INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/6

BENIN

January 2016

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BENIN

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV Consultation with Benin, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 11, 2015 consideration of the staff report that concluded the Article IV consultation with Benin.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 11, 2015 following discussions that ended on September 14, 2015, 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 24, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Staff Supplement** of December 10, 2015 updating information on recent developments.
- A **Statement by the Executive Director** for Benin.

The document listed below has been or will be separately released.

Selected Issues

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

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December 16, 2015

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2015 Article IV Consultation with Benin

On December 11, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Benin.

For the third consecutive year, Benin is expected to reach solid economic growth in 2015 at around 5 percent, despite recent headwinds from the economic slowdown in Nigeria—Benin's major trading partner. In 2016, increased public investment is expected to keep real GDP growth at about 5½ percent, with inflation to remain subdued. The medium-term outlook is also positive overall, but subject to significant risks, including a further slowdown in Nigeria and delays of structural reforms that could weaken growth dynamics.

Low debt levels help accommodate the government's ambitious plans to further scale up investment over the medium term. To implement investment plans for 2015 despite revenue shortfalls, the government has sharply increased the amount of bonds issued in the regional financial market to support higher investment spending prior to the February 2016 elections. Reliance on the regional financial market for budget financing has been facilitated by the regional central bank's (BCEAO) accommodative monetary policy

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' prudent policies, which have contributed to a solid macroeconomic performance. Nevertheless,

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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

higher, sustainable, and more inclusive growth is required to reduce poverty against the backdrop of a more challenging environment, including the economic slowdown in neighboring Nigeria. Directors emphasized the need for further progress in improving fiscal policy management and faster implementation of structural reforms to enhance the business environment and foster greater diversification.

Directors agreed that the authorities’ plan to scale up infrastructure investment is well placed to strengthen growth, and that prudent fiscal policy in the past provides some space to finance higher investment. However, they recommended a more gradual and prioritized approach to raising investment. This would provide more time to further improve public financial management, which is crucial to ensure high-quality investments with a strong impact on economic growth. Directors also recommended caution regarding the sharp increase in domestic financing, stressing that the higher fiscal costs of such financing compared to concessional financing, as well as the associated macro-financial risks from sovereign-bank linkages, need to be closely monitored.

Directors supported the authorities’ efforts to undertake structural fiscal reforms and called for their timely implementation. In view of rising debt to finance investment, they stressed that internal revenue mobilization, through a further deepening of customs and tax reforms, will be crucial to ensure fiscal sustainability over the medium term. Further improvements in debt management, including broadening the coverage to include the debt of state-owned enterprises, will also be important to monitor risks.

Directors called for further improvements in the business environment and the financial market infrastructure to strengthen the foundation for more diversified, private sector-led growth. Accelerating the establishment of a credit bureau and reforming property titles, would go a long way in improving financial inclusion and supporting private credit growth, while pressing ahead with judicial reform would facilitate contract enforcement and financial deepening. Directors noted that improvements to the business environment, together with timely payment of government obligations to banks and private companies, would help bring down high non-performing loans. They also called for stronger supervision in view of loan concentration risks, and for action to improve oversight of the microfinance sector to preserve its role in facilitating access to financial services for low-income households.

Directors looked forward to continued efforts to improve the quality and timeliness of economic data, in particular fiscal and external sector data.

It is expected that the next Article IV consultation with Benin will be held on the standard 12-month cycle.

Table 1. Benin: Selected Economic and Financial Indicators, 2011–20

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Prel.			Projections			
					(Annual percentage change)					
National income										
GDP at current prices	6.8	12.4	8.6	5.2	6.0	7.5	7.7	8.1	7.9	8.2
GDP at constant prices	3.0	4.6	6.9	6.5	5.2	5.5	5.5	5.7	5.8	6.0
GDP deflator	3.7	7.4	1.6	-1.3	0.8	1.9	2.1	2.2	2.0	2.1
Consumer price index (average)	2.7	6.7	1.0	-1.1	0.5	2.2	2.4	2.6	2.7	2.7
Consumer price index (end of period)	1.8	6.8	-1.8	-0.8	2.3	2.3	2.5	2.7	2.7	2.7
Central government finance										
Total revenue	0.4	19.3	10.1	-1.9	7.1	7.5	7.7	8.7	8.6	8.9
Expenditure and net lending	7.5	8.1	16.7	-3.7	26.5	4.8	5.9	7.0	8.2	7.7
External sector										
Exports of goods and services	-4.6	-3.0	27.9	6.3	15.2	5.2	14.7	14.8	12.5	9.6
Imports of goods and services	-4.5	17.1	21.4	7.2	15.4	10.0	10.3	13.8	9.9	10.0
Terms of trade (minus = deterioration)	-0.1	0.7	0.7	2.1	6.2	-2.2	-1.9	-1.8	-3.1	-2.1
Nominal effective exchange rate (minus = depreciation)	1.2	-5.0	3.6	2.7	...	...	...	...	...	...
Real effective exchange rate (minus = depreciation)	-0.6	-1.8	1.5	-1.1	...	...	...	...	...	...
					(Change in percent of beginning-of-period broad money)					
Money and credit										
Net domestic assets	10.0	4.7	10.6	8.4	9.3	8.5	...	...	...	...
Domestic credit	12.8	4.4	16.5	0.4	8.6	8.5	...	...	...	...
Net claims on central government	6.5	-0.9	0.9	1.7	5.0	3.7	...	...	...	...
Credit to the nongovernment sector	6.0	5.0	15.6	-1.2	3.6	4.8	...	...	...	...
Broad money (M2)	9.1	9.0	17.3	16.7	12.5	14.6	...	...	...	...
					(Percent of GDP, unless otherwise indicated)					
National accounts										
Gross investment	24.1	22.7	28.5	25.0	27.5	28.5	27.7	27.8	27.9	27.8
Government investment	6.1	5.2	6.4	5.3	7.8	7.1	6.6	6.4	6.4	6.4
Nongovernment investment [1]	18.0	17.4	22.1	19.7	19.7	21.3	21.1	21.4	21.5	21.4
Gross domestic saving	14.0	9.2	14.3	10.4	11.6	11.4	11.0	10.3	10.6	10.1
Government saving	2.4	3.1	3.6	2.1	1.4	1.3	1.1	1.2	1.3	1.5
Non-government saving	11.6	6.1	10.7	8.3	10.3	10.1	9.9	9.1	9.3	8.6
Gross national saving	16.8	13.2	19.0	15.6	16.5	17.0	16.8	16.9	17.4	17.4
Consumption	86.0	90.8	85.7	89.6	88.4	88.6	89.0	89.7	89.4	89.9
Government consumption	12.3	12.4	12.3	12.6	13.0	12.7	12.9	12.9	12.9	12.9
Non-government consumption	73.7	78.4	73.4	77.0	75.3	75.9	76.1	76.8	76.5	77.0
Central government finance										
Total revenue	16.4	17.4	17.7	16.5	16.7	16.7	16.7	16.8	16.9	17.0
Expenditure and net lending	20.5	19.7	21.1	19.4	23.1	22.5	22.2	21.9	22.0	21.9
Primary balance [2]	-3.6	-1.7	-3.0	-2.5	-5.6	-4.7	-4.4	-4.0	-3.9	-3.6
Basic primary balance [3]	-0.1	0.6	1.1	0.0	-2.7	-1.5	-1.7	-1.4	-1.2	-1.0
Overall fiscal deficit (payment order basis, excl. grants)	-4.0	-2.2	-3.5	-2.9	-6.4	-5.9	-5.5	-5.2	-5.1	-4.9
Overall fiscal deficit (cash basis, excl. grants)	-4.6	-2.4	-3.3	-3.5	-6.7	-6.0	-5.5	-5.2	-5.1	-4.9
Debt service (percent of revenue)	5.4	6.7	6.1	6.0	10.2	10.4	10.7	11.2	11.4	11.5
Total government debt	29.9	26.8	25.4	30.9	35.1	37.0	38.0	39.4	40.7	41.5
External sector										
Balance of goods and services	-10.1	-13.4	-14.2	-14.6	-15.9	-17.1	-16.8	-17.5	-17.3	-17.7
Current account balance (incl. grants)	-7.3	-9.5	-9.5	-9.3	-11.0	-11.4	-10.9	-10.8	-10.5	-10.4
Current account balance (excl. grants)	-7.6	-10.3	-9.8	-9.5	-11.0	-11.4	-11.1	-11.0	-10.7	-10.5
Overall balance of payments	-4.1	-2.6	-0.7	1.0	-1.7	-0.6	-0.3	0.1	0.5	0.8
Debt service-to-exports ratio	4.4	6.3	5.2	5.0	6.6	5.7	5.0	5.0	4.6	4.3
Debt-to-GDP ratio (post-MDRI)	16.6	15.4	16.8	20.1	20.4	20.4	20.4	20.2	20.1	20.0
Nominal GDP (billions of CFA francs)	3,687	4,144	4,501	4,734	5,018	5,394	5,808	6,278	6,776	7,334
CFA francs per U.S. dollar (period average)	471.4	510.2	493.9	493.6	589.6	586.8	...	...	...	...
Total non-financial public sector debt [4]					...	37.6	39.2	41.1	42.8	44.1
Total non-financial public sector investment [5]					...	8.9	8.0	7.7	7.6	7.3
Population (millions)	9.8	10.1	10.3	10.6	10.9	11.1	11.4	11.7	11.9	12.2
Nominal GDP per capita (U.S. dollars)	800	808	883	905	784	826	878	937	997	1,055

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Including off-budget investment implemented by non-financial public enterprises.

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

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

[4] Data include projected central government debt and new non-financial public sector borrowing for infrastructure from 2016 onward.

[5] Data include central government investments and non-financial public sector investments that are not in the central government budget.

INTERNATIONAL MONETARY FUND

BENIN

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

November 24, 2015

KEY ISSUES

Context and outlook. Economic growth improved against the backdrop of a restrained fiscal stance and progress in structural reforms during the authorities' ECF-supported program in 2010–14. Growth is projected to exceed 5 percent in 2015–16 despite recent headwinds from the slowdown in Nigeria, reflecting stepped-up public investment to address infrastructure bottlenecks in 2015–19. Achieving the authorities' objective of accelerating growth will require stronger progress in structural reforms in the business environment, public financial management, and domestic revenue mobilization.

Policy discussions. The authorities and staff agreed that Benin's macroeconomic performance remains solid, and discussions focused on how to strengthen fiscal policy to ensure that the scaling up of public investment is successful and achieve maximum growth impact without jeopardizing debt sustainability.

- Prudent fiscal policy in recent years has generated some fiscal space for investment, but in light of capacity and funding constraints, a more measured pace of investment increase, especially in the near-term, would help achieve quality results while containing the rising risk from relying on financing in the regional bond market.

- Accelerating structural reforms to enhance domestic revenue mobilization, raise expenditure efficiency, and further strengthen debt management is critical to sustain fiscal space without jeopardizing debt sustainability.

- In addition to infrastructure gaps and the weak business environment, constraints to financing have impeded growth, with private credit growth lagging behind the WAEMU average, reflecting constraints of high non-performing loans (NPLs) related to gaps in financial market infrastructure. Looking for opportunities to make profits, banks have been lending increasingly to the government, refinanced by the BCEAO with its accommodative monetary policy. Consequently, macro-financial risks are on the rise.

Approved By
Abebe Aemro Selassie and Peter Allum

Discussions took place in Cotonou from August 31 to September 14, 2015. The staff team comprised Ms. Dieterich (head), Messrs. Barhoumi, Cui, Maino (all AFR), Mr. End and Ms. Salins (FAD). Messrs. Moers (Resident Representative) and Houessou (local economist) also participated. Mr. MacWilliam (World Bank) participated in some technical meetings. Mr. Yang and Mmes. Margevich and Toure provided research and administrative support, respectively, in preparing the report.

The IMF team met with the President, Prime Minister, Minister of State in charge of the Economy, Finance, and Denationalization Programs, National Director of the BCEAO, and other government and central bank officials, as well as members of the Finance Committee of parliament, representatives of the financial and private sectors, NGOs, academia, and international development partners.

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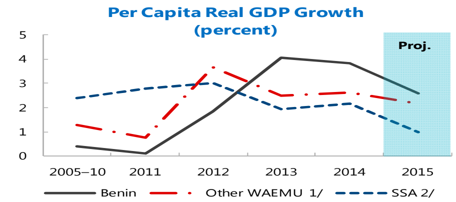
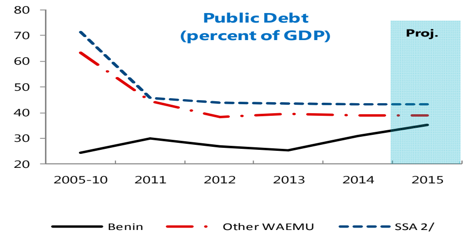
ANNEXES

BACKGROUND





Sources: Beninese authorities and IMF staff estimates.
1/ Excluding countries that had crisis in the comparison period: Côte d'Ivoire, Guinea-Bissau, and Mali.
2/ Excluding oil producers.

1. **Macroeconomic performance has been encouraging in recent years.** Economic growth remained steady at around 5 percent in 2015 despite headwinds from Nigeria. Three consecutive years of strong growth has helped Benin close the gap of per capita income growth with the Sub-Sahara Africa (SSA) region. Inflation has remained low. Fiscal policy has been prudent, preserving debt at around 30 percent of GDP by end-2014—10 percentage points below the WAEMU average.

2. **Political stability has contributed to favorable conditions for growth.** The April 2015 parliamentary elections ended peacefully. While President Yayi's coalition remains the largest in parliament, it lost its majority. The President has reiterated that he will respect the constitutional two-term limit and not seek re-election in the February 2016 elections.

3. **Benin is now at a critical juncture, with opportunities to turn the three-year growth recovery into high and sustainable growth, but there are also risks from Nigerian spillovers and weak institutions:**

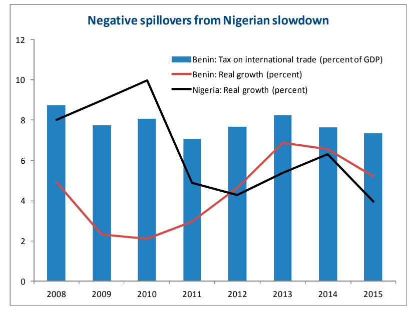
- **The government's ambitious plan to scale up investment provides an opportunity to boost growth, if accompanied by strong structural reforms.** In a Round Table conference with donors and private investors in Paris in June 2014, the government presented investment projects to address infrastructure bottlenecks to growth, mainly in energy and transport. The low debt level provides some scope for increasing investment without jeopardizing debt sustainability, but structural reforms are essential to ensure that investment spending results in high quality infrastructure. For a strong private sector response to improved infrastructure, further progress in improving the business environment is essential.

- **Close trade links to Nigeria expose Benin to risks from volatile commodity prices (Box1), but the proximity creates opportunities to accelerate economic development.** The common External Tariff (CET) for the Economic Community of West African States (ECOWAS) countries (including Benin and Nigeria), effective since January 2015, may adversely affect informal trade between Nigeria and Benin and, consequently, Benin's fiscal revenues, as transition arrangements are gradually phased out. However, enhanced access to the bigger ECOWAS market should help Benin boost trade and diversify the economy. The growth potential is also strong in the agricultural sector, which accounts for 80 percent of employment.[1]

[1] World Bank, 2015, Benin-Diagnostic Trade Integration Study Update: From Rents to Competitiveness.

Box 1. Spillovers from Nigeria

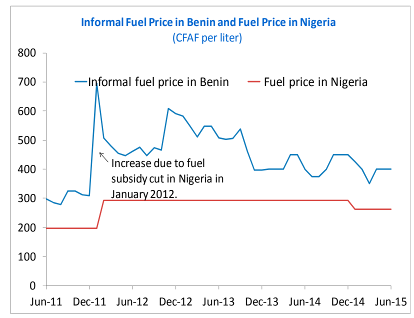
The Beninese economy is deeply interconnected with Nigeria. Staff estimates that a 1 percentage point reduction in Nigerian growth is associated with 0.3 percentage point reduction in Benin's growth rate. Spillovers occur through the following channels:



Sources: Beninese authorities and IMF staff calculations

Informal trade. Nigeria has import bans and high tariffs on a wide range of products, leading to arbitrage trade. The World Bank (2015) estimates that about 20 percent of Benin's GDP is related to this informal trade. Nigerian domestic demand thus significantly affects Benin's growth. The ECOWAS CET is expected to reduce tariffs in Nigeria gradually,[2] likely leading to a decline in informal trade over time.

Fuel prices and subsidies. Nigeria's subsidized fuel prices have attracted informal fuel exports to Benin, where 85 percent of the gasoline is estimated to be from Nigeria. Nigeria's temporary cut of fuel subsidies in January 2012 triggered an immediate fuel price spike in Benin. As trading smuggled fuel is a significant source of income for poor households, a reduction in fuel subsidies in Nigeria, as currently under consideration, would negatively affect these people.



Sources: Beninese authorities and IMF staff calculations

Fiscal revenue. Benin's revenue collection on informal trade is estimated at 2 percent of GDP, equivalent to 14 percent of total tax revenues.[3] In addition to customs duties and processing fees, VAT is levied on these imports, which have to be declared for domestic consumption because the Beninese authorities refuse to process imports prohibited by Nigeria as transit goods.

Financial sector. The principal shareholders of two banks in Benin are Nigerian. They are sufficiently capitalized and possess some buffer against possible shocks to Nigeria's banking system. Another bank under receivership also has Nigerian ownership. These three banks hold about 15 percent of Beninese deposits and a similar amount of loans. However, the portfolio of banks in Benin is highly concentrated on commerce, which, in turn, depends on Nigeria's performance.

RECENT DEVELOPMENTS AND OUTLOOK

4. **While growth prospects for 2015 should benefit from a planned rise in public investment, bad weather conditions and the slowdown in Nigeria will affect growth.** These negative factors are expected to reduce economic growth compared to 2014 even if the sharp increase of investment in the 2015 budget, equivalent to 2½ percentage points of GDP, materializes. Inflation remains subdued despite a moderate uptick in food prices, reflecting the effect of bad weather conditions on food production. Some progress has been made in improving human development indicators (Table 7), particularly access to education, health, and water services, but poverty remains high.[4]

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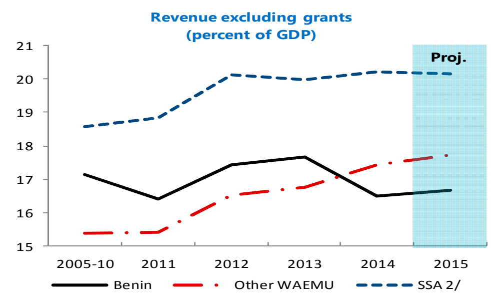
[2] The ECOWAS CET has a provision for temporary Import Adjustment Tax to allow non WAEMU countries to adjust to the CET during the 5-year transitional period ending in 2019. Nigeria intends to use this provision.

[3] Geourjon, Chambas, and Laporte, 2008, Benin: Modernization of the Fiscal System, IMF TA Report.

[4] The national poverty rate published by INSAE was 36 percent for 2011. The World Bank estimate for 2012 is 51.7 percent vs. a SSA average of 42.7 percent based on the share of population living on the international poverty

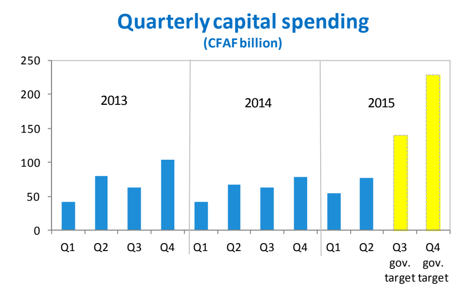
(continued)

5. While the government has reacted to funding shortfalls by slowing down the planned increase in investment spending, significant de facto arrears have accumulated. Weak customs revenues, delays in privatization of telecom companies, and declines in donor funding[5] complicated budget execution. Due to these funding shortfalls and capacity constraints, the execution of capital spending was low in 2014, and continued to lag behind budget targets until August 2015. Despite these spending cuts, payment delays have occurred, reaching around 1¾ percent of GDP in the form of treasury checks that have not yet been cleared and delays in processing spending in the expenditure chain.[6] On the positive side, the government secured funding for energy projects over the medium-term thanks to a new agreement with the Millennium Challenge Corporation, which provides a grant of US$375 million over 5 years, conditioning on improving the regulatory framework for the electricity sector.



Sources: Beninese authorities and IMF staff calculations

6. The government intends to rely on domestic bank financing to drastically accelerate investment during the rest of 2015, pay off de facto arrears, and finance the 2016 budget. The investment acceleration planned for the last months of 2015 far exceeds the pattern observed in past years (text chart). Funding has already been mobilized by placing bonds in the regional financial market and by direct bank loans for specific projects. Compared to the mainly concessional external financing sources with an average interest rate of 1¾ percent, borrowing from banks is expensive, at 6½ percent for one-year maturity. In addition, the government informed banks in November of plans not to service short-term bank loans for the remainder of 2015 and for 2016, but to provide them with long-term treasury bonds instead to have the liquidity to clear de facto arrears. Negotiations between banks and the government are still ongoing.



Sources: Beninese authorities and IMF staff calculations

line of PPP$1.9/day. Available at http://iresearch.worldbank.org/PovcalNet/. Poverty data in Table 7 are based on UN data to show consistency with earlier MDG targets.

[5] The Netherlands suspended aid due to corruption in a water project in mid-2015, but resumed assistance after the authorities prepared an anti-corruption action plan.

[6] According to the government definition, these payment delays do not count as arrears, which only occur 90 days after the payment order ("ordonnancement") stage of the expenditure chain.

Text Table 1. Benin: Central Government Operations, 2013–15
(Percent of GDP)

	2013	2014		2015	
	Actual	Budget	Actual	Budget	Revised budget
Total Revenues	17.7	17.4	16.5	17.2	16.7
Capital spending	6.4	6.7	5.3	8.9	7.8
Overall deficit	-3.3	-3.7	-3.5	-6.6	-6.4
Financing					
Domestic	-0.6	0.9	0.8	2.2	4.3
External	3.9	2.8	2.7	4.3	2.1

Sources: Beninese authorities and IMF staff calculation.

7. **Implementation of the government's ambitious structural reform agenda has shown mixed performance, contributing to slow investment budget execution (see Box 2 for a detailed description of fiscal reform progress).** Reform objectives in public financial management (PFM) focus on improving the efficiency of investment spending and developing capacity to manage PPPs. To broaden the fiscal space for higher investment, revenue measures were identified with a particular focus on reducing the dependency on volatile customs revenues. While the four-year program with the IMF, supported by the Extended Credit Facility (ECF), expired in June 2014, Fund staff has continued to assist the government in capacity-building projects through technical assistance missions (see Informational Annex).

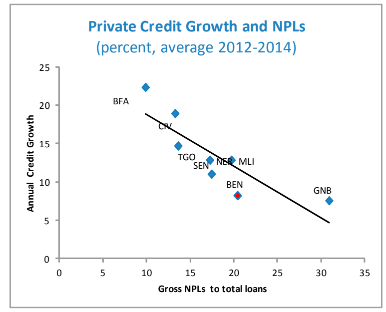
8. **Increased public investment is expected to widen the external current account deficit in 2015 and beyond.** The current account deficit reached around 9 percent of GDP in 2013–14, financed mainly by concessional funding and foreign direct investment (FDI), but would widen to 11 percent of GDP in 2015 reflecting higher imports for investments (Table 4).

9. **The exchange rate assessment indicates that the real exchange rate is moderately overvalued.** As the widening current account deficit over the next years reflects the temporary rise in investment, it has only limited effect on the external stability analysis, which indicates that the real effective exchange rate is moderately overvalued as in the last Article IV consultation (2012). Weak broader competitiveness indicators underline the urgency for implementing structural reforms (Annex II).

10. **Persistent problems with non-performing loans (NPLs)—among the highest in the WAEMU—have constrained credit to the private sector (Table 6 and text chart).**[7] In 2014, the large exposure by several banks' to a business group that encountered difficulties aggravated the

[7] Benin is a pilot country for the initiative on mainstreaming the financial sector surveillance, and thus this report highlights the relevant aspects throughout its analysis, and is accompanied by a Selected Issues Paper on the topic.

already high NPL ratio. Although guarantees provided by the business group limited provisioning needs in the end, which would otherwise have led to an undercapitalization of a few banks, capital adequacy remains low at just above 8 percent. The provisioning rate is also low at about 50 percent, 10 percentage points below the WAEMU average. Loan concentration has remained high, partly reflecting Benin's underdeveloped financial sector and weak business environment, particularly the lack of property titles and borrower information. This kept credit growth to the private sector below the WAEMU average and likely reduced Benin's growth.



Sources: BCEAO and IMF staff calculations

11. Progress has been made in resolving two banks under receivership after long delays. NPLs of a bank under receivership since 2012, equivalent to around ½ percent of GDP, are expected to be assumed by the government to complete its restructuring, but no timing has been confirmed. Another bank under receivership has been merged with a pan-African bank. Three new banks have been licensed, and two opened in Benin in 2015.

12. In view of high risks in the private sector, banks have shifted towards lending to the government, but this has created new risks related to payment delays. Lending to the government has become a major source of profits for banks because of the interest margin of 3 percentage points between one-year government bonds and the BCEAO refinancing rate.[8] Implementation of the government's recent plan not to service short-term bank loans due, but offer long-term regional treasury bonds in exchange would render this rising exposure to sovereign risks particularly worrisome. Moreover, payment delays have been detrimental for businesses' confidence in the state.[9]

13. In contrast to banks, microfinance institutions (MFIs) have experienced fast growth, but the expansion of unauthorized MFIs is a concern (Figure 1). MFIs have been growing at a rapid pace and currently account for about 10 percent of the assets of the financial system. They provide financial services to 2.1 million clients, or 20 percent of the population. However, the share of credits at risk of even the authorized MFIs has been high and reached 7 percent in 2014, above the norm set at 3 percent. The authorities have started enhancing supervision and enforcement to address financial stability concerns. Measures include the establishment of an inter-ministerial committee in charge of cleaning up unregistered MFIs and the assignment of supervision of large MFIs to the WAEMU Banking Commission and BCEAO, and by upgrading the Ministry of Finance's directorate responsible for supervising the other MFIs to a new agency in 2015. Despite these efforts, only six out of an estimated 500-600 unauthorized MFIs have been closed since 2010.

[8] For detailed analysis, see Selected Issues Paper (SIP).

[9] The banks reported an outstanding stock of overdue treasury checks of some CFAF 22 billion in September 2015, but this is not classified in the fiscal tables as payment arrears (see footnote 5).

14. Benin's Doing Business indicators have improved recently, but deeply rooted institutional weaknesses, including in the judiciary, will take time to tackle. Benin was among the top 10 performers in improving its Doing Business ranking in 2015 and improved its ranking further to 158 in the 2016 ranking, but still remains below the SSA average ranking of 142.[10] The establishment of the one-stop shop for starting a business and reforms of customs and port processes to facilitate cross-border trading triggered the improved ranking. However, for example, the absence of an effective credit registry and problems in registering property titles continue to constrain access to credit. A weak judiciary hinders contract enforcement and adversely affects the business environment more generally.

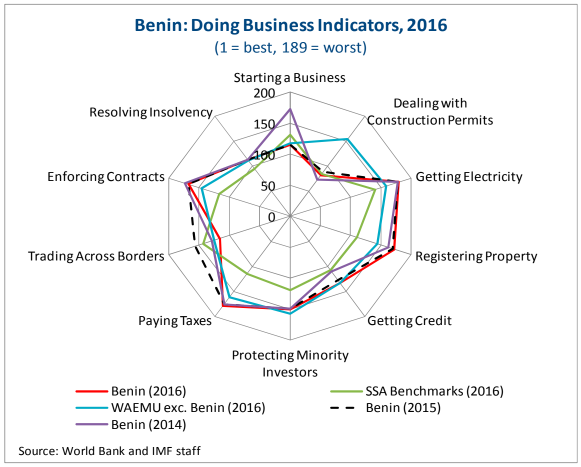
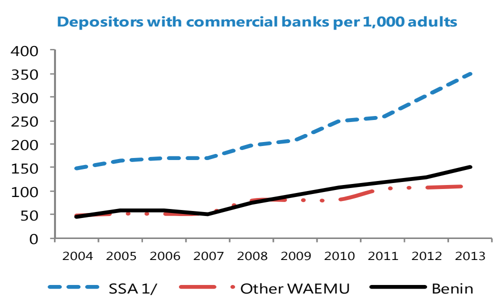
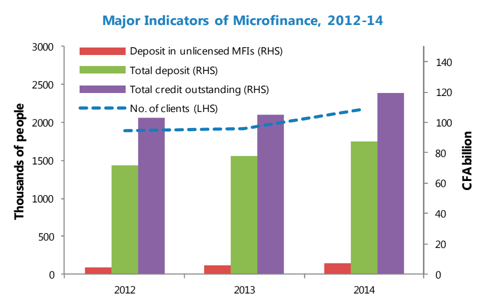


Figure 1. Benin: Financial Sector Access Indicators

Benin's access to banking services is in line with WAEMU average…



..but MFIs have experienced fast growth, including the unauthorized ones.



Sources: Beninese authorities and World Bank and IMF staff estimates.
1/ Excluding countries that had recent crisis episodes: Côte d'Ivoire, Guinea-Bissau, and Mali.

OUTLOOK AND RISKS

15. The economic outlook remains positive overall. In 2016, increased investment is expected to keep real GDP growth steady at about 5½ percent. Improved infrastructure combined with structural reforms would steadily raise growth to 6 percent over the medium-term. Moderate increases in domestic revenue mobilization are projected to help bringing down the fiscal deficit to about 4¾ percent of GDP by 2020 (Baseline Scenario).

[10] World Bank Doing Business 2016, including the revised 2015 ranking.

16. However, this outlook is subject to significant risks (Annex IV), including:

- A further slowdown in Nigeria owing to low oil prices, which could weaken Benin's exports, fiscal position, and growth.
- Weak institutional capacity that could delay structural reforms, undermine the quality of investment, and weaken the private sector response to rising public investment.
- Banking sector vulnerabilities to credit risk and macro-financial risks. Stress tests find banks vulnerable to higher NPLs, default of concentrated exposures, and sovereign risk.

17. The Risk Scenario in Text Table 2 illustrates how the macroeconomic situation would change if the first two of these risks were to materialize. Assuming that the impact of public investment scaling up on private investment is limited and that Nigeria's growth is around 2 percentage points below the baseline for 2016 and 2017, Benin's growth would drop to below 5 percent in 2016 and level out at around 4½ percent over the medium-term.

Text Table 2. Comparison of Selected Indicators, 2015–20: Baseline Versus Risk Scenario
(percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020
Real GDP (Percent)						
Baseline	5.2	5.5	5.5	5.7	5.8	6.0
Risk	5.2	4.8	4.6	4.5	4.4	4.4
Total Investment						
Baseline	27.5	28.5	27.7	27.8	27.9	27.8
Risk	27.5	28.5	26.5	26.0	25.7	25.4
Fiscal deficit						
Baseline	-6.4	-5.7	-5.3	-5.0	-4.9	-4.7
Risk	-6.4	-6.3	-6.0	-5.6	-5.6	-5.5
Total Debt						
Baseline	35.1	36.8	37.7	38.8	39.9	40.6
Risk	35.1	37.2	38.5	40.3	42.2	43.8
Current Account						
Baseline	-11.0	-11.4	-11.1	-11.0	-10.7	-10.5
Risk	-11.0	-10.8	-10.6	-10.0	-9.2	-9.0

Sources: IMF staff estimates and projections.

Box 2. Benin: Progress in Fiscal Structural Reforms

Tax and customs administration: The lack of coordination between tax and customs administration has prevented the coherent use of the unique tax identification number—a core reform of the last IMF-supported program. In an economy so dependent on trade, customs information is essential to broaden the domestic taxpayer base, but there is a lack of coordination. However, within the tax and customs directorates, some progress has been made:

Tax administration: Work on a comprehensive tax administration reform plan has been ongoing for several years, including with FAD technical assistance, without a definitive outcome. The government is now also working on the plan with Canadian assistance, complemented by a new IT system. After long delays, electronic tax payments have been introduced. The one-stop business and tax registration for micro and small firms is also a positive development.

Customs administration: Progress has been made in upgrading IT and establishing a risk management system, but its effect was muted by incomplete application of the risk management system's findings when selecting goods for inspection. This could also reduce the efficiency of the recently purchased scanners. An external consultant has started to work with customs staff to enhance valuation, which has potential to improve revenue collection and improve governance.

Tax policy: The extension of the professional tax to micro and small enterprises has been planned to support their move to the formal sector but its application will not be effective before 2016. Revenue losses from exemptions have been rising until 2015, but the authorities have reduced ad hoc tax expenditures by not renewing exemptions on telecommunication and postal services in the draft 2016 budget.

Debt management: In line with Fund technical assistance recommendations, the debt management agency (CAA) has recently streamlined responsibilities with the Treasury directorate, reorganized its structure along front-middle-back office lines, and developed its strategy. Once the Treasury directorate has implemented similar efforts, the new organization setup will allow for better coordinated debt management. Commendable plans are also under way at the CAA to increase reporting, widen the monitoring of government liabilities to include SOEs, and improve governance by establishing internal audit systems.

PFM: The authorities have initiated medium-term reforms to implement the new organic budget law that includes state of the art practices like accrual accounting and program budgeting, which have already led to the preparation of a multi-year budget framework in the draft 2016 budget. However, progress in addressing weaknesses in day to day operations has been mixed.

Budget and treasury management has continued to suffer from problems in managing the expenditure chain as commitments were not sufficiently adjusted to revenue shortfalls. To prevent reporting of arrears, processing of expenditures has been delayed, and some treasury checks issued to private firms have not been cleared.

Coverage and transparency of budget reporting has been constrained by insufficient reporting of costs stemming from SOEs, including subsidies to the cotton campaign and the electricity sector. Contingent liabilities have not been sufficiently monitored or reported despite recent efforts. Efforts to establish a sound framework for managing PPPs and monitoring associated risks have been delayed.

Audit capacity has been identified as a major weakness in the 2014 PEFA, which makes public spending vulnerable to corruption. To address this shortcoming, confirmed by the forensic audit in reaction to fraud in a donor-financed water project, the authorities prepared an anti-corruption action plan which includes sanctions against those responsible and preventive measures against reoccurrence. The newly created Bureau of the Auditor General (BAG) has started positive efforts in capacity building in internal audit, enforcement of timely external audits of SOEs, and systematic follow up on audit recommendations.

POLICY DISCUSSIONS

18. While Benin's macroeconomic performance remains solid, sustaining strong and inclusive growth remains a challenge. Three consecutive years of sustained growth above 5 percent helped Benin reverse a decade's weaker performance relative to its peers, but poverty has not come down. Moving forward, staff and the authorities agreed that sustaining strong and more inclusive growth requires increasing public infrastructure investment while safeguarding debt sustainability and advancing structural reforms to foster a vibrant private sector that can create jobs for Benin's young and growing population.[11] In this context, discussions centered on how to ensure that the scaling up of investment yields the maximum growth dividend. In particular, the focus was on:

- improving fiscal policy management to support the scaling up of investment, including by strengthening revenue to broaden fiscal space, preserving debt sustainability, and enhancing implementation capacity to achieve value for money; and
- bolstering the business environment so that private sector investment responds positively to improvement in public infrastructure, including through removing obstacles for the financial sector.

A. Strengthen Fiscal Policy to Successfully Scale up Public Investment

19. Government plans to scale up investment are projected to widen the fiscal deficit from around 3½ percent (2011–14) to an average of 5½ percent over the next five years. While some uncertainty remains regarding the total investment volume, the draft 2016–18 multi-year program budget includes central government investment equivalent to around 10 percent of GDP.[12] These investments would be complemented by investments by State-Owned Enterprises (SOEs) of around 4 percent of GDP, including a hydropower project jointly with Togo, for which discussions are under way with the Exim Bank of China. In addition, a large Private Public Partnership (PPP) has been established for a regional railroad project, but no information on terms and conditions is available yet. Reflecting the scarcity of external concessional financing, the government identified other financing options, including syndicated loans through the West African Development Bank (BOAD).

20. Reflecting debt relief and prudent fiscal policy in the past, the planned investment and financing mix would increase but keep the risk of debt distress at the low level (see debt

[11] See African Departmental Paper (forthcoming) "Make Investment Scaling-up Work for Stronger Growth in Benin: A Systematic Macro-Fiscal Analysis" for a comprehensive analysis of growth constraints, using the Hausman-Rodrik-Velasco growth diagnostics approach.

[12] Projects that account for about 1/3 of investment of the medium-term program have been advanced, mainly in energy and transport infrastructure.

sustainability analysis (DSA)). Although the DSA's ratio of the present value (PV) of external debt to exports marginally and temporarily breaches the threshold under a shock scenario, all other indicators remain comfortably below their thresholds. This conclusion remains valid when total public debt is considered. However, the upward trajectory in the fixed primary deficit scenario underscores the need for caution. When using the Risk Scenario (Text table 2) as a baseline in the DSA, the risk of debt distress would even rise to moderate. Moreover, the recent confirmation of a regional court ruling that orders the state to pay about CFAF 144 billion, equivalent to around 3 percent of GDP, to a business group for contract breach is not incorporated in the DSA, as the government has stated that it will take the case to international courts.

21. The authorities emphasized continued commitment to sustainable fiscal policy. Regarding external vulnerabilities, they pointed out that the breach of the threshold mainly reflects Benin's high historical export volatility due to the large share of informal re-exports. Recent successes in diversifying exports, notably cashews and cement, should mitigate export volatility, and improved infrastructure and business environment would continue to boost exports. Benin's WAEMU membership also assures its ability to pay in case of a temporary shock. Ongoing debt management reform will further strengthen the ability to balance pressing investment needs with the debt sustainability objective.

22. However, for 2016, the planned continued reliance on the regional market to finance investment carries risks for budget execution. The authorities are convinced that the strong demand for government bonds and their historically low interest rates provide an opportunity to raise financing for important development projects, in particular, the energy shortage that has plagued the economy with frequent power outages. With increased regional market appetite for securities with long maturities, rollover risks have diminished. They also pointed out that the telecommunication privatization, originally scheduled for 2015, would reduce domestic financing needs. Staff cautioned that privatization proceeds might not materialize fully, given weakening risk appetite by international investors. Moreover, increased government borrowing could crowd out the private sector, especially should the BCEAO reverse its current accommodative monetary policy. Implementation of the recent government plan to issue a large amount of long-term regional bonds to banks in exchange for short-term credits to the government would increase banks' liquidity risks, potentially further limiting their capacity to support the private sector. Reducing the government borrowing need would help banks to cut their high sovereign exposure, and would thus reduce the high macro-financial risk. The government emphasized that any meaningful reform of treasury processes requires addressing payment delays that have been accumulating. Replacing short-term bank loans with long-term treasury bonds would further improve the maturity structure of government debt.

23. A more gradual increase in investment would not only reduce the risk of repeating bumpy budget execution, but also give time to improve PFM. While the authorities acknowledged for 2015 the low capital spending execution until August, they expect the pace to pick up, as many projects proposed during the 2014 Round Table are now shovel-ready. Staff emphasized the importance of advancing PFM reforms in order to avoid compromising the quality of public investment. In particular, it is necessary to address key weaknesses identified in the 2014 PEFA, including cash forecasting and management, public procurement, and audit. An analysis comparing Benin's efficiency in health and education spending with other countries also reveals scope for improving spending efficiency in the social sectors.[13]

24. For the medium-term, domestic revenue mobilization is critical for enhancing fiscal sustainability and reducing vulnerabilities. Fund staff and the authorities agreed that to reduce vulnerabilities from Nigeria and from further trade liberalization, domestic revenues need to grow faster than in the past. Based on a comparison with regional peers, Benin's tax gap is estimated at about 2 percent of GDP.[14] To help close the gap, comprehensive tax administration reform and better cooperation between customs and tax administration are critical. Further, reducing and streamlining exemptions, including by revisiting the provisions of the investment code, will also enhance revenue. In this regard, the elimination of some ad hoc exemptions in the 2016 draft budget is a step in the right direction. The authorities noted that reforms to mobilize more domestic revenue have started but results would take time to materialize.

25. Data quality, including on fiscal reporting, needs to be improved to provide a good basis for policy decisions and enhance transparency to the public. The lack of timely reporting of transactions between SOEs involved in cotton production and the budget makes it difficult to assess cotton subsidies, now estimated by the government at ½ percent of GDP. Assessing subsidies to the electricity sector, recently augmented to address electricity shortages, faces similar constraints.[15] Therefore, estimates for these subsidies are preliminary (Table 2 and 3), which underlines the need for more timely and transparent fiscal reporting and SOE audits. A decision of the Council of Ministers in November 2015 to pay for debt owned by CEB[16] to Nigeria by issuing government bonds equivalent to about ½ percent of GDP underlines the potential fiscal risks from SOEs. Developing a framework to implement the Government Financial Statistics Manual (GFSM) 2001 would provide a good roadmap to improve fiscal data, and the Fund is providing technical assistance on this. For the real sector, the recent re-basing of national accounts is an improvement (Annex 1), but resource constraints at the National Institute of Statistics (INSAE) hamper prospects for compiling quarterly GDP data to better support the authorities' policy decisions. The 2016 budget does not provide for additional resources for INSAE. Capacity constraints also affect Benin's reporting of external sector and debt statistics to the IMF.

[13] Due to data constraints, the analysis is limited to the education and health sectors. See the African Department Paper.

[14] See the analysis of the tax potential in the African Department Paper.

[15] The most recent audit report of the cotton campaign was still under preparation at the time of the mission. No audit report was made available for the major electricity SOEs.

[16] Communauté Electrique du Bénin, co-owned by the governments of Benin and Togo, in charge of electricity infrastructure.

B. Business Environment Reforms to Support Higher Growth

26. As pointed out in the growth diagnostic,[17] the weak business environment has been holding back growth, including by hampering financial intermediation. Problems in the financial sector are closely linked with the overall weak business environment. While progress has been made in improving some areas of the business environment, progress in closing gaps in financial market infrastructure that cause obstacles to financial intermediation have been limited.

27. To support banks' financing of private investment, gaps in financial market infrastructure that constrain risk assessment for lending need to be addressed. Bank emphasized that the lack of property titles, asymmetric information, and the weak judicial system are key barriers to more efficient intermediation. Uncertainty about the quality of collateral makes financial institutions hesitant to lend unless the borrower provides exceptional and large guarantees, which has been found to have a significant adverse effect on growth and financial inclusion.[18] The authorities noted progress in issuing land titles in Cotonou, but acknowledged the need for further progress in providing electronic title registration for easy use and in extending titling to the whole country. The government and BCEAO are working with parliament to accelerate approval of draft legislation to establish a credit bureau in line with WAEMU directives. While judicial reform has been slow, the authorities underlined their intention to improve capacity by extending training on commercial regulation and creating commercial courts and arbitration mechanisms.

28. These gaps in financial market infrastructure are also at the root of the stubbornly high NPLs. Reducing Benin's NPL to the WAEMU average level is estimated to be able to raise private credit growth by about 4 to 6 percentage points.[19] Such an increase would also translate into higher growth and job creation by the private sector. While structural reforms for financial deepening would help address this weakness, the government's non-compliance to pay private firms on time is according to banks a frequent source of firms' late payments for loans. A banking sector stress test finds that credit risks, including from loan concentration risks, are a severe vulnerability for the banking system—exceeding the level faced by banking systems in most other WAEMU countries.[20] In particular, banks' concentration to loans in the service sector exposes them to heightened risks of lower informal trade with Nigeria. Staff advised that the regional authorities should address forbearance by stricter enforcement of prudential norms on loan concentration, which has been on the rise, and tighten the monitoring and reporting requirements on risk-based capital. The authorities' agreed with the findings of the stress test analysis, and noted that implementation of a WAEMU directive that increases banks' minimum capital requirement would strengthen banks' resilience. Regarding credit concentration, they pointed out that while this

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[17] See the growth diagnosis in the African Department Paper.

[18] See SIP.

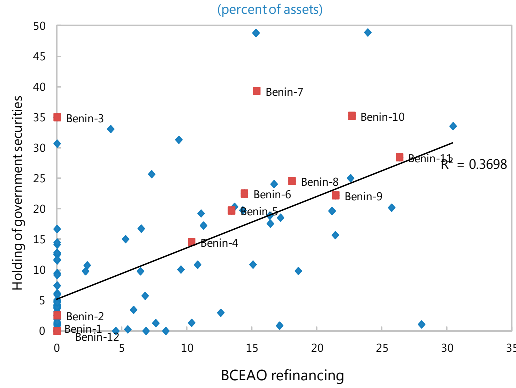
[19] See SIP.

[20] See IMF Country Report 15/100.

constitutes a risk for banks, it is a common phenomenon in developing countries with shallow financial markets and a large informal sector.

29. The significant increase of banks' holding of government securities aggravates macro-financial risks. Staff expressed concern that banks' reliance on the interest margin between government bonds and the low refinancing rate is not sustainable and undermines the banks' core function in supporting credit to the private sector. Beninese banks' increasing exposure to the government and their use of BCEAO refinancing exceeds WAEMU averages. This tightens the bank-sovereign linkages in a shallow financial market, which can amplify risks when liquidity conditions tighten. Stress tests show that banks' capital adequacy ratio could fall below the minimum 8 percent in case of a partial default on sovereign bonds. Implementation of the recent government plan to replace short-term bank loans by long-term government bonds would increase liquidity risks as well as sovereign risks on banks' balance sheets. A more measured pace in increasing investment and stronger implementation of structural reforms to enhance the financial market infrastructure would help to contain macro-financial risk.

Holding of Government Securities and BCEAO Refinancing of Banks 1/
(percent of assets)



Sources: BCEAO and IMF staff calculations
1/ Data for 12 banks in Benin as of June 2015 and for about 90 banks in other WAEMU countries as of June 2014

30. Despite some recent progress, the bank resolution regime lacks time constraints for resolution, resulting in increasing losses in problem banks. The protracted bank resolution has allowed loss making banks to remain in operation, accumulating further losses and increasing the final cost for the budget for one bank. The authorities pointed to a recent decision of the WAEMU Council of Ministers to develop a harmonized regional resolution framework.

31. While fast-growing MFIs contribute to higher financial inclusion, their supervision and regulation needs urgent improvement. The size of potential liabilities from deposits in unauthorized MFIs would be a manageable fiscal risk in case of a crisis (equivalent to about ½ percent of GDP),[21] but a microfinance system failure triggered by failed MFIs would hurt access to finance for the most vulnerable parts of the population.[22] Increasing the number of supervisors, especially in rural areas, is necessary for timely supervision and enforcement of regulations, including through closures. Regarding the regulatory framework for MFIs, staff noted that the ceiling on the lending rate of 24 percent for MFIs may warrant a re-evaluation to enhance the sustainability of MFIs, given that few MFIs observe it and the ceiling appears low compared to other developing

[21] An estimate at the lower end based on data for a subset of unauthorized MFIs.

[22] A plan to assess the impact of access to microfinance on poverty by analyzing household survey data did not materialize during the Article IV consultation because the survey data were not provided. Once available, the authorities intend to pursue this project with Fund staff.

countries.[23] The authorities noted that setting this WAEMU-wide ceiling was based on a participatory process, and some tax exemptions and below-market financing by the National Microfinance Fund would offset the impact. They also pointed out that the WAEMU's regional deposit insurance scheme is close to becoming operational,[24] which would strengthen stability in the banking and microfinance sectors. Staff underscored the need for enhanced risk-based supervision to support the effective functioning of the deposit insurance scheme.

32. Coherent implementation of the legislative and regulatory framework for AML/CFT would improve governance, both in the public and private sector. In particular, the collaboration between the Financial Intelligence Unit (CENTIF) and financial sector supervisors should be strengthened. These agencies should also implement a risk-based approach focusing their limited resources on the main risks, including those related to corruption.

33. The latest (December 2013) assessment of the WAEMU common central bank, BCEAO, found a continuing strong control environment. In this context, implementation of the 2010 Institutional Reform of the WAEMU has enhanced the BCEAO's governance framework. Specifically, an internal audit committee was established and progress is underway to strengthen its capacity with external expertise to oversee the audit and financial reporting processes; transparency has increased with more timely publication of audited financial statements; and the BCEAO is committed to fully comply with international financial reporting standards for the audit of FY 2015. The assessment also identified some limitations in the external audit process and recommended that steps be taken to ensure the adequacy of the mechanism through selection of a second experienced audit firm to conduct joint external audits, which was done in 2015.

STAFF APPRAISAL

34. Economic growth in Benin has increased, but higher, sustainable, and more inclusive growth is required to reduce poverty. Improved growth has contributed to some amelioration in human development indicators, but poverty remains high. Only if the private sector can create jobs for Benin's young and growing population will poverty come down sustainably. The real exchange rate is found to be moderately overvalued, and broader competitiveness indicators need further improvement.

35. Debt relief and low fiscal deficits have provided some fiscal space for investment, but a more gradual approach to raising investments is recommended to ensure their quality, preserve comfortable buffers against risks of debt distress, and minimize financing risks. With

[23] A Millennium Challenge Account study in 2008–09 on Benin, Mali, and Senegal finds that an effective interest rate that ensures sustainability of MFIs needs is about 36.6 percent. A recent World Bank study on Benin's MFI confirms a similar finding, see the SIP for details.

[24] The deposit insurance agency has been created, and its operation is pending on the appointment of its management. WAEMU agreement on setting up the regional deposit insurance allows automatic participation of Benin and can cover deposit-taking MFIs.

the planned investment acceleration, Benin moves close to face a moderate risk of debt distress, underlining the need to use the fiscal space wisely. This requires stronger implementation of critical PFM and business environment reforms to translate this ambitious investment into higher growth. In particular, forceful actions to strengthen governance are essential. Expenditure prioritization in the context of enhanced PFM would help create addition fiscal space. The sharp increase in the issuance of government securities, which would be amplified by the recent government plan to substitute a large amount of regional bonds for debt repayments to banks, is costly, contradicts the government's intention to improve the business environment, and increases macro-financial risks given banks' already high sovereign exposure.

36. Stronger domestic revenue mobilization would reduce reliance on expensive domestic bank financing in the near-term and facilitate fiscal consolidation in the medium-term. In this regard, improvements in customs management reform initiated under the last ECF-supported program need to be consolidated and strengthened. The long overdue reform blueprint for tax administration is essential to allow domestic revenues to gradually offset declining and volatile customs revenues. Better coordination between tax and customs administration is technically a low-hanging fruit to improve revenue performance in the short-term.

37. Stronger government implementation of structural reforms is required for the banking sector to better support growth. Further improvements in the business environment, and timely payment of government obligations to banks and private companies should be the starting point to bring down high NPLs. In addition, correcting information asymmetries through accelerating the establishment of a credit bureau and reforming property titles would go a long way in improving financial inclusion and supporting private investment. Enhancing judicial reforms to facilitate contract enforcement is a long-term, but crucial reform objective.

38. The recent decision of the WAEMU Council of Ministers to develop a harmonized framework for banking resolution offers an opportunity to enforce a time limit. The need for a time limit is underlined by the fiscal cost for a problem bank that has been under receivership for three years.

39. While MFIs have been an important contributor to financial inclusion, these achievements could disappear if stability risks materialize. Faster progress in reducing the large number of unauthorized MFIs, as well as improving supervision is warranted to ensure that achievements in financial inclusion are not jeopardized.

40. Data provision is broadly adequate for standard surveillance, but further progress is needed. In particular, quality and timeliness of national accounts and fiscal data should be improved to better inform policy decisions. This requires additional resources, especially for INSAE.

41. It is proposed that the next Article IV consultation take place on the standard 12–month cycle.

Table 1. Benin: Selected Economic and Financial Indicators, 2011–20

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Prel.	Projections					
					(Annual percentage change)					
National income										
GDP at current prices	6.8	12.4	8.6	5.2	6.0	7.5	7.7	8.1	7.9	8.2
GDP at constant prices	3.0	4.6	6.9	6.5	5.2	5.5	5.5	5.7	5.8	6.0
GDP deflator	3.7	7.4	1.6	-1.3	0.8	1.9	2.1	2.2	2.0	2.1
Consumer price index (average)	2.7	6.7	1.0	-1.1	0.5	2.2	2.4	2.6	2.7	2.7
Consumer price index (end of period)	1.8	6.8	-1.8	-0.8	2.3	2.3	2.5	2.7	2.7	2.7
Central government finance										
Total revenue	0.4	19.3	10.1	-1.9	7.1	7.5	7.7	8.7	8.6	8.9
Expenditure and net lending	7.5	8.1	16.7	-3.7	26.5	4.8	5.9	7.0	8.2	7.7
External sector										
Exports of goods and services	-4.6	-3.0	27.9	6.3	15.2	5.2	14.7	14.8	12.5	9.6
Imports of goods and services	-4.5	17.1	21.4	7.2	15.4	10.0	10.3	13.8	9.9	10.0
Terms of trade (minus = deterioration)	-0.1	0.7	0.7	2.1	6.2	-2.2	-1.9	-1.8	-3.1	-2.1
Nominal effective exchange rate (minus = depreciation)	1.2	-5.0	3.6	2.7	…	…	…	…	…	…
Real effective exchange rate (minus = depreciation)	-0.6	-1.8	1.5	-1.1	…	…	…	…	…	…
					(Change in percent of beginning-of-period broad money)					
Money and credit										
Net domestic assets	10.0	4.7	10.6	8.4	9.3	8.5	…	…	…	…
Domestic credit	12.8	4.4	16.5	0.4	8.6	8.5	…	…	…	…
Net claims on central government	6.5	-0.9	0.9	1.7	5.0	3.7	…	…	…	…
Credit to the nongovernment sector	6.0	5.0	15.6	-1.2	3.6	4.8	…	…	…	…
Broad money (M2)	9.1	9.0	17.3	16.7	12.5	14.6	…	…	…	…
					(Percent of GDP, unless otherwise indicated)					
National accounts										
Gross investment	24.1	22.7	28.5	25.0	27.5	28.5	27.7	27.8	27.9	27.8
Government investment	6.1	5.2	6.4	5.3	7.8	7.1	6.6	6.4	6.4	6.4
Nongovernment investment [1]	18.0	17.4	22.1	19.7	19.7	21.3	21.1	21.4	21.5	21.4
Gross domestic saving	14.0	9.2	14.3	10.4	11.6	11.4	11.0	10.3	10.6	10.1
Government saving	2.4	3.1	3.6	2.1	1.4	1.3	1.1	1.2	1.3	1.5
Non-government saving	11.6	6.1	10.7	8.3	10.3	10.1	9.9	9.1	9.3	8.6
Gross national saving	16.8	13.2	19.0	15.6	16.5	17.0	16.8	16.9	17.4	17.4
Consumption	86.0	90.8	85.7	89.6	88.4	88.6	89.0	89.7	89.4	89.9
Government consumption	12.3	12.4	12.3	12.6	13.0	12.7	12.9	12.9	12.9	12.9
Non-government consumption	73.7	78.4	73.4	77.0	75.3	75.9	76.1	76.8	76.5	77.0
Central government finance										
Total revenue	16.4	17.4	17.7	16.5	16.7	16.7	16.7	16.8	16.9	17.0
Expenditure and net lending	20.5	19.7	21.1	19.4	23.1	22.5	22.2	21.9	22.0	21.9
Primary balance [2]	-3.6	-1.7	-3.0	-2.5	-5.6	-4.7	-4.4	-4.0	-3.9	-3.6
Basic primary balance [3]	-0.1	0.6	1.1	0.0	-2.7	-1.5	-1.7	-1.4	-1.2	-1.0
Overall fiscal deficit (payment order basis, excl. grants)	-4.0	-2.2	-3.5	-2.9	-6.4	-5.9	-5.5	-5.2	-5.1	-4.9
Overall fiscal deficit (cash basis, excl. grants)	-4.6	-2.4	-3.3	-3.5	-6.7	-6.0	-5.5	-5.2	-5.1	-4.9
Debt service (percent of revenue)	5.4	6.7	6.1	6.0	10.2	10.4	10.7	11.2	11.4	11.5
Total government debt	29.9	26.8	25.4	30.9	35.1	37.0	38.0	39.4	40.7	41.5
External sector										
Balance of goods and services	-10.1	-13.4	-14.2	-14.6	-15.9	-17.1	-16.8	-17.5	-17.3	-17.7
Current account balance (incl. grants)	-7.3	-9.5	-9.5	-9.3	-11.0	-11.4	-10.9	-10.8	-10.5	-10.4
Current account balance (excl. grants)	-7.6	-10.3	-9.8	-9.5	-11.0	-11.4	-11.1	-11.0	-10.7	-10.5
Overall balance of payments	-4.1	-2.6	-0.7	1.0	-1.7	-0.6	-0.3	0.1	0.5	0.8
Debt service-to-exports ratio	4.4	6.3	5.2	5.0	6.6	5.7	5.0	5.0	4.6	4.3
Debt-to-GDP ratio (post-MDRI)	16.6	15.4	16.8	20.1	20.4	20.4	20.4	20.2	20.1	20.0
Nominal GDP (billions of CFA francs)	3,687	4,144	4,501	4,734	5,018	5,394	5,808	6,278	6,776	7,334
CFA francs per U.S. dollar (period average)	471.4	510.2	493.9	493.6	589.6	586.8	…	…	…	…
Total non-financial public sector debt [4]					…	37.6	39.2	41.1	42.8	44.1
Total non-financial public sector investment [5]					…	8.9	8.0	7.7	7.6	7.3
Population (millions)	9.8	10.1	10.3	10.6	10.9	11.1	11.4	11.7	11.9	12.2
Nominal GDP per capita (U.S. dollars)	800	808	883	905	784	826	878	937	997	1,055

Sources: Beninese authorities; IMF staff estimates and projections.

[1] Including off-budget investment implemented by non-financial public enterprises.

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

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

[4] Data include projected central government debt and new non-financial public sector borrowing for infrastructure from 2016 onward.

[5] Data include central government investments and non-financial public sector investments that are not in the central government budget.

Table 2a. Benin: Consolidated Central Government Operations, 2011–20

	2011	2012	2013	2014	2015		2016		2017	2018	2019	2020
					Budget	Proj.	Budget	Proj.	Projections			
	(Billions of CFA francs)											
Total revenue	605.6	722.5	795.5	780.8	838.2	836.4	896.3	899.4	968.4	1053.0	1143.4	1244.8
Tax revenue	534.7	598.2	668.2	701.2	726.6	736.2	792.4	792.5	853.3	928.6	1009.1	1099.5
Tax on international trade	261.2	318.1	371.6	362.1	360.4	370.0	397.7	397.7	428.3	462.9	499.6	540.8
Direct and indirect taxes	273.5	280.1	296.5	339.1	366.2	366.2	394.7	394.7	425.0	465.7	509.4	558.7
Nontax revenue	70.9	124.4	127.3	79.5	111.6	100.2	103.9	106.9	115.1	124.4	134.3	145.3
Total expenditure and net lending	754.7	815.7	952.0	916.5	1151.0	1159.7	1196.5	1214.9	1287.0	1376.9	1490.1	1604.4
Current expenditure	515.6	592.5	632.8	683.4	758.5	767.2	800.5	830.1	903.6	977.1	1057.3	1136.0
Current primary expenditure	500.7	569.3	612.9	665.1	716.6	725.3	736.2	765.8	838.7	903.3	971.6	1037.7
Wage bill	253.2	279.4	300.3	317.4	326.0	332.0	331.4	356.9	384.3	415.4	448.3	485.2
Pensions and scholarships	48.7	55.5	61.2	67.5	71.0	71.0	83.1	83.1	88.0	92.9	98.3	94.0
Current transfers	109.5	124.5	132.3	176.4	196.3	199.0	202.6	202.5	233.7	251.5	270.2	290.8
of which: subsidies to the cotton sector				30.0	...	23.6	...	22.2	35.8	39.4	42.9	46.7
of which: subsidies to the energy sector				...	...	19.7	...	17.0	22.0	22.0	22.0	22.0
Expenditure on goods and services	89.3	110.0	119.0	103.9	123.3	123.3	119.1	123.3	132.8	143.5	154.9	167.6
Interest	14.9	23.1	19.9	18.3	41.9	41.9	64.3	64.3	65.0	73.7	85.7	98.4
Internal debt	7.1	12.5	10.1	8.1	26.4	26.4	40.2	40.2	49.3	56.4	66.5	77.1
External debt	7.8	10.6	9.8	10.3	15.5	15.5	24.1	24.1	15.6	17.3	19.2	21.3
Capital expenditure and net lending	239.1	223.3	319.2	233.1	392.5	392.5	396.0	384.8	383.3	399.9	432.8	468.4
Capital expenditure	226.6	217.3	288.1	249.6	392.5	392.5	396.0	384.8	383.3	399.9	432.8	468.4
Financed by domestic resources	107.5	129.6	133.8	114.6	245.0	245.0	214.1	215.2	226.0	236.1	256.0	277.0
Financed by external resources	119.1	87.7	154.3	135.1	147.5	147.5	181.9	169.6	157.4	163.8	176.8	191.4
Net lending	12.5	6.0	31.2	-16.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-149.1	-93.2	-156.5	-135.8	-312.9	-323.3	-300.2	-315.6	-318.5	-323.9	-346.8	-359.6
Primary balance [1]	*-134.2*	*-70.1*	*-136.6*	*-117.5*	*-270.9*	*-281.4*	*-235.9*	*-251.3*	*-253.6*	*-250.2*	*-261.0*	*-261.2*
Basic primary balance [2]	*-2.6*	*23.6*	*48.8*	*1.1*	*-123.4*	*-133.8*	*-54.0*	*-81.7*	*-96.2*	*-86.4*	*-84.2*	*-69.9*
Change in arrears	-11.6	-12.2	-7.2	-2.4	-10.4	-10.4	-10.0	-10.0	0.0	0.0	0.0	0.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-11.6	-12.2	-7.2	-2.4	-10.4	-10.4	-10.0	-10.0	0.0	0.0	0.0	0.0
Float [3]	-7.8	5.3	13.0	-28.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-168.5	-100.2	-150.7	-166.2	-323.3	-333.7	-310.2	-325.6	-318.5	-323.9	-346.8	-359.6
Financing	166.2	100.2	150.7	166.2	323.3	333.7	310.2	325.6	318.5	323.9	346.8	359.6
Domestic financing	54.7	6.0	-25.5	39.8	217.2	215.9	113.3	191.3	167.0	168.2	177.9	176.8
Bank financing	100.4	-9.9	15.2	33.6	8.3	117.0	77.7	97.6	58.9	105.4	110.1	103.5
Net use of IMF resources	18.2	16.1	7.5	5.1	-4.4	-2.0	-6.6	-6.6	-9.8	-12.3	-12.1	-11.3
Disbursements	18.3	16.4	7.9	7.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-0.1	-0.3	-0.4	-2.8	-4.4	-2.0	-6.6	-6.6	-9.8	-12.3	-12.1	-11.3
Other	82.2	-26.0	7.7	28.5	12.7	119.0	84.3	104.2	68.7	117.7	122.3	114.8
Nonbank financing	-45.7	15.8	-40.7	6.1	209.0	98.9	86.0	93.7	108.1	62.8	67.8	73.3
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	100.0	50.0	50.0	0.0	0.0	0.0
Restructuring	-30.5	-11.2	-15.8	-8.7	-15.0	-10.2	-10.2	-10.2	0.0	0.0	0.0	0.0
Other	-15.2	27.1	-24.9	14.8	224.0	109.1	-3.8	53.9	58.1	62.8	67.8	73.3
External financing	111.5	94.2	176.2	126.5	106.0	117.8	146.5	134.2	151.6	155.7	168.9	182.8
Project financing	119.1	87.7	154.3	135.1	147.5	147.5	181.9	169.6	157.4	163.8	176.8	191.4
Grants	76.8	43.4	28.1	35.9	42.6	42.6	91.0	65.3	44.9	48.5	52.4	56.7
Loans	42.3	44.3	126.2	99.2	104.9	104.9	90.9	104.3	112.5	115.3	124.4	134.7
Amortization due	-17.9	-25.0	-28.2	-26.6	-41.5	-41.5	-47.1	-47.1	-29.0	-31.9	-32.3	-33.5
Budgetary assistance	10.3	31.5	50.1	18.0	0.0	11.8	11.7	11.7	23.2	23.9	24.4	24.9
Statistical discrepancy	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP (billions of CFA francs)	3,687	4,144	4,501	4,734	...	5,018	...	5,394	5,808	6,278	6,776	7,334
Nonfinancial public sector investment								97.2	82.8	82.0	81.2	67.1

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

[3] Net change in the stock of payment orders whose payment has been postponed to the following period.

Table 2b. Benin: Consolidated Central Government Operations, 2013–15

	2013	2014				2015			
	Year	Q1	Q2	Q3	Year	Q1	Q2	Q3	Year
		Prel.	Prel.	Prel.	Prel.	Est.	Est.	Proj.	Proj.
	(Billions of CFA francs)								
Total revenue	795.5	182.5	368.2	563.6	780.8	191.2	402.5	612.4	836.4
Tax revenue	668.2	163.6	332.2	504.3	701.2	173.5	362.0	539.4	736.2
Tax on international trade	371.6	80.7	161.2	256.8	362.1	87.7	174.8	272.2	370.0
Direct and indirect taxes	296.5	83.0	171.1	247.5	339.1	85.8	187.2	267.2	366.2
Nontax revenue	127.3	18.9	36.0	59.3	79.5	17.7	40.5	73.1	100.2
Total expenditure and net lending	952.0	214.7	461.3	694.7	916.5	226.3	527.7	823.7	1159.7
Current expenditure	632.8	166.9	335.6	509.7	683.4	173.1	391.4	559.1	767.2
Current primary expenditure	612.9	165.6	330.2	499.9	665.1	171.1	381.7	531.4	725.3
Wage bill	300.3	80.6	166.4	249.6	317.4	89.6	172.7	244.7	332.0
Pensions and scholarships	61.2	18.5	34.0	53.4	67.5	18.7	36.2	48.5	71.0
Current transfers	132.3	46.0	82.8	118.9	176.4	40.3	113.8	170.6	199.0
of which: subsidies to the cotton sector		*0.0*	*0.0*	*0.0*	*30.0*	*0.0*	*0.0*	*0.0*	*23.6*
Expenditure on goods and services	119.0	20.5	47.0	77.9	103.9	22.5	58.9	67.6	123.3
Interest	19.9	1.3	5.4	9.8	18.3	2.1	9.6	27.8	41.9
Internal debt	10.1	0.0	0.5	3.2	8.1	0.5	1.0	17.5	26.4
External debt	9.8	1.3	4.9	6.6	10.3	1.5	8.6	10.3	15.5
Capital expenditure and net lending	319.2	47.8	125.7	185.0	233.1	53.2	136.4	264.6	392.5
Capital expenditure	288.1	42.2	109.4	171.6	249.6	53.7	131.0	264.6	392.5
Financed by domestic resources	133.8	18.8	47.3	83.5	114.6	23.4	54.0	166.4	245.0
Financed by external resources	154.3	23.4	62.1	88.1	135.1	30.3	77.0	98.2	147.5
Net lending (minus = reimbursement)	31.2	5.6	16.4	13.4	-16.5	-0.5	5.4	0.0	0.0
Overall balance (payment order basis, excl. grants)	-156.5	-32.2	-93.1	-131.1	-135.8	-35.1	-125.2	-211.3	-323.3
Primary balance [1]	-136.6	-30.9	-87.7	-121.3	-117.5	-33.0	-115.6	-183.5	-281.4
Basic primary balance [2]	48.8	-1.9	-9.3	-19.8	1.1	-3.3	-33.2	-85.3	-133.8
Change in arrears	-7.2	-0.4	-1.3	-2.1	-2.4	-0.6	-7.7	-8.4	-10.4
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-7.2	-0.4	-1.3	-2.1	-2.4	-0.6	-7.7	-8.4	-10.4
Float [3]	13.0	22.5	21.8	29.9	-28.1	12.8	15.2	0.0	0.0
Overall balance (cash basis, excl. grants)	-150.7	-10.1	-72.6	-103.4	-166.2	-22.9	-117.6	-219.7	-333.7
Financing	150.7	10.1	72.6	103.4	166.2	22.6	116.2	219.7	333.7
Domestic financing	-25.5	-8.5	25.2	25.6	39.8	-1.6	54.8	148.4	215.9
Bank financing	15.2	6.5	-24.4	-1.3	33.6	-18.6	63.2	104.7	117.0
Net use of IMF resources	7.5	-0.8	6.8	6.0	5.1	-0.1	-1.1	-1.5	-2.0
Disbursements	7.9	0.0	7.9	7.9	7.9	0.0	0.0	0.0	0.0
Repayments	-0.4	-0.8	-1.0	-1.8	-2.8	-0.1	-1.1	-1.5	-2.0
Other	7.7	7.3	-31.3	-7.3	28.5	-18.4	64.2	106.2	119.0
Nonbank financing	-40.7	-14.9	49.7	26.9	6.1	17.0	-8.4	43.7	98.9
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-15.8	-5.0	-7.2	-8.2	-8.7	-4.1	-5.1	-9.2	-10.2
Other	-24.9	-9.9	56.8	35.1	14.8	21.1	-3.3	52.9	109.1
External financing	176.2	18.6	47.4	77.8	126.5	24.2	61.4	71.3	117.8
Project financing	154.3	23.4	62.1	88.1	135.1	30.3	77.0	98.2	147.5
Grants	28.1	6.7	13.8	25.9	35.9	6.6	16.5	22.2	42.6
Loans	126.2	16.7	48.2	62.2	99.2	23.7	60.5	76.0	104.9
Amortization due	-28.2	-4.8	-14.7	-20.2	-26.6	-6.1	-15.6	-26.9	-41.5
Budgetary assistance	50.1	0.0	0.0	9.8	18.0	0.0	0.0	0.0	11.8
Grants	12.8	0.0	0.0	0.0	8.2	0.0	0.0	0.0	0.0
Loans	37.3	0.0	0.0	9.8	9.8	0.0	0.0	0.0	11.8
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.3	1.5	0.0	0.0
Memorandum item:									
GDP (billions of CFA francs, annual)	4,501	4,734	4,734	4,734	4,734	5,018	5,018	5,018	5,018

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

[3] Net change in the stock of payment orders whose payment has been postponed to the following period.

Table 3. Benin: Consolidated Central Government Operations, 2011–20

	2011	2012	2013	2014	2015		2016		2017	2018	2019	2020
				Prel.	Budget	Proj.	Budget	Proj.	Projections			
	(Percent of GDP)											
Total revenue	16.4	17.4	17.7	16.5	16.7	16.7	16.6	16.7	16.7	16.8	16.9	17.0
Tax revenue	14.5	14.4	14.8	14.8	14.5	14.7	14.7	14.7	14.7	14.8	14.9	15.0
Tax on international trade	7.1	7.7	8.3	7.6	7.2	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Direct and indirect taxes	7.4	6.8	6.6	7.2	7.3	7.3	7.3	7.3	7.3	7.4	7.5	7.6
Nontax revenue	1.9	3.0	2.8	1.7	2.2	2.0	1.9	2.0	2.0	2.0	2.0	2.0
Total expenditure and net lending	20.5	19.7	21.1	19.4	22.9	23.1	22.2	22.5	22.2	21.9	22.0	21.9
Current expenditures	14.0	14.3	14.1	14.4	15.1	15.3	14.8	15.4	15.6	15.6	15.6	15.5
Current primary expenditures	13.6	13.7	13.6	14.0	14.3	14.5	13.6	14.2	14.4	14.4	14.3	14.1
Wage bill	6.9	6.7	6.7	6.7	6.5	6.6	6.1	6.6	6.6	6.6	6.6	6.6
Pensions and scholarships	1.3	1.3	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.3
Current transfers	3.0	3.0	2.9	3.7	3.9	4.0	3.8	3.8	4.0	4.0	4.0	4.0
Expenditure on goods and services	2.4	2.7	2.6	2.2	2.5	2.5	2.2	2.3	2.3	2.3	2.3	2.3
Interest	0.4	0.6	0.4	0.4	0.8	0.8	1.2	1.2	1.1	1.2	1.3	1.3
Internal debt	0.2	0.3	0.2	0.2	0.5	0.5	0.7	0.7	0.8	0.9	1.0	1.1
External debt	0.2	0.3	0.2	0.2	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Capital expenditure and net lending	6.5	5.4	7.1	4.9	7.8	7.8	7.3	7.1	6.6	6.4	6.4	6.4
Capital expenditure	6.1	5.2	6.4	5.3	7.8	7.8	7.3	7.1	6.6	6.4	6.4	6.4
Financed by domestic resources	2.9	3.1	3.0	2.4	4.9	4.9	4.0	4.0	3.9	3.8	3.8	3.8
Financed by external resources	3.2	2.1	3.4	2.9	2.9	2.9	3.4	3.1	2.7	2.6	2.6	2.6
Net lending (minus = reimbursement)	0.3	0.1	0.7	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment order basis, excl. grants)	-4.0	-2.2	-3.5	-2.9	-6.2	-6.4	-5.6	-5.9	-5.5	-5.2	-5.1	-4.9
Primary balance [1]	-3.6	-1.7	-3.0	-2.5	-5.4	-5.6	-4.4	-4.7	-4.4	-4.0	-3.9	-3.6
Basic primary balance [2]	-0.1	0.6	1.1	0.0	-2.5	-2.7	-1.0	-1.5	-1.7	-1.4	-1.2	-1.0
Change in arrears	-0.3	-0.3	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	0.0	0.0	0.0	0.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-0.3	-0.3	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	0.0	0.0	0.0	0.0
Float [3]	-0.2	0.1	0.3	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. grants)	-4.6	-2.4	-3.3	-3.5	-6.4	-6.7	-5.8	-6.0	-5.5	-5.2	-5.1	-4.9
Financing	4.5	2.4	3.3	3.5	6.4	6.7	5.8	6.0	5.5	5.2	5.1	4.9
Domestic financing	1.5	0.1	-0.6	0.8	4.3	4.3	2.1	3.5	2.9	2.7	2.6	2.4
Bank financing	2.7	-0.2	0.3	0.7	0.2	2.3	1.4	1.8	1.0	1.7	1.6	1.4
Net use of IMF resources	0.5	0.4	0.2	0.1	-0.1	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
Other	2.2	-0.6	0.2	0.6	0.3	2.4	1.6	1.9	1.2	1.9	1.8	1.6
Nonbank financing	-1.2	0.4	-0.9	0.1	4.2	2.0	1.6	1.7	1.9	1.0	1.0	1.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.9	0.9	0.0	0.0	0.0
Restructuring	-0.8	-0.3	-0.4	-0.2	-0.3	-0.2	-0.2	-0.2	0.0	0.0	0.0	0.0
Other	-0.4	0.7	-0.6	0.3	4.5	2.2	-0.1	1.0	1.0	1.0	1.0	1.0
External financing	3.0	2.3	3.9	2.7	2.1	2.3	2.7	2.5	2.6	2.5	2.5	2.5
Project financing	3.2	2.1	3.4	2.9	2.9	2.9	3.4	3.1	2.7	2.6	2.6	2.6
Grants	2.1	1.0	0.6	0.8	0.8	0.8	1.7	1.2	0.8	0.8	0.8	0.8
Loans	1.1	1.1	2.8	2.1	2.1	2.1	1.7	1.9	1.9	1.8	1.8	1.8
Amortization due	-0.5	-0.6	-0.6	-0.6	-0.8	-0.8	-0.9	-0.9	-0.5	-0.5	-0.5	-0.5
Budgetary assistance	0.3	0.8	1.1	0.4	0.0	0.2	0.2	0.2	0.4	0.4	0.4	0.3
Statistical discrepancy	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Total revenue and grants	18.8	19.2	18.6	17.4	17.6	17.5	18.6	17.9	17.6	17.7	17.8	17.9
Revenue	16.4	17.4	17.7	16.5	16.7	16.7	16.6	16.7	16.7	16.8	16.9	17.0
Grants	2.4	1.8	0.9	0.9	0.8	0.8	2.0	1.2	1.0	1.0	1.0	0.9
Total loan disbursement	1.1	1.1	3.6	2.3	2.1	2.3	1.8	2.2	2.1	2.0	2.0	2.0
Overall balance incl. grants (payment order basis)	-1.7	-0.4	-2.6	-1.9	-5.4	-5.6	-3.6	-4.6	-4.5	-4.2	-4.2	-4.0
Total nonfinancial public sector debt [4]						...		37.6	39.2	41.1	42.8	44.1
Total nonfinancial public sector investment [5]								1.8	1.4	1.3	1.2	0.9
GDP (billions of CFA francs)	3,687	4,144	4,501	4,734	5,018	5,018	5,394	5,394	5,808	6,278	6,776	7,334

Sources: Beninese authorities; IMF staff estimates and projections.

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

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

[3] Net change in the stock of payment orders whose payment has been postponed to the following period.

[4] Data include projected central government debt and new non-financial public sector borrowing for infrastructure from 2016 onward.

[5] Data include off budget non-financial public sector investment from 2016 onward.

Table 4. Benin: Balance of Payments, 2011–20

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
			Prel.	Projections						
				(Billions of CFA francs)						
Current account balance	-268.7	-393.8	-426.5	-442.4	-551.8	-617.2	-634.6	-679.0	-709.7	-760.2
Excluding budgetary assistance grants	-279.0	-425.3	-439.3	-450.5	-551.8	-617.2	-646.2	-690.9	-721.9	-772.4
Balance of goods and services	-373.7	-555.6	-637.3	-690.2	-798.0	-920.0	-972.9	-1096.8	-1172.7	-1296.2
Credit	588.3	570.8	730.4	776.2	894.5	941.1	1079.8	1239.2	1394.7	1527.9
Debit	-962.1	-1126.5	-1367.7	-1466.4	-1692.5	-1861.1	-2052.8	-2336.0	-2567.3	-2824.1
Trade balance [1]	-363.9	-538.2	-544.2	-477.8	-568.1	-657.7	-665.5	-691.1	-747.0	-842.4
Exports, f.o.b.	360.4	289.5	447.6	574.7	620.6	663.6	772.8	957.8	1065.3	1152.7
Cotton and textiles	56.8	85.5	128.9	154.4	165.3	166.9	188.8	219.3	240.5	264.3
Other	303.6	204.0	318.7	420.3	455.3	496.7	584.0	738.6	824.8	888.4
Imports, f.o.b. [2]	-724.3	-827.7	-991.7	-1052.5	-1188.7	-1321.3	-1438.3	-1649.0	-1812.3	-1995.1
Services (net)	-9.8	-17.4	-93.2	-212.4	-229.9	-262.3	-307.4	-405.6	-425.6	-453.8
Credit	227.9	281.3	282.8	201.5	273.9	277.5	307.1	281.4	329.4	375.2
Debit	-237.8	-298.7	-376.0	-413.9	-503.8	-539.8	-614.5	-687.0	-755.0	-829.0
Income (net)	-7.3	-15.4	2.7	-8.1	-16.0	-27.7	-22.9	-28.7	-35.4	-36.8
Of which: interest due on central government debt	-7.8	-10.6	-9.8	-10.3	-15.5	-24.1	-15.6	-17.3	-19.2	-21.3
Current transfers (net)	112.3	177.3	208.1	256.0	262.2	330.5	361.2	446.5	498.3	572.8
Unrequited private transfers	51.8	70.5	86.6	135.2	149.3	164.8	181.9	200.8	250.3	322.7
Public current transfers	60.6	106.8	121.5	120.8	113.0	165.7	179.2	245.6	248.0	250.2
Of which: budgetary assistance grants	10.3	31.5	12.8	8.2	0.0	0.0	11.6	11.9	12.2	12.2
Capital and financial account balance	37.6	125.9	180.6	491.9	468.1	587.5	615.4	683.2	742.5	819.0
Capital account balance	76.8	43.4	28.1	35.9	42.6	65.3	44.9	48.5	52.4	56.5
Financial account balance	-39.2	82.4	152.4	456.0	425.5	522.2	570.5	634.7	690.1	762.4
Medium- and long-term public capital	28.3	23.2	139.3	86.4	79.2	73.0	99.1	99.3	108.3	117.0
Disbursements	46.3	48.3	167.4	113.1	120.7	120.1	128.1	131.2	140.6	150.5
Project loans	46.3	48.3	130.2	103.2	108.9	108.3	116.5	119.3	128.4	138.3
Of which: central government project loans	42.3	44.3	126.2	99.2	104.9	104.3	112.5	115.3	124.4	134.7
Budgetary assistance loans	0.0	0.0	37.3	9.8	11.8	11.7	11.6	11.9	12.2	12.2
Amortization due	-17.9	-25.0	-28.2	-26.6	-41.5	-47.1	-29.0	-31.9	-32.3	-33.5
Foreign direct investment	47.9	107.5	149.0	171.0	181.3	243.8	269.0	301.7	325.6	355.9
Portfolio investment	27.9	35.2	27.6	89.2	89.8	116.6	125.5	135.7	146.4	158.5
Other medium- and long-term private capital	-5.7	74.6	-41.2	125.9	120.1	129.1	125.1	136.6	147.5	167.6
Deposit money banks	-140.8	-175.7	-148.3	-117.4	-158.1	-190.1	-204.7	-221.3	-238.8	-258.5
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	3.1	17.7	26.0	100.9	113.1	149.8	156.5	182.7	201.1	222.0
Errors and omissions	78.5	159.9	213.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-152.6	-108.0	-32.8	49.5	-83.6	-29.8	-19.2	4.2	32.8	58.8
Change in net foreign assets, BCEAO (- = increase)	152.6	108.0	32.8	-49.5	83.6	29.8	19.2	-4.2	-32.8	-58.8
				(Percent of GDP, unless otherwise indicated)						
Memorandum items:										
Current account balance (incl. budgetary assistance grants)	-7.3	-9.5	-9.5	-9.3	-11.0	-11.4	-10.9	-10.8	-10.5	-10.4
Current account balance (excl. budgetary assistance grants)	-7.6	-10.3	-9.8	-9.5	-11.0	-11.4	-11.1	-11.0	-10.7	-10.5
Balance of goods and services	-10.1	-13.4	-14.2	-14.6	-15.9	-17.1	-16.8	-17.5	-17.3	-17.7
Trade balance	-9.9	-13.0	-12.1	-10.1	-11.3	-12.2	-11.5	-11.0	-11.0	-11.5
Exports	9.8	7.0	9.9	12.1	12.4	12.3	13.3	15.3	15.7	15.7
Imports	-19.6	-20.0	-22.0	-22.2	-23.7	-24.5	-24.8	-26.3	-26.7	-27.2
Income and current transfers (net)	2.8	3.9	4.7	5.2	4.9	5.6	5.8	6.7	6.8	7.3
Capital account balance	2.1	1.0	0.6	0.8	0.8	1.2	0.8	0.8	0.8	0.8
Financial account balance	-1.1	2.0	3.4	9.6	8.5	9.7	9.8	10.1	10.2	10.4
Overall balance	-4.1	-2.6	-0.7	1.0	-1.7	-0.6	-0.3	0.1	0.5	0.8
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	154.6	89.2	90.4	83.1	68.6	66.2	66.0	65.7	56.9	48.6
International price of oil (U.S. dollars a barrel)	104.0	105.0	104.1	96.2	51.6	50.4	55.4	59.8	62.2	63.0
GDP (billions of CFA francs)	3,687	4,144	4,501	4,734	5,018	5,394	5,808	6,278	6,776	7,334

Sources: Beninese authorities; IMF staff estimates and projections.

Note: ... = not available.

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

Table 5. Benin: Monetary Survey, 2012–16

	2012	2013	2014				2015				2016
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
			Est.				Prel.	Prel.	Proj.	Proj.	Proj.
	(Billions of CFA francs)										
Net foreign assets	836.9	952.3	1041.6	1054.4	1232.5	1119.3	1137.6	1153.3	1201.0	1194.7	1356.0
Central Bank of West African States (BCEAO)	290.7	257.8	317.5	371.8	454.3	307.3	398.0	322.1	325.3	224.7	195.9
Banks	546.2	694.5	724.0	682.6	778.2	812.0	739.6	831.3	875.7	970.0	1160.1
Net domestic assets	883.1	1064.8	1047.7	1160.2	1046.5	1234.2	1236.1	1267.5	1421.4	1452.3	1677.1
Domestic credit	1019.0	1302.5	1325.7	1399.8	1271.7	1311.4	1315.7	1328.6	1482.6	1513.5	1738.3
Net claims on central government	68.9	84.2	106.1	61.7	83.5	117.8	99.2	180.9	199.7	234.8	332.4
Credit to the nongovernment sector[1]	950.1	1218.3	1219.6	1338.1	1188.2	1193.6	1216.5	1147.7	1221.7	1278.6	1405.9
o/w: Credit to the private sector	924.4	1022.6	1055.9	1116.2	1094.4	1084.3	1096.4	1096.6	1121.2	1170.4	1266.8
Other items (net)	-135.9	-237.6	-278.1	-239.6	-225.3	-77.2	-79.6	-61.2	-61.2	-61.2	-61.2
Broad money (M2)	1720.0	2017.1	2089.3	2214.6	2279.0	2353.5	2373.8	2420.8	2449.5	2647.0	3033.1
Currency	405.0	505.3	544.1	567.6	602.2	629.2	660.7	631.0	643.2	745.2	888.9
Bank deposits	1310.1	1502.7	1534.6	1636.6	1666.7	1715.9	1703.9	1779.5	1796.1	1894.3	2136.7
Deposits with postal checking accounts	4.9	9.1	10.6	10.4	10.1	8.5	9.2	10.3	10.2	7.5	7.5
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)										
Net foreign assets	4.3	6.7	4.4	5.1	13.9	8.3	0.8	1.4	3.5	3.2	6.1
Central Bank of West African States (BCEAO)	-6.8	-1.9	3.0	5.7	9.7	2.5	3.9	0.6	0.8	-3.5	-1.1
Banks	11.1	8.6	1.5	-0.6	4.1	5.8	-3.1	0.8	2.7	6.7	7.2
Net domestic assets	4.7	10.6	-0.8	4.7	-0.9	8.4	0.0	0.0	0.0	9.3	8.5
Domestic credit	4.4	16.5	-0.8	4.8	-1.5	0.4	0.1	1.4	8.0	8.6	8.5
Net claims on central government	-0.9	0.9	1.1	-1.1	0.0	1.7	0.0	0.0	0.0	5.0	3.7
Credit to the nongovernment sector[1]	5.0	15.6	0.1	5.9	-1.5	-1.2	0.2	0.7	7.3	3.6	4.8
Other items (net)	0.3	-5.9	-2.0	-0.1	0.6	8.0	0.5	-2.5	-0.4	0.7	0.0
Broad money (M2)	9.0	17.3	3.6	9.8	13.0	16.7	0.9	2.9	4.1	12.5	14.6
Currency	1.7	5.8	1.9	3.1	4.8	6.1	7.7	0.1	0.6	4.9	5.4
Bank deposits	7.5	11.2	1.6	6.6	8.1	10.6	10.0	2.7	3.4	7.6	9.2
Deposits with postal checking accounts	-0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Memorandum items:											
Velocity of broad money	2.5	2.4	…	…	…	2.2	…	…	…	2.0	1.9
Broad money as share of GDP	41.5	44.8	…	…	…	49.7	…	…	…	52.8	56.2
Credit to the nongovernment sector, [1] (year-on-year change in percent)	9.7	28.2	19.1	26.1	14.4	-2.0	9.5	-14.2	2.8	7.1	9.9
Credit to the private sector (year-on-year change in percent)	9.4	10.6	7.0	18.9	14.4	6.0	3.8	-1.8	2.5	7.9	8.2
Nominal GDP (billions of CFA francs, annual)	4,144	4,501	…	…	…	4,734	…	…	…	5,018	5,394
Nominal GDP growth (annual change in percent)	12.4	8.6	…	…	…	5.2	…	…	…	6.0	7.5

Sources: BCEAO; IMF staff estimates and projections.

Note: … = not available.

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

Table 6. Benin: Financial Stability Indicators, 2011–15

	2011 Dec.	2012 Dec.	2013 Mar.	2013 Jun.	2013 Dec.	2014 Mar.	2014 Jun.	2014 Dec.	2015 Mar.	2015 Jun.
									Preliminary	
					(Percent unless otherwise indicated)					
Regulatory capital to risk-weighted assets	10.3	10.2	10.2	8.7	8.6	8.8	8.3	8.6	8.2	8.8
Core capital to risk-weighted assets[1]	9.8	9.0	8.5	7.2	6.3	6.8	6.2	6.8	6.5	7.1
Provisions to risk-weighted assets	10.1	8.3	9.4	9.0	12.3	11.8	10.8	12.6	12.2	12.7
Capital to total assets	5.4	5.6	5.6	4.7	4.0	4.2	4.1	3.9	3.8	3.8
Composition and quality of assets										
Total loans to total assets	50.7	47.4	48.7	47.1	46.6	47.6	47.3	46.1	47.2	45.1
Concentration: Credit to the 5 largest borrowers	60.3	53.2	41.8	46.4	66.8	207.6	148.3	207.6	148.3	...
Credit by sector[2]										
Agriculture, Forestry, and Fishing	2.7	2.1	2.4	2.1	1.4	1.9	2.4	1.6	1.7	1.9
Extractive Industries	0.5	0.7	0.6	0.6	1.7	1.4	1.3	1.8	1.7	1.9
Manufacturing	8.3	10.1	9.8	9.6	11.2	9.4	9.8	11.7	13.4	14.5
Electricity, Water, and Gas	0.3	2.8	1.4	2.8	3.3	2.8	2.4	2.5	1.6	2.0
Buildings and Public Works	7.2	7.5	8.5	9.0	9.4	9.0	10.2	12.0	14.3	14.6
Commerce, Restaurants, and Hotels	38.9	40.2	42.8	41.5	36.9	37.3	38.1	34.4	32.8	32.4
Transportation and Communication	9.8	10.3	9.4	9.1	9.6	8.9	8.8	7.5	6.5	6.4
Financial and Business Services	4.5	5.7	5.0	4.3	5.2	6.0	6.2	5.6	4.7	5.3
Other Services	27.8	20.6	20.1	21.0	20.8	23.4	20.9	22.8	23.3	21.1
Non-Performing Loans (NPLs)										
Gross NPLs to total loans	15.6	18.6	19.9	21.0	21.3	22.2	21.5	21.9	21.5	21.5
Provisioning rate	61.0	46.8	47.7	44.6	50.6	46.8	46.1	50.1	50.3	50.3
Net NPLs to total loans	6.7	10.8	11.5	12.8	12.3	13.2	12.1	12.3	12.0	12.0
Net NPLs to capital	62.4	92.5	100.8	128.0	155.2	245.9	279.8	245.9	279.8	
Earnings and profitability[3]										
Average cost of borrowed funds	3.1	3.3			3.3			...		
Average interest rate on loans	10.1	9.5			9.1			...		
Average interest margin[4]	7.0	6.2			5.8			...		
After-tax return on average assets (ROA)	1.1	0.4			0.2			...		
After-tax return on average equity (ROE)	12.8	5.4			2.2			...		
Noninterest expenses/net banking income	61.6	68.5			70.3			...		
Salaries and wages/net banking income	25.5	28.2			29.8			...		
Liquidity										
Liquid assets to total assets	28.0	22.9	23.2	22.2	21.9	21.0	21.7	...	...	...
Liquid assets to total deposits	40.9	35.7	34.5	34.9	34.7	33.0	34.7	...	...	...
Total loans to total deposits	81.8	80.7	80.0	81.8	84.1	82.5	85.0	73.6	73.3	73.3
Total deposits to total liabilities	68.5	64.3	67.3	63.6	63.1	63.8	62.5	62.7	61.6	61.6
Demand deposits to total liabilities[5]	32.0	27.4	30.1	27.6	26.9	26.1	25.2	26.6	25.3	25.3
Term deposits to total liabilities	36.4	36.8	37.2	36.0	36.2	37.7	37.3	36.1	36.2	36.2

Source: BCEAO.
Note: ... = not available.
[1] Tier 1 Capital.
[2] Identified sectors represent at least 80 percent of credit
[3] Some account elements available semi-annually.
[4] Excluding taxes on banking operations.
[5] Including savings accounts.

Table 7. Benin: Millennium Development Goals, 1990–2015

	Earliest Year	Latest Year	Earliest	Average 1990–99	Average 2000–09	Latest	2015 Target
Goal 1. Eradicate extreme poverty and hunger							
Target: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.							
- Population below US$1.25 a day (percent)	2003	2011	47.3	...	47.3	51.6	26.7
- Population below minimum level of dietary energy consumption (percent)	1991	2015	28.1	26.8	17.3	7.5	...
Goal 2. Achieve universal primary education							
Target: Ensure that, by 2015, children will be able to complete a full course of primary schooling							
- Net primary enrollment ratio (percent of relevant age group)	1990	2012	39.3	53.0	86.1	94.9	100.0
- Percentage of cohort reaching grade 5	1990	2012	21.5	28.2	64.2	53.2	100.0
- Youth literacy rate (percent age 15–24)	1992	2006	39.9	39.9	43.9	42.4	100.0
Goal 3. Promote gender equality and empower women							
Target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015							
- Ratio of girls to boys in primary school (percent)	1990	2013	0.5	0.6	0.8	0.9	100.0
- Ratio of girls to boys in secondary school (percent)	1999	2013	0.5	0.5	0.5	0.7	100.0
- Proportion of seats held by women in the national parliament (percent)	1990	2015	2.9	6.1	7.4	8.4	50.0
Goal 4. Reduce child mortality							
Target: Reduce by two-thirds between 1990 and 2015 the under-five mortality rate							
- Under-five mortality rate (per 1,000)	1990	2013	179.4	161.3	122.1	85.3	65.0
- Infant mortality rate (per 1,000 live births)	1990	2013	107.9	98.3	76.9	56.2	35.0
- Immunization against measles (percent of children under 12 months)	1990	2013	79.0	68.1	66.6	63.0	100.0
Goal 5. Improve maternal health							
Target: Reduce by three-fourths, between 1990 and 2015, the maternal mortality ratio							
- Maternal mortality ratio (modeled estimate, per 100,000 live births)	1990	2013	600.0	560.0	455.0	340.0	125.0
Goal 6. Combat HIV/AIDS, malaria, and other diseases							
Target: Halt by 2015, and begin to reverse, the spread of HIV/AIDS							
- HIV/AIDS prevalence	1990	2013	0.2	0.9	1.4	1.1	<2
Target: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases							
- Incidence of tuberculosis (per 100,000)	1990	2013	127.0	104.3	75.6	70.0	...
Goal 7. Ensure environmental sustainability							
Target: Halve by 2015 proportion of people without access to safe drinking water							
- Access to improved water source (percent of population)	1990	2015	57.0	61.2	69.9	78.0	100.0
Goal 8. Develop a global partnership for development							
Target: In cooperation with the private sector, make available benefits of new technologies, especially information and communications							
- Mobile cellular subscriptions (per 100 people)	1990	2014	0.0	0.0	15.3	101.7	50.0

Sources: Beninese authorities and United Nations estimates and projections.

Annex I. National Accounts Re-basing

The Benin National Institute of Statistics (INSAE) published re-based national accounts in 2015, changing the base year from 1985 to 2007. The re-based figures show that nominal GDP in 2013 was 10 percent higher than the earlier figure. On average, annual real GDP growth was 0.1 percentage point higher in 2000–13. In comparison, the average increase in GDP in five SSA countries that re-based during the last three years has been about 60 percent.[1]

The re-based GDP series reflect improved methodology, source data, and structural changes of the economy between 1985 and 2007. They provide better measures for agriculture, the informal sector, and service activities, while the coverage of the secondary sector has been broadened with agri-food processing and energy production. As a result, in the re-based figures for 2013, there is some shift from the primary to the secondary sector, while the tertiary sector has slightly gained in weight.

GDP Pre- and Post-Rebasing

Nominal GDP (CFAF billion)

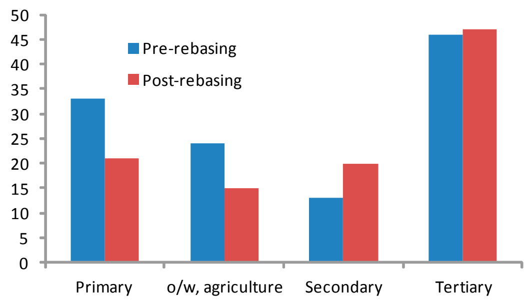
	2007	2013
Pre-rebasing	2,639	4,104
Post-rebasing	2,861	4,501
Change (in percent)	8%	10%

Real GDP Growth (in percent)

	2007	2013	Average 2000-13
Pre-rebasing	4.6	5.4	4.3
Post-rebasing	6.0	6.5	4.4

Sources: Beninese authorities and IMF staff calculation.

GDP Sectoral Composition, 2013
(percent of GDP)



[1] Kenya, Nigeria, Ghana, Tanzania, and Guinea-Bissau.

Annex II. External Stability Assessment

Benin's current account deficit is projected to widen over 2015–19, reflecting a large scaling-up of public investment, but is then expected to improve progressively from 2020 on as investment and import growth stabilize. The empirical assessment suggests a moderate overvaluation of the real effective exchange rate (REER), broadly unchanged compared to the previous 2012 exchange rate assessment. The analysis of structural indicators points to Benin's low external competitiveness.

Balance of Payments

1. The current account deficit (excluding grants) is expected to decrease over the medium term, reflecting large investments scaling up. Higher imports of capital goods related to manufacturing and other new investments widened the current account from 7.6 percent of GDP in 2011 to 9.8 percent of GDP in 2013. A large scaling-up of public investment, equivalent to 10 percentage points of GDP, would lead to a further widening to 10.7 percent of GDP in 2019. By 2020, when the scaling-up of investment comes to an end, the current account deficit would narrow to 10.5 percent of GDP.

2. Concessional financing and foreign direct investment (FDI) are the main sources of external financing. External financing of the current account deficit remained relatively stable over the past three years**.** Short-term capital flows and medium and long-term private loans were equivalent to 1 percent of GDP. Foreign direct inflows were equivalent to 3.2 of GDP and are expected to stabilize at 4.5 percent of GDP during 2015–19. Other capital flows, such as project loans, remained at 2 percent of GDP over the past three years and are expected to stabilize at the same level during 2015–19. Overall, non-debt creating flows are projected to remain the main source of current account deficit financing.

Reserves adequacy and debt risks

3. Gross international reserve coverage in the WAEMU has increased slightly in 2014 and debt risks remain contained. [1] Gross international reserves coverage in WAEMU system declined substantially since 2010 when it stood at 6.6 month of import reserve coverage stabilized at around 4 ½ months of imports in 2013 and 14. Gross reserves cover about 40 percent of broad money and 80 percent of short term debt. Benin's gross external debt is low at 19.6 percent in 2014 (below the average WEAMU countries).

[1] West African Economic and Monetary Union (WAEMU)—Staff Report For Common Policies for Member Countries, April 2015.

Exchange Rate Assessment

4. **Benin's current account position is assessed using the EBA-lite methodology.**[2] The EBA-lite exchange rate assessment includes three approaches. The current account (CA) model and the index of the real exchange rate (IRER) are panel regression-based analyses of the CA and real exchange rate, while the third method, external sustainability (ES), is model-free and focused on sustainability analysis. The EBA makes distinction between descriptive understanding of the current accounts and real exchange rates and making normative evaluations:

Actual CA= CA Gap+ (Fitted CA-Policy Gap)

The term in parentheses is the current account norm and the CA Gap is the deviation of the actual current from the norm, i.e., the misalignment. The term Policy Gap is the change in the current account that results from a deviation of Benin's policies from its optimal level and also on account of the average policy misalignment to rest of the world.

5. **The analysis for 2014 suggests that Benin's REER is moderately overvalued.** Driven mainly by its relatively tight fiscal stance, Benin's policy gap is positive which decrease the current account norm to -4.7 percent of GDP. The current gap of -3.8 percent of GDP then implies an overvaluation of the REER by 10 percent[3] (Figure 1). The IRER approach shows a smaller overvaluation at 4 percent, while the ES approach indicates an overvaluation of 13.5 percent, with the end-2014 NFA position of -25.6 percent of GDP as a benchmark, (Table 1).

Table 1. Benin: Exchane Rate Assessment (EBA-Lite)

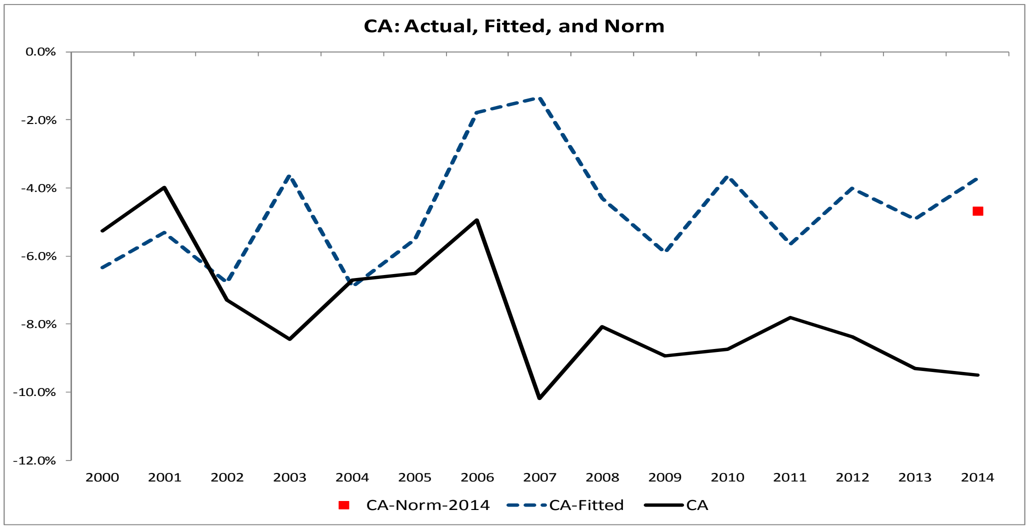
	CAP/GDP		REER
	Norm	Underlying	
CA model	-4.7	-9.5	10
IRER			3.6
External Sustainability	-3.1	-9.5	13.5

Source: IMF staff estimates.

[2] For Technical background, please see the EBA working paper (IMF WP/13/272).

[3] Benin's trade elasticity is estimated at -0.483.

Figure 1: Current Account Balance Estimates



Sources: Beninese authorities and IMF staff estimates and calculations

Structural Competitiveness

6. **The deterioration of survey-based competitiveness indicators measuring institutional and policy factors points to impediments to external competitiveness.** Ranked 122 out of 140 countries in the World Economic Forum's (WEF) Global Competitiveness Report 2015–16, Benin is lagging behind other WAEMU countries such as Senegal and Ivory Coast (Table 2). This reflects weakness in all subcategories, most notably macroeconomic environment, labor market efficiency, and financial sector development. In most categories Benin scored below the Sub-Saharan African average.[4] In the WEF Enabling Trade Index, Benin's ranking deteriorated by 12 places compared to the previous assessment (Table 3). Survey participants list access to trade finance, difficulties in meeting requirements of buyers, and identification of markets for buyers as the most problematic factors for exporting (Figure 2). Burdensome procedures, tariff and non-tariff barriers and corruption at the border as listed as most severe obstacles to importing (Figure 4).

7. **The business climate has improved in Benin, but remains challenging.** Benin's ranking increased by 4 places in the latest ranking of Doing Business indicators. This improvement reflects progress in trading across borders by a full dematerialization of all pre-clearance documents through an electronic platform at the port of Cotonou, in starting a business through introduction of a one-stop shop, and in issuing construction permits. Paying taxes, inefficient bureaucracy, corruption, and resolving disputes remain the main bottlenecks.

[4/] Exceptions are the indicators for health and primary education, higher education and training, and the composite subcategory "basic requirements".

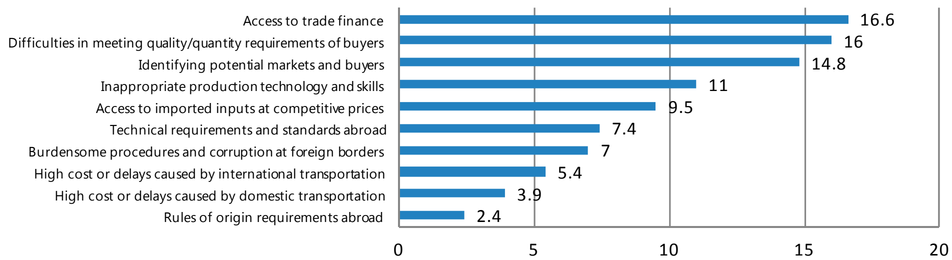
Table 2. Benin: Global Competitiveness Index 2015–16			
	Benin		Sub-Saharan Africa (Average)
	Rank (Out of 140)	Score (1–7)	Score (1–7)
GCI 2015-16	122	3.5	3.6
GCI 2014-15 (Benin excluded)	n/a	n/a	3.4
GCI 2013–14 (out of 148)	130	3.4	3.6
GCI 2012–13 (out of 144)	119	3.6	
GCI 2011–12 (out of 142)	104	3.8	
Basic requirements (60%)	**118**	**3.7**	**3.8**
Institutions	90	3.6	3.8
Infrastructure	130	2.3	2.8
Macroeconomic environment	88	4.4	4.3
Health and primary education	117	4.6	4.3
Efficiency enhancers (35%)	**125**	**3.3**	**3.5**
Higher education and training	121	2.9	3.1
Goods market efficiency	122	3.8	4.1
Labor market efficiency	59	4.3	4.2
Financial sector development	103	3.4	3.5
Technological readiness	130	2.5	2.9
Market size	122	2.6	2.9
Innovation and sophistication factors (5%)	**96**	**3.4**	**3.3**
Business sophistication	109	3.5	3.6
Innovation	82	3.2	3.1

Source: World Economic Forum, The Global Competitiveness Report, 2015–16.

Table 3. Benin: Enabling Trade Index , 2014		
	Rank (out of 138)	**Score** (1-7)
Composite Index	127	3.1
Subindex A: Market access	124	3.0
Domestic market access	117	3.5
Foreign market access	74	2.4
Subindex B: Border administration	112	3.4
Subindex C: Transport and communications infrastructure	126	2.6
Availability and quality of transport infrastructure	133	2.1
Availability and quality of transport services	122	3.3
Availability and use of ICTs	117	2.4
Subindex D: Business environment	123	3.4

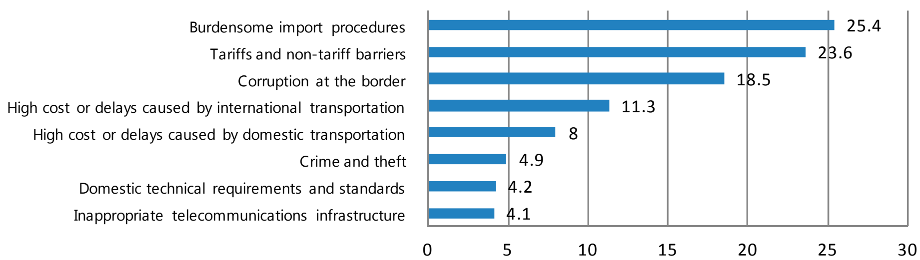
Source: World Economic Forum. The Global Enabling Trade Report, 2014.

Figure 2. Most Problematic Factors for Exporting
(Percent of responses)



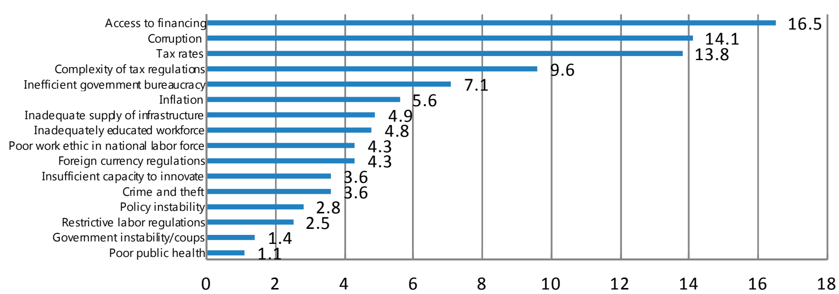
Source: World Economic Forum. Global Enabling Trade Report, 2014.

Figure 3. Most Problematic Factors for Importing
(Percent of responses)



Source: World Economic Forum. Global Enabling Trade Report, 2014.

Figure 4. The Most Problematic Factors for Doing Buisness
(Percent of responses)



Source: World Economic Forum. Global Competitiveness Report, 2015–16

Annex III. Authorities' Implementation of Main Recommendations of the 2012 Article IV Consultation

Main Recommendations	Implementation Status
Reduce obstacles to doing business and facilitating private sector growth	Strong progress in doing business reforms in some areas;
Implementing a regulatory framework for the cotton sector to minimize the risk to public finances	No regulatory framework in place; insufficient information on the current fiscal cost of the government-managed campaign;
Creating fiscal space to support higher capital investment by raising more revenue	Limited reform progress with decline in revenues; telecom privatization has been delayed;
Advance customs reform, improve the operations in the port of Cotonou	Good progress in port reform; progress in customs administration, but more work needed to make risk management operational;
Strengthen public infrastructure investment and improve prioritization	Good progress in raising infrastructure spending but continue to have significant under-execution and governance issues;
Improving the access to financial services, resolve problem banks quickly, and enhance financial sector oversight; put in place stronger supervision of microfinance	Progress in improving the access to finance through MFI's; Progress in resolution of problem banks after long delays; Contingency plans for resolving banks have been developed; Credit bureau legislation is pending in parliament; land title reform pilot was completed but the system is still not operational; New agency for supervising microfinance was established, but limited progress in cleaning up unauthorized MFIs;
Effective Implementation of the AML/CFT regime.	The legal framework to combat money laundering in the financial sector is in place; implementation needs to be strengthened, including via the judicial system.

Annex IV. Benin: Risk Assessment Matrix [1/]

Source	Likelihood	Expected Impact	Policy Advice
Unproductive investment	**Medium** Average and improving capacity indicators, good recent record of and commitments to structural reforms	**High** Fails to deliver infrastructure but increases debt and crowds out private sector	• Enhance PFM and capacity for managing investments; • Prioritize projects and adjust as needed;
Political risks from elections	**High** Presidential elections in February 2016, although no history of election-related spending booms	**Medium** Unproductive spending may reduces the fiscal space for investment	Continue prudent wage policy and recurrent spending control; honor bank loans;
Adverse developments in Nigeria	**Medium** Risk from further deterioration of oil prices; uncertainly regarding pace of trade liberalization and fuel subsidy reform.	**High** Trade liberalization or adverse security situation reduces trade revenues, and growth; cutting subsidy can cause fuel price spikes	• Improve business environment to support private sector growth and diversification; • Boost domestic revenue to reduce dependency;
Shock in the cost of debt	**High** Some buffer from low external and domestic debt levels; benefits of WAEMU reserve pooling	**High** Higher costs of borrowing for government and business reduce economic activities	• Rely predominantly on concessional financing; optimize debt portfolio; • Adjust investment level, if necessary;
Low private sector response	**Medium** Delays in reforms and business environment constraints can undermine business growth	**High** Growth critically depends on private sector growth and net export	• Improve business environment , including by reform financial sector reform; • Improve tax payer service and reduce tax distortion;
Weak global demand	**Medium/High** Further slowdown in emerging markets; sluggish Euro area growth	**Medium** Lower export demand and cotton price may reduce revenue and net export and increase fiscal risks	• Improve business environment to support diversification; • Raise cotton sector efficiency by more private sector involvement and reduce fiscal exposure;
Risks to financial sector stability	**High** Tighter or more volatile global and regional financial conditions; rising macro-financial risks from sovereign-bank linkages	**Medium** Potential damages are limited by weak inter-bank linkages and low financial sector development	• Improve timely bank supervision and resolution policy and procedures; • Strengthen revenue and PFM to reduce banks' government financing and ensure timely government payment;
Weather shocks	**Medium** Recurring shocks, particularly flooding	**Medium** Impact tends to be local and short-lived	• Maintain fiscal buffer; • Improve infrastructure and BE to support a more resilient private sector.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent).

INTERNATIONAL MONETARY FUND

BENIN

November 24, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

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

CONTENTS

RELATIONS WITH THE FUND

(As of September 30, 2015)

Membership Status: Joined: July 10, 1963		Article VIII
General Resources Account:	**SDR Million**	**%Quota**
Quota	61.90	100.00
Fund Holdings of Currency	59.52	96.15
Reserve Tranche Position	2.40	3.88
Notes Issuance		
Holdings Exchange Rate		
SDR Department:	**SDR Million**	**%Allocation**
Net Cumulative Allocation	59.17	100.00
Holdings	47.20	79.77
Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	90.21	145.74

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jun 14, 2010	June 03, 2014	74.28	74.28
ECF[1]	Aug 05, 2005	Jun 30, 2009	24.77	24.77
ECF[1]	Jul 17, 2000	Mar 31, 2004	27.00	27.00

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

	Forthcoming				
	2015	2016	2017	2018	2019
Principal	2.35	7.96	11.94	14.95	14.82
Charges/Interest	0.00	0.01	0.01	0.01	0.12
Total	2.35	7.96	11.95	14.96	14.94

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

Implementation of HIPC Initiative:

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

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

II. Debt Relief by Facility (SDR million)

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

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

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

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

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

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable.

Exchange Arrangement:
Benin is a member of the WAEMU and has no separate legal tender. The union's common currency, the CFA franc, is pegged to the Euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the Euro and the previous fixed rate of the CFA franc to the French franc of CFAF 100= F 1. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus only reflects a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members. As of June 1, 1996, Benin and other members of WEAMU accepted the obligations of Articles VIII, section2, 3, and 4 of the Fund's Articles of Agreement. Benin's exchange system has no restrictions on making payments or transfers for current international transactions and the country does not engage in multiple currency practices.

Article IV Consultations:

The last completed Article IV consultation discussions were held in Cotonou during July 16–30, 2012. The staff report (Country Report No 13/9; 1/11/13) and selected issues paper were discussed by the Executive Board, concluding the 2012 Article IV consultation on November 9, 2012.

ROSC Assessment:

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

Technical Assistance for the Last Five Years:

A. Headquarters

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Technical assistance	December 1–12, 2011	Improving the tax system and reviewing the modernization reforms of the tax and customs administrations.
MCM	Technical assistance	December 8-21, 2011	Conducting a diagnostic of the financial system.
MCM	Technical assistance	September 6-17, 2012	Conducting a pilot review of financial sector issues to reinforce regular financial sector surveillance.
FAD	Technical assistance	April 25-May 10, 2013	Assessing progress in customs administration modernization, reviewing a new customs reform concept and providing advice on the management of a comprehensive reform program.
FAD	Technical assistance	March 23–April 5, 2014	Conducting a diagnostic of revenue administration.
FAD	Technical assistance	April 22–May 5, 2014	Conducting a diagnostic of the expenditure chain with a focus on capital expenditure.
FAD	Technical assistance	September 27–October 10, 2014	Following-up of previous recommendations and reviewing the mining taxation regime.
FAD	Technical assistance	June 1–June 14, 2015	Advising the authorities on a reform strategy for overseeing public agencies and SOEs.

B. Afritac West

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Technical assistance	2011	Customs Administration (3)
FAD	Technical assistance	2011	Tax Administration
FAD	Technical assistance	2011	Public Expenditure Management
FAD	Technical assistance	2012	Public Expenditure Management
FAD	Technical assistance	2012	Tax Administration
FAD	Technical assistance	2013	Customs Administration (3)
FAD	Technical assistance	2014	Tax Administration (2)
FAD	Technical assistance	2014	Public Financial Management (5)
FAD	Technical assistance	2014	Customs Administrations (3)

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Technical assistance	2015	Customs Administrations (3)
FAD	Technical assistance	2015	Tax Administration (2)
FAD	Technical assistance	2015	Public Financial Management (3)
MCM	Technical assistance	2011	Public Debt and Debt Sustainability
MCM	Technical assistance	2012	Public Debt and Debt Sustainability
MCM	Technical assistance	2015	Public Debt and Debt Sustainability (2)
STA	Technical assistance	2011	Government Finance Statistics
STA	Technical assistance	2011	Real Sector Statistics (2)
STA	Technical assistance	2012	Real Sector Statistics (2)
STA	Technical assistance	2012	Government Finance Statistics
STA	Technical assistance	2013	Real Sector Statistics
STA	Technical assistance	2014	Real Sector Statistics (2)
STA	Technical assistance	2015	Government Finance Statistics
STA	Technical assistance	2015	Real Sector Statistics

Resident Representative:

Mr. Moers assumed his position in Cotonou as Resident Representative on July 6, 2014.

JOINT WORLD BANK-IMF WORK PROGRAM, 2015–16

Title	Products	Timing of Mission	Expected Delivery Date
	A. Mutual information on relevant work programs		
Bank work program in the next 12 months	1. PRSC-10 2. PFM/PPP/Governance Technical Assistance 3. Customs Reform Technical Assistance	Semi-annually June 2013 2016	September 2013 March 2014 Ongoing August 2013 December 2015 2016 Ongoing
IMF work program in the next 12 months	1. Staff Visit 2. Staff Visit	June 2016 December 2016	
	B Requests for work program inputs		
Fund request to Bank	Provide authorities with best practice guidance on cotton sector models to further improve performance of the sector.		Ongoing
Bank request to Fund	Regular updates on macroeconomic performance and assessment letters for PRSC operations.		Ongoing
	C. Agreement on joint products and missions		
Joint products in the next 12 months	Coordinated assistance on Customs reform. Joint mission on medium-term debt management Research project on microfinance and poverty.	November 2015	Ongoing 2016 2016

STATISTICAL ISSUES

Benin: STATISTICAL ISSUES As of October 2015
I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Weaknesses exist in the areas of national accounts, public finance, monetary statistics, financial sector prudential indicators, and balance of payments.
National Accounts: Inadequate resources and weaknesses in data hamper the accuracy and reliability of the national accounts. Efforts to address these shortcomings are ongoing. Benin participated in WAEMU's harmonization of statistical methodologies and in the GDDS project for AFRITAC West countries to implement the 1993 SNA, and now intends to move to the 2008 SNA (by 2018). The West AFRITAC missions in 201115 sought to accelerate the process and support the compilation of the revised accounts, and assisted in rebasing the national accounts from 1985 to 2007.
Price Statistics: Consumer price data, measured using the WAEMU harmonized consumer price index, are adequate for surveillance. The methodology for the WAEMU harmonized consumer price index has been revised to be consistent with other WAEMU countries with the assistance of AFRISTAT. The current index covers the capital city only, but Benin is participating in a regional project aimed at extending the coverage of the CPI to the whole country.
Government Finance Statistics: The quality of fiscal data is broadly adequate for surveillance, but has some shortcomings in coverage, periodicity, timeliness, and accessibility. The authorities report budgetary central government's "statement of government operations" for publication in the Government Finance Statistics Yearbook one year after the reference year and report quarterly data for publication in the International Financial Statistics. Benin is working toward implementing the new TOFE directive based on the *Government Finance Statistics Manual 2001 (GFSM 2001)*. Currently this TOFE is produced on a trial basis along with the TOFE based GFSM 1986. The new TOFE will be implemented in January 2016. To that end, three tables are being prepared: i) TOFE based GFSM 2001, ii) Statement of sources and uses of cash, and ii) statement of public debt (at face value). The authorities are working as well to produce the TOFE using the Trial Balance as the source data. The authorities have yet to expand the coverage of the TOFE to include all the subsectors of the general government.
Monetary and Financial Statistics: Monetary and financial statistics (MFS) are compiled and disseminated by the regional Central Bank of West African States (BCEAO). The BCEAO does not report MFS data in the IMF-recommended format of standardized report forms (SRFs). Despite recent improvements, monetary statistics continue to have shortcomings. These include inconsistencies in source data and lack of proper sectorization of the domestic economy to ensure that the BCEAO adheres fully to the methodology of the *Monetary and Financial Statistics Manual*. The 2011, 2013, and 2014 STA missions to the BCEAO's headquarters in Dakar, Senegal, made a number of recommendations for addressing the above shortcomings. The missions also assisted BCEAO staff in developing SRFs for the central bank accounts and initiated work on the SRF for reporting the data of other depository corporations (ODCs).

Financial sector surveillance: Financial sector indicators are available with a significant lag, which makes evaluating the state of the financial sector difficult. The BCEAO is participating in a three-year TA project on financial soundness indicators (FSIs) for selected African, Asian, and Pacific countries funded by the Government of Japan. The main objective of the JSA-FSI Project is to strengthen capacities of the participating countries to compile and disseminate FSIs.
External sector statistics: Benin reports balance of payments and international investment position (IIP) statistics to STA using the methodology of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* since 2011. The authorities have submitted 2013 balance of payments and IIP data for publication in the 2015 *Balance of Payments Statistics Yearbook (BOPSY)*. However, despite the recent improvements in applying the guidelines of *BPM6,* external statistics are still affected by shortcomings that prevent an accurate and timely assessment of current account transactions and capital and financial flows. In November 2004, a STA technical assistance mission noted that the human resources devoted to balance of payments statistics by the national agency of the BCEAO were inadequate, and highlighted a series of methodological problems including the use of untested hypotheses and reference bases, the limited coverage of direct investment, and shortcomings in the compilation of net external assets and international investment position. Balance of payments statistics are also disseminated with a lag of almost one year and the international investment position data with a lag of 18 months. Some progress has been achieved in the reconciliation of regional trade data with those of regional partners, and the compilation of trade statistics has been enhanced by the installation of the ASYCUDA++ customs computer system in all main border customs houses, the port, the airport, and some regional offices, which was further improved by the implementation of ASYCUDA World with some improved features. Effective implementation of ASYCUDA World would further enhance external trade statistics. However, the overall improvement depends largely on the sincerity of data that reporters provide and the integrity of customs officers as regards recording correct information. Progress is also needed in improving contacts with reporting bodies and enhancing the management of human and technical resources. Financial account data can be improved by extending the coverage of foreign assets of the private non-banking sector, expanding the surveys of residents' foreign assets, and using other data source, such as Bank of International Settlements (BIS) statistics. The BCEAO has updated the compilation of commercial bank data on payments involving nonresidents; however, these data are not used to produce annual balance of payments statistics. External debt data are broadly adequate for surveillance, but are comprehensive only for central government public debt. Data are collected by the *Caisse Autonome d'Amortissement (CAA*), which is responsible for signing international loan agreements and servicing the government's external debt obligations. The CAA's database is fairly comprehensive and up-to-date, and contains accurate stock data, but does not produce projections of debt-service flows on a loan-by-loan basis. Regular statements are not received from creditors.

II. Data Standards and Quality

The country is an e-GDDS participant. However, most of its metadata, with the exception of the real sector and socio-demographic meta data, have not been updated since October 2002.	No data ROSC is available.

Appendix I. Benin: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	08/2015	09/2015	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	07/2015	10/2015	M	M	M
Reserve/Base Money	07/2015	09/2015	M	M	M
Broad Money	07/2015	09/2015	M	M	M
Central Bank Balance Sheet	06/2015	08/2015	M	M	M
Consolidated Balance Sheet of the Banking System	07/2015	09/2015	M	M	M
Interest Rates[2]	07/2015	09/2015	M	M	M
Consumer Price Index	08/2015	09/2015	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	Not published
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	06/2015	08/2015	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt[5]	06/2015	08/2015	Q	Q	NA
External Current Account Balance	2014	08/2015	A	A	A
Exports and Imports of Goods and Services	2014	08/2015	A	A	A
GDP/GNP	2014	08/2015	A	A	A
Gross External Debt	NA	NA	A	I	NA
International Investment Position[6]	2013	07/2015	A	A	A

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

BENIN

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

November 24, 2015

Approved By
Abebe Aemro Selassie and Peter Allum (IMF) and John Panzer (IDA)

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

This debt sustainability analysis (DSA) for Benin finds a low risk of debt distress, as in the 2012 DSA, but the margin from a moderate risk of debt distress has become thin. All projected external debt indicators in the baseline and most indicators under stress tests remain below the policy-dependant thresholds. However, one indicator, the ratio of the PV of external debt to exports, exceeds its threshold marginally and temporarily in the case of an extreme shock to exports, while the debt-to-GDP ratio and all debt service indicators remain below thresholds. This mainly reflects Benin's high historical export volatility, and its membership in the West Africa Economic and Monetary Union (WAEMU) assures its ability to pay in case of such a temporary shock. Improving debt management is essential to contain risk at the low level. While total debt indicators inclusive of domestic public debt confirm this conclusion, the fixed primary balance scenario underscores that medium-term fiscal consolidation is needed to strengthen long-term fiscal sustainability.

[1]Prepared in collaboration with the Beninese authorities. The fiscal year for Benin is January 1–December 31. The previous DSA update was completed in October 2012 (IMF Country Report No. 13/09).

BACKGROUND AND KEY ASSUMPTIONS

1. **Benin's total public and external debt has remained low, thanks to sound fiscal policy and strong growth during an IMF-supported program in 2010–14.**[2] Real GDP growth averaged 6½ percent in 2013–14, closing a gap of 2 percentage points in per capita GDP growth with Sub-Saharan Africa (SSA), while inflation remained subdued. Meanwhile, prudent fiscal policy kept debt low. Total public debt in 2014 was 31 percent of GDP,[3] while external debt was 20 percent of GDP. These ratios compare favorably with other countries in the West Africa Economic and Monetary Union (WAEMU), whose average public debt[4] was about 40 percent of GDP, and external debt about 36 percent of GDP in 2014. Going forward, growth is projected to exceed 5 percent in 2015 for the third consecutive year, and reach a similar level in 2016 despite the slowdown in Nigeria—Benin's neighbor and dominant trade partner. However, poverty remains high,[5] and thus higher and more inclusive growth is required to reduce it.

2. **The Beninese authorities plan to scale up public investments to address infrastructure bottlenecks and accelerate growth.** The authorities convened a Round Table conference with donors and private sector representatives in Paris in June 2014 and announced a public investment increase equivalent to about 18 percent of GDP in 2014–19. Most projects are in energy, transport, and rural infrastructure, while a few are aimed at improving education and health services. Donor pledges were broadly in line with the authorities' funding request, but significant uncertainties remain in disbursement and financing terms. The scale of the investment increase has since been revised down to about 10 percent of GDP[6] for 2015–20, using the "medium" scenario in the authorities' draft 2016 medium-term projections (Text Table 1). The planned scaling up did not materialize in 2014 due to shortfalls in revenue and financing, and while investment execution has also been low for the first eight month of 2015, the government continues to expects for 2015 an increase by 2½ percent of GDP compared to the 2014 public-investment outturn. Around 1/3 of public investments from 2016 onward are to be implemented by State-Owned Enterprises (SOEs), while Public-Private Partnerships (PPPs) have also been planned.[7] Furthermore, the authorities have committed to maintaining prudent fiscal policies and advancing structural reforms to improve fiscal management and support private sector growth.

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[2] See IMF Country Report No. 14/150 for the sixth and final review of an IMF-supported program under the Extended Credit Facility (ECF) in 2010–14.

[3] Using re-based GDP as published by the National Institute of Statistics (INSAE) in 2015. The base year has been changed from 1985 to 2007, and data reflect improved methodology, information sources, and structural changes of the economy. This increased nominal GDP by about 8 percent for 2007 and by 10 percent for 2013. On average, real GDP growth increased by about 0.1 percentage point in 2000–13.

[4] Data refer to the simple average excluding Benin. See IMF Country Report No. 14/84 for discussions on recent developments in WAEMU.

[5] The national poverty rate published by INSAE was 36 percent for 2011. The World Bank estimate for 2012 is 51.7 percent vs. a SSA average of 42.7 percent based on the share of population living on the international poverty line of PPP$1.9/day. Available at http://iresearch.worldbank.org/PovcalNet/.

[6] This includes central government investment of about 5 percent of GDP and off-budget investment through State-Owned Enterprises of about 5 percent of GDP in the same period.

[7] To capture the impact of SOE investments in the debt dynamics from 2016 onward, the DSA covers projected SOE-driven infrastructure financing, which includes a large hydropower project whose financing is now in an advanced stage of

(continued)

Benin: Comparison of Selected Debt-Related Indicators
(Percent of GDP, unless noted otherwise)

	2015	2016	2017	2018	2019	2020
Real GDP growth (percentage change)						
Current DSA	5.2	5.5	5.5	5.7	5.8	6.0
6th review	5.2	4.8	4.8	4.8	4.8	n.a.
Inflation (GDP deflator, percentage change)						
Current DSA	0.8	1.9	2.1	2.2	2.0	2.1
6th review	2.6	2.6	2.6	2.6	2.6	n.a.
Public investment (percent of GDP)						
Current DSA[1]	7.8	8.9	8.0	7.7	7.6	7.3
6th review	6.8	6.8	6.9	6.9	6.9	n.a.
Fiscal balance (percent of GDP)						
Current DSA	-6.7	-6.0	-5.5	-5.2	-5.1	-4.9
6th review	-3.6	-3.4	-3.3	-3.0	-3.0	n.a.
Current account balance (percent of GDP)						
Current DSA	-11.0	-11.4	-11.1	-11.0	-10.7	-10.5
6th review	-7.5	-7.3	-7.3	-7.0	-7.0	n.a.

Sources: Country authorities, and World Bank and IMF staff estimates and projections.
1/ Includes estimated new non-financial public sector infrastructure investment.

3. **Despite some PFM weaknesses, increased investments would have a positive growth impact** (Text table 1). Benin's governance indicators suggest that it can achieve a growth impact from higher investments similar to what is discussed in the literature.[8] The World Bank's Country Policy and Institutional Assessment (CPIA) classifies Benin as having medium government capacity, and the latest CPIA component ratings related to fiscal management compare Benin favorably with averages for SSA and WAEMU (Text Figure 1). The 2014 PEFA assessment scores Benin broadly in line with the SSA average, although the lack of improvement since 2007 indicates the need for accelerated reforms.[9] In line with the literature, higher investments of 1 percentage point is expected to increase growth by about 0.2 percentage point on average in 2015–20 compared with projections at the sixth ECF review in June 2014 (Table 1 and Box 1). Medium-term growth is projected to remain at about 6 percent until 2025, ¼ percentage point higher than the average outturn in 2012–14, and then returns to about 4.8 percent.

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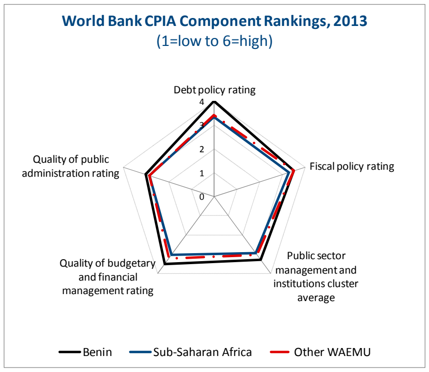
negotiation and a few road projects financed off-budget. These projects have expected total debt-creating disbursement of about 4 percent of GDP in 5 years, starting in 2016. However, no sufficient information is available on the planned PPPs for analysis in the DSA.

[8] For example, see Aslanap and others (2011) for a survey and estimates of the growth impact from raising public investments.

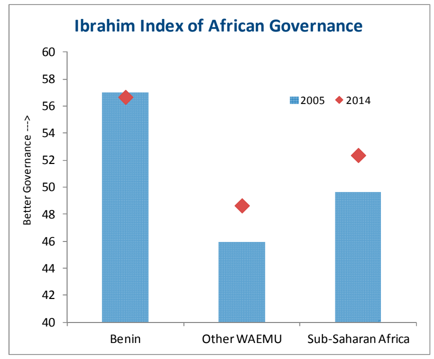
[9] Recommendations for PFM reform to enhance investment efficiency were provided in IMF TAs and a World Bank TA on public investments and procurement.

Benin: Indicators of Public Sector Capacity and Governance

Benin's capacity indicators compare favorably with the regional averages,



As does this governance indicator, despite no improvement.



4. This DSA assumes that central government investment is mainly financed by concessional resources, but also includes some non-concessional borrowing. While the authorities continue to work with potential financiers, progress has been achieved in mobilizing concessional financing. In particular, Benin was found eligible for a second compact under the Millennium Challenge Account (estimated grant financing of about US$ 375 million in 2016–21), which was signed in September 2015 with conditional disbursement expected to begin in late 2016. For 2015–16, the authorities are planning to mainly rely on bond issuance in the regional market to finance the increase in public investment. Also, about 2 percent of GDP in privatization proceeds is expected in 2016–17. While the authorities plan to use some non-concessional borrowing, they have committed that its size will be limited to ensure that the country's risk of debt distress not exceed the moderate level, with sufficient buffer. A projected total amount of about 4 percent of GDP in non-concessional financing[10] during 2016–20, to be channeled through SOEs, is included in the DSA to conservatively estimate the potential impact on public and publicly guaranteed (PPG) debt.

5. The large size of the informal sector continues to complicate the DSA. Recent estimates indicate that about 80 percent of Benin's imports are subsequently informally re-exported to Nigeria. While the Central Bank of West-African States' (BCEAO) BOP statistics attempt to differentiate between re-exports and export originating in Benin, this remains a possible source of statistical errors for the trade statistics, and could also be a reason for the high export volatility recorded in the past.[11]

[10] Based on available information, the grant element is estimated to be about 17 percent.

[11] Overestimation of exports results in large residuals in the external DSA; the residual is projected to decline in the long term.

Box 1. Benin: Key Assumptions Underlying the DSA

The assumptions in the baseline scenario are consistent with the medium-term macroeconomic framework underlying the Staff Report for the 2015 Article IV Consultation.

The authorities' investment increase equivalent to 10 percent of GDP is fully implemented and matches the average quality achieved in developing countries. No PPPs has been reflected for lack of information.

Growth impact: The projected increases in growth rates range from 0.5 percentage point in 2015 to an average of 0.2 percentage points in 2016–20; the projected growth in 2021–24 is ¼ percentage point higher than the 2012–14 outturn and returns to 4.8 percent from 2025 onward. The projected growth rates also reflected lower Nigeria growth as compared to projections in the 6th ECF review completed in 2014.

Inflation: Capital goods will be partly imported, and the effect on non-tradables would be muted by high unemployment and labor mobility in WAEMU. CPI is projected to increase by up to 1 percentage point during the scaling up but remain below the 3-percent WAEMU convergence criterion.

Fiscal impact: tax revenue is projected to be flat in 2015–16 but increase by 0.1 percent of GDP per year on average in 2017–20 as the expected reforms in tax policy and administration mature.[12] The primary deficit rises temporarily with higher capital spending and then gradually returns to about 1 percent of GDP in the medium term. In particular, privatization receipts and improved revenue reduces primary deficit from 5.1 percent to 2.9 percent from 2015 to 2018.

Current account impact: commensurate with the investment increase, the current account deficit is projected to widen by about 1.5 to 2 percent of GDP in 2015–20 from the baseline given higher imports of capital goods. The deficit returns to about 8 percent of GDP in the medium-term because export growth outpaces import growth due to eased infrastructure bottlenecks and improved business environment, which support exports (including non-traditional agricultural products, cement, and tourism) more strongly and reduce some imports (e.g., electricity and cement).

Financing: The increase of central government investments of 5 percent of GDP is predominately financed by concessional resources, with some domestic financing. Non-concessional PPG debt financing of about 4 percent GDP in 2016-20 is also included. Also, the recent rise of FDI in construction, manufacturing, and services are projected to continue, in line with Benin's recent achievements in improving its Doing Business indicators, ranked among Top 10 most improved countries in 2013–15.

6. **Risks to the baseline are to the downside.** Main risks include weak external demand and soft commodity prices in light of the fragile global recovery, particularly the recent slowdown in Nigeria driven by lower oil prices. Also, achieving the expected growth and export impact requires the authorities to rigorously implement structural reforms to improve PFM and the business environment. Furthermore, our assumptions on non-concessional borrowing are conservative, and, for lack of information, no PPPs are yet included in the DSA, even though some are under discussion. Finally, enhancing domestic revenue performance is essential to reduce Benin's dependence on the informal re-exports to Nigeria over time. Given the significant risk of lower growth, a customized alternative scenario is included to compare the impact.

[12] Recent IMF staff analysis finds that when benchmarked by regional peers, Benin has significant scope for raising tax revenue, by about 2 percent of GDP, particularly through better domestic revenue mobilization. For example, tax expenditure is estimated to be about 1 percent of GDP per year.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

7. The 2015 DSA results show that Benin continues to face a low risk of debt distress as in the 2012 DSA, but the margin toward a moderate risk of debt distress has become thin (Figure 1, Table 1 and 3). In the baseline, all debt indicators remain below their relevant policy-dependent thresholds. The present value (PV) of total PPG external debt is expected to rise from about 16 percent of GDP in 2015 to 18 percent of GDP in 2019 and then decline to about 16 percent of GDP in 2025 and 11 percent of GDP in 2035. The ratio would remain below the corresponding threshold of 40 percent of GDP throughout the projection period. However, one indicator, the ratio of the PV of external debt to exports, exceeds its threshold marginally and temporarily[13] in the case of an extreme shock to exports, while the debt-to-GDP ratio and all debt service indicators remain below thresholds. This mainly reflects Benin's high historical export volatility[14] despite more diversified recent exports, while improved infrastructure and business environment will continue to boost net export and reduce export volatility over time. Benin's WAEMU membership assures its ability to pay in case of such a temporary shock. The debt dynamic also exhibits some vulnerability to shocks in financing terms and a one-off CFA depreciation, although all indicators remain below thresholds in the corresponding stress scenarios. Thus overall, Benin's risk of external debt distress is assessed to continue to be low,[15] as in the 2012 DSA, although further improving debt management is essential to contain risk at this level.

8. A customized downside scenario shows that Benin will face a moderate risk of debt distress (Text Figure 2). This scenario assumes that Nigeria's growth further deteriorates in the near term, and sluggish structural reforms hamper private investment. Projected growth for 2016 declines by about ¾ percentage point in 2016 and by about 1½ percentage points in 2020. While public investment remains the same, private investment is projected to decline by about ¾ to 1½ percentage points in the same period. As a result, the PV debt to exports ratio would exceed the threshold longer and by a larger margin in the shock scenario, which indicates a moderate risk of debt distress. This suggests the importance of business environment reforms and the need for prudent fiscal policy in light of the growth risk in Nigeria.

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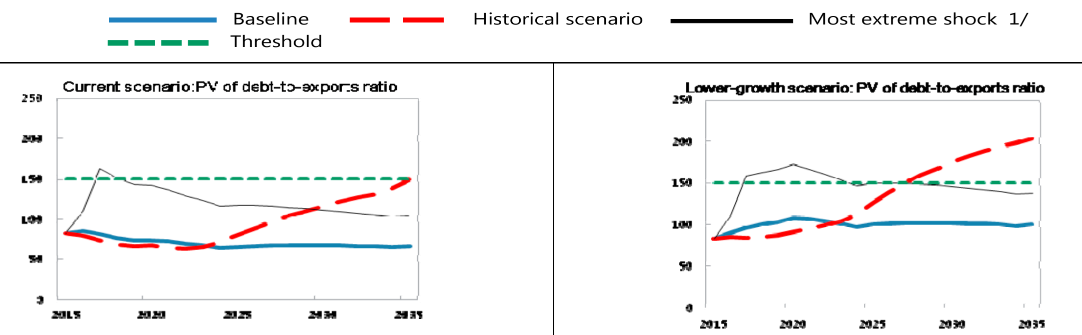
[13] The ratio exceeds the threshold of 150 percent by an average of 7 percentage points for two years before it falls below it and on a downward trajectory.

[14] The export shock in the stress test is one standard deviation lower than the historical average export growth. For Benin, the ratio of the standard deviation to average level of the export growth over the last 10 years is about 1.7 and thus makes the shock particularly large relative to the baseline export growth. In contrast, the ratio is about 1 in the four WAEMU countries for which 2014 DSAs are available (Burkina Faso, Cote d'Ivoire, Togo, and Senegal).

[15] The risk rating is also found low using a probabilistic approach that reflects Benin-specific data in setting the thresholds.

Benin: Comparison of PV Debt-to-Exports Ratio

In a lower-growth risk scenario with growth reduced by about 1.2 percentage points per year on average in 2016-20, the ratio exceeds threshold by a larger margin and for a longer period, indicating a moderate risk of debt distress. But there is no qualitatively different results in other indicators in this lower-growth risk scenario.



Source: IMF staff estimates.
1/ This refers to a shock to exports.

B. Public Debt Sustainability Analysis

9. Total public (external and domestic) debt is projected to rise moderately during the scaling up of public investment and decline afterwards (Figure 2, Tables 2 and 4). The PV of debt to GDP ratio is projected to rise from 29 percent in 2015 to 37 percent at the end of the scaling up in 2020 and then decline. The ratio remains consistently below the indicative benchmark of 56 percent, a level that research has linked to increased probability of debt distress.[16] The debt level also remains below the WAEMU convergence criteria. In the most extreme shock scenario, the peak PV of debt to GDP ratio exceeds 50 percent around 2025 only in the scenario when primary balance is unchanged from 2015, while the peak debt service to revenue ratio remains below 30 percent. Nevertheless, these indicators show some vulnerability to shocks. In particular, the scenario under fixed primary 2015 deficit exhibits a rising debt path and underscores the importance of medium-term fiscal consolidation. Nevertheless, current dynamics in total public debt are consistent with a low risk of debt distress.

C. Debt Management Capacity

10. The authorities' recently started reforms to boost debt management capacity would also enhance medium-term debt sustainability. Benin's current debt monitoring capacity is assessed as weak. The reforms include streamlining of the fragmented public debt management between the treasury and the debt management agency—*Caisse Autonome* d'Amortissement (*CAA),* in line with recent IMF TA recommendations. In particular, the authorities plan to enhance CAA's capacity for more comprehensive and timely debt recording, and extend the coverage of debt monitoring, including key SOEs that undertake significant investment projects. The capacity to fully analyze the impact of non-concessional borrowing needs to be enhanced to avoid increasing the risk of debt distress. In this context, a planned joint World Bank/IMF mission on Medium-Term Debt Strategy in November 2015 is expected to assist their efforts.

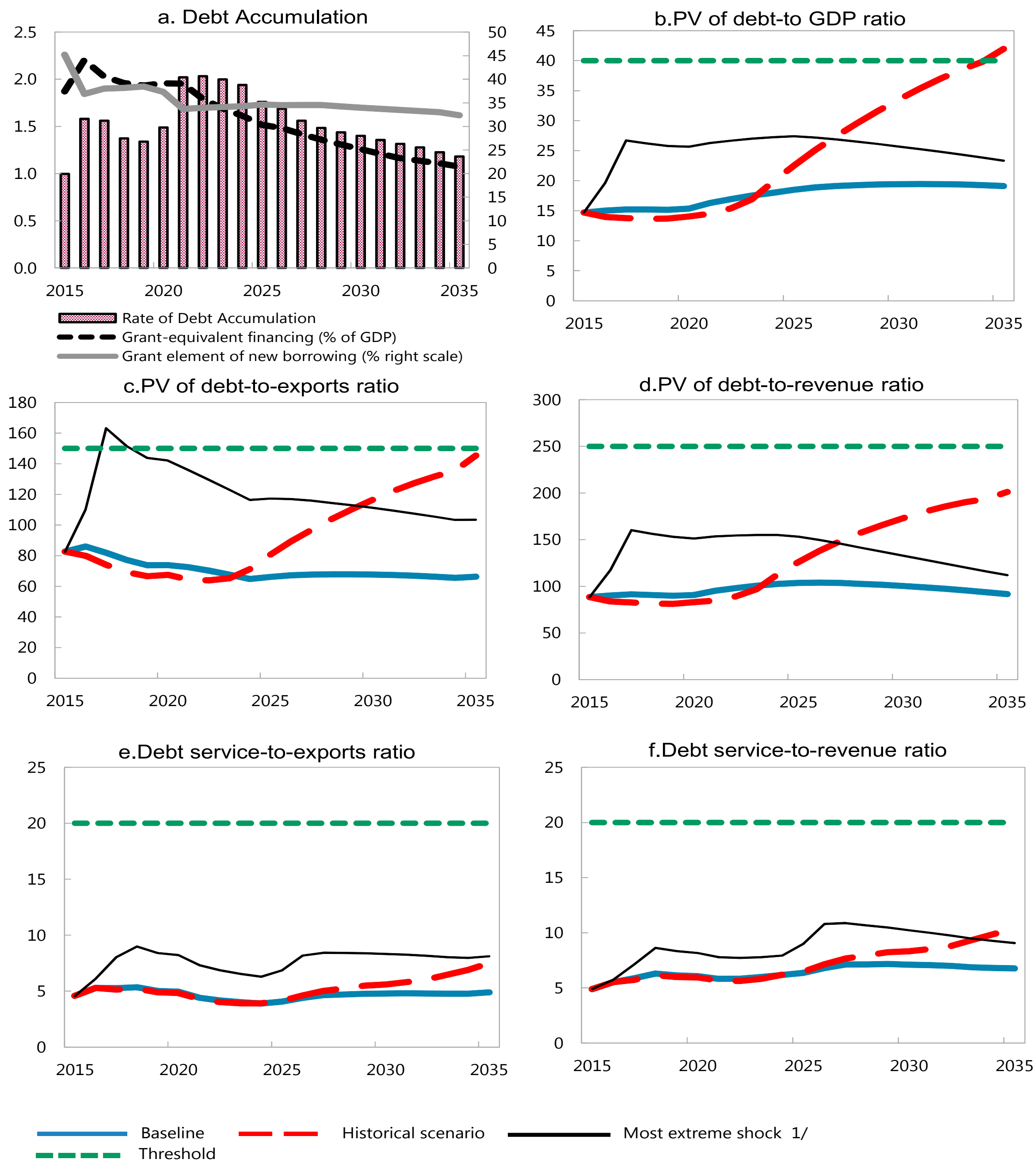
[16] See IMF, 2012, "Revisiting the Debt Sustainability Framework for Low-Income Countries."

CONCLUSION

11. The updated DSA shows that Benin continues to face a low risk of debt distress with the planned scaling up of public investment, if accompanied by sufficient structural reforms, but the margin with a moderate risk of debt distress has become thin. While most debt indicators remain below the corresponding thresholds, one indicator—PV of debt-to-export ratio—exceeds its threshold marginally and temporarily in an extreme shock scenario. The inclusion of domestic public debt in the analysis also confirms the conclusion. Achieving the expected salutary impact of the scaling up of public investment requires that the authorities continue to pursue prudent fiscal policies and pro-growth structural reforms, including in mobilizing domestic revenue and improving PFM and the business environment. Medium-term fiscal consolidation is also needed to support long-term fiscal sustainability. Finally, risks to this baseline DSA are to the downside.

12. The authorities agree with the staff's conclusions. They concur that debt sustainability will depend crucially on quality public investments, progress in reforms to support competitiveness and exports in the private sector, and a sound fiscal policy, which includes mobilizing more domestic revenue and prudent borrowing mainly through concessional financing. They also committed to enhancing debt management capacity to further minimize the risk of debt distress.

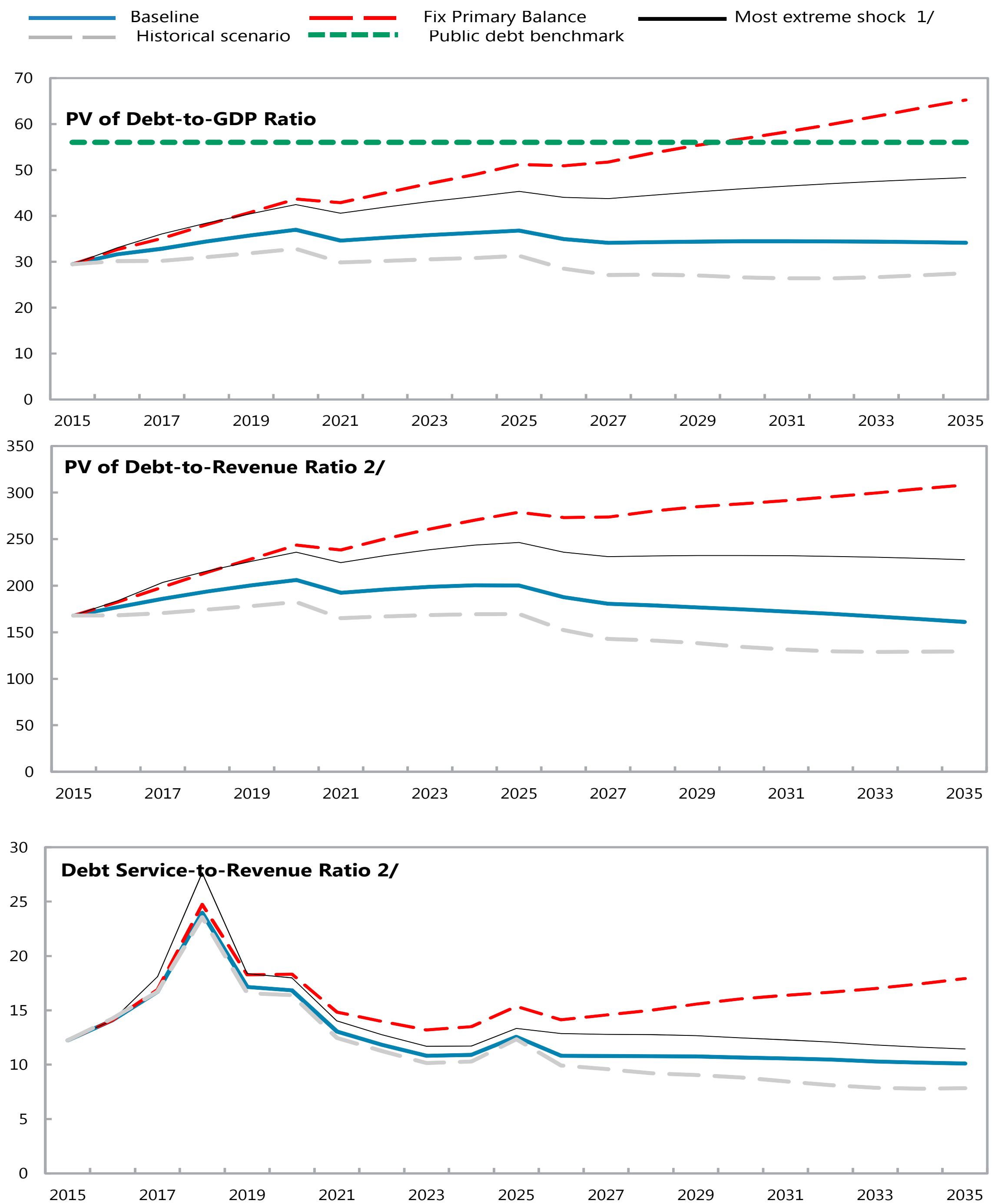
Figure 1. Benin: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–35 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock

Figure 2. Benin: Indicators of Public Debt Under Alternative Scenarios, 2015–35 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Table 1. Benin: External Debt Sustainability Framework, Baseline Scenario, 2012–35[1]

(Percent of GDP, unless indicated otherwise)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**15.4**	**16.8**	**20.1**			**22.4**	**22.6**	**22.8**	**22.9**	**22.8**	**23.2**		**27.2**	**27.7**	
of which: public and publicly guaranteed (PPG)	15.4	16.8	20.1			22.4	22.6	22.8	22.9	22.8	23.2		27.2	27.7	
Change in external debt	-1.2	1.4	3.3			2.3	0.2	0.3	0.0	0.0	0.4		0.6	-0.3	
Identified net debt-creating flows	6.3	4.5	4.9			6.2	5.8	5.2	4.8	4.4	4.2		0.7	-0.4	
Non-interest current account deficit	**9.2**	**9.3**	**9.1**	**7.6**	**1.6**	**11.0**	**11.3**	**10.6**	**10.5**	**10.1**	**10.0**		**4.7**	**3.3**	5.3
Deficit in balance of goods and services	13.4	14.2	14.6			15.9	17.1	16.8	17.5	17.3	17.7		12.5	9.9	
Exports	13.8	16.2	16.4			17.8	17.4	18.6	19.7	20.6	20.8		27.9	28.6	
Imports	27.2	30.4	31.0			33.7	34.5	35.3	37.2	37.9	38.5		40.4	38.5	
Net current transfers (negative = inflow)	-4.3	-4.6	-5.4	-4.6	0.8	-5.2	-6.1	-6.2	-7.1	-7.4	-7.8		-7.3	-6.0	-6.9
of which: official	-2.6	-2.7	-2.6			-2.3	-3.1	-3.1	-3.9	-3.7	-3.4		-3.4	-3.4	
Other current account flows (negative = net inflow)	0.1	-0.3	0.0			0.4	0.3	0.1	0.1	0.1	0.1		-0.5	-0.5	
Net FDI (negative = inflow)	**-2.6**	**-3.3**	**-3.6**	**-2.4**	**1.2**	**-3.6**	**-4.5**	**-4.6**	**-4.8**	**-4.8**	**-4.9**		**-3.0**	**-3.0**	-3.0
Endogenous debt dynamics 2/	**-0.3**	**-1.5**	**-0.6**			**-1.2**	**-1.0**	**-0.8**	**-0.8**	**-0.8**	**-0.9**		**-1.0**	**-0.7**	
Contribution from nominal interest rate	0.3	0.2	0.2			-0.1	0.2	0.3	0.4	0.4	0.4		0.5	0.5	
Contribution from real GDP growth	-0.7	-0.9	-1.0			-1.2	-1.1	-1.1	-1.2	-1.2	-1.3		-1.5	-1.3	
Contribution from price and exchange rate changes	0.1	-0.7	0.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-7.5**	**-3.1**	**-1.6**			**-3.9**	**-5.6**	**-4.9**	**-4.8**	**-4.5**	**-3.9**		**-0.1**	**0.1**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	13.0			14.7	15.0	15.2	15.2	15.2	15.4		18.5	19.1	
In percent of exports	...	...	79.3			82.6	86.0	81.8	77.1	73.6	73.8		66.2	66.9	
PV of PPG external debt	**...**	**...**	**13.0**			**14.7**	**15.0**	**15.2**	**15.2**	**15.2**	**15.4**		**18.5**	**19.1**	
In percent of exports	**...**	**...**	**79.3**			**82.6**	**86.0**	**81.8**	**77.1**	**73.6**	**73.8**		**66.1**	**66.9**	
In percent of government revenues	**...**	**...**	**78.8**			**88.3**	**90.0**	**91.2**	**90.7**	**89.8**	**90.6**		**103.4**	**91.6**	
Debt service-to-exports ratio (in percent)	**6.3**	**5.2**	**5.0**			**4.6**	**5.3**	**5.3**	**5.4**	**5.0**	**5.0**		**4.1**	**4.9**	
PPG debt service-to-exports ratio (in percent)	**6.3**	**5.2**	**5.0**			**4.6**	**5.3**	**5.3**	**5.4**	**5.0**	**5.0**		**4.1**	**4.9**	
PPG debt service-to-revenue ratio (in percent)	**5.0**	**4.8**	**5.0**			**4.9**	**5.5**	**5.9**	**6.3**	**6.1**	**6.1**		**6.4**	**6.8**	
Total gross financing need (Billions of U.S. dollars)	0.6	0.6	0.6			0.7	0.7	0.7	0.7	0.8	0.8		0.5	0.6	
Non-interest current account deficit that stabilizes debt ratio	10.5	7.9	5.8			8.7	11.1	10.4	10.4	10.1	9.6		4.0	3.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.6	6.9	6.5	4.2	1.9	5.2	5.5	5.5	5.7	5.8	6.0	5.6	6.0	4.8	5.2
GDP deflator in US dollar terms (change in percent)	-0.8	5.0	-1.2	3.6	6.0	-15.6	2.4	3.2	3.3	2.8	2.1	-0.3	0.8	2.0	1.9
Effective interest rate (percent) 5/	1.7	1.5	1.3	2.8	4.7	-0.2	0.9	1.5	1.7	1.8	2.0	1.3	2.1	2.1	2.1
Growth of exports of G&S (US dollar terms, in percent)	-10.4	32.2	6.3	12.3	20.4	-3.5	5.7	16.0	15.9	13.4	9.6	9.5	7.5	4.0	9.5
Growth of imports of G&S (US dollar terms, in percent)	8.2	25.4	7.3	12.7	18.7	-3.4	10.5	11.5	15.0	10.8	10.0	9.1	7.0	0.9	7.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	45.2	36.9	38.0	38.2	38.5	37.3	39.0	34.6	32.4	33.9
Government revenues (excluding grants, in percent of GDP)	17.4	17.7	16.5			16.7	16.7	16.7	16.8	16.9	17.0		17.9	20.9	18.8
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.1			0.2	0.3	0.3	0.3	0.3	0.3		0.4	0.4	
of which: Grants	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
of which: Concessional loans	0.0	0.0	0.0			0.2	0.2	0.2	0.2	0.2	0.2		0.3	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.9	2.2	2.0	2.0	1.9	2.0		1.5	1.1	1.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			60.1	56.4	54.1	54.8	55.2	53.5		43.9	39.9	42.6
Memorandum items:															
Nominal GDP (Billions of US dollars)	8.1	9.1	9.6			8.5	9.2	10.0	10.9	11.9	12.9		18.7	36.4	
Nominal dollar GDP growth	3.8	12.2	5.2			-11.3	8.0	8.9	9.2	8.8	8.2	5.3	6.9	6.9	7.2
PV of PPG external debt (in Billions of US dollars)			1.2			1.3	1.4	1.5	1.7	1.8	2.0		3.5	7.0	
(PVt-PVt-1)/GDPt-1 (in percent)						1.0	1.6	1.6	1.4	1.3	1.5	1.4	1.8	1.2	1.6
Gross workers' remittances (Billions of US dollars)	0.2	0.2	0.3			0.3	0.3	0.3	0.4	0.4	0.6		0.7	1.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	12.6			14.3	14.6	14.7	14.7	14.6	14.7		17.8	18.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	67.2			70.5	73.0	69.9	66.2	62.5	60.7		57.9	61.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	4.3			3.9	4.5	4.5	4.6	4.3	4.1		3.6	4.5	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

4/ 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).

Table 2. Benin: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–35

	Actual					Estimate	Projections								
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	26.8	25.4	30.9			37.1	39.2	40.5	42.1	43.4	44.7		45.5	42.7	
of which: foreign-currency denominated	15.4	16.8	20.1			22.4	22.6	22.8	22.9	22.8	23.2		27.2	27.7	
Change in public sector debt	-3.1	-1.4	5.5			6.3	2.1	1.3	1.6	1.3	1.4		0.6	-0.3	
Identified debt-creating flows	-2.8	-0.2	2.5			5.9	0.9	0.6	1.0	0.8	0.7		0.6	-0.5	
Primary deficit	-0.1	2.1	1.6	1.1	1.4	5.1	3.7	3.4	2.9	2.8	2.5	3.4	2.1	1.0	2.0
Revenue and grants	19.2	18.6	17.4			17.5	17.9	17.6	17.7	17.8	17.9		18.4	21.2	
of which: grants	1.8	0.9	0.9			0.8	1.2	1.0	1.0	1.0	0.9		0.5	0.3	
Primary (noninterest) expenditure	19.1	20.7	19.0			22.6	21.6	21.0	20.7	20.6	20.4		20.5	22.2	
Automatic debt dynamics	-2.7	-2.3	0.9			0.8	-1.9	-1.9	-1.9	-2.0	-1.8		-1.5	-1.5	
Contribution from interest rate/growth differential	-2.7	-1.7	-0.9			-1.3	-1.7	-1.6	-1.8	-1.7	-1.8		-1.5	-1.5	
of which: contribution from average real interest rate	-1.4	0.0	0.7			0.3	0.3	0.4	0.4	0.6	0.6		1.1	0.5	
of which: contribution from real GDP growth	-1.3	-1.7	-1.6			-1.5	-1.9	-2.0	-2.2	-2.3	-2.5		-2.5	-2.0	
Contribution from real exchange rate depreciation	0.1	-0.6	1.8			2.1	-0.2	-0.2	-0.2	-0.2	0.0		0.0	0.0	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	-0.9	-0.9	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	-0.9	-0.9	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.3	-1.2	3.0			0.3	1.2	0.6	0.6	0.5	0.7		0.0	0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	23.8			29.4	31.6	32.8	34.4	35.7	36.9		36.8	34.1	
of which: foreign-currency denominated	...	...	13.0			14.7	15.0	15.2	15.2	15.2	15.4		18.5	19.1	
of which: external	...	...	13.0			14.7	15.0	15.2	15.2	15.2	15.4		18.5	19.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.9	9.4	7.9			12.1	10.7	11.4	12.6	11.7	11.8		10.1	7.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	136.5			168.1	176.9	186.1	193.9	200.5	206.2		200.3	161.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	144.2			176.6	189.7	196.9	205.1	211.8	217.7		205.7	163.5	
of which: external 3/	...	...	78.8			88.3	90.0	91.2	90.7	89.8	90.6		103.4	91.6	
Debt service-to-revenue and grants ratio (in percent) 4/	10.3	9.9	9.9			12.2	14.1	16.7	24.0	17.2	16.8		12.6	10.1	
Debt service-to-revenue ratio (in percent) 4/	11.3	10.4	10.4			12.9	15.1	17.7	25.4	18.1	17.8		12.9	10.2	
Primary deficit that stabilizes the debt-to-GDP ratio	2.9	3.5	-3.9			-1.1	1.6	2.1	1.4	1.5	1.1		1.5	1.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.6	6.9	6.5	4.2	1.9	5.2	5.5	5.5	5.7	5.8	6.0	5.6	6.0	4.8	5.2
Average nominal interest rate on forex debt (in percent)	1.7	1.5	1.3	2.8	4.7	-0.2	0.9	1.5	1.7	1.8	2.0	1.3	2.1	2.1	2.1
Average real interest rate on domestic debt (in percent)	-4.5	0.5	3.4	-0.2	2.8	4.4	3.5	3.4	3.2	3.4	3.4	3.5	4.3	3.1	3.2
Real exchange rate depreciation (in percent, + indicates depreciation)	0.5	-4.3	11.1	1.2	8.8	10.8	-1.0	-1.1	-0.8	-1.2	0.0	1.1	...	...	...
Inflation rate (GDP deflator, in percent)	7.4	1.6	-1.3	2.8	2.7	0.8	1.9	2.1	2.2	2.0	2.1	1.8	0.8	2.0	1.8
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.2	15.7	-2.4	1.4	5.1	25.5	0.6	2.6	4.1	5.5	4.9	7.2	5.9	5.8	5.8
Grant element of new external borrowing (in percent)	...	...	...	...	...	45.2	36.9	38.0	38.2	38.5	37.3	39.0	34.6	32.4	...

Sources: Country authorities; and staff estimates and projections.

1/ Data refer to gross debt, and the coverage is central government as of 2015 and includes projected new non-financial public sector borrowing from 2016 onward.

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.

Table 3. Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35

(Percent of GDP, unless indicated otherwise)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	15	15	15	15	15	15	**18**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	15	14	14	14	14	14	**23**	42
A2. New public sector loans on less favorable terms in 2015-2035 2	15	16	17	17	18	19	**26**	31
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	15	16	16	16	16	16	**20**	20
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	15	17	21	21	20	20	**23**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	15	16	17	17	17	17	**20**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	15	19	23	23	22	22	**24**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	15	20	27	26	26	26	**27**	23
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	15	21	22	22	22	22	**26**	27
PV of debt-to-exports ratio								
Baseline	83	86	82	77	74	74	**66**	67
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	83	80	74	69	67	67	**81**	147
A2. New public sector loans on less favorable terms in 2015-2035 2	83	91	90	88	88	91	**92**	110
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	83	86	82	77	74	74	**66**	67
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	83	110	163	152	144	142	**117**	104
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	83	86	82	77	74	74	**66**	67
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	83	109	124	114	108	107	**86**	74
B5. Combination of B1-B4 using one-half standard deviation shocks	83	112	155	144	135	133	**106**	88
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	83	86	82	77	74	74	**66**	67
PV of debt-to-revenue ratio								
Baseline	88	90	91	91	90	91	**103**	92
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	88	84	83	81	81	83	**126**	201
A2. New public sector loans on less favorable terms in 2015-2035 2	88	95	101	104	107	111	**143**	150
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	88	93	98	97	96	97	**110**	97
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	88	100	125	123	121	120	**126**	98
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	88	95	102	101	100	101	**115**	102
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	88	114	138	135	132	131	**134**	101
B5. Combination of B1-B4 using one-half standard deviation shocks	88	118	160	156	153	151	**153**	112
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	88	128	130	129	128	129	**146**	130

Table 3. Benin: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35 (continued)

(Percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
Debt service-to-exports ratio								
Baseline	5	5	5	5	5	5	**4**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	5	5	5	5	5	5	**4**	8
A2. New public sector loans on less favorable terms in 2015-2035 2	5	5	5	6	5	6	**5**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	5	5	5	5	5	5	**4**	5
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	5	6	8	9	8	8	**7**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	5	5	5	5	5	5	**4**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	5	5	6	7	6	6	**5**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	7	8	7	7	**6**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	5	5	5	5	5	5	**4**	5
Debt service-to-revenue ratio								
Baseline	5	6	6	6	6	6	**6**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	5	6	6	6	6	6	**6**	10
A2. New public sector loans on less favorable terms in 2015-2035 2	5	6	6	7	7	7	**8**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	5	6	6	7	7	6	**7**	7
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	5	6	6	7	7	7	**7**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	5	6	7	7	7	7	**7**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	5	6	7	8	7	7	**8**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	5	6	7	9	8	8	**9**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	5	8	8	9	9	9	**9**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	30	30	30	30	30	30	**30**	30

Sources: Country authorities; and staff estimates and projections.

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 a 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.
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.

Table 4. Benin: Sensitivity Analysis for Key Indicators of Public Debt 2015–35
(Percent)

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	29	32	33	34	36	37	37	34
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	30	30	31	32	33	31	27
A2. Primary balance is unchanged from 2015	29	33	35	38	41	44	51	65
A3. Permanently lower GDP growth 1/	29	32	33	35	37	38	41	47
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	29	33	36	38	40	42	45	48
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	29	31	31	33	34	36	36	33
B3. Combination of B1-B2 using one half standard deviation shocks	29	31	32	34	36	38	40	42
B4. One-time 30 percent real depreciation in 2016	29	37	38	39	39	40	38	34
B5. 10 percent of GDP increase in other debt-creating flows in 2016	29	39	40	41	42	43	42	37
PV of Debt-to-Revenue Ratio 2/								
Baseline	168	177	186	194	200	206	200	161
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	168	168	171	174	178	183	170	129
A2. Primary balance is unchanged from 2015	168	183	199	214	229	244	279	308
A3. Permanently lower GDP growth 1/	168	178	188	198	206	214	221	220
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	168	184	204	216	226	236	246	228
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	168	172	178	186	193	199	195	158
B3. Combination of B1-B2 using one half standard deviation shocks	168	172	179	191	202	211	219	200
B4. One-time 30 percent real depreciation in 2016	168	208	214	218	221	223	207	163
B5. 10 percent of GDP increase in other debt-creating flows in 2016	168	217	224	230	234	238	227	176
Debt Service-to-Revenue Ratio 2/								
Baseline	12	14	17	24	17	17	13	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	14	17	24	17	16	12	8
A2. Primary balance is unchanged from 2015	12	14	17	25	18	18	15	18
A3. Permanently lower GDP growth 1/	12	14	17	24	17	17	14	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	12	15	18	26	19	19	15	14
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	12	14	17	23	17	17	12	10
B3. Combination of B1-B2 using one half standard deviation shocks	12	14	17	24	17	17	14	12
B4. One-time 30 percent real depreciation in 2016	12	15	19	27	20	20	16	14
B5. 10 percent of GDP increase in other debt-creating flows in 2016	12	14	18	28	18	18	13	11

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

BENIN

December 10, 2016

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

1. This supplement reports on fiscal developments since the staff report (SM/15/290) was issued.

2. Compared to projections in the staff report, the third quarter turned out more expansionary due to higher recurrent spending, while the government's objective to sharply increase investment spending was partly missed. The end-September fiscal deficit reached 5.6 percent of GDP (cash basis, excluding grants), exceeding projections by 1.2 percentage points of GDP, mostly due to higher wage bill, pensions, and transfers. While externally-financed investment was higher than foreseen, continued under-execution of domestically-financed investment underlines capacity constraints described in the staff report. Somewhat weaker than projected customs revenues also contributed to the higher deficit, which was financed through government bonds in the regional financial market.

3. The planned additional placement of government bonds discussed in the staff report (Paragraphs 6, 12, 22, and 35) has materialized in the government's announcement to issue CFAF 250 billion (about 5 percent of GDP) in the regional financial market. The first issuance took place in early December, soliciting CFAF 150 billion at a rate of 6.5 percent, with a maturity of 7 years and a grace period of 2 years. Over-subscriptions led the government to keep CFAF 165 billion. The second is planned for mid-December for CFAF 100 billion, at a rate of 6.25 percent, with a maturity of 5 years and a grace period of 3 years. These terms show higher rates, but also longer maturities than earlier issuances.

4. While part of this amount is related to the government decision to mobilize liquidity to clear de facto arrears (now reported by the government at about 2 percent of GDP), the authorities explained that the rest is meant to assure budget execution going forward. In this context, the authorities underlined their intention to meet short-term obligations to banks contrary to information received by staff (Paragraph 6). Instead, they emphasized concern that early-2016 presidential elections could complicate budget financing in the first quarter. The large bond placement in December will allow smooth execution of priority spending in early-2016, including election spending. According to the authorities, the issuances planned in the 2016 budget would be reduced commensurately, and overall 2016 budget aggregates would remain broadly unchanged. The authorities viewed the potential impact on the banking system as benign, as the government's clearance of de facto arrears has a positive effect on banks' balance sheets, and banks would be able to use bonds obtained as collateral for BCEAO refinancing.

5. Based on these developments, staff reiterated that the rising reliance on domestic financing increases costs and risks for the budget, but also expressed concern about the realism of spending projections for 2015 and 2016. While welcome from the perspective of clearing de facto arrears, the switch to domestic financing raises costs compared to concessional external financing. It also further increases banks' already high sovereign exposure and dependence on BCEAO refinancing. Budget execution during the third quarter not only deepens concerns regarding the realism of the authorities' investment spending projections, but adds concerns that the cash from the bond issuances could be used for recurrent spending. While information made available by the government is insufficient to provide revised projections for the fourth quarter and 2015 full year, the overrun in recurrent spending and prospects for higher-than-projected arrears clearance could lead to a higher 2015 deficit than presented in the staff report. The DSA is not significantly affected by the different timing and terms of budget financing relative to that projected in the staff report. Finally, the amount of de facto arrears underscores the urgent need to improve fiscal reporting.

Statement by Mr. Yambaye, Executive Director for Benin,
and Mr. Nguema-Affane, Senior Advisor to Executive Director
December 11, 2015

On behalf on my Beninese authorities, I would like to thank Management and staff for the continued advice and technical assistance provided to them in their ongoing development efforts. They are particularly appreciative of the valuable contribution of the Fund in the organization of a conference in Cotonou in June 2014. The objective of the conference was to identify priority structural reforms that would boost growth over the medium-term in the context of their new national development plan rolled out in 2014.

The national development plan envisages, among others, a scaling-up of public investment between 2014 and 2018, in the context of a structural investment program, which focuses on upgrading physical infrastructure, notably in the energy and transport sectors and through PPPs. In this regard, the Beninese authorities organized in June 2014 a roundtable in Paris with donors and private investors to mobilize public and private financing for the implementation of the investment program. They secured a US$375-million financing from the Millenium Challenge Corporation in September 2015 to strengthen Benin's national utility, attract private sector investment, and fund infrastructure investments in electric generation and distribution as well as off-grid electrification for poor and unserved households.

The present staff report gives a good account of the discussions held in Cotonou and of the authorities' medium-term financial and economic policies. My Beninese authorities appreciate the focus of the Selected Issues Paper on the financial sector's contribution to sustainable economic growth. They also welcome the policy recommendations of the systematic growth and fiscal analysis recently carried out by staff on ways to pursue the envisaged investment program without jeopardizing the country's solid macroeconomic performance.

I. Recent Developments

Real GDP growth is slowing down in 2015 but is expected to remain high at more that 5 percent for the third consecutive year. The lower growth reflects the impact of bad weather conditions and the economic slowdown in Nigeria, Benin's main trading partner. Growth was driven by the higher public investment. Inflation remained subdued despite a pickup in food prices due to adverse weather conditions.

The fiscal position deteriorated due to higher expenditures, notably investment spending, and lower financing. Revenues, however, are projected to remain stable but delays in the privatization of the telecom companies and in donor funding constrained the financing of the budget for 2015. My Beninese authorities reacted to these developments by slowing down the pace of public investment. Yet, total capital expenditures will be higher than in 2014. As staff noted, payment arrears increased despite cuts in spending. Public debt increased in 2014 and 2015 along with higher investment but Benin continues to face a low risk of debt distress as described in the DSA report.

To address the revenue shortfalls, my authorities are placing two bond issues in December 2015. The resources mobilized will be used, among others, to catch up delays in investment spending, clear payment arrears and finance part of the 2016 budget, notably the cost of the presidential election scheduled for March 2016. These actions will lay the ground for a meaningful reform of treasury processes that aim at reducing payment delays and help preserve the stability of the financial sector.

The implementation of the fiscal reforms continued although at slower than anticipated pace. Positive developments in this area include the introduction of electronic tax payments, the establishment of a one-stop window for business and tax registration for micro and small firms, and the upgrading of IT systems in the tax and customs administrations. In addition other reforms to strengthen tax policy and public financial management are advancing well. Following the uncovered fraud scheme in a donor-financed project, my authorities have strengthened the framework for combating corruption and improved transparency with notably the preparation of an anti-corruption action plan and the establishment of a Bureau of Auditor General. The improvement of the debt management framework has started with the issuance of a decree on public debt policy and debt management strategy, the delineation of debt management competences between the debt management agency (CAA) and the Treasury, and the reorganization of the CAA along front-middle-back office lines, in line with recent Fund technical assistance recommendations. The progress made in facilitating business registration and streamlining processes at the port and customs translated into an improved ranking in the last World Bank's Doing Business report.

The financial sector remains broadly stable, although vulnerabilities increased, notably in the banking sector, according to the latest stress tests. The capital adequacy ratio remains above 8 percent and non-performing loans in the banking sector remained high at 21.9 percent in 2014 and 21.5 percent at end-June 2015. Good progress is being made to resolve the two banks in difficulties, in cooperation with the regional banking commission. The banks' exposure to sovereign risks through holding of government bonds is rising as banks seek to benefit from the 3-percent interest margin between the sovereign bond rate and the central bank refinancing rate to improve their bottom line.

The microfinance sector has experienced a strong growth, partly due to the expansion of unauthorized microfinance institutions (MFIs). To address financial stability concerns arising from high credits at risks in the authorized MFIs, my Beninese authorities have taken measures to enhance supervision of that sector through notably the assignment of supervision of largest MFIs to the WAEMU Banking Commission and the central bank (BCEAO).

Moreover, they upgraded the Ministry of finance's directorate responsible for supervising smaller MFIs into a new agency in 2015. In addition, they have set up an inter-ministerial committee to identify and shut down unauthorized MFIs.

II. Policies for the medium-term

My Beninese authorities remain committed to maintain prudent policies over the medium-term. Nevertheless, they recognize that sustaining the current level of growth over the medium term and make it more inclusive will be challenging especially as the country is still highly dependent on developments in Nigeria and weather conditions. In addition, poverty remains high despite the progress made in improving some social indicators in the past years. Going forward, my authorities intend to pursue the implementation of the investment program over the next few years. They remain convinced that a pickup in investment is needed to close the infrastructure gaps and remove bottlenecks to growth. They will use the fiscal space generated by prudent fiscal policy in the past to accommodate higher capital expenditures while preserving debt sustainability. They will pursue concomitantly the implementation of structural reforms aimed at strengthening public financial management and improving the business climate, in order for the planned incremental investment spending to yield the anticipated growth dividend.

My authorities remain committed to a sustainable fiscal policy. They agree with staff that achieving a successful investment surge, and reducing vulnerabilities stemming from Nigeria and further trade liberalization will require making greater strides in the implementation of fiscal reforms. In this regard, they will step up their efforts to increase domestic revenue mobilization through the strengthening of the cooperation between the tax and customs administrations to take full advantage of the unique tax identification number and the elimination of tax exemptions starting in 2016. They will also continue to address the weaknesses identified in the 2014 PEFA, including cash forecasting and management, public procurement, and audit.

My authorities will pursue a prudent debt management policy. Improved revenue performance and public financial management will help limit their recourse to the regional capital market for investment finance. As these reforms will take time to bear results, the authorities will continue, in the meantime, to seize the opportunity provided by the strong investor appetite for government bonds and low interest rates to raise financing for investment. In addition, they will take advantage of the increased demand for securities with long maturities to improve the maturity structure of government debt and will remain mindful of the impact of the debt strategy on the health of the domestic financial sector. That said, the government's debt strategy gives priority to securing concessional financing when available. They will continue the debt management reforms initiated in 2015.

My authorities will continue to strengthen the financial sector. The strengthening of the financial sector regulatory and supervisory framework is the responsibility of regional institutions in the WAEMU region, including the WAEMU Commission and the BCEAO. As noted during the last Board meeting on WAEMU in April 2015, the regional authorities are taking steps to upgrade that framework to international standards. In particular, the regional deposit insurance scheme for both banks and MFIs has been developed and the deposit insurance agency is about to become operational. More recently, the WAEMU Council of Ministers adopted a few decisions including the development of a harmonized regional resolution framework and the BCEAO's adherence to the Alliance for Financial Inclusion (AFI) which is a global network of financial policymakers from developing and emerging countries working together to increase access to appropriate financial services for the poor.

My authorities recognize that vulnerabilities in the financial sector have increased as evidenced by the recent stress tests. Policies going forward will be geared towards ensuring continued banks' compliance with the regional regulations and directives while fostering greater financial inclusion. Specifically, they will continue to closely monitor banks and ensure that they meet the new (higher) minimum capital requirements, in accordance with the WAEMU directive. On the higher loan concentration, my authorities note that this is symptomatic of developing countries with shallow financial markets and a large informal sector. Nevertheless, they will ensure that related prudential norms are fully enforced. Efforts will be pursued to enforce regulations in the microfinance sector, following the division of supervisory powers between the BCEAO and the government's new MFI agency. Likewise the implementation of the legislative and regulatory framework for AML/CFT will continue.

Structural reforms aimed at improving the business climate and enhancing financial sector's support to private sector development will be pursued. In particular, further strides are being made to advance land titling throughout the country, notably through the use of electronic title registration. A draft legislation establishing a credit bureau that was prepared jointly with the BCEAO is expected to be adopted next year. Likewise, the judicial reform will be accelerated.

Under these envisaged policies, economic prospects for 2016 and the medium-term look positive. Growth is projected to remain high at more than 5 percent over the medium-term on the back of sustained high public investment and satisfactory progress in the implementation of the reform agenda. My authorities are cognizant of the risks to this outlook stemming from adverse developments in Nigeria, delays in the implementation of structural reforms and increasing vulnerabilities in the financial sector. They believe that their medium-term policies will contribute to reduce those risks.