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Benin: Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Benin

In the context of the fifth review under the three-year arrangement under the Poverty Reduction and Growth Facility and a request for a waiver of nonobservance of performance criteria, the following documents have been released and are included in this package:

- The staff report for the Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on September 24, 2008, with the officials of Benin on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 25, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A Press Release summarizing the views of the Executive Board as expressed during its December 12, 2008 discussion of the staff report that completed the review.

- A statement by the Executive Director for Benin.

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

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

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

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BENIN

Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria

Prepared by the African Department
(In consultation with other departments)

Approved by Robert J. Corker and Anthony Boote

November 25, 2008

- Discussions for the fifth review under the Poverty Reduction and Growth Facility (PRGF) arrangement with Benin were held in Cotonou September 10-24, 2008. The mission comprised Messrs. Mongardini (Head), Youm, Samaké and Ms. Maziad (All AFR) and was assisted by Mr. Yao (Resident Representative). Mr. Mpatswe (OED) participated.

- The mission met with President Yayi, Senior Minister for Development Koupaki, Finance Minister Lawani, other senior government officials, and representatives of the private sector, nongovernmental organizations, labor unions, and the donor community.

- The three-year arrangement under the PRGF was approved on August 5, 2005, in the amount of SDR 6.19 million (10 percent of quota), and extended to August 4, 2009. The Board approved a 15 percent augmentation (SDR 9.29 million) of access in concluding the fourth review to help Benin adjust to the food and fuel crisis. Completion of the fifth review would allow the disbursement of an additional SDR 0.88 million. The last Article IV Consultation was concluded on June 16, 2008.

- In the attached letter of intent, the Beninese authorities are requesting completion of the fifth review under the PRGF arrangement, and waivers for two missed performance criteria on net domestic financing and nonconcessional borrowing.

- Benin is a member of the West African Economic and Monetary Union (WAEMU) and shares a fixed exchange rate and common external tariff with other members. Monetary and exchange rate policies are conducted by the regional central bank.

- The main authors of this report are Messrs. Mongardini, Youm, Samaké, Ms. Maziad, Mr. Mahyoub, and Ms. Vibar.

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Executive Summary

Benin's economic growth continues to strengthen, but the global financial crisis represents a significant downside risk. The main challenge going forward is to limit inflationary pressures from higher food and fuel prices, while sustaining medium-term fiscal consolidation and accelerating structural reforms to increase the sustainable growth rate.

On current assumptions, the macroeconomic outlook remains favorable. Real GDP growth is expected to strengthen to 5.1 and 5.7 percent in 2008 and 2009, respectively, following an increase of 4.6 percent in 2007. Inflation soared to 12.0 percent year-on-year in September 2008, after averaging 1.3 percent in 2007, although core inflation remains moderate. The external current account is expected to widen from 7.4 percent of GDP in 2007 to 10.4 percent of GDP in 2008, reflecting the terms of trade shock. However, the external position remains comfortable.

The authorities have taken actions to address the food and fuel crisis and accelerate structural reforms. Since July 2008, they have allowed the full pass-through of higher international food and fuel prices and tightened fiscal policy, while putting in place measures to protect the poor. They have also canceled the tax reductions introduced at end-2007 to reduce the impact of higher food and fuel prices. In October 2008, the government privatized a minority stake in its cotton ginning activities and the last state-owned bank, while recruiting consultants for the privatization of Benin telecom and a cement factory.

Two performance criteria were missed under the program. The unexpected clearance of large government commitments (1.0 percent of GDP) in the first half of 2008 led to the breaching of the end-June performance criterion on net domestic financing by the same amount. In October 2008, the authorities also contracted a SDR 5.1 million nonconcessional loan from a development partner, which they are in the process of renegotiating. To offset these slippages under the program, the authorities have stopped all expenditure commitments in October 2008, except for urgent priority spending, and are renegotiating the terms of the nonconcessional loan to ensure higher concessionality. On that basis, staff recommends the completion of the fifth review under the PRGF arrangement.

I. Recent Economic Developments and Program Performance

Benin continues to be one of the fastest growing economies in the WAEMU

Real GDP Growth

	2005	2006	2007	2008[1]
Benin	**2.9**	**3.8**	**4.6**	**5.1**
Burkina Faso	7.1	5.5	4.0	4.5
Côte d'Ivoire	1.9	0.7	1.6	2.9
Guinea-Bissau	3.2	1.8	2.5	3.2
Mali	6.1	5.3	2.8	5.0
Niger	7.4	5.2	3.2	4.4
Senegal	5.6	2.3	4.8	5.3
Togo	1.3	4.1	2.1	2.5
WAEMU average	4.4	3.6	3.2	4.1

Sources: Country authorities and IMF staff estimates and projections.
[1]Projections.

1. **Benin's economic growth has continued to strengthen** (Figure 1). Despite severe energy shortages and delays in implementing structural reforms, economic growth is expected to increase to 5.1 percent in 2008, up from 4.6 percent in 2007. Growth is driven by buoyant activity in the Port of Cotonou and strong demand from neighboring Nigeria.

Inflation in 2008 will breach the WAEMU convergence criterion

CPI Inflation

	2005	2006	2007	2008[1]
Benin	**5.4**	**3.8**	**1.3**	**8.8**
Burkina Faso	6.4	2.3	-0.2	10.2
Côte d'Ivoire	3.9	2.5	1.9	5.8
Guinea-Bissau	1.7	3.8	4.6	6.5
Mali	6.4	1.0	0.6	8.1
Niger	7.8	0.0	0.0	7.3
Senegal	1.7	2.1	5.9	3.7
Togo	6.8	2.2	1.0	6.9
WAEMU average	5.0	2.2	1.9	7.2

Sources: Country authorities and IMF staff estimates and projections.
[1]Projections.

2. **Food and fuel prices are driving up headline inflation, but core inflation remains moderate** (Figure 2). Following the authorities' decision in July 2008 to apply the full pass-through of international food and fuel prices, inflation soared to 12 percent year-on-year in September 2008. This, combined with the earlier CFA franc appreciation, resulted in the real effective exchange rate (REER) appreciating by 6.6 percent over the same period. This trend has since been reversed, reflecting the recent depreciation of the CFA franc against the dollar. The REER remains broadly in line with its equilibrium level.[1]

Benin's reserve coverage remains the highest in WAEMU

WAEMU: Gross Reserves 1/

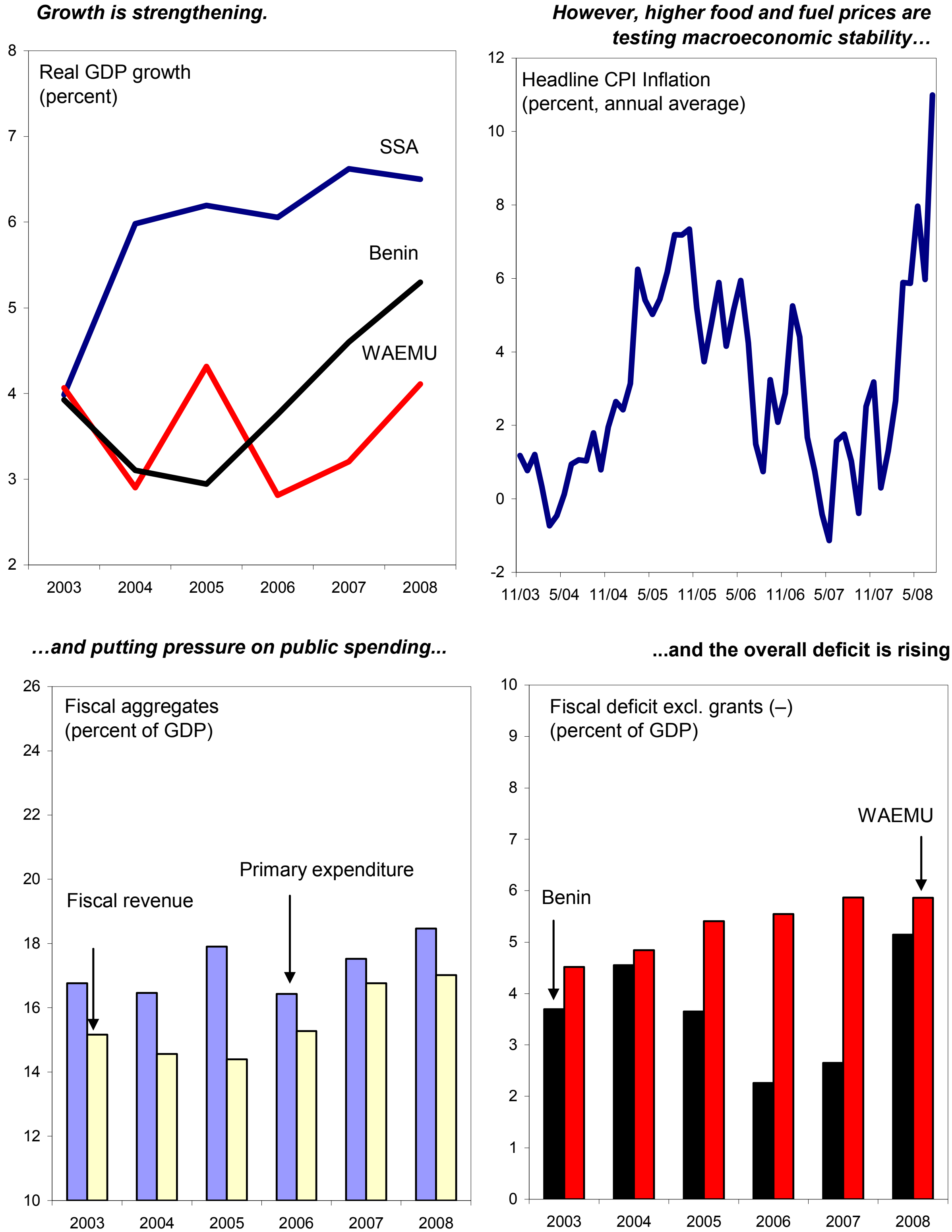
	2005	2006	2007	2008
Benin	**7.9**	**9.2**	**8.5**	**7.9**
Burkina Faso	3.6	4.0	5.0	5.0
Cote d'Ivoire	2.2	2.7	2.5	2.4
Guinea-Bissau	5.4	6.4	5.2	6.1
Mali	4.6	4.6	3.8	3.9
Niger	2.8	3.4	3.5	3.9
Senegal	3.6	3.3	2.7	3.2
Togo	1.7	2.9	2.4	2.0
WAEMU average	4.0	4.5	4.2	4.3

Sources: Country authorities and IMF staff estimates and projections.
[1] Months of prospective import of goods and non-factor services.
Data for 2008 are Fund staff projections.

3. **Worsening terms of trade and weak cotton exports will likely widen the external current account to 10.4 percent of GDP in 2008 (Figure 3).** Foreign direct investment inflows and additional donor assistance (including from the Fund), are helping limit the decline in gross official reserves, with reserve cover dipping just below 8 months of prospective imports.

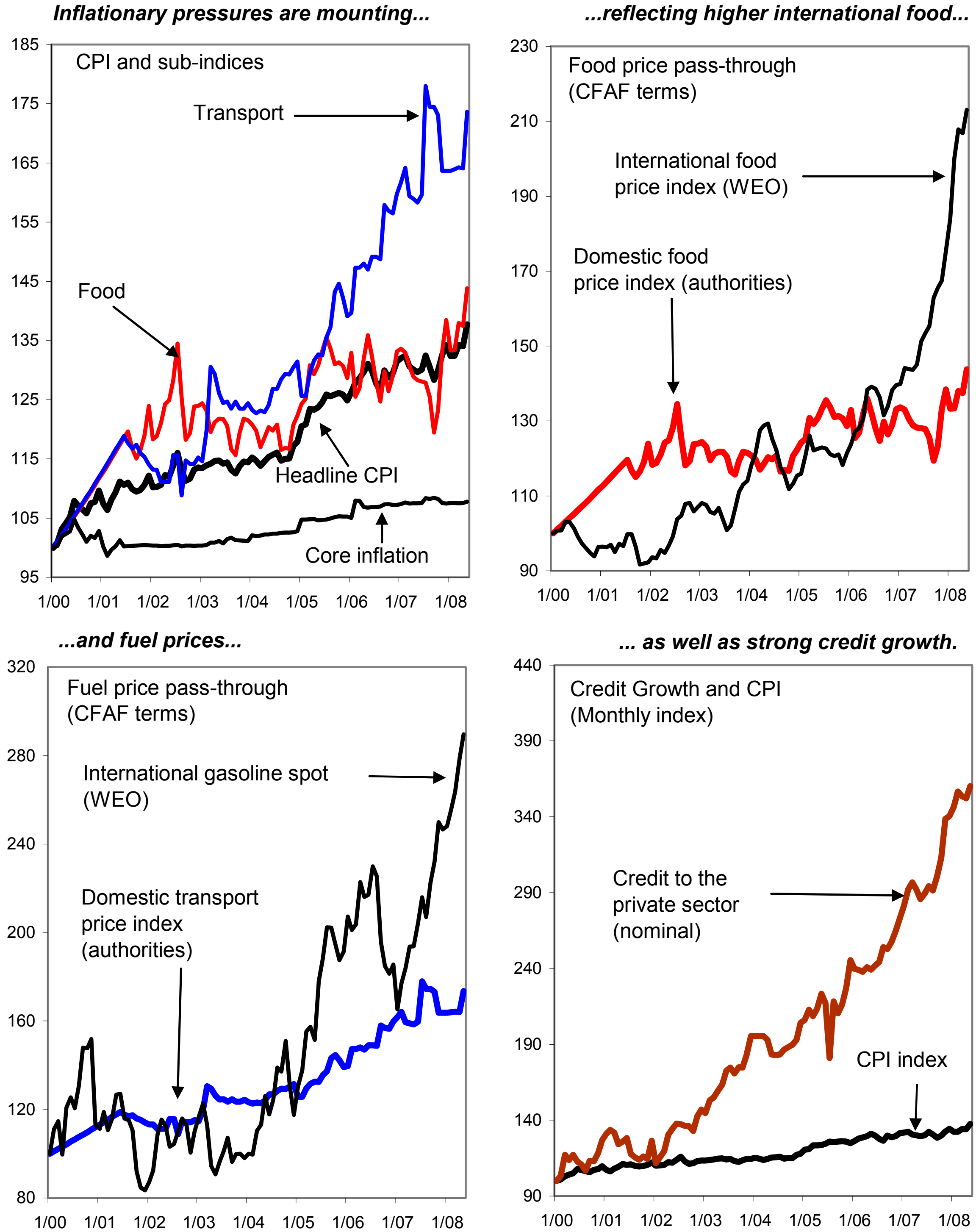
[1] See the 2008 Article IV Consultation (IMF Country Report 08/230) for a full analysis of competitiveness in Benin.

Figure 1. Benin: Macroeconomic Performance, 2003–08



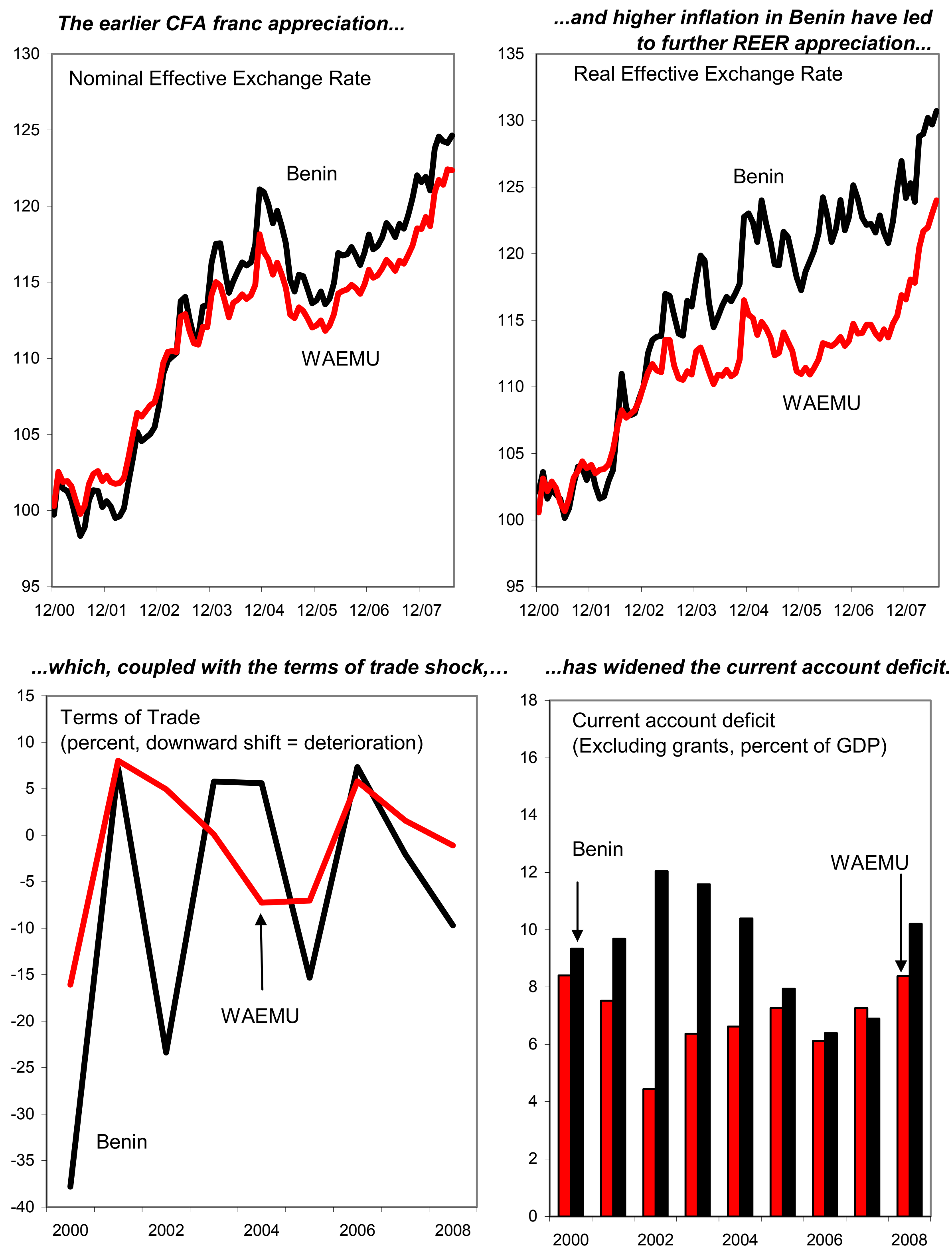
Source: Beninese authorities and Fund staff estimates.

Figure 2. Benin: Price Developments, 2000–2008
(January 2000 = 100)



Source: Beninese authorities and Fund staff estimates.

Figure 3. Benin: Selected Competitiveness Indicators, 2000–2008



Source: Beninese authorities and Fund staff estimates.

The food and fuel crisis cost the budget 1.4 percent of GDP in the first half of 2008

Budgetary Cost of Food and Fuel Crisis

	Billions of CFAF	Percent of GDP
Revenue loss	25	0.9
Energy subsidies	15	0.5
Total	40	1.4

Source: Beninese authorities and Fund staff estimates.

4. **Higher capital spending and current transfers are being more than offset by strong revenue performance**. Accelerated execution of infrastructure projects and large transfers caused large expenditure overruns (2.2 percent of GDP) in the first semester of 2008. However, strong revenue collections more than offset the loss incurred from tax reductions on energy products, cement, and food staples.

Benin's reserve requirement ratio at 15 percent is the highest in the WAEMU

Reserve Requirements on Demand Deposits

	2004	2005	2006	2007
Benin	**13.0**	**15.0**	**15.0**	**15.0**
Burkina Faso	3.0	7.0	7.0	7.0
Côte d'Ivoire	5.0	5.0	5.0	5.0
Guinea-Bissau	3.0	3.0	3.0	3.0
Mali	9.0	9.0	9.0	9.0
Niger	5.0	9.0	9.0	9.0
Nigeria	9.5	0.0	0.0	0.0
Senegal	9.0	9.0	9.0	9.0
Togo	3.0	3.0	3.0	3.0
WAEMU average	6.3	7.5	7.5	7.5

Source: Banque Centrale des Etats d'Afrique de l'Ouest, BCEAO.

5. **Broad money growth accelerated to an annualized rate of 20 percent in the first six months of 2008, fueled by domestic credit expansion.** Net domestic assets rose by 17 percent of broad money at end-June 2008, reflecting large net government borrowing and a significant rise in credit to the private sector.

The authorities have taken remedial actions to offset slippages under the program

6. **Two quantitative performance criteria were missed under the program**. As the authorities cleared outstanding commitments from 2007 and remained current on their payments, the end-June 2008 quantitative performance criterion on net domestic financing was missed by CFAF 29.1 billion (1 percent of GDP). As a remedial action, the government stopped all expenditure commitments in October 2008, except for urgent priority spending, in order to meet the end-2008 target. The authorities also contracted a SDR 5.1 million (0.1 percent of GDP) loan from a development partner in September 2008, which was below the concessionality threshold of 35 percent under the program. The loan has not become effective and the authorities are now renegotiating its terms to ensure higher concessionality.

All structural benchmarks for end-June 2008 have been met

7. **The structural reform agenda is finally on course.** In October 2008, the authorities concluded the privatization of 33.5 percent of the SONAPRA ginneries[2] and 56.4 percent shares in Continental Bank-Benin owned by the government and other public entities. They also recruited consultants for the privatization of Benin Telecom. The recruitment of a resident port management expert has been implemented on time. The authorities have undertaken an audit of the public finance management (PFM) information systems, prepared a medium-term strategy to strengthen PFM, and advanced the preparation of a strategy for the civil service pension fund. The draft outline of the new cotton sector strategy is being reviewed by stakeholders. Fund staff has joined other development partners in providing joint comments to the authorities calling for a more market-based strategy.

II. Macroeconomic Outlook and Policies for 2008/09

The challenge is to contain inflationary pressures and increase sustainable growth

8. **Benin currently faces three main challenges**:

- Keeping inflationary pressures from the food and fuel crisis under control;
- Sustaining fiscal consolidation to support medium-term macroeconomic stability, while introducing well-targeted social safety nets to offset the impact of the food and fuel crisis on the poor; and
- Maintaining the renewed structural reform momentum to improve competitiveness and achieve higher sustainable growth.

[2] The government will retain a 33.5 percent stake in the newly established ginning company. An additional 17.8 percent stake will be sold through an initial public offering in the regional stock market. The remaining shares will be distributed to local authorities, cotton producers, and workers.

Growth is expected to catch up to the average for Sub-Saharan African countries

9. **The medium-term outlook remains favorable, but the global financial crisis poses a significant downside risk**. Supported by continued structural reforms, Benin's economic growth should reach 6 percent over the medium term (Figure 4). Prudent fiscal policy and the fixed exchange rate anchor should bring inflation back below 3 percent by 2010. Fiscal consolidation will continue through sustained efforts to increase tax collection, contain primary expenditures, and stabilize the primary surplus. The external current account would widen, while the external position would remain comfortable. The baseline is consistent with the latest WEO assumptions and projections, including those for growth in Nigeria, an important source of trade and remittances for Benin. FDI is also expected to hold up given ongoing projects and Benin's long-term growth prospects. However, if the global downturn proves protracted, Benin's growth rate would be adversely affected. The unexpectedly large reversal of food and fuel prices could also bring about a faster reduction in inflation.

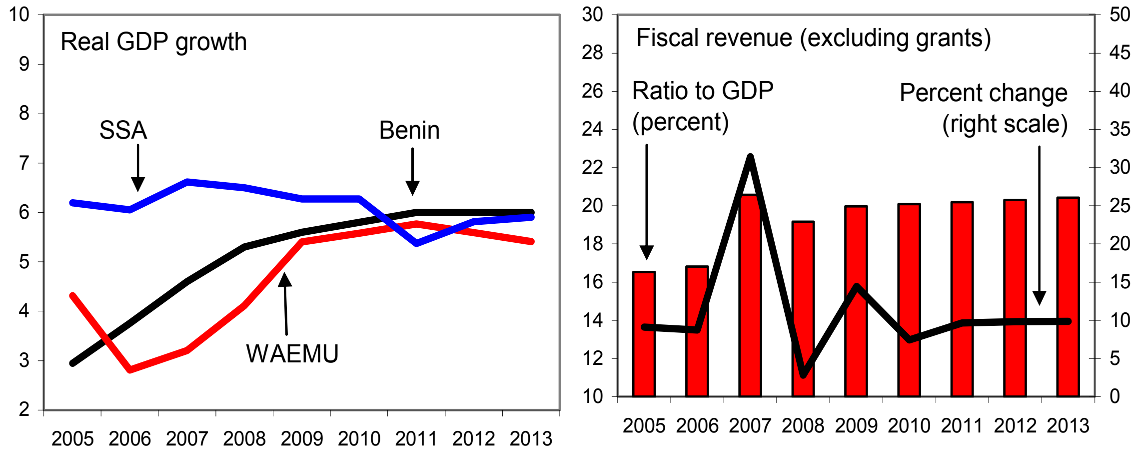
A. The Food and Fuel Crisis

The authorities have taken onboard earlier Fund advice to allow the full pass-through of higher international food and fuel prices

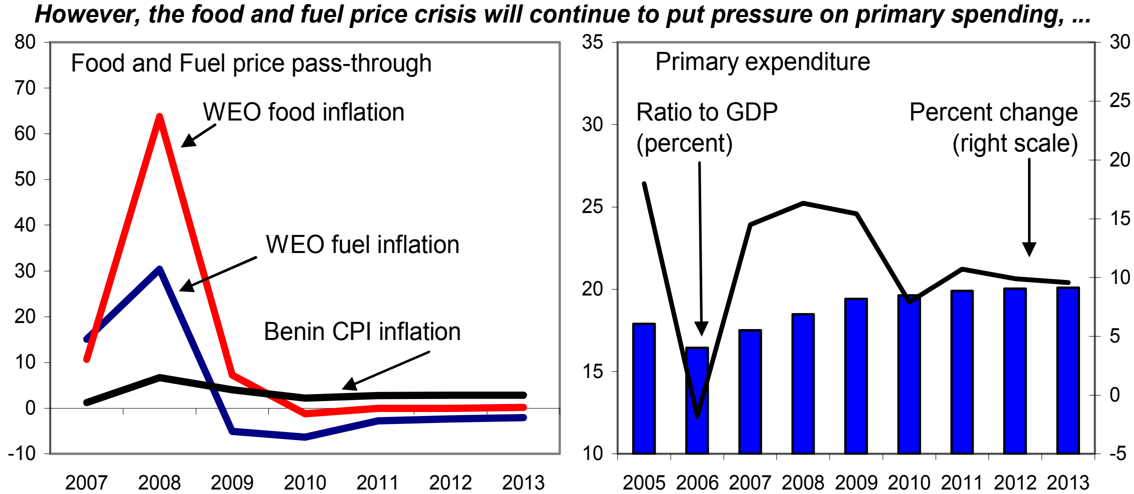
10. **The government has allowed the full-pass through of higher international food and fuel prices since July 2008**. The government instead opened new local government shops to provide subsidized food to low-income areas, hospitals, and schools. Based on advice from development partners, it is also considering measures to provide conditional cash transfers and free school meals and uniforms. The revised projections accommodate the additional spending on social safety nets financed mostly by a grant under the World Bank Food Price Crisis Response (FPCR) Trust Fund and additional assistance from other development partners.

Figure 4. Benin: Macroeconomic Outlook, 2005–13

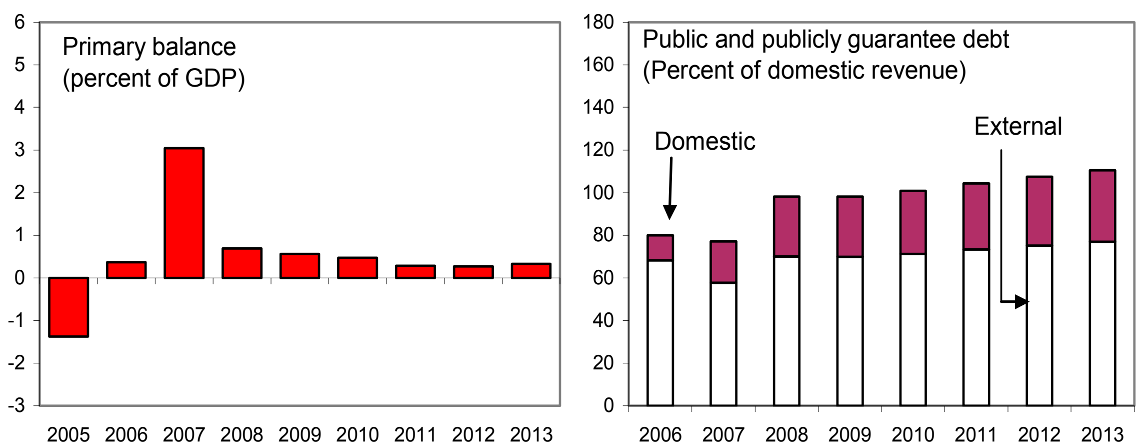
Growth is expected to catch up the SSA average, and fiscal revenues will remain buoyant. [1/]



However, the food and fuel price crisis will continue to put pressure on primary spending, ...



...and reduce the primary surplus, while keeping the public debt ratios broadly constant.



Source: Beninese authorities and Fund staff estimates and projections.
1/ Fiscal revenue excludes the one-off revenue in 2007 from the sale of the telecom licenses.

Benin's fuel prices were increased by 24 percent in July, but remain below the WAEMU average

Retail Prices for Selected Petroleum Products

	Gasoline		Diesel	
	Dec-07	Latest	Dec-07	Latest
	(CFA francs per liter)			
Benin /1	**476**	**500**	**410**	**480**
Burkina Faso	634	670	571	603
Cote d'Ivoire	615	615	545	545
Guinea-Bissau	n/a	665	n/a	665
Mali	618	650	533	570
Niger	598	670	558	664
Nigeria	264	250	385	365
Senegal	689	774	652	746
Togo	525	505	515	500
WAEMU average	593	631	540	597

Sources: Country authorities and IMF staff estimates and projections.

11. **Fuel prices now reflect international prices and developments in Nigeria**. The automatic price adjustment mechanism was reinstated in July 2008 and applicable excise taxes have since been adjusted to keep the price differential with Nigeria and other WAEMU countries within a set band.[3] Subsidies from the budget have been eliminated. To protect low-income households, kerosene continues to be subsidized through higher levies on gasoline. Recent declines in international food and fuel prices, if sustained, should also provide relief.

A more prudent fiscal stance for the remainder of 2008 should reduce the risk of "second round" effects from the full pass-through

12. **Inflationary pressures from the pass-through require a prudent fiscal stance for the remainder of 2008**. The authorities shared the staff's assessment that containing expenditures to reach a higher-than-programmed primary surplus of 0.7 percent of GDP by end-2008 would limit "second round" effects of higher food and fuel prices on inflation. Accordingly, they froze all expenditure commitments in October 2008, except for urgent priority spending. They are also holding the line against trade unions' wage demands. They wish to retain the wage ceiling under the program until a civil service reform is put in place with technical assistance from the World Bank and other donors, following a comprehensive analysis of the government compensation system to be completed by end-June 2009.

The financing needs for 2009 could be covered by additional donor assistance

13. **For now, staff does not see additional financing needs related to the food and fuel crisis.** The authorities' efforts to raise revenue and contain expenditure have reduced the 2008 fiscal needs to a level fully covered by external assistance. However, full-year implementation of social safety net measures and the negative effects of the global financial crisis may result in larger balance of payments needs in 2009.

[3] Unofficial fuel imports from Nigeria represent more than two thirds of the gasoline supply in Benin. Excise taxes are adjusted to increase the market share of official imports.

B. Fiscal Policy to Preserve Macroeconomic Stability and Debt Sustainability

Higher tax efforts would allow an increase in capital spending of 19 percent in 2009.

14. **Fiscal policy over the medium term aims at preserving fiscal sustainability, while allowing a significant increase in infrastructure spending**. Consistent with this goal, the draft 2009 budget aims at a primary surplus of 0.6 percent of GDP, reflecting also the need to contain inflationary pressures. Tax administration efforts would continue to yield additional revenue, enabling public spending to increase to 24 percent of GDP. The implementation of the PFM action plan should facilitate better targeting of pro-poor and capital spending. The overall fiscal deficit would be limited to 4.1 percent of GDP, and be mostly financed by grants and concessional lending.

Maintaining debt sustainability requires further structural reforms to strengthen growth

Benin: Selected Public Debt Indicators, 2007–28
(Percent, unless otherwise indicated)

	Indicative thresholds	2007	Baseline Scenario			
			2008	2013	2009–13[1]	2014-28[1]
		Act.	Projections			
External						
Debt service to revenue	30.0	2.5	3.1	2.7	2.9	4.5
Debt service to exports	20.0	4.4	5.1	4.7	5.0	7.3
NPV of Debt to revenue	250.0	37.7	40.4	55.0	49.2	66.5
NPV of debt to exports	150.0	66.0	65.8	95.5	84.7	108.1
NPV of debt to GDP	40.0	7.8	7.8	11.2	9.9	13.5
Fiscal						
Debt service to revenue			3.8	5.8	5.7	8.6
NPV of debt to revenue			57.1	73.4	66.1	91.1
NPV of debt to GDP			12.6	16.9	15.1	21.0
Memorandum items:						
Public Debt to GDP[2]		12.5	12.6	17.3	15.6	17.9

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

[1] Simple average.

[2] External PPG debt-to-GDP (post-MDRI).

15. **The updated debt sustainability analysis suggests that Benin's debt burden, though low, remains subject to moderate risk of debt distress**. Following the granting of Enhanced HIPC and MDRI debt relief in 2006, Benin's debt burden indicators are significantly below the relevant thresholds of debt distress, but could breach the threshold on the NPV of debt to exports ratio in the medium term in a no-reform scenario. Staff alerted the authorities to the upward pressure on debt ratios arising from nonconcessional borrowing in the regional financial market.

The Gleneagles commitments for Benin would imply an average increase of 2.5 percent of GDP in additional aid over 2008-10

Benin: Gleneagles Scenario and MDG, 2008–10
(percent of GDP)

	2008	2009	2010	Total 2008–10
	(Deviations from the baseline)			
MDG spending requirements	1.2	2.5	4.0	7.6
Fiscal revenue impact	0.0	0.0	0.2	0.3
Total additional financing needs	1.1	2.4	3.8	7.3
Memorandum Items:				
Total aid commitment	6.6	7.7	8.9	23.2
Baseline commitment	5.5	5.3	5.1	15.9
Additional/Gleneagles envelope	1.1	2.4	3.8	7.3

Source: UNDP and Fund staff projections.

16. **Benin is one of the U.N. pilot countries for the scaling up of aid to make progress towards the Millennium Development Goals (MDGs).** Fund staff discussed an assessment of a doubling of aid to $85 per person by 2010 with the authorities and development partners.[4] Short-run demand effects and medium-term productivity effects are estimated to lead to an average 0.7 percentage point higher growth per year over the next 10 years. However, significant inflationary pressures in the short run would appreciate the REER by 5.2 percent relative to the baseline. Under the assumption of an 80 percent grant-component of the additional aid, the debt–to–GDP ratio would increase by 2.7 percentage points over the baseline scenario, posing only a moderate threat to debt sustainability. Noting that the government has limited administrative capacity to handle the envisaged doubling of aid, the mission argued for a phased scaling up of spending to go in tandem with the implementation of PFM and structural reform measures to ease capacity constraints.

C. Structural Reforms to Restore Competitiveness

The authorities have significantly accelerated structural reforms in the last few months

17. **An acceleration of structural reforms remains critical to strengthen competitiveness and reach higher sustainable growth**. The deteriorating terms of trade and the appreciation of the real exchange rate reinforce the call for bringing forward some of the key reforms, including on cotton, utilities, port and financial sector. Reforms to expand and modernize the Port of Cotonou are on course, with technical and financial assistance from the U.S. Millennium Challenge Account. The authorities also agreed to include two additional structural benchmarks in the area of tax collection, the

[4] See “The Macroeconomics of Scaling-Up Aid: The Cases of Benin, Niger, and Togo” at http://www.imf.org/external/pp/longres.aspx?id=4283.

strengthening of which is critical to creating additional fiscal space to support economic development.

The cotton sector reform strategy should be more market-oriented

18. **The authorities' draft reform strategy falls short of the reforms necessary to modernize the cotton sector**. The mission worked closely with Bank staff and other development partners to provide advice to the authorities on the details of the strategy. It argued for an end of government intervention in commercial activities in the cotton sector, a limitation of its role to providing extension services to farmers, and ensuring observance of the new regulatory framework. Government guarantees for cotton crop credit would no longer be needed as the private sector assumes full responsibility for the management of the new ginning company.

Most banks do not meet the new minimum own resources requirement

Prudential Indicators: Number of compliant banks

Indicators	Coefficient	End-2007
1. Own resources requirement	>= 1 Billion CFAF	4/12
2. Risk-adjusted own resources	>= 8%	8/12
3. Liquidity coefficients	>= 75%	8/12
4. Portfolio structure	>= 60%	0/12
5. Coverage of medium and long term loans	>= 75%	4/12
6. Loan to bank managers	<= 20%	9/12
7. Risk concentration		
Threshold on global lending	<= 8*FPE	3/12
Threshold on single borrower	<= 75% * FPE	…

Source: Banque Centrale des Etats de l'Afrique de l'Ouest.

19. **The authorities are taking steps to improve compliance with prudential indicators.** The mission discussed with the authorities the conclusions of the regional FSAP and the steps envisaged to improve bank soundness, particularly in light of the risks posed by the rapid credit growth. The authorities agreed to request an FSAP mission to Benin to follow up on the regional FSAP, with particular emphasis on the soundness of microfinance institutions and possible contagion from the global financial crisis.

III. RISKS TO THE PROGRAM

The global financial crisis could reduce aid and growth

20. **Two main risks could affect implementation of the program**. First, the authorities are cognizant that the global financial crisis could have a negative impact on the Benin economy in the near future. In addition to the risks of reduced demand for exports and a fall in FDI, the authorities were concerned that donor support could be scaled back. They and the mission agreed to monitor the situation closely and adjust the program in the event of a significant decline in growth. Second, the lack of political support for the ambitious reform agenda could stall program

implementation. Benin will continue to need Fund support to reach emerging market status. A strong performance in the last year of the current program would support the authorities' interest in a successor arrangement.

IV. Staff Appraisal

21. **Benin's economic performance has improved significantly**. The challenge for the authorities will be to ensure that the inflationary surge from higher food and fuel prices quickly dissipates, and to reach higher growth by keeping the momentum on fiscal consolidation and structural reforms. The global financial crisis adds considerable uncertainty to Benin's otherwise favorable outlook. Relatively low debt ratios and a comfortable reserve position provide some insurance against potential exposure.

22. **Sustaining fiscal reforms is critical for increasing growth and reducing poverty**. Higher tax collections, together with civil service and PFM reforms, will be key to creating additional space to respond to urgent infrastructure needs and increasing pro-poor spending.

23. **Preserving Benin's competitiveness and boosting growth rests on the acceleration of structural reforms**. The authorities are to be commended for accelerating structural reforms in recent months. Pressing ahead with the remaining reform agenda is critical to improve the delivery of public services, lower production costs, and alleviate capacity constraints.

24. **Building consensus and ownership is key to sustaining the momentum for the program**. This will require a constructive and on-going dialogue with all political stakeholders.

25. **Staff recommends the completion of the fifth review of the PRGF arrangement**. It supports the authorities' request for a waiver for the nonobservance of the missed performance criteria, in view of their temporary nature, their minimal impact on debt sustainability, and the authorities' remedial actions in reining in spending in the second half of 2008 and renegotiating the nonconcessional loan agreement.

Table 1. Benin: Selected Economic and Financial Indicators, 2006–13

	2006	2007	2008		2009		2010	2011	2012	2013
		Est.	Prog.	Rev. Proj.	Prog.	Rev. Proj.	Projections			
	(Annual changes in percent, unless otherwise indicated)									
National income										
GDP at current prices	6.9	7.4	8.1	12.3	8.5	10.6	6.8	9.2	9.2	9.2
GDP at constant prices	3.8	4.6	5.3	5.1	5.6	5.7	5.9	6.0	6.0	6.0
GDP deflator	3.1	2.6	2.7	6.9	2.7	4.6	0.8	3.0	3.0	3.0
Consumer price index (average)	3.8	1.3	2.9	8.8	2.7	6.5	2.8	2.8	2.8	2.8
Consumer price index (end of period)	5.3	0.3	5.5	13.1	2.7	3.7	3.3	2.8	2.8	2.8
Production of cotton (in '000 of tons) 1/	240.6	268.6	312.5	237.9	346.2	268.3	302.6	335.2	371.4	411.4
Central government finance										
Revenue	8.7	31.4	-3.3	5.5	13.0	13.6	7.5	9.7	9.9	9.9
Expenditure and net lending	-1.1	21.0	12.2	19.3	10.0	13.6	7.7	10.7	10.1	9.8
Money and credit										
Net domestic assets 2/	-4.1	-0.9	6.2	17.8	6.7	15.4	9.5	8.9	8.8	8.8
Domestic credit 2/	-2.6	-3.4	6.2	17.8	6.7	15.4	9.5	8.9	8.8	8.8
Net claims on central government 2/	-7.3	-16.4	-0.5	-0.5	-0.5	0.1	-0.4	-0.4	-1.5	-1.6
Credit to the nongovernment sector 2/	4.6	13.0	6.7	18.3	7.2	15.3	9.9	9.3	10.2	10.5
Broad money	16.5	17.7	8.3	14.1	8.6	12.0	9.8	9.2	9.2	9.2
Velocity (GDP relative to average M2)	3.3	3.0	2.9	2.9	2.9	2.9	2.8	2.8	2.8	2.8
External sector (in terms of CFA francs)										
Exports, f.o.b.	-18.3	10.7	13.2	19.1	13.5	7.6	11.7	12.8	11.9	12.3
Imports, f.o.b.	6.8	16.5	14.5	32.2	8.8	1.6	2.1	6.5	7.2	7.8
Export volume	-24.8	12.5	9.8	9.5	9.3	6.6	9.7	9.5	9.5	9.5
Import volume	4.4	12.8	5.4	5.2	6.0	6.3	7.0	8.8	8.8	8.8
Terms of trade (minus = deterioration)	-7.8	-1.6	-5.0	-13.5	1.2	5.5	6.7	5.2	3.7	3.5
Nominal effective exchange rate (minus = depreciation)	-0.3	2.6	...	...	...	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	1.1	0.9	...	...	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)									
Basic ratios										
Gross investment	18.1	21.4	22.1	23.1	22.4	23.9	24.3	24.9	25.2	25.5
Government investment	4.6	7.4	8.0	8.2	8.1	8.8	9.0	9.3	9.7	10.0
Private sector investment	13.6	13.9	14.1	15.0	14.3	15.1	15.3	15.5	15.5	15.5
Gross domestic saving	6.8	9.2	9.9	8.0	10.7	10.6	12.3	13.5	14.2	15.0
Government saving	2.4	4.8	5.5	5.8	4.9	5.8	7.3	8.6	7.1	7.3
Nongovernment saving	4.4	4.4	4.4	2.3	5.8	4.8	5.0	4.9	7.1	7.7
Gross national saving	12.4	14.7	15.2	13.5	15.9	15.8	17.4	18.6	19.1	20.0
Central government finance										
Revenue	16.8	20.6	18.4	19.3	19.2	19.8	20.0	20.1	20.2	20.3
Expenditure and net lending	19.5	22.0	22.8	23.3	23.1	24.0	24.2	24.5	24.7	24.8
Primary balance 3/	-2.3	-1.2	-4.0	-3.6	-3.6	-3.8	-3.8	-4.1	-4.2	-4.2
Basic balance (narrowly defined) 4/	0.4	3.0	0.5	0.7	1.0	0.6	0.5	0.2	0.1	0.1
Overall fiscal deficit (payment order basis, excl. grants)	-2.7	-1.4	-4.4	-4.0	-4.0	-4.1	-4.2	-4.4	-4.5	-4.5
Overall fiscal deficit (cash basis, excluding grants)	-2.3	-0.8	-5.1	-5.4	-4.5	-5.1	-5.1	-5.2	-4.8	-4.7
Debt service (after debt relief) in percent of rev. 5/ 6/	3.6	2.5	5.4	3.1	4.2	2.7	2.9	3.0	3.1	2.7
External sector										
Trade balance	-10.4	-11.6	-11.4	-14.3	-11.2	-12.8	-11.7	-11.1	-10.6	-10.2
Current account balance (including grants)	-5.7	-6.7	-6.9	-9.6	-6.5	-8.2	-6.9	-6.3	-6.1	-5.6
Current account balance (excluding grants)	-6.4	-7.4	-7.5	-10.4	-7.2	-8.8	-7.5	-6.8	-6.5	-6.1
Overall balance of payments	4.7	3.2	0.7	-1.2	0.6	-1.3	-0.7	-0.8	-0.8	-0.6
Debt-service to exports ratio 6/	5.7	4.4	8.2	5.1	8.2	4.7	5.0	5.2	5.4	4.7
Debt-to-GDP (post MDRI)	11.5	12.5	13.4	12.6	14.0	13.6	14.8	15.7	16.5	17.3
Gross reserves in months of imports 7/	9.2	8.5	...	7.9	...	7.2	6.8	6.4	6.1	5.7
Nominal GDP (in billions of CFA francs)	2,481.0	2,663.8	2,880.7	2,991.4	3,124.8	3,309.2	3,534.5	3,859.3	4,214.7	4,602.1
CFA francs per U.S. dollar (period average)	522.4	478.6	...	...	...	...	...	...	...	...
Population (midyear, in millions)	7.6	7.9	8.1	8.1	8.3	8.4	8.6	8.9	9.2	9.5

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

1/ Cotton production for T-1/T season. Production of cotton seed in crop year T-1/T affects agricultural production in year T-1, while industry, services, and exports of ginned cotton in year T.

2/ In percent of broad money at the beginning of the period.

3/ Total revenue minus all expenditure, excluding interest due.

4/ Total revenue minus all expenditure, excluding foreign-financed capital expenditure and interest due.

5/ Interest payment only.

6/ The 2006 projections incorporate the MDRI resources for the IMF, IDA and AfDF in stock operations.

7/ Months of prospective import of goods and non factor services.

Table 2 . Benin: Consolidated Central Government Operations, 2006–13

	2006	2007	2008			2009		2010	2011	2012	2013
	Act.	Est.	June	Dec.		Dec.		Projections			
			Est.	Prog.	Rev. Proj.	Prog.	Rev. Proj.				
	(In billions of CFA francs)										
Total revenue	416.9	548.0	285.7	530.1	578.0	598.9	656.7	705.8	774.4	851.1	935.2
Tax revenue	378.8	446.7	247.6	468.0	511.0	528.7	578.6	622.8	686.5	755.4	831.1
Tax on international trade	207.4	250.1	131.8	256.2	287.7	294.8	328.0	351.0	384.0	420.2	459.8
Direct and indirect taxes	171.4	196.6	115.8	211.8	223.3	233.9	250.7	271.8	302.4	335.1	371.3
Nontax revenue	38.1	101.3	38.1	62.1	67.0	70.2	78.0	83.0	88.0	95.7	104.1
Total expenditure and net lending	483.8	585.3	294.5	656.8	698.1	722.4	793.2	854.0	945.6	1,041.2	1,143.5
Current expenditures	369.2	386.7	202.8	426.5	453.8	470.2	501.7	536.4	585.0	631.0	681.2
Current primary expenditures	359.2	381.6	197.2	414.9	441.9	458.4	490.1	524.3	572.4	617.9	667.4
Wages	135.0	143.1	79.1	164.6	171.7	176.9	190.2	203.1	221.8	242.2	264.5
Pensions and scholarships	29.3	34.3	16.6	37.1	40.2	40.0	47.3	51.3	56.0	61.1	66.6
Transfers and current expenditures	194.9	204.3	101.6	213.3	230.0	241.5	252.6	269.8	294.6	314.7	336.3
Current transfers	102.2	106.1	59.2	103.3	116.2	112.1	121.8	130.1	142.0	147.4	152.9
Other current expenditure	92.7	98.1	42.3	110.0	113.7	129.4	130.8	139.7	152.6	167.3	183.5
Interest	10.1	5.1	5.6	11.6	11.9	11.8	11.6	12.2	12.6	13.1	13.8
Internal debt	0.2	0.0	3.3	5.6	5.6	5.6	5.6	4.7	3.9	3.1	2.3
External debt	9.9	5.0	2.3	6.0	6.4	6.2	6.0	7.4	8.7	10.0	11.5
Capital expenditures and net lending	114.6	198.6	91.7	230.3	244.3	252.2	291.5	317.6	360.6	410.2	462.2
Investment	113.4	198.4	87.7	230.3	244.3	252.2	291.5	317.6	360.6	410.2	462.2
Financed by domestic resources	48.6	85.2	50.4	100.4	114.3	109.8	147.7	163.9	192.9	227.0	262.2
Financed by external resources	64.8	113.2	37.3	129.9	130.0	142.4	143.8	153.6	167.8	183.2	200.0
Net lending (minus = reimbursement)	1.2	0.2	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-66.9	-37.3	-8.8	-126.7	-120.1	-123.5	-136.6	-148.2	-171.2	-190.2	-208.3
Basic primary balance 1/	9.2	81.1	38.0	14.7	21.8	30.7	18.9	17.6	9.2	6.1	5.6
Primary balance	-56.8	-32.2	-3.3	-115.2	-108.2	-111.7	-124.9	-136.0	-158.6	-177.1	-194.4
Change in arrears	-15.0	-30.9	-3.2	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-15.0	-30.9	-3.2	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0
Payments during complementary period/float 2/	25.8	47.5	-87.9	-4.0	-27.2	-3.4	-15.9	-17.1	-13.5	1.6	4.7
Overall balance (cash basis, excl. grants)	-56.1	-20.7	-99.9	-145.7	-162.3	-141.9	-167.5	-180.3	-199.7	-203.6	-218.6
Financing	56.1	20.7	100.0	145.8	162.3	141.9	160.0	152.1	165.4	163.3	182.6
Domestic financing	-48.4	-128.4	44.0	-12.3	-12.3	-23.5	-7.6	-22.5	-21.7	-34.9	-26.1
Bank financing	-50.1	-131.7	40.3	-5.1	-5.1	-4.9	0.6	-5.0	-5.1	-21.3	-26.1
Nonbank financing	1.7	3.3	3.7	-7.2	-7.2	-18.5	-8.2	-17.5	-16.5	-13.5	0.0
Privatization	0.0	4.1	0.0	0.0	0.0	0.0	10.3	0.0	0.0	0.0	0.0
Restructuring	-5.7	0.7	-5.2	-6.0	-6.0	-5.0	-5.0	-4.0	-3.0	0.0	0.0
Other	7.5	-1.4	8.9	-1.2	-1.2	-13.5	-13.5	-13.5	-13.5	-13.5	0.0
External financing	104.5	149.1	56.0	158.0	174.6	165.4	167.6	174.7	187.1	198.1	208.7
Project financing	64.8	113.2	37.3	129.9	130.0	142.4	143.8	153.6	167.8	183.2	200.0
Grants	37.6	60.6	5.6	68.8	68.1	76.1	75.3	80.4	87.8	95.9	104.7
Loans	27.2	52.6	31.7	61.1	62.0	66.3	68.6	73.2	80.0	87.3	95.3
Amortization due	-548.5	-8.7	-3.9	-12.5	-11.7	-12.7	-11.8	-13.2	-14.8	-16.8	-28.4
Program aid	18.1	44.6	22.5	40.6	56.2	35.6	35.6	34.2	34.1	31.7	37.1
Grants	18.1	18.3	4.7	15.9	22.8	22.6	22.6	21.2	21.1	17.2	22.6
Loans	0.0	26.3	17.9	24.7	33.4	13.0	13.0	13.0	13.0	14.5	14.5
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI grants	570.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	7.5	28.2	34.3	40.3	36.0
Memorandum items:	(In percent of GDP, unless otherwise indicated)										
Total grants and revenue	19.0	23.5	9.9	21.3	22.4	22.3	22.8	22.8	22.9	22.9	23.1
Grants	2.2	3.0	0.3	2.9	3.0	3.2	3.0	2.9	2.8	2.7	2.8
Revenue	16.8	20.6	9.5	18.4	19.3	19.2	19.8	20.0	20.1	20.2	20.3
Total expenditure	19.5	22.0	9.8	22.8	23.3	23.1	24.0	24.2	24.5	24.7	24.8
Of which: wage bill	5.4	5.4	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Of which: Capital expenditure	4.6	7.4	3.1	8.0	8.2	8.1	8.8	9.0	9.3	9.7	10.0
Overall balance (payment order basis, excl. grants)	-2.7	-1.4	-0.3	-4.4	-4.0	-4.0	-4.1	-4.2	-4.4	-4.5	-4.5
Overall balance (payment order basis, incl. grants)	-0.5	1.6	0.0	-1.5	-1.0	-0.8	-1.2	-1.3	-1.6	-1.8	-1.8
Primary balance	-2.3	-1.2	-0.1	-4.0	-3.6	-3.6	-3.8	-3.8	-4.1	-4.2	-4.2
Basic balance 1/	0.4	3.0	1.3	0.5	0.7	1.0	0.6	0.5	0.2	0.1	0.1
Current balance	1.9	6.1	0.0	3.6	4.2	4.1	4.7	4.8	4.9	5.2	5.5
GDP (in billions of CFA francs)	2,481.0	2,663.8	2,991.4	2,880.7	2,991.4	3,124.8	3,309.2	3,534.5	3,859.3	4,214.7	4,602.1

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

1/ Total revenue minus total expenditure, excluding investment financed from abroad, interest payments and net lending.

2/ Payment orders curried over to the following fiscal year.

Table 3 . Benin: Consolidated Central Government Operations, 2006–13
(Percent of GDP)

	2006	2007	2008			2009		2010	2011	2012	2013
		Est.	June	Dec.		Dec.		Projections			
			Prel. Est.	Prog.	Rev. Proj.	Prog.	Rev. Proj.				
Total revenue	16.8	20.6	9.5	18.4	19.3	19.2	19.8	20.0	20.1	20.2	20.3
Tax revenue	15.3	16.8	8.3	16.2	17.1	16.9	17.5	17.6	17.8	17.9	18.1
Tax on international trade	8.4	9.4	4.4	8.9	9.6	9.4	9.9	9.9	10.0	10.0	10.0
Direct and indirect taxes	6.9	7.4	3.9	7.4	7.5	7.5	7.6	7.7	7.8	8.0	8.1
Nontax revenue	1.5	3.8	1.3	2.2	2.2	2.2	2.4	2.3	2.3	2.3	2.3
Total expenditure and net lending	19.5	22.0	9.8	22.8	23.3	23.1	24.0	24.2	24.5	24.7	24.8
Current expenditures	14.9	14.5	6.8	14.8	15.2	15.0	15.2	15.2	15.2	15.0	14.8
Current primary expenditures	14.5	14.3	6.6	14.4	14.8	14.7	14.8	14.8	14.8	14.7	14.5
Wages	5.4	5.4	2.6	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Pensions and scholarships	1.2	1.3	0.6	1.3	1.3	1.3	1.4	1.5	1.5	1.4	1.4
Transfers and current expenditures	7.9	7.7	3.4	7.4	7.7	7.7	7.6	7.6	7.6	7.5	7.3
Current transfers	4.1	4.0	2.0	3.6	3.9	3.6	3.7	3.7	3.7	3.5	3.3
Other current expenditure	3.7	3.7	1.4	3.8	3.8	4.1	4.0	4.0	4.0	4.0	4.0
Interest	0.4	0.2	0.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Internal debt	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
External debt	0.4	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Capital expenditures and net lending	4.6	7.5	3.1	8.0	8.2	8.1	8.8	9.0	9.3	9.7	10.0
Investment	4.6	7.4	2.9	8.0	8.2	8.1	8.8	9.0	9.3	9.7	10.0
Financed by domestic resources	2.0	3.2	1.7	3.5	3.8	3.5	4.5	4.6	5.0	5.4	5.7
Financed by external resources	2.6	4.2	1.2	4.5	4.3	4.6	4.3	4.3	4.3	4.3	4.3
Net lending (minus = reimbursement)	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-2.7	-1.4	-0.3	-4.4	-4.0	-4.0	-4.1	-4.2	-4.4	-4.5	-4.5
Basic primary balance	0.4	3.0	1.3	0.5	0.7	1.0	0.6	0.5	0.2	0.1	0.1
Primary balance	-2.3	-1.2	-0.1	-4.0	-3.6	-3.6	-3.8	-3.8	-4.1	-4.2	-4.2
Change in arrears	-0.6	-1.2	-0.1	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-0.6	-1.2	-0.1	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
Payments during complementary period/float	1.0	1.8	-2.9	-0.1	-0.9	-3.4	-0.5	-0.5	-0.3	0.0	0.1
Overall balance (cash basis, excl. grants)	-2.3	-0.8	-3.3	-5.1	-5.4	-4.5	-5.1	-5.1	-5.2	-4.8	-4.7
Financing	2.3	0.8	3.3	5.1	5.4	4.5	4.8	4.3	4.3	3.9	4.0
Domestic financing	-2.0	-4.8	1.5	-0.4	-0.4	-0.8	-0.2	-0.6	-0.6	-0.8	-0.6
Bank financing	-2.0	-4.9	1.3	-0.2	-0.2	-0.2	0.0	-0.1	-0.1	-0.5	-0.6
Nonbank financing	0.1	0.1	0.1	-0.2	-0.2	-0.6	-0.2	-0.5	-0.4	-0.3	0.0
Privatization	0.0	0.2	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Restructuring	-0.2	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	0.0	0.0
Other	0.3	-0.1	0.3	0.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.3	0.0
External financing	4.2	5.6	1.9	5.5	5.8	5.3	5.1	4.9	4.8	4.7	4.5
Project financing	2.6	4.2	1.2	4.5	4.3	4.6	4.3	4.3	4.3	4.3	4.3
Grants	1.5	2.3	0.2	2.4	2.3	2.4	2.3	2.3	2.3	2.3	2.3
Loans	1.1	2.0	1.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Amortization due	-22.1	-0.3	-0.1	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.6
Program aid	0.7	1.7	0.8	1.4	1.9	1.1	1.1	1.0	0.9	0.8	0.8
Grants	0.7	0.7	0.2	0.6	0.8	0.7	0.7	0.6	0.5	0.4	0.5
Loans	0.0	1.0	0.6	0.9	1.1	0.4	0.4	0.4	0.3	0.3	0.3
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI grants	23.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.8	0.9	1.0	0.8

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

Table 4. Benin: Balance of Payments, 2006–13

	2006 1/	2007	2008		2009		2010	2011	2012	2013
	Act.	Act.	Prog.	Rev. Proj.	Prog.	Rev. Proj.				
	(In billions of CFA francs)									
Trade balance 2/	-257.3	-308.0	-328.9	-427.5	-348.9	-423.7	-413.5	-426.5	-445.8	-467.8
Exports, f.o.b.	139.8	154.7	187.5	184.3	212.8	198.2	221.5	249.7	279.4	313.6
Cotton and textiles	56.1	64.6	72.3	74.3	88.6	67.6	75.4	84.6	89.3	98.0
Other	83.7	90.1	115.2	110.0	124.2	130.6	146.0	165.1	190.1	215.6
Imports, f.o.b.	-397.1	-462.8	-516.4	-611.8	-561.7	-621.9	-635.0	-676.2	-725.2	-781.4
Of which: petroleum products	-69.1	-106.6	-154.4	-160.7	-158.6	-180.4	-181.1	-191.1	-202.2	-213.9
Services (net)	-23.5	-16.6	-24.0	-23.9	-16.6	-18.0	-10.0	-11.4	-16.6	-17.5
Credit	141.3	158.7	170.2	170.6	183.1	180.7	193.7	204.3	212.5	225.3
Debit	-164.8	-175.3	-194.1	-194.5	-198.7	-197.6	-203.6	-215.7	-229.1	-242.7
Income (net)	-15.4	-13.5	-14.6	-12.7	-16.4	-13.8	-16.4	-19.4	-22.1	-26.4
Of which: interest due on government debt	-9.9	-5.0	-6.0	-6.4	-6.2	-6.0	-7.4	-8.7	-10.0	-11.5
Current transfers (net)	154.9	159.9	167.3	176.9	179.7	185.4	197.4	214.3	227.5	255.6
Unrequited private transfers	79.2	85.3	87.4	88.6	94.9	96.1	107.0	116.0	125.0	137.1
Public current transfers	75.7	74.6	79.8	88.3	84.8	89.2	90.4	98.3	102.5	118.5
Of which: program grants	18.1	18.3	15.9	22.8	22.6	22.6	21.2	21.1	17.2	22.6
Current account balance	-141.3	-178.2	-200.2	-287.2	-202.3	-270.1	-242.5	-243.1	-257.0	-256.1
Current account balance (excl. program grants)	-159.3	-196.5	-216.1	-310.0	-224.9	-292.7	-263.7	-264.2	-274.2	-278.7
Capital account balance	607.8	60.6	68.8	68.1	76.1	75.3	80.4	87.8	95.9	104.7
Official project grants 3/	37.6	60.6	68.8	68.1	76.1	75.3	80.4	87.8	95.9	104.7
Debt cancellation 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other capital transfers (MDRI grants)	570.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF (Stock operation)	31.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank (IDA) & AfDB (stock op.)	538.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net)	-350.7	203.7	151.4	184.3	146.2	150.8	137.8	125.3	127.0	121.5
Medium- and long-term public capital	-517.4	74.2	82.4	92.8	70.6	73.7	77.1	82.2	89.0	85.4
Disbursements	31.1	82.9	94.9	104.5	83.3	85.6	90.2	97.0	105.8	113.8
Loans	31.1	56.6	70.2	71.1	70.3	72.6	77.2	84.0	91.3	99.3
Of which: Central gvt project loans	27.2	52.6	61.1	62.0	66.3	68.6	73.2	80.0	87.3	95.3
Program loans	0.0	26.3	24.7	33.4	13.0	13.0	13.0	13.0	14.5	14.5
Amortization due	-548.5	-8.7	-12.5	-11.7	-12.7	-11.8	-13.2	-14.8	-16.8	-28.4
Medium- and long-term private capital	68.4	51.3	68.9	91.5	75.5	77.0	60.8	43.2	37.9	36.1
Deposit money banks	26.5	63.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	26.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	45.2	14.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	115.8	86.0	20.0	-34.8	20.0	-44.1	-24.3	-30.0	-34.2	-29.9
Financing	-115.8	-86.0	-20.0	34.8	-20.0	36.6	-3.9	-4.3	-6.1	-6.1
Chge in net foreign assets (- = increase)	-115.8	-86.0	-20.0	34.8	-20.0	36.6	-3.9	-4.3	-6.1	-6.1
Debt relief obtained	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	7.5	28.2	34.3	40.3	36.0
Memorandum items:	(In percent of GDP, unless otherwise indicated)									
Net reexports	4.6	4.7	4.7	4.6	4.7	4.3	4.2	4.0	3.7	3.6
Reexports	10.0	10.2	10.2	9.8	10.2	9.2	9.0	8.5	8.1	7.6
Imports for reexports	-5.3	-5.5	-5.5	-5.3	-5.4	-4.9	-4.8	-4.5	-4.3	-4.1
Current account balance (incl. program grants)	-5.7	-6.7	-6.9	-9.6	-6.5	-8.2	-6.9	-6.3	-6.1	-5.6
Current account balance (excl. program grants)	-6.4	-7.4	-7.5	-10.4	-7.2	-8.8	-7.5	-6.8	-6.5	-6.1
Trade balance	-10.4	-11.6	-11.4	-14.3	-11.2	-12.8	-11.7	-11.1	-10.6	-10.2
Exports	5.6	5.8	6.5	6.2	6.8	6.0	6.3	6.5	6.6	6.8
Imports	-16.0	-17.4	-17.9	-20.5	-18.0	-18.8	-18.0	-17.5	-17.2	-17.0
Services and income (net)	-1.6	-1.1	-1.3	-1.2	-1.1	-1.0	-0.7	-0.8	-0.9	-1.0
Current transfers (net)	6.2	6.0	5.8	5.9	5.8	5.6	5.6	5.6	5.4	5.6
Capital account balance	24.5	2.3	2.4	2.3	2.4	2.3	2.3	2.3	2.3	2.3
Financial account balance	-14.1	7.6	5.3	6.2	4.7	4.6	3.9	3.2	3.0	2.6
Overall balance	4.7	3.2	0.7	-1.2	0.6	-1.3	-0.7	-0.8	-0.8	-0.6
Gross reserves in months of imports 5/	9.2	8.5	...	7.9	...	7.2	6.8	6.4	6.0	5.7
GDP (in billions of CFA francs)	2,481.0	2,663.8	2,880.7	2,991.4	3,124.8	3,309.2	3,534.5	3,859.3	4,214.7	4,602.1

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

1/ Incorporating debt relief under the MDRI (IMF, IDA and AfDF) in stock operations.
2/ Excluding reexports and imports for reexports, net balance of which is allocated between services and public transfers.
3/ Official capital grants from the United States (MCA) of the amount of US $ 307 millions will be disbursed over the period 2006-2011.
4/ The entry in 2003 is for the stock-of-debt operation at the HIPC completion point.
5/ Months of prospective imports of goods and nonfactor services.

Table 5. Benin: Monetary Survey, 2006–09

	2006	2007	2008			2009
	Dec.	Dec.	June	Dec.		Rev. Proj.
	Act.	Est.	Est.	Prog.	Rev. Proj.	
	(In billions of CFA francs)					
Net foreign assets	529.0	678.6	703.5	696.7	643.8	607.2
Central Bank of West African States (BCEAO)	443.8	529.7	512.2	547.9	494.9	458.3
Banks	85.2	148.8	191.3	148.8	148.8	148.8
Net domestic assets	276.1	268.9	432.7	332.1	437.1	603.4
Domestic credit	337.8	310.4	388.6	371.7	478.6	644.9
Net claims on central government	-70.9	-202.6	-162.9	-205.2	-207.7	-207.1
Credit to the nongovernment sector	408.7	512.9	551.4	576.9	686.2	851.9
Other items (net)	-61.8	-41.5	44.1	-39.6	-41.5	-41.5
Broad money (M2)	805.1	947.4	1,136.2	1,028.8	1,080.8	1,210.5
Currency	254.2	238.9	286.5	258.4	268.3	296.8
Bank deposits	541.7	700.9	840.8	760.3	804.9	906.1
Deposits with postal checking accounts	9.2	7.6	9.0	10.1	7.6	7.6
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)					
Net foreign assets	20.6	18.6	2.6	2.1	-3.7	-3.4
Net domestic assets	-4.1	-0.9	17.3	6.2	17.8	15.4
Domestic credit	-2.6	-3.4	8.3	6.2	17.8	15.4
Net claims on government	-7.3	-16.4	4.2	-0.5	-0.5	0.1
Credit to nongovernment sector	4.6	13.0	4.1	6.7	18.3	15.3
Broad money	16.5	17.7	19.9	8.3	14.1	12.0
Credit to the nongovernment sector						
(annual change in percent: year-on-year)	8.5	25.5	22.9	12.5	33.8	24.1
Memorandum items						
Velocity of broad money	3.3	3.0	2.9	2.9	2.9	2.9
Broad money as share of GDP	32.4	35.6	38.0	35.7	36.1	36.6
Nominal GDP (in billions of CFA francs)	2,481.0	2,663.8	2,991.4	2,880.7	2,991.4	3,309.2
Nominal GDP growth (annual change in percent)	6.9	7.4	12.3	8.1	12.3	10.6

Sources: BCEAO; and IMF staff estimates and projections.

Table 6. Benin: Schedule of Disbursements under the PRGF Arrangement, 2005–09

Amount	Expected Disbursement Date	Conditions Necessary For Disbursement 1/
SDR 0.88 million	August 12, 2005	Executive Board approval of the three-year Arrangement.
SDR 0.88 million	December 12, 2006	Observance of performance criteria for September 30, 2005, completion of the first review under the arrangement.
SDR 0.88 million	June 29, 2007	Observance of performance criteria for December 31, 2006, completion of the second review under the arrangement.
SDR 0.88 million	January 22, 2008	Observance of performance criteria for June 30, 2007, completion of the third review under the arrangement.
SDR 10.17 million	July 3, 2008	Observance of performance criteria for December 31, 2007, completion of the fourth review under the arrangement.
SDR 0.88 million	December 15, 2008	Observance of performance criteria for June 30, 2008, completion of the fifth review under the arrangement
SDR 0.91 million	June 15, 2009	Observance of performance criteria for December 31, 2008, completion of the six review under the arrangement.

Source: International Monetary Fund.

1/ Other than the generally applicable conditions under the PRGF arrangement, including the performance clause on the exchange and trade system.

Table 7. Benin: Indicators of Capacity to Repay the Fund, 2007-17 1/

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
						Projections					
Fund obligations based on existing credit											
(in millions of SDRs)											
Principal	0.00	0.00	0.00	0.00	0.18	0.44	0.62	2.74	2.74	2.56	2.30
Charges and interest	0.40	0.30	0.22	0.22	0.22	0.22	0.22	0.21	0.19	0.18	0.17
Fund obligations based on existing and prospective credit											
(in millions of SDRs)											
Principal	0.00	0.00	0.00	0.00	0.18	0.44	0.62	3.01	3.10	2.92	2.66
Charges and interest	0.40	0.33	0.23	0.23	0.23	0.23	0.23	0.22	0.20	0.19	0.17
Total obligations based on existing and											
In millions of SDRs	0.40	0.33	0.23	0.23	0.41	0.67	0.85	3.23	3.30	3.11	2.83
In billions of CFA francs	0.29	0.23	0.16	0.16	0.29	0.47	0.60	2.26	2.31	2.18	1.98
In percent of government revenue	0.05	0.04	0.03	0.02	0.04	0.06	0.07	0.22	0.21	0.18	0.15
In percent of exports of goods and services	0.09	0.06	0.04	0.04	0.06	0.09	0.11	0.38	0.35	0.30	0.25
In percent of debt service 2/	2.06	0.76	0.60	0.49	0.76	1.09	1.18	5.43	4.88	4.10	3.26
In percent of GDP	0.01	0.01	0.01	0.00	0.01	0.01	0.01	0.05	0.04	0.04	0.03
In percent of quota	0.64	0.53	0.37	0.37	0.66	1.08	1.37	5.22	5.33	5.02	4.57
Outstanding Fund credit 2/											
In millions of SDRs	2.6	14.6	15.5	15.5	15.3	14.9	14.3	11.2	8.2	5.2	2.6
In billions of CFA francs	1.9	10.3	11.0	10.9	10.8	10.4	10.0	7.9	5.7	3.7	1.8
In percent of government revenue	0.4	1.8	1.7	1.6	1.4	1.2	1.1	0.8	0.5	0.3	0.1
In percent of exports of goods and services	0.6	2.9	2.8	2.6	2.3	2.1	1.8	1.3	0.9	0.5	0.2
In percent of debt service 2/	13.6	33.9	40.5	33.3	28.4	24.2	19.7	18.9	12.1	6.9	3.0
In percent of GDP	0.1	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.0
In percent of quota	4.3	23.5	25.0	25.0	24.7	24.0	23.0	18.2	13.2	8.4	4.2
Net use of Fund credit (millions of SDRs)	0.9	11.9	0.9	-	(0.2)	(0.4)	(0.6)	(3.0)	(3.1)	(2.9)	(2.7)
Disbursements	0.9	11.9	0.9	-	-	-	-	-	-	-	-
Repayments and Repurchases	-	-	-	-	0.2	0.4	0.6	3.0	3.1	2.9	2.7
Memorandum items:											
Nominal GDP (in billions of CFA francs)	2,663.8	2,940.4	3,228.5	3,446.4	3,761.3	4,107.3	4,486.1	4,899.8	5,351.6	5,845.2	6,384.2
Exports of goods and services (in billions of CFA frar	323.7	361.1	388.7	425.6	464.0	503.6	552.6	603.5	660.6	727.1	805.2
Government revenue (in billions of CFA francs)	548.0	563.3	644.7	692.7	759.5	834.1	916.4	1,006.9	1,107.1	1,217.3	1,338.6
Debt service (in billions of CFA francs) 2/	14.2	30.5	27.0	32.9	38.0	43.0	50.6	41.7	47.4	53.2	60.8
CFA francs/SDR (period average)	732.0	708.8	708.1	706.4	703.9	701.2	701.2	701.2	701.2	701.2	701.2

Sources: IMF staff estimates and projections.

1/ Includes the PRGF augmentation of 15 percent of quota (SDR 9.285 million) granted on June 16, 2008.
2/ Total debt service includes IMF repurchases and repayments.

Table 8. Benin: Millennium Development Goals

	1990	1995	2001	2002	2003	2004		2015 Target	Likelihood of reaching target
Goal 1. Eradicate extreme poverty and hunger									
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.									Likely
- Population below US$ 1 a day (percent)	57.0	..	..	43.0	...	...		28.0	
- Population below minimum level of dietary energy consumption (percent)	...	29.0	23.0	..	..			10.0	
Goal 2. Achieve universal primary education									
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling									Likely for boys
- Net primary enrollment ratio (percent of relevant age group)	41.0	...	52.0	..	..	...	78.0	100.0	
- Percentage of cohort reaching grade 5	55.0	...	72.0	...	...	69.0	76.0		
- Youth literacy rate (percent age 15-24)	64.0	...	...	...	..	...	74.0		
Goal 3. Promote gender equality and empower women									
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015									Unlikely
- Ratio of girls to boys in primary and secondary education (percent)	49.5	..	65.4	67.0	68.1	71.4	87.0	100.0	
- Ratio of young literate females to males (percent ages 15-24)	43.6	47.3	52.0	...	..	...	83.0		
- Proportion of seats held by women in the national parliament (percent)	3.0	9.0	...	...	...	...	15.0		
Goal 4. Reduce child mortality									
Target 5: Reduce by two-thirds between 1990 and 2015 the under-five mortality rate									Unlikely
- Under-five mortality rate (per 1,000)	185.0	170.0	160.0	..	154.0	152.0		61.7	
- Infant mortality rate (per 1,000 live births)	111.0	104.0	94.0	92.0	91.0	90.0			
- Immunization against measles (percent of children under 12-months)	79.0	65.0	65.0	78.0	83.0	85.0			
Goal 5. Improve maternal health									
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.									Unlikely
- Maternal mortality ratio (modeled estimate, per 100,000 live births)	547.0	..	..	474.0	..	...		137.0	
Goal 6. Combat HIV/AIDS, malaria and other diseases									
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS									Likely
- HIV/AIDS prevalence	0.3	3.2	4.1	1.9	..	2.1		<6.0	
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases									Likely
- Prevalence of death associated with malaria (per 10,000)	21.0	11.0		6.8	..	...		12.0	
Goal 7. Ensure environmental sustainability									
Target 9: Halve by 2015 proportion of people without access to safe drinking water									Likely
- Access to improved water source (percent of population)	63.0	..	...	...	..	67.0		80.0	

Sources: Benin's authorities and World Bank estimates and projections.

APPENDIX I. LETTER OF INTENT

Cotonou, November 24, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. The attached memorandum on economic and financial policies assesses the progress made during the first half of 2008 and the measures planned for the rest of the year and for 2009, in implementing the macroeconomic policies and structural reforms covered by the program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF).

2. All of the quantitative performance criteria and benchmarks for end-June 2008 have been met, except the criterion regarding domestic financing of the government and the continuous criterion on nonconcessional borrowing. The government has taken steps to ensure fiscal control and the sequestration of appropriations for nonpriority spending in order to observe the criterion at end-December 2008. Despite the appropriation sequestration measures taken as of the second half of June, the slippage noted was caused by the settlement, early in the year, of the Treasury's outstanding payments, accumulated at end- 2007. Regarding the loan contracted with the BIDC, the grant element of which was slightly below the 35 percent threshold, the government initiated discussions with the BIDC and other partners to obtain more favorable conditions. In light of these remedial measures, the government requests waivers for the nonobservance of these criteria and disbursement of the amount earmarked for the fifth review of the arrangement under the PRGF. The government wishes to continue receiving financial and technical support from the IMF, including through a possible successor arrangement, after the current arrangement expires in June 2009.

3. The government feels certain that the measures and policies described in this memorandum are adequate to achieve the objectives of the program. It is determined to take any further measures that may prove necessary for this purpose. The government will consult with the IMF, either at its own initiative or whenever the Managing Director of the IMF requests such consultation, before adopting any additional measures or changing any of the measures discussed in this memorandum.

4. The government will provide the IMF with any information it may request for the purposes of monitoring the program and for achieving its objectives.

5. The government authorizes the IMF to publish this letter and the attached memorandum, as well as the documents related to the fifth review of the arrangement supported by the PRGF.

Yours sincerely,

/s/

Soulé Mana Lawani

ATTACHMENT I

BENIN

Memorandum on Economic and Financial Policies for 2008–09

I. Introduction

1. **The economic recovery is gaining ground**. Despite the persistence of the food and energy crisis and the delay in implementing the structural reforms, the growth rate of real GDP is expected to reach 5.1 percent in 2008, compared with 4.6 percent in 2007. The vitality of business in the port, the continued buoyancy of the agricultural and services sectors, and sustained demand from the Nigerian market have been the engines of growth. However, that growth still falls short of the government's objectives and of the minimum required for achievement of the Millennium Development Goals.

2. **The rise in food and oil prices has intensified the inflationary pressures and helped erode competitiveness in 2008**. At 1.3 percent in 2007, the average rate of inflation was one of the lowest in the West African Economic and Monetary Union (WAEMU) area; it has, however, accelerated to 12.0 percent, year on year, and 6.1 percent, on average, at end-September 2008, thus largely exceeding the 3 percent threshold prescribed in the WAEMU stability and growth pact. This upsurge in inflation was generated mainly by the prices of foodstuffs (14.3 percent year-on-year) and transport services (3.7 percent). The inflation gap between Benin and its trading partners worsened.

3. **The external current account has declined under the combined effects of the deterioration in the terms of trade and the weakness of exports**. This external current account weakening has been significant. The deficit is estimated at 10.4 percent of GDP for the first half of 2008, compared with 7.4 percent in 2007. This drop can be attributed to the marked increase in imports, especially of food and oil products. However, a rebound of foreign private investment and inflows of additional public capital have increased the financial account surplus and helped limit the contraction of the international reserves. At end-September 2008, the latter represented slightly below 8 months' coverage of imports of goods and services for the following year. The increase in access to IMF resources under the Poverty Reduction and Growth Facility (PRGF), representing 15 percent of the quota approved on June 16, 2008, contributed to this performance.

4. **Fiscal consolidation was pursued in 2008, even if the slippage observed in expenditure during the first half of the year somewhat limited its scope**. The combined effects of continued improvement in the performances of the tax and customs administrations and the rise in prices helped generate a gain in receipts, representing 0.8 percent of GDP, despite the losses resulting from the import duty reductions granted by the government in the first half of 2008 to contain the prices of consumer staples. However, in light of the subsidies granted by the government to the power distribution companies and the accelerated implementation of the public investment program, the expenditure targets for the first half of 2008 were exceeded by a sum equivalent to 2.2 percent of GDP. Rigorous expenditure control as of June 2008 led to the observance of the basic fiscal balance surplus target for

end-June 2008; however, the settlement of the Treasury's accounts payable led to a severe deterioration of the overall cash-basis deficit and nonobservance of the criterion on net domestic financing.

5. **Customs performances exceeded the programmed targets**. At end-June 2008 customs revenue totaled CFAF131.8 billion and represented 4.4 percent of GDP during the second half of 2008, up 11.4 percent from 2007. Despite the reduction in duty on consumer staples during the first half of the year, this sound performance can be attributed to the strengthening of tax administration and the magnitude of customs escort products in fiscal revenue. The resilience of customs revenue also results from the mechanical effect of the substantial increase in the value of imports.

6. **Domestic tax receipts also increased at the rate of nominal GDP**. Collection by General Directorate of Taxes and Government Property (DGID) units equaled last year's, totaling CFAF115.8 billion, or 3.9 percent of GDP, in the second half of 2008, a 15.4 percent increase from the previous year. This level of receipts can be explained by the intensification of efforts to improve the tax administration. The streamlining of the portfolios of the Large Taxpayer Unit (DGE) and the Medium-sized Enterprise Tax Centers (CIMEs) is continuing, with the raising of the thresholds of competence of these units; the same is true of their modernization, with the recruitment of new professional staff. The DGE has now turned its focus on the effective monitoring of large enterprises. Accordingly, the management of the business profit tax (BIC) levied on large enterprises, which have now been freed of the system under which part-payments of the tax on industrial and commercial profits (AIB) were levied in customs, has been standardized, and the collection problems related to tax credit management have been gradually overcome. The adequacy of VAT collection results from these efforts, especially the strengthening of control measures for monitoring the tax base and collection activities.

7. **The large increase in public expenditure is a response to the demands imposed by the rise in commodity prices and the need for accelerated infrastructure development**. In the second half of 2008, total expenditure and net lending reached CFAF 294.5 billion, or 9.8 percent of GDP, compared with the projected 9.3 percent of GDP. Current expenditure was marked by major overruns in the use of transfer appropriations. This resulted primarily from government support to the energy sector, which was in a severe crisis, and to the education sector. The wage bill target was overrun because of the early payment of diplomats' wages, contingency payments of compensation to civil servants of certain categories, and more recruitment than planned of government employees. Self-financed capital expenditure was also higher than programmed because of the accelerated implementation of infrastructure projects.

8. **The overall budget deficit (on a cash basis, excluding grants) widened significantly, reaching, at end-June 2008, CFAF 99.9 billion, or 3.3 percent of GDP.** In the first half of the year, this deficit was partly financed by disbursements of budgetary assistance. This comprised CFAF 17.9 billion from the 2007 World Bank PRSC IV program, CFAF 2.9 billion from France, and CFAF 1.7 billion from Denmark. The remainder was covered by a drawdown from the government's deposits with the banking system. In June 2008, the issuance of CFAF 40.1 billion in Treasury bills on the regional market facilitated reconstitution

of the government's deposits. The government also issued commercial paper to settle the outstanding balance of the wage debt to its employees.

9. **The monetary survey was characterized by a sharp increase in the money supply, resulting essentially from the rapid expansion of credit to the private sector.** The money supply grew by 19.9 percent, during the first half of 2008, following an increase of 7.5 percent in credit to the private sector and a rise in drawdowns from government deposits. Meanwhile, the quality of bank loans deteriorated slightly, on average, and the financial condition of microfinance institutions weakened. The Central Bank of West African States (BCEAO) maintained the reserve ratio at 15 percent, which was the highest level in the WAEMU area. The BCEAO has also increased on August 14, 2008 its main intervention rate, the repo rate, by 0.5 percent to bring it from 4.25 percent to 4.75 percent. The discount rate has been raised to 6.75 percent, compared with the previous rate of 4.75 percent.

10. **All of the quantitative performance criteria and benchmarks for end-June 2008 were met, except for that on domestic financing.** The government deems this slippage temporary and has therefore taken all the necessary steps to ensure observance of this criterion at end-December 2008. The wage bill exceeded the quantitative benchmark by CFAF 1.5 billion. The structural benchmarks on auditing the IT management of public expenditure and the strategy for reforming the pension system will be observed by the new deadlines agreed upon in the context of the program at end-December 2008.

11. **The government changed its policy as of July 2008 to apply "market-based pricing" to consumer staples**. The measures taken at end-2007 to limit the impact of the food and energy crisis, especially the reduction of customs duty on essential foodstuffs, were discontinued, and the prices of most consumer staples were liberalized. In particular, fuel prices reflect those obtained on the international market, with only the cross-subsidy for kerosene remaining in the price structure. The prices of maize, 25 percent broken rice, and cement remain subject to approval to protect the most vulnerable segments of society in the absence of a social safety net system.

12. **The government has accelerated implementation of structural reforms.** In particular, it has formed a new company to take over SONAPRA's manufacturing operations. The government has sold 33.5 percent of the capital of SONAPRA to a strategic private operator. It is retaining 33.5 percent of the equity and is placing the remaining shares for distribution to the public on the regional financial market (17.8 percent), to cotton producers, and to local governments. The government is required to relinquish its nominee role on the remaining shares twelve months after the new company is formed. Should it fail to do so, the private company can exercise its preemptive right to the shares for distribution to the public (17.8 percent). Although the government holds a blocking minority to safeguard proper functioning of the cotton sector, comprehensive arrangements have been made to give operational independence to the strategic partner. The government is currently drafting the final version of the overall cotton sector strategy, with the participation of all players in the sector and the full involvement of the development partners. It has also relinquished its holdings (41.6 percent), as well as those of the BOAD (10 percent) and SONACOP (2.8 percent), in Continental Bank-Benin. The government has also recruited a consortium of

consultants to help it privatize Bénin Télécom SA and the SCO cement factory in the upcoming months.

III. Economic and Financial Policies for the Rest of 2008 and in 2009

A. Macroeconomic Framework

13. **The government is determined to strengthen the macroeconomic framework and accelerate structural reforms to place the economy on a path of strong and sustainable growth**. Despite the shock generated by the food and energy crisis, it is expected that growth will continue accelerating and inflation will be reduced to below the 3 percent threshold prescribed in the WAEMU stability and growth pact, over the medium term. The economic outlook therefore remains positive, with the real GDP growth rate projected to be 5.1 percent in 2008 and 5.7 percent in 2009. Inflation is expected to decline from 8.8 percent in 2008 to 6.5 percent in 2009, before once again falling within the limits of the WAEMU convergence criterion in 2010. This performance is a result of the reduction of inflationary pressures related to the international food and energy prices, and of government policy hinged upon macroeconomic stability. The external current account deficit is projected to reach 10.4 percent in 2008 and 8.8 percent in 2009, as a result of an improvement in terms of trade.

14. **The government remains attached to the policy of "market-based pricing."** At the same time, it will take steps to improve the supply of products on the local market. The government has also requested technical and financial support from the development partners to formulate and implement programs to promote expansion of the production and domestic supply of consumer goods, in particular foodstuffs, and social safety nets in favor of the poor.

B. Fiscal Policy

15. **The government is aware of the need to contain public expenditure for the rest of 2008, with a view to preserving macroeconomic stability**. It has taken measures to sequester appropriations for nonpriority expenditure and reduced the rate of operating expenditure commitments. These measures are expected to lead to a slightly higher basic primary balance than planned.

16. **In 2009, fiscal policy is aimed at safeguarding the past gains of macroeconomic stability while supporting the development of economic and social infrastructure**. Total public revenue and expenditure are respectively expected to reach 19.8 percent of GDP and 24.0 percent of GDP. It is anticipated that the basic fiscal balance will remain in surplus at CFAF 18.9 billion, or 0.6 percent of GDP, thus meeting the WAEMU objective. The overall fiscal balance deficit (on a payment order basis and excluding grants) should be contained at a level equivalent to CFAF 136.6 billion, or 4.1 percent of GDP. Accordingly, infrastructure and poverty reduction expenditure will continue increasing without jeopardizing fiscal consolidation. The deficit will be financed by the budgetary assistance expected from the European Union (EU), the World Bank, the African Development Bank, and France, the Netherlands, Denmark, and other bilateral partners. Domestically-financed public capital

expenditure is expected to continue rising, from 3.8 percent of GDP in 2008 to 4.5 percent in 2009, or about 2 percentage points of GDP over the average for the past two years.

17. **Total revenue is expected to total CFAF 656.7 billion, or 19.8 percent of GDP**. It is anticipated that revenue will improve in line with the increase in the value of imports. It is also expected to benefit from the measures taken to broaden the domestic and foreign trade tax bases, namely: (i) gradually expanding use of the single tax identification number (IFU), (ii) strengthening the tax and customs control structures, (iii) continuing to modernize the CIMEs, (iv) building the DGE's capacity to monitor the VAT returns of the enterprises it supervises, and (v) introducing the use of the ASYCUDA++ computer tool by 12 more customs positions.

18. **For the revenue-collecting departments to be strengthened, their modernization must be pursued, especially through in-depth development of their respective IT systems.** To successfully introduce the IFU, the government will have an audit performed of the DGID's IT system and establish an IT blueprint in the first quarter of 2009. At the DGDDI, the installation of ASYCUDA++ will be expanded to include 12 more customs positions. In the two administrations, computerization will include the communications system.

19. **Total expenditure and net lending could reach CFAF 793.2 billion in 2009, corresponding to a 13.6 percent rise.** This upward surge, coming after the 19.5 percent increase expected in 2008, meets the demands to strengthen the economic and social infrastructure. It is anticipated that the wage bill will total CFAF 190.2 billion, or 5.7 percent of GDP, in response to the human resource needs of the key sectors of education, health, agriculture, and the revenue-collecting agencies, as well as to build capacity for programming, preparation, execution, and monitoring of the budget. Overall, capital expenditure is expected to continue increasing, to reach CFAF 291.5.billion, or about 8.8 percent of GDP.

C. Money and Credit

20. **The monetary policy conducted by the BCEAO will remain consistent with the objectives of price stability and of keeping the WAEMU area's international reserves adequate**. Broad money is expected to increase by 12.0 percent in 2009, reflecting growth of 15.4 percent in the net domestic assets, compared with the money supply at the beginning of the period, which will in turn be driven by 15.3 percent growth in credit to the private sector . Foreign assets could dip slightly.

21. **The main instrument of intervention of the BCEAO remains its interest rate policy (the repo rate and the discount rate)**. The regulations on the reserve requirements will continue to be used to strengthen the effectiveness of the interest rate policy. The BCEAO will pursue its careful monitoring of developments in the monetary survey, in particular the expansion of credit to the economy, the international reserves, and inflation.

22. **The various bank inspection missions performed by the Banking Commission have highlighted the need for a number of remedial measures**. Improvements are expected, in particular, in the areas of corporate governance, information systems, risk management, loan declassification, and the tracking of latent loan losses. The authorities

intend to strengthen banking supervision to improve compliance with the prudential ratios. They will also make efforts to strengthen enforcement of the regulatory framework in the microfinance sector.

D. Balance of Payments and External Debt

23. **The external current account deficit, excluding grants, is expected to narrow to 8.8 percent of GDP in 2009, compared with 10.4 percent of GDP in 2008**. This development results primarily from the drop in oil product and food prices. Imports of intermediate and capital goods are expected to rise because of increasing demand for public investment. A reduction in external financial flows could lead to a contraction in the financial account surplus and a deficit in the overall balance that would be financed by a drawing on the BCEAO reserves, deemed sufficient to cover 7.2 months' imports for the next year.

24. **The government reaffirms its policy of prudent indebtedness to safeguard debt sustainability**. It will continue seeking to finance its needs through grants or highly concessional loans. It will ensure the proper use of loans contracted, including borrowings on the WAEMU financial market, in the context of financing actions in support of growth and improving access by the people to core social services. Resources raised on the regional financial market are nonconcessional, and their excessive increase could amplify the risk of an unsustainable debt position. Accordingly, domestic indebtedness will be limited on the basis of the annual debt sustainability analysis.

E. Structural Policies

25. **Improving fiscal management remains a priority**. The audit of the IT systems used in public expenditure management (SIGFIP, ASTER, and WMONEY), ordered by the government and carried out with EU support, is ongoing, and its recommendations will serve to prepare a medium-term strategy for strengthening fiscal management. A key component of this strategy relates to more reliable expenditure monitoring. In the same context, the government has also made progress in preparing its strategy to improve the financial position of the National Retirement Fund of Benin. Appropriate arrangements have been made to complete the strategy by year-end.

26. **With the involvement of all players in the cotton sector and development partners, the government has started preparing an overall cotton sector reform strategy**. The government has decided to turn the focus of SONAPRA back to its agricultural promotion role. The role of the state will thus now be limited to providing training for farmers, especially through outreach activities, research, and experimentation to maintain and develop the quality of seeds and to prepare an adequate regulatory framework. The government will ensure compliance with the regulations by all concerned. The government intends to put in place all the necessary incentives to encourage a greater national value added in cotton sector. The reform will be formulated with this in mind.

27. **The reform of the energy sector is continuing with World Bank support**. It involves revamping the national power company (SBEE) and improving the quality of the service provided, which is key to ensuring the overall competitiveness of the economy.

28. **The production and transport of electric power are the subject of a national strategy for developing the sector.** This strategy is being formulated in cooperation with the commission established at the WAEMU level to find lasting solutions to the energy crisis.

29. **Improving telephone services in Benin is a priority for the government**. The telecommunications network in Benin, especially the GSM mobile telephony, has become much denser. The government has hired an advisory firm to help it privatize Bénin Télécom SA. Preparations are under way to open up its capital, and the government will soon make the decision to launch a call for expressions of interest in this regard.

30. **The government is pursuing its program to develop the port infrastructure so as to increase the competitiveness of the Cotonou autonomous port**. In the context of the reforms of the Cotonou port, the government, with the help of MCA-Bénin, has recruited a port expert, who is participating in the day-to-day management of the port to help modernize its working methods, in particular the one-stop shop in the Cotonou port including the start-up of the single invoicing slip (BFU). To increase the fluidity of foreign trade and improve the collection of entry fees and other charges, the government has also launched the construction of a dry port in Parakou and improved the offloading areas, thus helping to reduce clogging at the Cotonou port.

F. Poverty Reduction and Growth Strategy Paper (PRGSP)

31. **The government has prepared the 2007 annual report on implementation of the PRGS (2007–09)**. This annual report has been reviewed on September 29, 2008 with all development and technical partners. The government is committed to taking into account the comments provided during this review for a better implementation of such strategy.

G. Monitoring of Program Implementation

32. **Monitoring of the program will be based on the quarterly quantitative and structural performance criteria and benchmarks** (Tables 1 and 2). The authorities will provide the IMF with any information necessary for monitoring the program, in accordance with the attached Technical Memorandum of Understanding. During the program period, the authorities will not establish or strengthen any restrictions on payments or transfers for international current transactions without consulting the IMF; nor will they introduce or modify any multiple currency practice, or enter into any bilateral payment arrangement that is inconsistent with Article VIII of the IMF Articles of Agreement, or introduce any restrictions on imports for reasons related to the balance of payments.

33. **The sixth review of the PRGF arrangement will be conducted by end-June 2009.**

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets for the Period December2007–June 2009
(In billions of CFA francs)

	End-March 2008 indicative targets		End-June 2008 performance criteria			End-September 2008 indicative targets	End-December 2008 performance criteria	End-March 2009 indicative targets	End-June 2009 indicative targets
	Prog.	Est.	Prog.	Adj. Prog.	Est.	Prog.	Prog.	Prog.	Prog.
A. Quantitative Performance Criteria and Indicative Targets 1/									
Net domestic financing of the government 2/ 3/	-32.1	21.5	14.9	15.6	44.0	14.4	-12.3	-3.0	-12.8
Basic primary balance (excluding grants)	41.5	36.6	36.5	35.8	38.0	28.7	14.7	42.8	41.6
Accumulation of domestic payments arrears 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Item: Budgetary assistance	1.1	4.7	23.2	22.5	22.5	23.2	56.2	2.5	11.0
B. Continuous quantitative performance criteria									
Accumulation of external payments arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt contracted or guaranteed by government with maturities of 0-1 year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonconcesional external contracted or guaranteed with maturities of one year or more	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. Indicative Targets (Cumulative from December 31, 2005)									
Total revenue	132.1	142.7	261.0	261.0	285.7	389.7	530.1	162.4	324.6
Wage bill	36.0	36.6	77.4	77.4	79.1	119.8	171.7	40.6	87.6

1/ The targets and performance criteria are cumulative as from end-December of previous year.
2/ The ceiling on domestic financing will be adjusted pro tanto if the amount of disbursed budgetary assistance falls short of the program forecast up to a limit of CFA francs 10 and 18 billions at end-September and end-December 2006, respectively.
3/ If external budgetary assistance exceeds the amount projected in excess of more than CFAF 3 billion, the ceiling will be adjusted downward by the excess disbursement beyond CFAF 3 billion, unless it is used to absorb domestic arrears.
4/ This performance criterion is monitored on a continuous basis.

Table 2. Benin: Structural Benchmarks for 2007–09

Measures	Date	Status
Structural benchmarks		
Audit of public finance information management systems (SIGFIP, ASTER and WMONEY).	End-December 2007	Delayed; reset to end-December 2008
Completion of a strategy for reform of the civil service pension fund (FNRB).	End-December 2007	Delayed; reset to end-December 2008
Completion of a strategy to improve public finance management.	End-March 2008	Delayed; reset to end-December 2008
Recruitment of a port expert at the "Port Autonome de Cotonou."	End-June 2008	Completed
Completion of the new cotton sector reform strategy.	End-December 2008	In progress
Extension of ASYCUDA ++ to twelve (12) additional posts (regional customs units/offices).	End-March 2009	
Adoption of a strategic information system at the DGID[1], after an audit in order to operationalize the single taxpayer identification function	End-March 2009	

[1]Direction générale des impôts et des domaines

ATTACHMENT II

BENIN—TECHNICAL MEMORANDUM OF UNDERSTANDING

November 24, 2008

1. This technical memorandum of understanding defines the quantitative and structural performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF). It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

I. DEFINITIONS

2. Unless otherwise indicated, the government is understood to mean the central administration of the Republic of Benin and does not include local governments, the central bank, or any other public entity with autonomous legal personality not included in the government flow of funds table (TOFE).

3. The definitions of "debt" and "concessional borrowing" for the purposes of this memorandum of understanding are as follows:

(a) As set out in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), as amended by Executive Board Decision No. [1]2274-(00/85) (24/08/2000)), debt is understood to mean a direct, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., 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.

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

(b) **A loan is considered concessional** if, on the date on which the contract was signed, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (i.e., a grant element of more than 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For maturities longer than 15 years, the grant element will be calculated based on the 10-year average of CIRRs reported by the OECD. For shorter maturities, the rate to be used will be the six-month average of CIRRs.

II. Quantitative Performance Criteria

A. Ceiling on Net Domestic Financing of the Government

Definition

4. Net domestic financing of the government is defined as the sum of: (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, net of the cost of the structural reforms to which said proceeds are allocated, including Treasury bills issued in CFA francs on the WAEMU regional financial market.

5. Net bank credit to the government is defined as the balance between the debts and claims of the government vis-à-vis the central bank and the commercial banks. The scope of net credit to the government is that used by the Central Bank of West African States (BCEAO) and is in keeping with general Fund practice in this area. It implies a definition of government that is broader than the one indicated in paragraph 2. Government claims include the CFA franc cash balance, postal checking accounts, customs duty bills, and all deposits with the BCEAO and commercial banks of public entities, with the exception of industrial or commercial public enterprises (EPICs) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to these same financial institutions.

6. Net bank credit to the government and the net amount of obligations and Treasury bills issued in CFA francs on the WAEMU regional financial market are calculated by the BCEAO, while nonbank financing is calculated by the Benin Treasury, the figures of which are deemed valid within the framework of the program.

7. The ceiling on net domestic financing of the government will be adjusted if disbursements of external budgetary assistance (excluding IMF financing and assistance under the Highly Indebted Poor Countries (HIPC) Initiative), net of debt service obligations (excluding repayment obligations to the IMF) and arrears payments, exceed or fall short of program forecasts. If disbursements exceed the programmed amounts, the ceiling will be lowered by the amount of budgetary assistance received in excess of the programmed amount, except if the excess is allocated to the settlement of domestic arrears. Conversely, if at the end of a quarter disbursements fall short of the amount programmed for that quarter, the ceiling will be raised by

the amount of the shortfall, up to a maximum (on a non-cumulative basis), of CFAF 10 billion at end-September 2008, and CFAF 18 billion at end-December 2008. For 2009, the ceiling will be CFAF 2.5 billion at end-March 2009 and CFAF 11 billion at end-June 2009. The amount of budgetary assistance provided is calculated as of end-December 2008. Budgetary assistance is defined as grants, loans, and debt relief operations (excluding project-related loans and grants, IMF resources, and debt relief under the HIPC and Multilateral Debt Relief Initiatives).

Performance benchmarks and criteria

8. The ceiling on net domestic financing of the government in the second half of 2008 is set as follows: CFAF 44.0 billion for end-June, CFAF 14.4 billion at end-September, and CFAF 12.3 billion at end-December. For 2009, the ceiling is set as follows: CFAF -3.0 billion at end-March and CFAF -12.8 billion at end-June. The ceiling is a benchmark for end-September 2008, end-March 2009, and end-June 2009, and a performance criterion for end-December 2008.

Reporting deadline

9. Detailed data on domestic financing of the government, including a detailed survey of the accounting positions of other public enterprises with the banking system, will be forwarded on a monthly basis, within four weeks of the end of the month. The definitive data will be provided four additional weeks after reporting of the provisional data.

B. Narrow Primary Fiscal Balance

Definition

10. The narrow primary fiscal balance is defined as being equal to the difference between total fiscal revenue (tax and nontax) and fiscal expenditure, minus the payments of interest on debt and capital expenditure financed by foreign grants and net lending.

Performance criterion

11. The ceiling on the basic fiscal balance (excluding grants), for the second half of 2008, is a surplus amount that may not be lower than CFAF 28.7 billion at end-September 2008, and CFAF 14.7 billion at end-December 2008. For 2009, this ceiling is: (i) 42.8 billion at end-March and (ii) CFAF 41.6 billion at end-June. It is a benchmark for end-September 2008, end-March 2009, and end-June 2009, and a performance criterion for end-December 2008.

Reporting deadline

12. Provisional data on the narrow primary fiscal balance, including data produced by the automated fiscal management system (SIGFIP), will be forwarded on a monthly basis, within four weeks of the end of the month. The definitive data will be provided four additional weeks after reporting of the provisional data.

C. Accumulation of New Arrears in Domestic Payments of Public Debt

Definition

13. Arrears in domestic payments on public debt are defined as the stock of government debt to residents that is repayable at the end of a 90-day period, unless otherwise indicated, but not paid, and any government financial obligations, confirmed as such by the government (including all government debt). The National Amortization Fund (CAA, a public debt management agency) and the Treasury record and update the accumulation of arrears in domestic payments on public debt, as well as their settlement.

Performance criteria

14. The government undertakes not to accumulate any new arrears in domestic payments on public debt. As regards obligations other than public debt, the government undertakes not to accumulate further arrears for periods of more than six months. The non-accumulation of arrears in domestic payments will be continuously monitored throughout the program.

Reporting deadline

15. Data on the balance, accumulation, and repayment of arrears in domestic payments of public debt will be forwarded on a monthly basis, within eight weeks of the end of the month.

D. Non-accumulation of Arrears in Public External Payments

Definition

16. Arrears in public external payments are defined as the sum of payments due, and not paid, to nonresidents on government debt and on external debt guaranteed by the government. The definition of debt provided in paragraph 3 applies here.

Performance criterion

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

E. Ceiling on Nonconcessional External Debt Maturing in a Year or More or Newly Contracted or Guaranteed by the Government

Definition

18. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision 6230-(79/140), as amended by Executive Board Decision 12274-(00/85) (24/08/2000)), but also to liabilities contracted or guaranteed (including lease-purchase contracts) for which no

funds have been received. External debt excludes obligations and Treasury bills issued in CFA francs on the WAEMU regional market.

19. The concept of government used for this performance criterion includes government as defined in paragraph 2, administrative public enterprises (EPAs), scientific and technical public enterprises, professional public enterprises, and local governments.

Performance criterion

20. No nonconcessional external borrowing will be contracted or guaranteed during the 2008-09 program.

Reporting deadline

21. Information on any borrowing (terms and creditors) contracted or guaranteed by the government will be reported each month, within four weeks of the end of the month.

F. Ceiling on Short-Term External Debt Newly Contracted or Guaranteed by the Government

Definition

22. The definitions in paragraphs 18 and 19 also apply to this performance criterion.

23. Short-term external debt is debt with a contractual term of less than one year. Import-related loans and debt relief operations are not covered by this performance criterion.

Performance criterion

24. In the context of the program, the government undertakes not to contract or guarantee short-term nonconcessional external debt.

25. At December 31, 2007, Benin had no short-term external debt.

III. Quantitative Benchmarks

A. Floor for Government Revenue

Definition

26. Total government revenue is defined as that shown in the TOFE.

Benchmarks

27. The benchmarks for total government revenue for the second half of 2008 are set at CFAF 389.7 billion for end-September, and CFAF 530.1 billion for end-December (cumulative since end-December 2007). For 2009, the benchmarks for total government revenue are set at

CFAF 162.4 billion for end-March and CFAF 324.6 billion for end-June (cumulative since end-December 2008).

Reporting deadline

28. The government will forward a monthly report on tax revenue to Fund staff, in the context of the TOFE, by the end of the month following that to which the report applies.

B. Ceiling on the Wage Bill

Definition

29. The wage bill includes all public expenditure on wages, bonuses, and other benefits or allowances granted to civil servants, the military, and other security forces, as well as expenditure on special contracts and other permanent or temporary employment with the government. The wage bill therefore excludes wages paid under externally funded projects and transfers to the communal level for the payment of teachers' wages.

Benchmarks

30. The quantitative benchmarks are defined as the sums accumulated after end-December 2007 for the criteria set in 2008, and after end-December 2008 for the criteria set in 2009. For the second half of 2008, the quarterly ceilings on the civil service wage bill are set at CFAF 119.8 billion at end-September, and CFAF 171.1 billion at end-December. For 2009, these quarterly ceilings are set at CFAF 40.6 billion at end-March and CFAF 87.6 billion at end-June (MEFP, Table 1).

Reporting deadline

31. The government will forward monthly wage bill data to Fund staff, in the context of the TOFE.

IV. Structural Performance Criteria

32. The following measures will serve as structural benchmarks (MEFP, Table 2):

- Audit of the automated fiscal management systems (SIGFIP, ASTER, and WMONEY);
- Completion of a strategy to reform the civil service pension fund (FNRB);
- Completion of a strategy to improve fiscal management;
- Completion of the new cotton sector reform strategy;
- Extension of ASYCUDA++ to twelve (12) additional posts (regional customs units/offices); and

- Adoption of a strategic information system at the DGID, after an audit, in order to operationalize the single tax identification function.

V. Additional Information for Program Monitoring

A. Government Finance

33. The government will provide the Fund with:

- Detailed monthly revenue and expenditure estimates, including for social expenditure, the settlement of arrears, and financed expenditure under the HIPC Initiative;

- Comprehensive monthly data on domestic financing of the budget (bank and nonbank), including the obligations held by the nonbank private sector. These data will be forwarded every month, within four weeks of the end of the month; and

- Quarterly data on implementation of the public investment program, including details of financing sources. These data will be forwarded on a quarterly basis, within four weeks of the end of the quarter.

B. Monetary Sector

34. The government will provide the Fund monthly, within eight weeks of the end of the month, with:

- A consolidated balance sheet of the monetary institutions and, where necessary, the balance sheets of certain individual banks;

- A monetary survey;

- Deposit and lending rates; and

- The customary banking supervision indicators for bank and nonbank financial institutions and, where necessary, the same indicators for certain individual institutions.

C. External Sector

35. The government will provide the Fund, within 12 weeks of the end of each quarter, with:

- Import and export prices and volumes; and

- Other balance of payments data, including services, private transfers, official transfers, and capital transactions.

D. Real Sector

36. The government will provide Fund staff with:

- Disaggregated monthly consumer price indices, on a monthly basis, within two weeks of the end of the month; and

- Any revision of the national accounts, within eight weeks of the revision date.

E. Structural Reforms and other Data

37. The government will provide the Fund with:

- All decisions, orders, laws, decrees, ordinances, and circulars relating to the economy of Benin, within 10 days of their entry into effect; and

All studies or research papers relating to the economy of Benin, within two weeks of their publication.

INTERNATIONAL MONETARY FUND
INTERNATIONAL DEVELOPMENT ASSOCIATION

BENIN

Joint IMF/World Bank Debt Sustainability Analysis 2008[1]

Prepared by the Staffs of the International Monetary Fund and
the International Development Association

Approved by Robert J. Corker and Anthony Boote (IMF) and
Carlos Alberto Braga and Sudhir Shetty (IDA)

November 18, 2008

This debt sustainability analysis (DSA) confirms that Benin's risk of debt distress remains moderate, although the debt indicators are somewhat higher than in the 2007 analysis. Under the baseline scenario, all debt ratios remain well below the indicative policy-dependent thresholds. The NPV of debt-to-export ratio projections under most alternative scenarios breach the indicative threshold. These conclusions are consistent with previous DSAs of Benin. The findings remain robust to a scaling-up scenario based on the Gleneagles commitments of doubling aid inflows to $85 per capita by 2010.

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[1] Prepared by IMF and IDA staff in collaboration with the Beninese authorities and in consultation with the staff of the African Development Bank. The preliminary DSA results were presented by IMF staff during a seminar organized by the Beninese authorities in Cotonou on September 15, 2008. This DSA reflects comments from government officials and seminar participants, and follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries, October 9, 2008 (available at http://www.imf.org/external/pp/longres.aspx?id=4297 and http://go.worldbank.org/JBKAT4BH40). The analysis updates the 2007 DSA (IMF Country Report for Benin 08/19, available at http://www.imf.org/external/country/BEN/index.htm). This DSA is conducted on a gross basis as no data on Benin's claim on nonresidents is available.

I. INTRODUCTION

1. This DSA differs from earlier DSAs in the following ways:

- The DSA is consistent with the macroeconomic framework underlying the fifth review under the PRGF arrangement. As such, the 2008 debt projections incorporate the SDR 9.28 million (15 percent of quota) augmentation of access under the PRGF arrangement granted by IMF Executive Board on June 16, 2008 to help Benin adjust to the food and fuel crisis. In addition, Benin is expected to benefit from a World Bank grant under its Global Food Crisis Response Program amounting $9 million to be disbursed by end 2008. The crisis has also significantly changed Benin's macroeconomic environment, with higher inflationary pressures and further deterioration in the fiscal deficit and the current account.

- The outstanding stock of external public debt increased by 1 percent of GDP in 2007, reaching 12.5 percent of GDP in nominal terms at end-2007 (Text Table 1). This mostly reflects new borrowing (0.7 percent of GDP) and the re-assessment of debt owed to the International Fund for Agricultural Development (IFAD). IFAD notified the Beninese authorities in January 2008 that its contribution to the Enhanced HIPC debt relief would be limited to six pre-cut off date (December 1998) project loans, and would take the form of a cancellation of debt service payments during the period April 2003-May 2008. The authorities had previously reported all debt stock owed to IFAD as eligible for HIPC debt relief. Accordingly, the nominal stock of debt owed to IFAD at end-2007 has been revised upwards by 1.3 percent of GDP

- The outstanding stock of domestic public debt rose to 3 percent of GDP in 2007, from 0.9 percent in 2006, reflecting a strategic debt management decision of the Beninese authorities to issue government bonds in the West African Economic and Monetary Union (WAEMU) regional market.

2. **Although the quality of data underlying the DSA has improved, it remains uneven**. The DSA is based primarily on data provided regularly by the public debt management department of the Ministry of Finance of Benin (the *Caisse Autonome d'Amortissement, CAA).*[2] The CAA data, however, do not cover all domestic and private external debt. The staff database is completed by other sources, including BCEAO data on government bonds and private sector debt.

3. **This DSA is structured as follows**. Section II presents the baseline scenario. Section III presents key features of alternative scenarios for both external and public debt sustainability and their results; and Section IV draws policy conclusions.

[2] The authorities have established a national debt committee (Comité National d'Endettement or CNE) to help improve and guide on debt management and quality. The CNE has benefited from the "pôle-dette," a regional debt management initiative in Central and West Africa.

Text table 1. Benin: External Public and Publicly Guaranteed Debt Structure and Dynamics, 2006–2007 (percent of GDP)[1/]

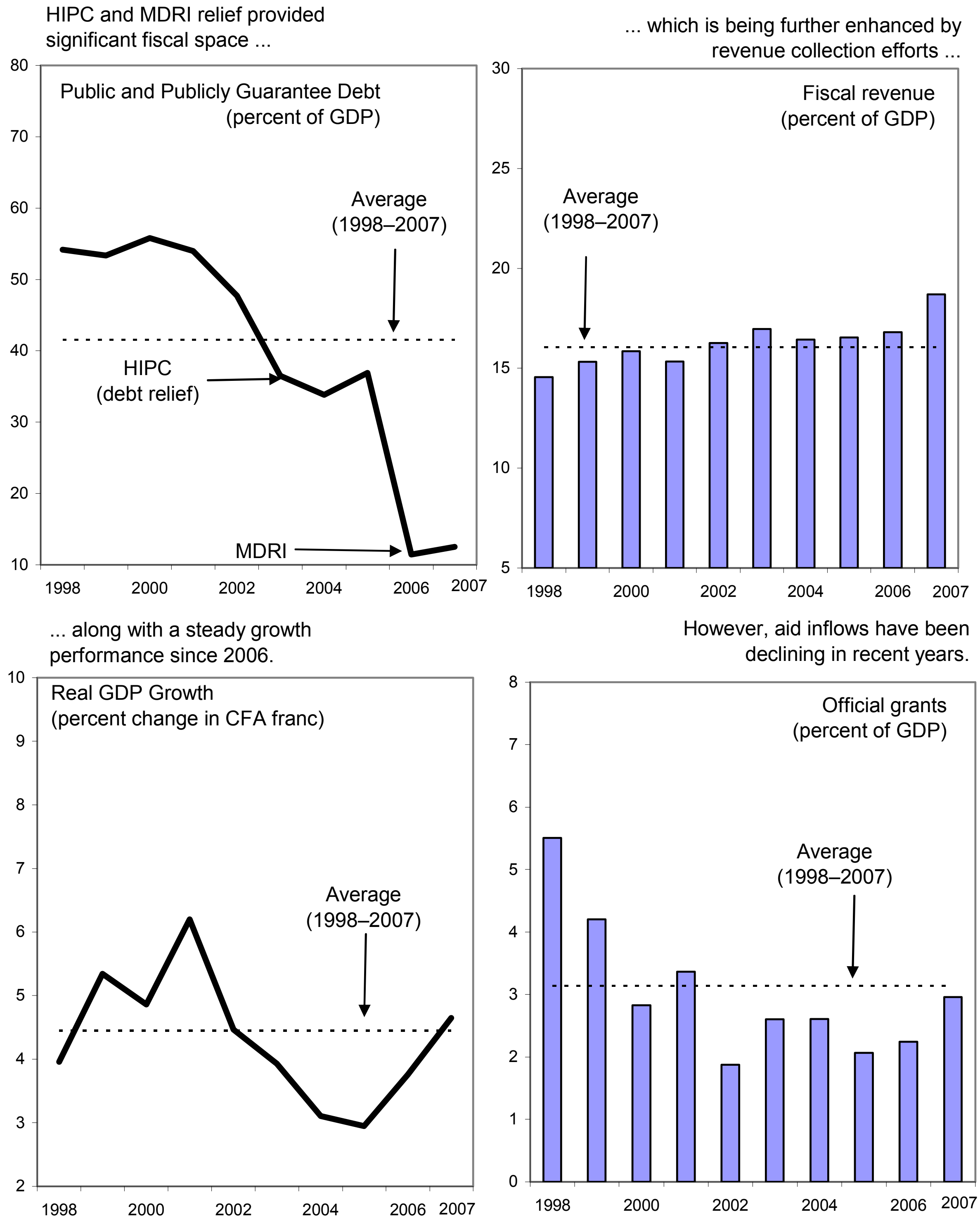
	2007		
	Before HIPC	After HIPC	Post MDRI
End-2007 Debt ratio (Total)	39.4	32.0	12.5
Multilateral	33.7	30.1	10.7
World Bank	16.4	14.9	2.9
African Fund for Development	9.5	8.3	1.7
IMF	1.2	1.1	0.1
Others	6.6	5.9	5.9
Bilateral	4.7	0.9	0.9
Paris Club	3.6	0.2	0.2
Non-Paris Club [2/]	1.1	0.7	0.7
Commercial	1.0	1.0	1.0
End-2006 Debt ratio	43.1	32.7	11.5
Memorandum Items:			
	(Variation of debt to GDP ratio, 2006–07)		
IFAD debt, re-assessed	0.0	1.3	1.3
Revised GDP & exch. Rate	0.0	-0.3	-0.3
Amortization sch. or paid	-2.4	-2.2	0.0
Commercial debt adjust.	-0.2	-0.2	-0.2
New borrowing (assumed unchanged)	0.7	0.7	0.7
Others	-1.9	0.0	-0.4

Source: Beninese authorities.
1/ At end-2007 with HIPC relief obtained since July 2000.
2/ All non-Paris Club creditors have provided comparable treatments except Libya, Nigeria and the DRC.

II. Baseline Scenario, 2008-2028

4. **Benin's PRGF-supported programs and recent debt relief have helped provide fiscal space and a new impetus to the economy** (see Figure 1). Benin reached the completion point under the HIPC Initiative in 2003 thanks to maintained macroeconomic stability (under the PRGF supported program), the successful implementation of a poverty reduction strategy and of a series of structural reforms in the area of governance, financial management and the cotton sector and improvement of delivery of services in health and education. After some years of volatile growth and a significant slowdown in 2005 owing to poor cotton production, growth gained momentum in 2006–07, and the fiscal position was further firmed up by strong revenue collections. Benin benefited from further debt relief under MDRI in 2006.

Figure 1. Benin: Debt Relief and Economic Performance, 1998–2007



Source: Beninese authorities and Fund staff estimates.

5. **Against this backdrop, the baseline scenario is based on assumptions drawn from both the fifth PRGF review and the World Bank's Country Economic Memorandum (CEM).**[3] These projections stand in contrast to the authorities' more optimistic scenario (Figure 2). Key assumptions underlying the baseline scenario are as follows:

- In line with the PRGF-supported program, the **medium-term baseline growth** (2008–13) is expected to reach an average of 5.8 percent. As discussed in the 2006 and 2007 DSAs and mentioned in recent staff reports, the cotton sector is unlikely to reach full capacity because of slippages in reform implementation. Two new developments explain the upward growth revision. The Beninese authorities have allowed the full pass-through of higher international food and fuel prices since July 2008, which could likely result in higher domestic food production in the medium- and long-run than that indicated in the 2006 DSA. Second, private sector activity, including FDI, has recently picked up in early 2008; However, medium-term FDI projections remains prudent.[4]

- **The global financial crisis poses a significant downside risk**. The baseline is consistent with the latest IMF World Economic Outlook assumptions and projections, including those for growth in Nigeria—an important source of trade and remittances for Benin.[5] FDI is also expected to hold up given ongoing projects and Benin's long-term growth prospects. However, if the global downturn proves protracted, Benin's growth rate would be adversely affected.

- The **long-run growth** assumptions are consistent with the World Bank's CEM "Constraints to Growth and Potential for Diversification and Innovation" dated June 2008, which implies that Benin could achieve 6 percent real GDP growth in the long-run if key structural reforms are implemented. The macroeconomic fundamentals are expected to improve further thanks to the authorities' efforts to speed up reform implementation.[6] Owing to setbacks in reform implementation in the cotton sector in 2006 and 2007, total cotton production projections are

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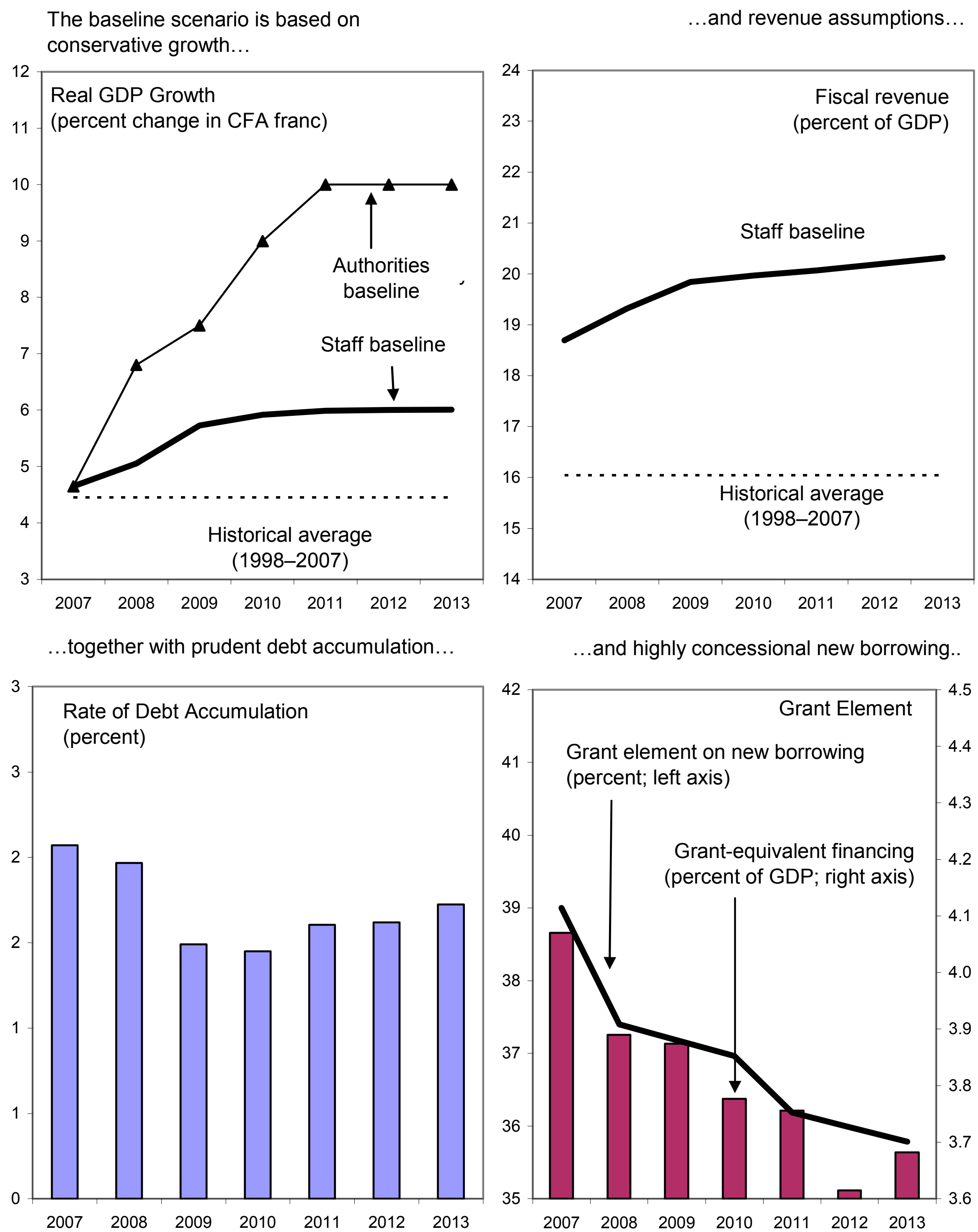
[3] Estimates and projections are in CFA francs, unless otherwise indicated.

[4] The IMF staff report for the fifth review under the PRGF arrangement discusses the impact of the international financial crisis and global slowdown as well as risks to the macroeconomic outlook. Overall, the staff medium-term outlook, which was discussed with the authorities, is subject to significant downside risks, including reduced demand for exports and a steady fall in FDI.

[5] See http://www.imf.org/external/pubs/ft/weo/2008/update/03/index.htm.

[6] The structural reform agenda has been accelerated in recent months. In October 2008, the authorities concluded the privatization of SONAPRA ginneries and Continental Bank-Benin.

Figure 2. Benin: DSA - Selected Assumptions, 2007–13



Source: Beninese authorities and Fund staff estimates.

being revised slightly down to 500,000 tons a year by 2028, 100,000 tons short of its potential. However, this relative underperformance is likely to be compensated by higher food production, given the price incentives generated by recent food crisis.

- **The public sector would play a key role in the growth process**. The authorities' objective is for Benin to become an emerging economy. In order to achieve this goal, the authorities have underscored the development and rehabilitation of economic and social infrastructure in the framework of their Special Public Works Program (*Programme de Grands Travaux-PGT*). In addition to public investment, the PGT also includes a private-public sector partnership (PPP) framework, which has led recently to a surge in private investment. To the extent that such PPP framework is enhanced through time, the projected long run growth rate of 6 percent will be achievable.[7] However, the downside risk of a protracted global slowdown could lower foreign inflows, including grants, and have a negative impact on the growth outlook.

- **Inflationary pressures** associated with the recent food and fuel crisis are projected to abate. Based on the current food and oil price shocks, CPI Inflation is projected to reach 8.8 percent in 2008 and fall gradually to 2.8 in 2010 and thereafter as medium- and long-term supply responses will take effect. This would bring inflation in Benin back in line with the WAEMU convergence criterion.

- In line with the country's development needs, the **primary fiscal deficit** is projected to further deteriorate from 3.6 percent in 2008 to 4.2 percent in 2013 and beyond, despite expected strong revenue collection and prudent expenditure management. The deterioration in the primary fiscal deficit reflects the projected scaling up of public expenditure.

- The improved **revenue collection** is expected to continue. Tax revenue is projected to rise to an average 17.7 percent of GDP annually in 2008–13, from 16.8 percent in 2007, and increase further to an average 20½ percent in 2014–28. In response to government infrastructure development needs and food and oil price shocks the overall fiscal deficit is projected to deteriorate to 5 percent of GDP in 2008 from 2.3 percent in 2007. As expenditures in public infrastructure are expected to play a key role in sustaining growth over the medium term, the fiscal deficit is projected to stay around 5 percent of GDP on average during the long run.

- **Import volume** will rise sharply (faster than GDP), growing at an average annual rate of 7.5 percent during 2008–13, and accelerating further to 10 percent on average during 2014–28. Global demand for Benin's exports is likely to remain moderate. As a result, the **current account deficit** excluding grants will average 7.7 percent of GDP during 2008–13, falling to 6.8 percent of GDP on average during 2014–28.

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[7] A recent IMF working paper finds a positive correlation between public investment and growth through private sector involvement. See Samake (2008), "Investment and Growth Dynamics: An Empirical Assessment Applied to Benin", IMF Working Paper No. WP/08/120, available at http://www.imf.org/external/pubs/ft/wp/2008/wp08120.pdf.

- On the **financing side**, the projected fiscal deficit of about 5 percent of GDP will be financed over the medium term through, on average, (i) net domestic debt of 0.3 percent of GDP; (ii) project grants of 1.7 percent of GDP, and (iii) debt-creating flows (program and project loans) of 3.0 percent of GDP.[8]

- New (gross) **public external borrowing** (for identified project and program loans and other residual debt-creating flows) is projected to remain broadly unchanged at 3.0 percent of GDP over the medium and long term. The share of multilateral debt in total public external debt is projected to decrease gradually from 85 percent at end-2007 to about 50 percent by 2028. The share of bilateral debts from both Paris and non-Paris Club creditors is expected to increase from 7 percent in 2008 to 48 percent by 2028. Finally, the share of commercial debt will decline from about 8 percent in 2008 to 2 percent in 2028. Average maturity of debt on new loans is projected to be 28.8 years with a grace period of 4.2 years, and an interest rate of 2 percent. Assuming an average discount rate of 5 percent, new loans are expected to have an average grant element of about 35 percent.

6. **The DSA projects that all external debt indicators under the baseline scenario will remain below the indicative thresholds through 2028, as indicated in previous DSAs (Figures 3-5)**.[9] In particular, the NPV of external debt to GDP ratio is expected to stabilize at around 14 percent over the long run (Text table 2). Accordingly, debt service payments would remain relatively low. However, the NPV of debt-to-exports ratio would get close to its threshold toward the end of the simulation period.

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[8] Fiscal deficits are assumed fully financed through the following three items: (i) net domestic borrowing; (ii) net external borrowing; and (iii) grants.

[9] The LIC debt sustainability framework (DSF) specified in footnote 1 is guided by indicative, country-specific debt burden thresholds based on the relative strength of a country's policies and institutions. According to the World Bank's Country Policy and Institutional Assessment (CPIA), the average CPIA rate of the last three years rating for Benin is 3.57 (corresponding to the rate of a medium performer). As a result, its thresholds are an NPV of debt-to-GDP ratio of 40 percent, NPV of debt-to-exports ratio of 150 percent, NPV of debt-to-revenue ratio of 250 percent, debt service to exports ratio of 20 percent, and debt service-to-revenue ratio of 30 percent.

Text table 2. Benin: Selected Public Debt Indicators, 2007–28
(percent of GDP, unless otherwise indicated)

	Indicative thresholds	2007	Baseline Scenario 2008	2009	2010	2011	2012	2013	2014-28[1]
		Act.	Projections						
External									
Debt service to revenue	30.0	2.5	3.1	2.7	2.9	3.0	3.1	2.7	4.5
Debt service to exports	20.0	4.4	5.1	4.7	5.0	5.2	5.4	4.7	7.3
NPV of Debt to revenue	250.0	37.7	40.4	42.9	46.5	49.5	52.2	55.0	66.5
NPV of debt to exports	150.0	66.0	65.8	74.3	79.0	84.4	90.3	95.5	108.1
NPV of debt to GDP	40.0	7.8	7.8	8.5	9.3	9.9	10.5	11.2	13.5
Fiscal									
Debt service to revenue			3.8	5.3	5.6	5.8	6.1	5.8	8.6
NPV of debt to revenue			57.1	58.2	62.5	66.4	70.1	73.4	91.1
NPV of debt to GDP			12.6	13.3	14.3	15.2	16.0	16.9	21.0
Memorandum items:									
Public Debt to GDP[2]		12.5	12.6	13.6	14.8	15.7	16.5	17.3	17.9

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

[1] Simple average.

[2] External public and publicly-guaranteed debt to GDP.

7. **Standard stress tests confirm that only the NPV of debt-to-exports ratio could breach its relevant indicative threshold (Appendix table 2), which also highlights the structural weakness of the export sector.** In most stress tests, including when key variables remain at their historical averages and when new borrowing is contracted on less favorable terms, the NPV of external debt-to-exports ratio would breach the policy indicative threshold of 150 percent. The NPV of debt-to-export ratio, which has continuously been the most vulnerable debt indicator for Benin, confirms that the country's exports are structurally low compared to the size of the economy and vulnerable to both domestic (weakness in the institutional framework of the cotton sector) and external (international cotton price) conditions.

8. **The results of the public debt sustainability analysis reinforce the outcome of the external debt sustainability analysis**. Public debt would be on an upward trend over the next few years before stabilizing at around 22 percent of GDP in NPV terms. Under the baseline, the NPV of external public and publicly-guaranteed debt-to-revenue ratio remains well within the policy-dependent threshold. In addition, the public debt sustainability analysis indicates that if domestic debt accumulation is larger than 0.5 percent of GDP in 2008–28 on average, the government may face increasing difficulties in servicing its domestic debt. In line with the medium- and long-run fiscal targets, this increase will imply an average service payment of about 0.5 percent of GDP annually in 2008–13 and 1.3 percent in 2013–28, which is above the historical average of 0.2 percent of GDP, and may lead to debt service distress.

III. Alternative Scenarios

9. **Four alternative scenarios highlight the risks Benin faces in servicing its debt.** All alternative scenarios confirm that the risk of debt distress continues to be moderate; nonetheless, debt ratios move quickly toward the indicative policy-dependent thresholds or breach it for the NPV of debt-to-export ratio. This again underlines Benin's vulnerability to its low export base to service its external debt.

- **No reform scenario (Scenario 1)**. This scenario estimates the impact of further delays in implementing structural reforms and no fiscal adjustment beyond the agreed medium-term fiscal path. In this scenario, the government is not expected to scale back on its development related expenditure and/or current expenditure. As a result, Benin is likely to stay close to its historical macroeconomic performance, including in the cotton sector, to have higher factor costs (e.g., energy bottlenecks), poor export performance, and achieve lower growth compared to the baseline. The result of this scenario suggests that if macro-critical reforms are not implemented, the risk of debt distress could substantially increase, particularly in the outer years (Figure 3). Lower growth would lead to increased financing needs, that would not be met through higher FDI inflows but would require additional borrowing, further aggravating the risk of debt distress.

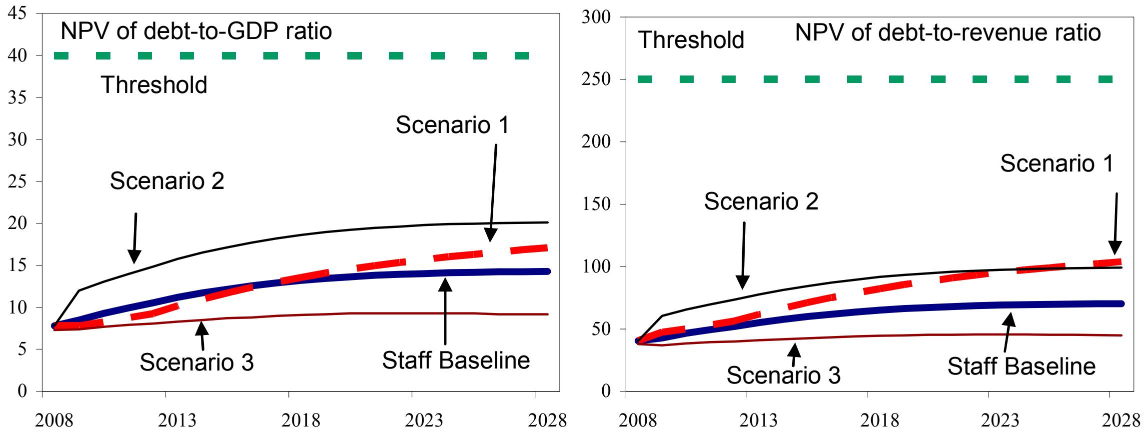
- **Real exchange rate depreciation (Scenario 2)**. This scenario, part of the standard DSA bound tests for low-income countries, highlights the implications on debt sustainability of a real exchange rate depreciation. A one-time real exchange rate depreciation would lead to an upward shift in debt ratios and a permanent increase in the debt service. The scenario demonstrates that a real exchange rate depreciation increases the risk of debt distress, as a large share of Benin's debt is denominated in foreign currencies.

- **Higher domestic financing (Scenario 3)**. This scenario envisages a 20 percent higher domestic share of total financing in the regional bond market for 2008–28. It embodies the authorities' stated policy objective of relying more heavily on the WAEMU bond market to meet their financing requirements in the future. Increasing the share of domestic borrowing worsens all public debt indicators (Figure 4), given the higher domestic interest rates. As a result, cautious domestic borrowing from the WAEMU regional bond market is needed to keep debt ratios stable.

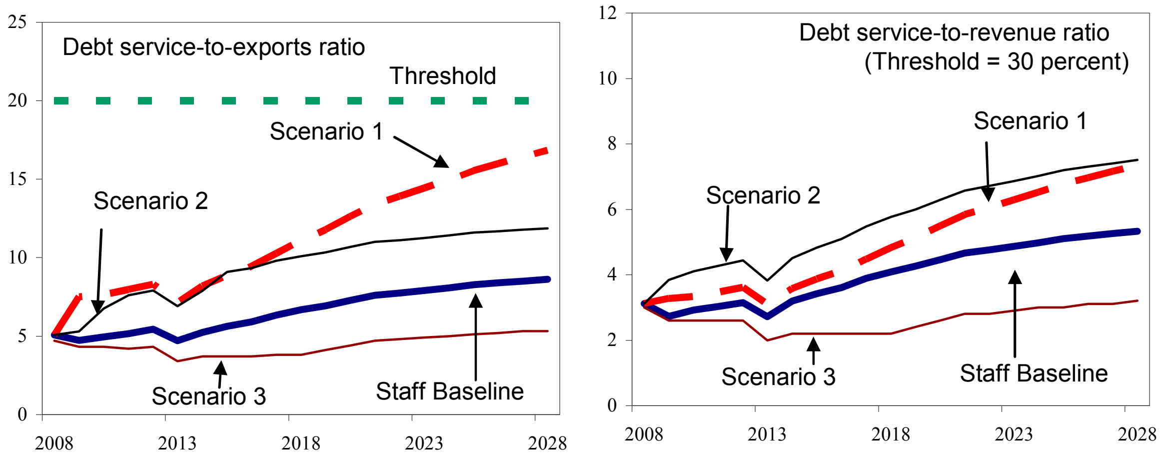
- **Scaling up scenario (Scenario 4)**. This scenario requested by the United Nations as part of the UN Africa Steering Committee simulates the impact of the doubling of aid to $85 per person by 2010 as part of the Gleneagles commitments (Box 1). In order to capture the extent of concessionality that would maintain Benin's debt sustainability, for a given amount of aid, two scenarios are simulated: (i) one scenario with 35 percent grant element (consistent with the baseline grant element); and (ii) another with 80 percent grant element. Figure 5 suggests that further aid inflows as projected in the Gleneagles scenario should be highly concessional, so as not to deteriorate debt sustainability. A grant element of about 60 percent would barely be sufficient to keep the debt ratios below the policy dependent thresholds.

Figure 3. Benin: Indicators of Public and Publicly Guarantee External Debt under Alternative Scenarios, 2008–28

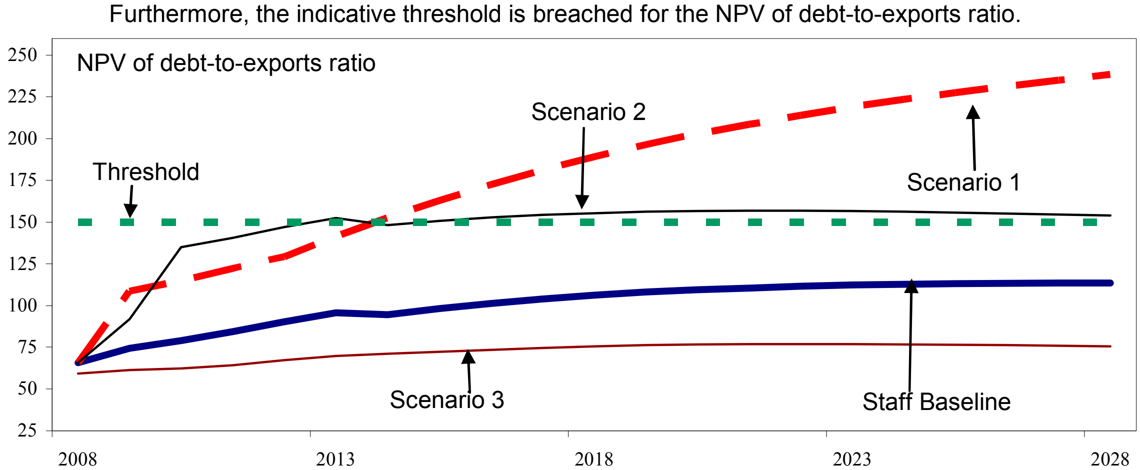
Except the scenario 3, which assumes a shift in external borrowing to domestic market, ...



all other scenario tend to increase the risk of debt distress ...



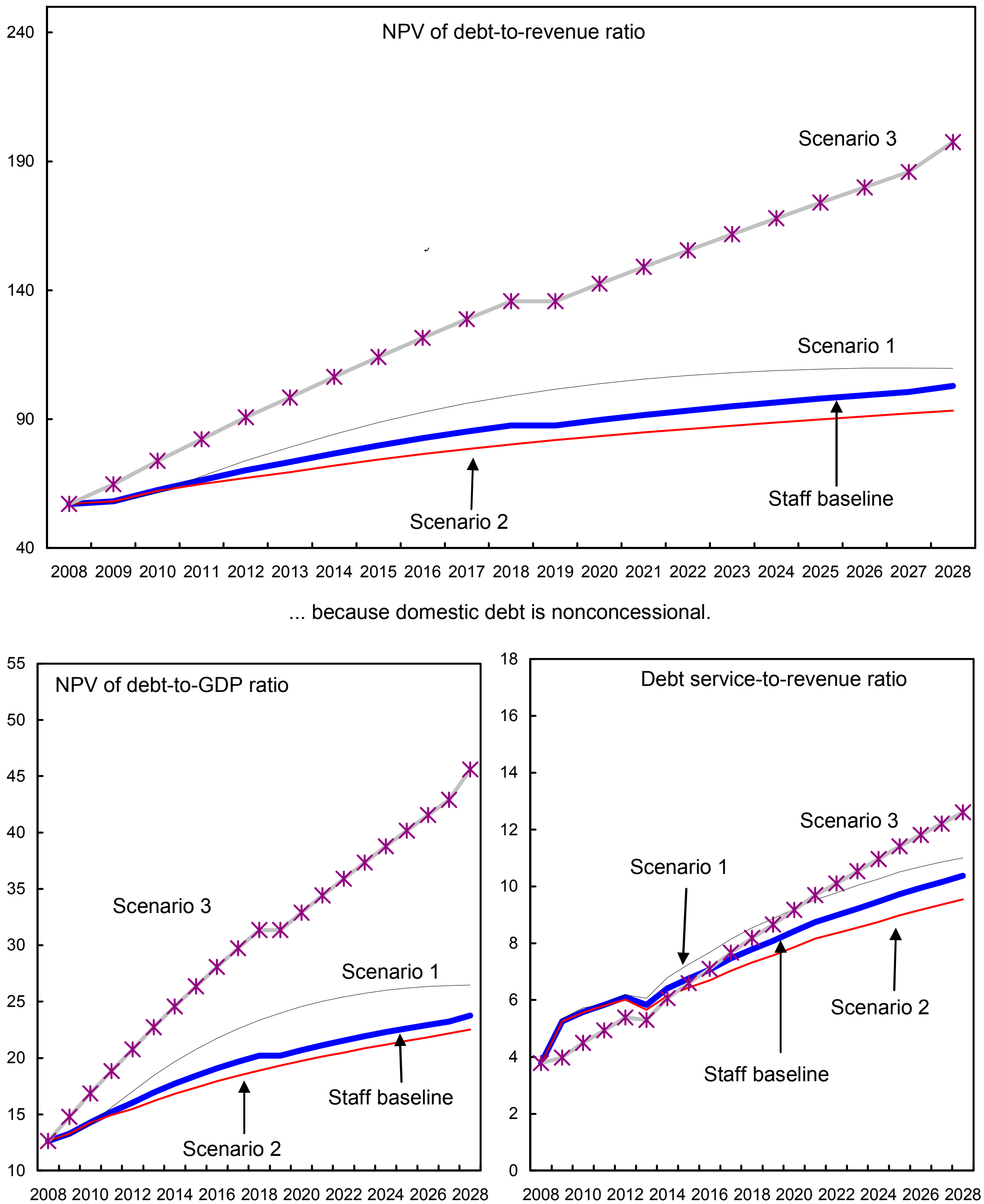
Furthermore, the indicative threshold is breached for the NPV of debt-to-exports ratio.



Source: Beninese authorities and Fund staff estimates.

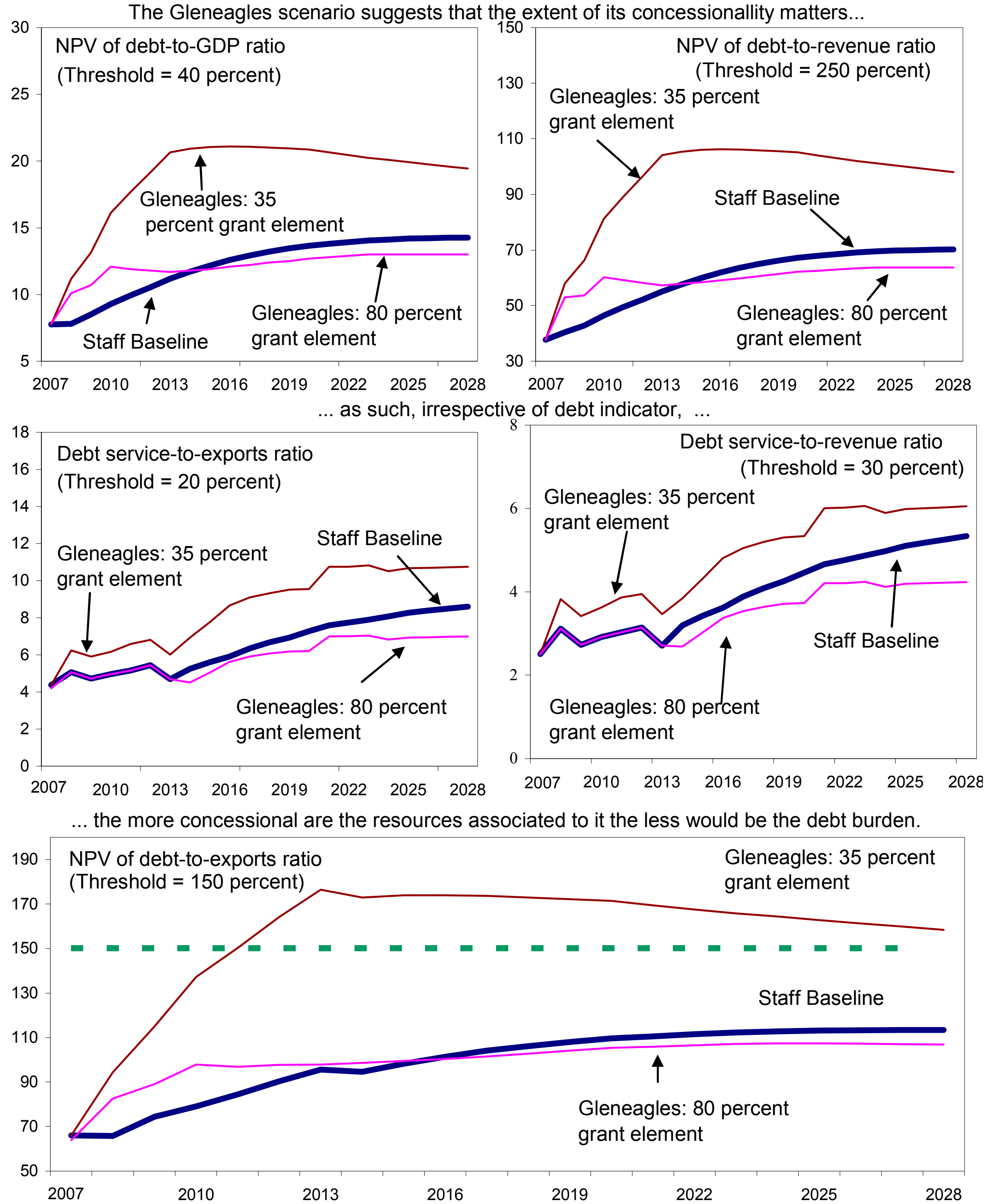
Figure 4. Benin: Indicators of Public Debt under Alternative Scenarios, 2008–28

On public debt dynamics, scenario 3 shows a relative higher risk of debt distress ....



Source: Beninese authorities and Fund staff estimates.

Figure 5. Benin: Indicators of Public and Publicly Guarantee External Debt–Staff Baseline vs Gleneagles Scenarios, 2007–28[1/]



Source: Beninese authorities and Fund staff estimates.

1/ The Gleneagles scenario endogenously integrates the impact of the scaling up on economic fundamentals, including growth, inflation, the exchange rate, fiscal revenue, and exports. It assumes an increase in aid from an estimated $42 per person in 2007 to $85 per person by 2010. That would imply an additional aid inflows of 2.4 percent of GDP on average in 2008–10.

Box 1. The Scaling Up Scenario[10]

This scaling up scenario describes the impact of doubling aid to Benin by 2010, in line with the commitments taken by the international community at the Gleneagles Summit in 2005 to double aid to Africa in order to make progress towards the achievements of the Millennium Development Goals (MDGs). The scenario employs two dynamic stochastic general equilibrium (DSGE) models to analyze the macroeconomic impact of the Gleneagles commitment for Benin. The model assumes that additional aid will be fully absorbed and spent across economic sectors.

The analysis suggests that the additional aid inflows (averaging 2.4 percent of GDP in 2008–10, and 2.0 percent of GDP in 2011–15) can be accommodated under the authorities' Fund-supported program without major disruptions to macroeconomic stability, provided the inflows are highly concessional and used effectively. The model implies, on average, 0.3 percent and 1.1 percent additional real growth in 2008–10 and 2011–15. The model also suggests higher growth beyond 2015 as higher skilled and healthier individuals enter the labor force. There are, however, significant risks associated with administrative and absorption capacity which would limit the impact on growth and poverty reduction of the additional aid inflows.

10. **The alternative scenarios also suggest risks of fiscal sustainability through higher domestic debt.** With domestic debt accumulating at a 0.5 percent of GDP annual pace, the three debt ratios (NPV of debt-to-GDP, NPV of debt-to-revenue, debt service-to-revenue) increase rapidly.[11] Furthermore, scenarios 1 and 3 suggest higher debt distress than the other scenarios. This, coupled with the potential quasi-fiscal losses from public enterprises, could further raise the risk of public debt sustainability.

IV. Concluding Remarks

11. **In line with previous findings, this DSA confirms that Benin's risk of debt distress remains moderate.** Except in the scaling-up scenario, only the NPV of debt-to-export ratio in the alternative scenarios breaches the indicative policy-dependent thresholds, while other debt ratios remain below the indicative thresholds. The alternative scenarios though demonstrate that there is significant risk of debt distress from a no-reform scenario, a real exchange rate depreciation, a switch to domestic borrowing financing, and a scaling up of aid that is only moderately concessional. The authorities agreed with these findings.

12. **This DSA leads to the following policy implications for the Beninese authorities to consider:**

- **Structural reforms are essential to increase growth over the medium- to long-run and avoid future debt distress**. As shown in the no-reform scenario, the longer reforms take,

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[10] See IMF policy paper "The Macroeconomics of Scaling-Up Aid: The Cases of Benin, Niger, and Togo" (http://www.imf.org/external/pp/longres.aspx?id=4283) and the forthcoming working paper by Mongardini and Samake "The Macroeconomic of Scaling Up Aid: The Gleneagles Initiative for Benin."

[11] The staff recommendation of limiting net domestic debt issues to 0.5 percent of GDP is driven by public debt sustainability considerations, based on the debt dynamics associated with the baseline scenario.

the higher Benin's financing needs will be, implying a higher risk of debt distress. Furthermore, Benin's debt sustainability is vulnerable to a real exchange rate depreciation. This suggests that, as indicated in the 2008 IMF Article IV Staff Report (Country Report No. 08/230), only the implementation of structural reform can safeguard Benin's external stability. In this regard, the authorities should consider reducing this vulnerability by relying more on domestic revenue to finance expenditures, and reduce their recourse to external financing. When available, external financing should be sought only on highly concessional terms.

- **A shift to a higher share of domestic financing risks undermining the debt outlook over the medium- to long-term**. A heavier reliance on domestic financing has its costs (in the form of higher interest rates) and could represent a risk to fiscal sustainability if it exceeds the limit identified in the DSA of 0.5 percent of GDP annually.

- **The envisaged scaling up of aid under the Gleneagles scenarios should be based on highly concessional financing in order to avoid increasing Benin's risk of debt distress**. A grant element of 35 percent, as under the program threshold under the PRGF arrangement, could result in a high risk of debt distress. The scaling up should therefore be mainly financed through grants and highly concessional lending.

13. **Overall, staff recommends that consideration be given to a public debt strategy that limits the risk of debt distress and thus avoids a return to an unsustainable debt burden**. In this regard, staff suggests targeting the speed and concessionality of debt accumulation, ensuring that external debt be contracted only on highly concessional terms, and choosing the appropriate composition between external and domestic financing to safeguard debt sustainability.

14. **The authorities broadly concurred with the thrust of the analysis and its findings**.[12] They expressed concern, though, about the limited concessional external financing available to scale up infrastructure spending over the coming years. They therefore indicated the need to resort to nonconcessional domestic financing as a last resort when concessional external financing falls short of Benin's development needs.

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[12] The CNE has prepared the first national DSA to be included in the 2009 budget. Preparation of individual national DSAs is a recent recommendation for CFA franc countries by the *Pôle-Dette.* Following the recommendation of *Pôle-Dette*, the WAEMU issued a regulation on external borrowing: "Règlement n° 09/2007/CM/UEMOA portant cadre de référence de la politique d'endettement public et de gestion de la dette publique dans les Etats membres de l'UEMOA."

Appendix Table 1. Benin: External Debt Sustainability Framework, Baseline Scenario, 2005-2028 1/
(In percent of GDP, unless otherwise indicated) 1/

	Actual			Projections								Average	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2018	2028	2008–13	2014–28
External debt (nominal) 1/	36.9	12.2	13.2	13.0	13.9	15.0	15.8	16.5	17.3	19.7	20.6		
o/w public and publicly guaranteed (PPG)	36.9	11.5	12.5	12.6	13.6	14.8	15.7	16.5	17.3	19.7	20.6		
Change in external debt	3.1	-24.7	1.0	-0.2	0.9	1.0	0.8	0.7	0.8	0.3	0.0		
Identified net debt-creating flows	0.5	0.3	3.0	6.3	5.2	4.4	4.4	4.3	3.8	3.5	3.3		
Non-interest current account deficit	5.2	5.3	6.5	9.6	7.9	6.6	6.0	5.8	5.2	5.2	5.1	6.9	5.1
Deficit in balance of goods and services	9.4	11.3	12.2	15.1	13.3	12.0	11.3	11.0	10.5	11.3	11.3		
Exports	12.9	11.3	11.8	11.9	11.4	11.7	11.8	11.7	11.7	12.4	12.6		
Imports	22.3	22.6	24.0	27.0	24.8	23.7	23.1	22.6	22.3	23.8	23.9		
Net current transfers (negative = inflow)	-4.8	-6.2	-6.0	-5.7	-5.6	-5.6	-5.6	-5.4	-5.6	-6.2	-6.2	-5.6	-6.2
o/w official	-2.0	-3.1	-2.8	-2.7	-2.7	-2.6	-2.5	-2.4	-2.6	-2.8	-3.4		
Other current account flows (negative = net inflow)	0.6	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.0		
Net FDI (negative = inflow)	-2.2	-2.8	-1.9	-3.0	-2.2	-1.7	-1.1	-0.9	-0.8	-0.8	-1.0	-1.6	-0.9
Endogenous debt dynamics 2/	-2.5	-2.3	-1.6	-0.3	-0.5	-0.5	-0.6	-0.6	-0.6	-0.8	-0.8		
Contribution from nominal interest rate	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3		
Contribution from real GDP growth	-0.9	-1.3	-0.5	-0.5	-0.7	-0.8	-0.8	-0.9	-0.9	-1.1	-1.1		
Contribution from price and exchange rate changes	-1.8	-1.4	-1.3	…	…	…	…	…	…	…	…		
Residual (3-4) 3/	2.6	-25.0	-2.0	-6.5	-4.3	-3.4	-3.5	-3.5	-3.0	-3.2	-3.3		
o/w exceptional financing	-2.1	-2.2	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
PV of external debt 4/	...	...	8.4	8.2	8.8	9.5	10.1	10.6	11.2	13.2	14.3		
In percent of exports	...	...	71.4	69.3	77.0	80.9	85.6	90.8	95.5	106.2	113.4		
PV of PPG external debt	...	...	7.8	7.8	8.5	9.3	9.9	10.5	11.2	13.2	14.3		
In percent of exports	...	...	66.0	65.8	74.3	79.0	84.4	90.3	95.5	106.2	113.4		
In percent of government revenues	...	...	37.7	40.4	42.9	46.5	49.5	52.2	55.0	65.0	70.2		
Debt service-to-exports ratio (in percent)	5.1	198.7	4.7	6.0	5.6	5.8	5.9	6.1	5.2	6.7	8.6		
PPG debt service-to-exports ratio (in percent)	5.1	198.7	4.4	5.1	4.7	5.0	5.2	5.4	4.7	6.7	8.6		
PPG debt service-to-revenue ratio (in percent)	4.0	133.9	2.5	3.1	2.7	2.9	3.0	3.1	2.7	4.1	5.3		
Total gross financing need (Billions of U.S. dollars)	0.2	1.2	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.9	2.2		
Non-interest current account deficit that stabilizes debt ratio	2.1	30.0	5.5	9.8	7.0	5.6	5.2	5.0	4.4	4.8	5.1		
Key macroeconomic assumptions													
Real GDP growth (in percent)	2.9	3.8	4.6	5.1	5.7	5.9	6.0	6.0	6.0	6.0	6.0	5.8	6.0
GDP deflator in US dollar terms (change in percent)	5.6	3.9	12.0	18.7	3.3	1.3	3.4	3.4	3.4	3.5	3.6	5.6	3.5
Effective interest rate (percent) 5/	0.8	1.2	2.2	2.3	1.8	1.8	1.8	1.7	1.7	1.7	1.8	1.8	1.8
Growth of exports of G&S (US dollar terms, in percent)	-2.1	-5.3	21.7	25.7	5.4	10.1	9.8	8.8	10.0	9.8	9.9	11.6	10.2
Growth of imports of G&S (US dollar terms, in percent)	-8.8	9.5	24.0	40.3	0.3	2.8	6.8	7.4	7.7	9.7	9.8	10.9	10.3
Grant element of new public sector borrowing (in percent)	...	...	...	37.4	37.2	37.0	36.2	36.0	35.8	34.8	32.7	36.6	34.2
Government revenues (excluding grants, in percent of GDP)	16.5	16.8	20.6	19.3	19.8	20.0	20.1	20.2	20.3	20.3	20.3		20.3
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.2	0.4	0.6	0.8	1.0	1.3	1.5	3.3	9.7		
o/w Grants	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.5	1.2		
o/w Concessional loans	0.0	0.0	0.0	0.2	0.4	0.5	0.8	1.0	1.2	2.8	8.5		
Grant-equivalent financing (in percent of GDP) 8/	...	...	3.0	3.9	3.9	3.8	3.8	3.6	3.7	3.7	3.6	3.8	3.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	100.0	68.2	71.4	71.1	69.5	68.6	69.1	68.7	67.7	69.7	68.4
Memorandum items:													
Nominal GDP (Billions of US dollars)	4.4	4.7	5.6	6.9	7.6	8.1	8.9	9.8	10.7	17.0	43.0		
Nominal dollar GDP growth	8.7	7.8	17.2	24.7	9.2	7.3	9.6	9.6	9.6	9.7	9.8	**11.7**	9.7
PV of PPG external debt (in Billions of US dollars)			0.4	0.5	0.6	0.8	0.9	1.0	1.2	2.2	6.1		
(PVt-PVt-1)/GDPt-1 (in percent)				2.0	1.5	1.5	1.6	1.6	1.7	1.6	1.4	1.6	1.5

Source: Staff simulations.

1/ Includes both public and private sector external debt.

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

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

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

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

Appendix Table 2.Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	2008–13	2014–28
							Average	
PV of debt-to GDP ratio								
Baseline	7.8	8.5	9.3	9.9	10.5	11.2	9.5	13.5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028	7.8	7.8	8.2	8.8	9.3	10.1	8.7	14.6
A2. New public sector loans on less favorable terms in 2008-2028	7.8	8.7	9.8	10.6	11.4	12.2	10.1	15.6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	7.8	8.7	9.7	10.4	11.1	11.7	9.9	14.2
B2. Export value growth at historical average minus one standard deviation in 2009-2010	7.8	9.3	12.0	12.5	13.0	13.5	11.4	14.6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	7.8	9.1	10.5	11.2	11.9	12.6	10.5	15.2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010	7.8	9.8	11.5	12.0	12.5	13.1	11.1	14.4
B5. Combination of B1-B4 using one-half standard deviation shocks	7.8	10.3	13.3	13.8	14.3	14.8	12.4	15.8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009	7.8	12.0	13.1	14.0	14.8	15.8	12.9	19.0
PV of debt-to-exports ratio								
Baseline	65.8	74.3	79.0	84.4	90.3	95.5	81.6	108.1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028		108.7	114.9	122.2	129.2	141.5	123.3	203.6
A2. New public sector loans on less favorable terms in 2008-2028	65.8	76.4	83.2	90.5	97.7	104.2	86.3	124.9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	65.8	74.3	79.0	84.4	90.3	95.5	81.6	108.1
B2. Export value growth at historical average minus one standard deviation in 2009-2010	65.8	91.8	135.0	140.6	147.0	152.5	122.1	154.6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	65.8	74.3	79.0	84.4	90.3	95.5	81.6	108.1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010	65.8	85.9	97.8	102.2	107.3	111.6	95.1	115.3
B5. Combination of B1-B4 using one-half standard deviation shocks	65.8	90.4	120.6	125.3	130.7	135.3	111.3	135.6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009	65.8	74.3	79.0	84.4	90.3	95.5	81.6	108.1
PV of debt-to-revenue ratio								
Baseline	40.4	42.9	46.5	49.5	52.2	55.0	47.7	66.5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	40.4	47.4	50.1	53.2	56.3	61.7	51.5	88.7
A2. New public sector loans on less favorable terms in 2008-2028 2/	40.4	44.1	48.9	53.0	56.5	60.0	50.5	76.8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	40.4	43.9	48.8	51.9	54.7	57.7	49.6	69.7
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	40.4	47.1	60.2	62.4	64.4	66.6	56.8	72.0
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	40.4	46.0	52.5	55.9	58.9	62.1	52.6	75.0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	40.4	49.5	57.5	59.9	62.0	64.3	55.6	70.9
B5. Combination of B1-B4 using one-half standard deviation shocks	40.4	52.0	66.4	68.7	70.7	72.9	61.8	77.9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	40.4	60.4	65.5	69.8	73.5	77.6	64.5	93.7

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assu
an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

Appendix Table 3. Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2028
(In percent of GDP, unless otherwise indicated) 1/

	Actual			Estimate					Projections				
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
Public sector debt 1/	40.3	12.4	15.4	17.3	18.4	19.8	20.9	22.0	23.1		26.7	30.1	
o/w foreign-currency denominated	36.9	11.5	12.5	12.6	13.6	14.8	15.7	16.5	17.3		19.7	20.6	
Change in public sector debt	7.4	-27.9	3.1	1.8	1.1	1.4	1.2	1.1	1.1		0.6	0.2	
Identified debt-creating flows	4.0	-5.8	-3.4	-0.8	-0.4	0.1	-0.1	0.0	-0.2		-0.6	-0.9	
Primary deficit	2.2	0.0	-1.8	0.9	0.8	0.9	1.1	1.3	1.1	1.0	1.0	0.9	1.0
Revenue and grants	18.6	19.0	23.5	22.1	22.8	22.8	22.9	22.9	23.1		23.1	23.1	
of which: grants	2.1	2.2	3.0	2.8	3.0	2.9	2.8	2.7	2.8		2.8	2.8	
Primary (noninterest) expenditure	20.8	19.1	21.8	23.0	23.6	23.8	24.0	24.2	24.2		24.1	24.0	
Automatic debt dynamics	1.8	-5.8	-1.6	-1.6	-1.3	-0.8	-1.2	-1.3	-1.4		-1.6	-1.8	
Contribution from interest rate/growth differential	-1.7	-2.3	-0.6	-0.8	-0.9	-0.8	-1.1	-1.1	-1.1		-1.4	-1.5	
of which: contribution from average real interest rate	-0.7	-0.8	-0.1	0.0	0.0	0.2	0.1	0.1	0.1		0.1	0.2	
of which: contribution from real GDP growth	-0.9	-1.5	-0.6	-0.7	-0.9	-1.0	-1.1	-1.2	-1.2		-1.5	-1.7	
Contribution from real exchange rate depreciation	3.4	-3.5	-1.0	-0.9	-0.4	0.1	-0.2	-0.2	-0.2		...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	3.5	-22.1	6.5	2.6	1.5	1.2	1.2	1.1	1.3		1.2	1.2	
Other Sustainability Indicators													
PV of public sector debt	3.4	0.9	10.2	12.6	13.3	14.3	15.2	16.0	16.9		20.2	23.8	
o/w foreign-currency denominated	0.0	0.0	7.3	7.9	8.5	9.3	9.9	10.5	11.2		13.2	14.2	
o/w external	...	...	7.3	7.9	8.5	9.3	9.9	10.5	11.2		13.2	14.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...	...	...	...	...	...	...		...	...	
Gross financing need 2/	1.6	2.8	23.7	-1.3	1.7	2.1	2.2	2.5	2.7		2.8	3.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	18.1	4.9	43.4	57.1	58.2	62.5	66.4	70.1	73.4		87.5	102.9	
PV of public sector debt-to-revenue ratio (in percent)	20.4	5.5	49.6	65.4	66.9	71.6	75.7	79.4	83.3		99.4	116.9	
o/w external 3/	…	…	35.5	40.9	42.8	46.4	49.4	52.1	54.9		64.9	70.1	
Debt service-to-revenue and grants ratio (in percent) 4/	3.9	118.2	2.2	3.8	5.3	5.6	5.8	6.1	5.8		7.8	10.4	
Debt service-to-revenue ratio (in percent) 4/	1.8	2.4	0.9	2.1	2.1	2.2	2.4	2.5	2.6		3.1	3.9	
Primary deficit that stabilizes the debt-to-GDP ratio	-5.2	27.9	-4.8	-1.0	-0.3	-0.5	0.0	0.2	0.1		0.5	0.6	
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	2.9	3.8	4.6	5.1	5.7	5.9	6.0	6.0	6.0	5.8	6.0	6.0	6.0
Average nominal interest rate on forex debt (in percent)	0.8	1.2	1.9	2.1	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.8	1.7
Average nominal interest rate on domestic debt (in percent)	0.0	0.0	...	5.7	5.6	5.5	5.5	5.5	5.4	5.5	5.5	5.5	5.5
Average real interest rate (in percent)	-2.3	-2.0	-0.7	-0.1	0.1	1.1	0.3	0.4	0.5	0.4	0.4	0.6	0.5
Real discount rate on foreign-currency debt (in percent)	1.7	1.8	2.3	2.9	3.1	3.1	2.8	3.0	3.2	3.0	2.9	2.9	2.9
Average real interest rate on domestic debt (in percent)	-5.3	-3.7	...	-10.9	2.2	4.2	2.0	2.0	2.0	0.2	2.0	1.9	1.9
Exchange rate (LC per US dollar)	553.3	496.5	449.9	437.0	435.8	433.9	432.2	430.6	428.9	433.1	420.1	399.8	415.0
Nominal depreciation of local currency (percentage change in LC per dollar)	13.1	-10.3	-9.4	-2.9	-0.3	-0.4	-0.4	-0.4	-0.4	-0.8	-0.4	-0.5	-0.5
Exchange rate (US dollar per LC)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal appreciation (increase in US dollar value of local currency, in percent)	-11.6	11.4	10.3	3.0	0.3	0.4	0.4	0.4	0.4	0.8	0.4	0.5	0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	10.5	-10.9	-16.9	-16.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.6	3.9	12.0	18.7	3.3	1.3	3.4	3.4	3.4	5.6	3.5	3.6	3.5
US Inflation rate (GDP deflator, in percent)	3.2	3.2	2.7	2.0	1.8	1.9	2.1	1.9	1.7	1.9	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	37.4	37.2	37.0	36.2	36.0	35.8	36.6	34.8	32.7	...

Sources: Country authorities; and Fund staff estimates and projections.
1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Appendix Table 4. Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	2008–13 Average	2014–28
Debt service-to-exports ratio								
Baseline	5.1	4.7	5.0	5.2	5.4	4.7	5.0	7.3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	5.1	7.5	7.7	8.0	8.3	7.1	7.3	12.9
A2. New public sector loans on less favorable terms in 2008-2028 2	5.1	4.7	4.6	4.9	5.4	4.8	4.9	6.2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	5.1	4.7	5.0	5.2	5.4	4.7	5.0	7.3
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	5.1	5.3	6.8	7.6	7.9	6.9	6.6	10.6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	5.1	4.7	5.0	5.2	5.4	4.7	5.0	7.3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	5.1	4.7	5.3	5.7	5.9	5.1	5.3	7.9
B5. Combination of B1-B4 using one-half standard deviation shocks	5.1	4.9	6.0	6.7	7.0	6.1	6.0	9.3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	5.1	4.7	5.0	5.2	5.4	4.7	5.0	7.3
Debt service-to-revenue ratio								
Baseline	3.1	2.7	2.9	3.0	3.1	2.7	2.9	4.5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	3.1	3.3	3.3	3.5	3.6	3.1	3.3	5.6
A2. New public sector loans on less favorable terms in 2008-2028 2		2.7	2.7	2.9	3.1	2.7	2.8	3.8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	3.1	2.8	3.1	3.2	3.3	2.8	3.0	4.7
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	3.1	2.7	3.0	3.4	3.5	3.0	3.1	4.9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	3.1	2.9	3.3	3.4	3.5	3.1	3.2	5.0
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	3.1	2.7	3.1	3.3	3.4	3.0	3.1	4.9
B5. Combination of B1-B4 using one-half standard deviation shocks	3.1	2.8	3.3	3.7	3.8	3.3	3.3	5.4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	3.1	3.8	4.1	4.3	4.4	3.8	3.9	6.3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	31.8	31.8	31.8	31.8	31.8	31.8	31.8	31.8

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming
1/ At end-2007 with HIPC relief obtained since July 2000.
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

INTERNATIONAL MONETARY FUND

BENIN

Fifth Review Under the Three-Year Poverty Reduction and Growth Facility Arrangement

Informational Annex

Prepared by the African Department

November 25, 2008

Contents — Page

I. Relations with the Fund

(As of October 31, 2008)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	61.90	100.00
Fund holdings of currency	59.72	96.48
Reserve Position	2.19	3.53
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.09	0.98

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements	13.69	22.12

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Aug 05, 2005	Aug 04, 2009	15.48	13.69
PRGF	Jul 17, 2000	Mar 31, 2004	27.00	27.00
PRGF	Aug 28, 1996	Jul 16, 2000	27.18	16.31

VI. Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal				0.18	0.44
Charges/Interest	0.10	0.25	0.25	0.25	0.25
Total	0.10	0.25	0.25	0.42	0.69

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

VII. Implementation of HIPC Initiative:

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

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

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

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

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

II. Debt Relief by Facility (SDR Million)

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

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

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

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

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

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union, which includes Benin. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicated progress has been made in strengthening the bank's safeguards framework since the 2002 assessment and identified some areas where further steps would help solidify it.

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms for improving risk management have been established, and follow-up on internal and external audit recommendations has been strengthened.

The results of continuous safeguards monitoring indicate that while certain vulnerabilities remain in internal control systems and legal structure, there has been some progress in other areas, including through: (i) improving the external audit process by adopting a multi-year audit program; (ii) establishing an audit committee; (iii) expanding disclosures on financial positions of WAEMU countries with the Fund in the notes to the annual financial statements; and (iv) further strengthening of the effectiveness of the internal audit function.

X. Exchange Arrangement:

Benin is a member of the West African Economic and Monetary Union (WAEMU) and has no separate legal tender. The union's common currency, the CFA franc, is pegged to the Euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the Euro and the previous fixed rate of the CFA franc to the French franc of CFAF 100= F 1. On April 28, 2006, the rate of the CFA franc in terms of SDR was CFAF 769.68 = SDR 1.0. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus only reflects a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members. The exchange system common to all member countries of the WAMU is free of restrictions on payments and transfers for current international transactions subject to Fund jurisdiction.

XI. Article IV Consultations:

The last Article IV consultation discussions were held in Cotonou during March 3–17, 2008. The staff report (Country Report No. 08/230)) and selected issues paper were discussed by the Executive Board, and the 2008 Article IV consultation concluded, on June 16, 2008.

XII. ROSC Assessment:

An FAD mission conducted the fiscal module of a Report on Observance of Standards and Codes (ROSC) in May 2001. The mission recommended the adoption of a three-year action plan containing measures to improve expenditure management. The mission also identified a list of actions to be taken quickly to ensure that the authorities were able to monitor budget execution. The ROSC fiscal transparency module for Benin was circulated to the Board on June 6, 2002 (Country Report No. 02/158).

XIII. Technical Assistance for the last five years

A. HEADQUARTERS

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Technical assistance	August 23 – September 3, 2003	Evaluating public expenditure management reforms and monitoring capacity of poverty-reducing expenditures.
FAD	Technical assistance	October 22 – November 5, 2003	Evaluating the implementation of the action plan to strengthen domestic revenue and customs administrations
STA	Technical assistance	November 11- 24, 2004	Assessing the quality of balance of payment statistics.
LEG	Technical assistance	April 24-26, 2006	Providing in-depth training on the AML/CFT framework
FAD	Technical assistance	October 10–23, 2006	Review of status of implementation of reforms to modernize the tax and customs administrations
FAD	Technical assistance	October 30– November 13, 2006	PFM diagnostic and preparation of a reform action plan
FAD	Technical assistance	June 16-30, 2008	Diagnostic of the Tax System and preparation of a tax policy reform.

B. AFRITAC WEST

FAD	Technical assistance	2006, 2007	Customs Administration
FAD	Technical assistance	2006, 2007	Public Expenditure Management
FAD	Technical assistance	2006, 2007, 2008	Tax Administration
MCM	Technical assistance	2006, 2007	Bank Supervision and Regulation
MCM	Technical assistance	2007, 2008	Public Debt and Debt Sustainability
STA	Technical assistance	2006	Government Finance Statistics
STA	Technical assistance	2007, 2008	Multisector Statistics
STA	Technical assistance	2006	National Accounts Statistics
STA	Technical assistance	2006, 2008	Real Sector Statistics

XIV. Resident Representative:

Mr. Yao has been the Resident Representative since September 26, 2005.

II. Joint World Bank-IMF Work Program, 2008-09

Title	Products	Provisional timing of mission	Expected delivery date
A. Mutual information on relevant work programs			
Bank work program in next 12 months	1. Country Assistance Strategy	September 2008	January 2009
	2. Country Economic Memorandum (CEM)	October 2008	June 2009
	3. Competitiveness and Growth Opportunity Project	September 2008	March 2009
	4. PRSC V	September 2008	January 2009
IMF work program in next 12 months	1. Fifth PRGF Review	September 2008	December 2008
	2. Sixth PRGF review	March 2009	June 2009
	3. Discussion on a possible successor arrangement to the PRGF	September 2009	December 2008
B. Requests for work program inputs			
Fund request to Bank	1. Policy note on the financial situation of SBEE		December 2008
Bank request to Fund	1. Review of the tax regime and conditions for a business friendly tax system		June 2009
C. Agreement on joint products and missions			
Joint products in next 12 months	DSA		December 2008
	FSAP		June 2009

III. STATISTICAL ISSUES

1. Data provision has some shortcomings, but is broadly adequate for surveillance. Weaknesses exist in the areas of national accounts, public finance, monetary statistics, and balance of payments. Benin has participated in the General Data Dissemination System (GDDS) since 2001.

Real sector statistics

2. The country participates in WAEMU's harmonization of statistical methodologies currently seeking regional improvements in the area of national accounts. Benin participates in the GDDS project for AFRITAC West countries to implement the *1993 SNA*, a statistical register and an industrial production index are being developed. Implementation is not advancing as expected and the August 2008 West AFRITAC mission discussed with the authorities the necessary steps to accelerate the compilation of the revised accounts. and disseminate them by end-2008. Consumer prices are measured using the WAEMU harmonized consumer price index.

Government finance statistics

3. A key shortcoming is insufficient institutional coverage. Data provided for publication in the 2006, 2007, and 2008 (forthcoming) issues of the *Government Finance Statistics Yearbook* are limited to the "Budgetary Central Government," covering only the principal ministries and some of the other units of central government. Data on general government is not available.

Monetary and financial statistics

4. Monetary and financial statistics are compiled and disseminated by the regional Central Bank of West African States (BCEAO). While institutional coverage of monetary statistics is comprehensive, accuracy is hampered by the use of 1990 sorting coefficients to estimate cross border amounts of banknotes among BCEAO countries, which in turn, are used to estimate currency in circulation and to adjust the net foreign assets of each member country. In August 2006, the BCEAO reported to STA monetary data for June 2006 for all its member countries using Standardized Report Forms., which are in line to *Monetary and Financial Statistical Manual (MFSM)*, but has yet to implement SRF based reporting on a regular basis.

Balance of payments

5. Despite recent improvement in compiling balance of payments data in line with the *Balance of Payments Manual, Fifth Edition*, external statistics continue to be affected by shortcomings. A November 2004 STA technical assistance mission found: insufficient human resources devoted to balance of payments statistics by the national agency of the BCEAO; untested hypotheses and reference bases on trade and informal transactions; underestimation of transportation services; and overestimation of current transfers; limited coverage of direct investment; and a backlog of unsorted banknotes that impact the compilation of net external assets and international investment position. In addition, balance of payments statistics are

disseminated with a lag of more than one year and the international investment position data with a lag of 18-month

6. Regarding trade data, the ASYCUDA customs computer system is now installed in all main border customs houses; ASYCUDA ++ is installed in the port and at the airport. The interconnection between the computer systems of the main departments of Customs has not been completed yet and the monitoring of import data needs to be improved.

7. Further improvement in the data for services and transfers (especially remittances) will depend on the intensification of the contacts with reporting bodies. The authorities are encouraged to enhance human and technical resources.

8. Concerning the financial account, the coverage of foreign assets of the private no banking sector is incomplete as the surveys of residents' foreign assets remain very partial, and no use is made of an existing data source, viz. BIS statistics. The organization of an annual survey of foreign direct investment transactions is still at a very preliminary stage. The BCEAO has recently updated the compilation of commercial bank data on payments involving nonresidents; however these data are not used to produce annual balance of payments estimates, but rather to assess existing information.

9. The Caisse Autonome d'Amortissements (CAA) is responsible for signing international loan agreements, maintaining the debt database, and servicing the government's external debt obligations. Since 1995, the CAA has been using the Commonwealth Secretariat Debt Recording and Management System. For the majority of creditors, the CAA's database is fairly comprehensive and up-to-date, and contains accurate stock data, and produces projected debt-service flows on a loan-by-loan basis. For a small number of creditors, however, regular statements are not received.

Poverty data

10. Major methodological weaknesses remain regarding poverty data. In particular, the methodology used in household surveys raises concerns about the treatment of the nonfood expenditure share in the calculation of the poverty line, the division of the country into 12 agro-ecological zones, and the comparability of poverty statistics across urban and rural areas and across time. The authorities are implementing an action plan to address these methodological issues. The authorities have completed a modular survey of household living conditions to update the poverty profile in the context of the preparation of the second PRSP.

Benin: Table of Common Indicators Required for Surveillance
(As of November 7, 2008)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	07/07	10/07	M	M	M
Reserve/Base Money	7/08	10/08	M	M	M
Broad Money	7/08	10/08	M	M	M
Central Bank Balance Sheet	7/08	10/08	M	M	M
Consolidated Balance Sheet of the Banking System	7/08	10/08	M	M	M
Interest Rates[2]	9/08	10/08	M	M	M
Consumer Price Index	8/08	10/08	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/06	3/07	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	NA	NA	NA	NA	NA
External Current Account Balance	2006	12/07	A	A	A
Exports and Imports of Goods and Services	2006	12/07	A	Q	A
GDP/GNP	2007	06/08	A	A	A
Gross External Debt	2006	03/08	A	I	A
International Investment Position[6]	2006	10/08			

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign domestic bank and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability position vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 08/323
FOR IMMEDIATE RELEASE
December 15, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under PRGF Arrangement with Benin and Approves US$1.3 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fifth review of Benin's economic performance under the SDR 15.48 million (about US$23.1 million) Poverty Reduction and Growth Facility (PRGF) arrangement. The arrangement was approved on August 5, 2005 (see Press Release No.05/190), and subsequently extended to August 4, 2009. In June 2008 it was augmented by 150 percent in order to help the country deal with rising food and oil prices.

In completing the review, the Board approved Benin's request for waivers of the non-observance of two performance criteria pertaining to net domestic financing and to the contracting of new non-concessional external debt. The completion of the review enables Benin to draw an amount equivalent to SDR 0.88 million (about US$1.3 million).

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

“Supported by prudent fiscal policies, economic growth in Benin continues to strengthen, while the inflationary impact of higher international food and fuel prices is subsiding. The authorities are cognizant of the need to keep the momentum on fiscal consolidation and structural reforms, in order to preserve macroeconomic stability and to raise growth further to help reduce poverty. These efforts have become more crucial with the weakening of the global economy.

“The authorities have allowed full pass-through of international prices, accompanied by well-targeted safety net measures. This will help the economy adjust and foster a positive agricultural supply response. The authorities are persevering in their efforts to improve governance in the revenue agencies and strengthen tax and customs administration. It will also be critical to improve public expenditure management and bolster civil service reform. These reforms will create increased fiscal space for poverty reduction and growth-supporting expenditures.

“The preservation of fiscal and public debt sustainability will require continued prudent public debt management, reliance on highly concessional external financing, and limited recourse to nonconcessional financing in the regional financial market.

“Further structural reforms are needed to free Benin’s growth potential. The recent privatization of SONAPRA’s ginning activities and Continental Bank-Benin will help strengthen Benin’s competitiveness. The authorities are encouraged to complete the comprehensive reform strategy for the cotton sector, restructure the state-owned telecommunications and electricity companies, and enhance the competitiveness of the port of Cotonou. These reforms are critical to improving the delivery of public services, lowering production costs, and alleviating capacity constraints,” Mr. Portugal said.

Statement by Mr. Laurean Rutayisire, Executive Director for Benin

December 12, 2008

1. On behalf of my Benin authorities, I would like to thank the Executive Board, Management and Staff for their continued support to Benin Government's efforts towards sustained reforms and sound macroeconomic policies.

2. Benin's economic performance under the PRGF-supported program continue to be satisfactory. All the quantitative performance criteria and benchmarks for end-June 2008 were met, with exception of the criterion regarding domestic financing of government and continuous criterion on nonconcessional borrowing. Regarding the former, the slippage was temporary, and corrective measures have been taken to ensure its observance at end-December 2008. Regarding the nonconcessional borrowing, the slippage was due to erroneous interpretation of some technical elements in the computation of the level of concessionality. After discussions with staff, my authorities initiated a process to renegotiate the loan with the lender and other partners, with the view to obtaining more favorable conditions. Beside, no disbursement under the loan has been effected to date. In view of the temporary nature of the slippages and the corrective steps already being taken, my authorities have requested waivers of nonobservance of these two performance criteria.

3. Despite the shock that resulted from the food and energy crisis since toward end-2007, real GDP growth rate is projected to strengthen in 2008 (to 5.1 percent) and in 2009 (5.7 percent) – continuing its upward trend observed since 2006. These performances are the consequence of the improved macroeconomic environment, the vitality of the activities related to the Port of Cotonou and the continuing buoyancy of the agricultural and services sectors. After soaring at 12 percent yoy in September 2008, inflation is now slowing down, as a result of the declining international prices for food and fuel, but also as a consequence of the government's fiscal stance. The inflation rate is projected to average 8.8 percent in 2008 and to fall within the limits of WAEMU convergence criterion in 2010.

4. Following the marked increase in import bills, especially for food and oil products, the current account balance worsened during the first half of this year. But, a rebound of FDI and inflows of additional public capital have increased the financial account surplus, thus limiting the contraction of international reserves. As now the world prices for commodities are receding, the deficit is expected to narrow, notwithstanding the likely impact on imports of the projected increase in demand for public investment and that of the current global economic slowdown on exports.

5. The **fiscal consolidation** engaged by the authorities since 2006 was pursued in 2008, despite the budgetary pressures that resulted from the fuel and energy crisis, the need to protect the poor, and the accelerated implementation of the public investment program. In addition to its intensified efforts to mobilize revenues, government increased its tight control over expenditure. As a result, the end-June 2008 targeted surplus of basic fiscal balance was met, whereas that of overall budget deficit (on cash-basis) was missed, due to

settlement of the Treasury's accounts payable. Nonetheless, corrective measures have been taken to ensure its observance at end-December 2008.

6. Similar efforts will be pursued in 2009 and beyond, to achieve a prudent fiscal stance that preserve the macroeconomic stability, while responding to the development needs of infrastructure, which are among the major prerequisite for strong and sustainable economic growth and poverty reduction. In the same order, and also to preserve the sustainability of Benin's debt position, the government reaffirms its commitment to continue seeking grants or highly concessional loans to finance its expenditure needs. Accordingly, domestic indebtedness - which comprises borrowing on the WAEMU financial market – will be limited on the basis of the annual debt sustainability analysis.

7. Further steps are taken to addressing vulnerabilities in the **banking system**, including to limit any potential impact of the current global financial crisis – which is expected so far to be low. Bank supervision capabilities will be further strengthened to improve compliance with prudential ratios, and the supervision of microfinance institutions will continue to improve. In this respect, the authorities have agreed to request an FSAP mission to Benin to follow up on the WAEMU regional FSAP. The assessment will help identify additional measures to reinforce the banking sector compliance, but also to design a comprehensive strategy for the development of the financial sector, that improves access to credit especially by small - and medium-sized enterprises.

8. Implementation of the authorities' structural reform agenda is accelerating: privatization of SONAPRA and Continental Bank-Benin have been completed; in consultation with the sector's stakeholders and development partners, the government is on track to finalize its new strategy for the development of the cotton sector; preparation of the government's strategy to improve the financial position of the National Retirement Fund is in progress with a view to be completed by year-end; a resident port management expert is now helping in the day-to-day running of the Cotonou Port; and a consortium of consultants has been recruited to help with the privatization of the Benin Telecom and the cement factor in the upcoming months. Implementation of other major structural reforms, such as in the energy sector, is moving forcefully in accordance to the authorities' engagements under the program. In attempt to remove obstacles to the implementation of the reform agenda, my authorities remain determined to enhance dialogue on the economic benefits through processes that involve participation of stakeholder groups and technical supports from donors.

9. In view of the achievements during the period under review and the continuing commitments of the authorities to push ahead their reform agenda as agreed under the PRGF-supported program, I will much appreciate the Board's support for the completion of this review, and approval of the requested waivers. My authorities are also hopeful that they can continue to count on a timely and adequate financial and technical assistance from the Fund and the international community to support their reform efforts.