comfortable margins. A combination of overperformance in tax collection and re-prioritization of spending helped achieve these results. Priority social expenditure was well above the program floor, thanks to the expansion of the school feeding program and increased spending under the Insurance for Human Capital Development—*Assurance pour le Renforcement du Capital Humain* (ARCH). Significant progress was also made on the structural front, with all structural benchmarks (SBs) set for end-February, March, and April 2023, implemented. These include (i) the completion of an IMF governance diagnostic and the publication by the authorities of the related report, (ii) the adoption of a financial inclusion strategy, (iii) the submission to parliament of a draft law to strengthen the school feeding program— *Programme National d'Alimentation Scolaire Intégré (PNASI)* and ensure its sustainability, and (iv) the digitalization of the processing of land titles requests to reduce delays and ensure dependability of those requests.

Macroeconomic Developments and Outlook

4. Key macroeconomic indicators are in line with program objectives. Owing to a broadly good harvest season, higher construction activity in the context of the infrastructure projects under PAG-II and the Glo-Djigbé Special Economic Zone / Glo-Djigbé Industrial Zone (GDIZ), economic activity is estimated to have expanded by 6.3 percent in 2022. Inflation was subdued at 1.4 percent in 2022, reflecting measures to mitigate the effects of the war in Ukraine on the prices of key imported goods, including energy products, fertilizers, and selected foodstuffs. However, inflationary pressures are expected in 2023 notably on the back of the rises in public sector wages and the minimum wage that took place in December 2022.

5. On the fiscal front, the overperformance in tax revenue reflects, among others, improvements in the domestic arrears collection, the fight against tax evasion, and other tax measures. Public expenditure has risen notably in line with the authorities' measures to protect households' purchasing power and the implementation of the "civilian approach" to mitigate the security threats in the northern part of the country. While public debt has increased, Benin remains at moderate risk of debt distress, thanks to the authorities' prudent and active debt management. In the financial system, credit to the private sector grew on the back of buoyant construction and trade activities, while non-performing loans continued to decline.

6. The authorities take note of staff analysis regarding the outlook and risks, including—on the downside, the heightened economic uncertainty, tightening of financing conditions in the global and regional markets, increased food insecurity, social discontent, and regional security threats. The country's vulnerability to climate-related shocks, notably recurrent floods, and droughts, add to the risks. The government remains committed to taking preemptive measures aimed at dampening potential adverse effects on the economy, as well as formulating appropriate policy responses, should the risks materialize. Overall, the Beninese authorities remain cautiously optimistic about the outlook, with the prospects of the development of the GDIZ and related FDI, along with positive spillover effects of the major socio-economic infrastructure projects under the PAG II, and the Niger-Benin oil pipeline.

Policies and Reforms for 2023 and Beyond

Strengthening Macroeconomic Stability and Preserving Debt Sustainability

7. After the past 3-years of supportive fiscal measures, fiscal consolidation has started as envisaged in the 2023 budget law, with a view to safeguarding fiscal sustainability and the moderate risk of debt distress. This involves a range of measures that will be pursued over the medium term, including intensifying domestic revenue mobilization efforts, withdrawing the shock-related expenditures, and making public spending more efficient while prioritizing public investments and social spending. Continue raising additional revenue is also part of the approach to gradually converge to the Western African Economic and Monetary Union (WAEMU)'s fiscal deficit target of 3 percent of GDP by 2025 in accordance with the WAEMU stance.

8. The Beninese authorities are cognizant that a significant rise in the tax-to-GDP ratio is warranted to ensure long-term debt sustainability. To this end, their endeavors will be anchored around the forthcoming 2024-2028 Medium-Term Revenue Mobilization Strategy (MTRS). Strong tax policy and administrative measures have been introduced in 2023 to increase the tax-to-GDP ratio by 0.6 percentage points. Additional revenue gains will come among others from the clearance of tax arrears, the Corporate Income Tax reform, and the minimum tax on used vehicles. Further actions include steps towards the operationalization of the strategy for rationalizing tax expenditures with the adoption in January 2023 of a decree establishing a clear regime for special economic zones.

9. The expenditure side of the fiscal consolidation plan hinges on continuing to prioritize spending. After an acceleration in capital expenditures in 2022, lowering non-priority capital expenditure growth through efficiency gains, the unwinding of supportive fiscal measures, and reducing recurrent spending are warranted. An array of additional actions envisaged to further improve public financial management (PFM) with greater efficiency within the tax and customs administrations, inroads towards the Treasury Single Account (TSA), and enhanced public procurement process should help boost revenue, keep expenditures in check, and hence improve fiscal sustainability.

10. On the reform of subsidies on petroleum products, the Beninese authorities plan to assess the alignment of their petroleum product pricing to international standards. They have sought IMF technical assistance (TA) to review the 2004 pricing mechanism for petroleum products which is still in effect. They underscore the important need to give due consideration to the specificities of Benin's local fuel market including Nigeria, as well as the country's economic and social circumstances.

11. To maintain the risk of debt distress as moderate, active debt management will be pursued with particular emphasis on diversifying financing sources. With financing conditions expected to tighten further in the regional security market, the authorities are implementing precautionary policies through preemptive issuances for the equivalent of 2.9 percent of GDP last year. These consist of the conduct of liability management along with the creation of precautionary lines of credit.

Reinforcing Social Protection

12. Strengthening social safety nets is critical in addressing poverty and inequality in the country. In this regard, enhancing social protection mechanisms remains a top priority for the authorities, as outlined in the Poverty Reduction and Growth Strategy (PRGS), which aligns with the 2018–25 PND. It aims at achieving the SDGs along with high, sustainable, and inclusive growth. Emphasis is also put on poverty reduction, with the objective of reducing the income poverty rate from 40 percent in 2015 to 23.2 percent by 2025. In this context, recent actions—comprising the expansion throughout the country of the ARCH health insurance for the extremely poor and well-targeted social programs supported by the recently completed Social Registry—*Régistre Social Unique* (RSU)—will be sustained and strengthened.

Building Resilience to Climate Change

13. Given the country's high vulnerability to adverse climate events, strengthening resilience remains one of the government's priorities. The authorities are committed to climate adaptation and mitigation measures and intend to build notably on the existing legislative and regulatory frameworks. These include a law on climate change, a national policy on climate change management, and a national climate change adaptation plan. The authorities welcomed the recent IMF C-PIMA assessment and the World Bank's Climate Change and Development Report (CCDR). They will leverage their results to identify and undertake reforms to help build climate resilience. They look forward to the Executive Board's consideration of their request for IMF support under the Resilience and Sustainability Facility (RSF) in the near future.

Further Improving Governance, Transparency, and the AML/CFT Framework

14. Promoting good governance, enhancing transparency, and addressing corruption constitute the first pillar of the PAG II and contribute to strengthening trust in public institutions, improving the business environment, and unleashing further the private sector's potential. An IMF diagnostic of vulnerabilities in governance took place in 2022, and the authorities published the related report in the first quarter of 2023. The diagnostic highlighted very positive developments related to recent or ongoing reforms, including in the areas of fiscal affairs, AML/CFT, and the rule of law. An action plan—to be completed by end-June 2023—that addresses the findings, and the diagnostic recommendations is being developed. The implementation of key recommendations of the diagnostic is being proposed as new SB under the IMF-supported program.

15. Further progress in PFM will contribute to promoting transparency and spending efficiency. Efforts are being made to improve the regulation and supervision of public procurement and public contracts, and beneficial ownership information continues to be published in consistency with the September 2022 regulation. Technical assistance in e-procurement is being provided by development partners. Regular technical and independent audits of contracts awarded by contracting authorities are being undertaken by the Public Procurement Regulatory Authority—*Autorité de Régulation des Marchés Publics (ARMP)*. The audit reports are being made public on the ARMP website.

Preserving Financial Stability and Advancing Other Structural Reforms

16. Benin being a member of a regional monetary union, both national and regional authorities attach high value to safeguarding financial stability. In this regard, progress is being made regarding the two troubled banks, with one that has been recapitalized and bought into compliance with prudential rules, subject to the approval from auditors and the Western African Monetary Union (WAMU)'s Banking Commission. The authorities are also mindful of the need to deepen financial markets and promote financial inclusion. They have transposed the WAEMU regional financial inclusion strategy and adopted a 2023-2027 financial inclusion strategy for the country.

17. The government has proceeded to the implementation of bold reforms to improve the business environment and encourage private-sector investment and growth. To this end, a new law supporting small and medium-sized enterprises (SMEs) has been adopted, and the Agency for the Development of SMEs has been established. Existing legal and regulatory frameworks for promoting special economic zones have also been revisited and should contribute to attracting new investors and unleashing the private sector's potential.

Conclusion

18. Benin has been unwavering in the implementation of its economic and financial reform program, maintaining its track record of strong growth. Program performance has been robust over the period under review, and the authorities reaffirm their commitment to the EFF/ECF program designed to help achieve the objectives of their 2018-2025 NDP while preserving macroeconomic stability. In view of the authorities' continued strong track record of policy and reform implementation and their renewed commitment to the program's objectives, we would appreciate the Executive Directors' support for the completion of the second review under the EFF and ECF arrangements.