

SUR/10/55

June 15, 2010

**The Acting Chair's Summing Up
Benin—2010 Article IV Consultation and Request for a
Three-Year Arrangement Under the Extended Credit Facility
Executive Board Meeting 10/59
June 14, 2010**

Executive Directors agreed with the thrust of the staff appraisal. They noted that Benin's economy has been hit by the global crisis, leading to sharply lower growth and a large overall fiscal deficit in 2009. Directors also pointed to the adverse impact on Benin's economic performance of the large expansion in the public wage bill and uneven progress on structural reforms. Looking ahead, the key challenges are to contain the impact of the crisis in the short run, while reducing fiscal and external imbalances and boosting sustainable growth and poverty reduction over the medium term. Directors encouraged the authorities to build the necessary support among key stakeholders to ensure successful implementation of their reform program, particularly in the critical fiscal and structural areas.

Directors noted that growth is likely to remain weak in 2010. While there may be some scope for fiscal policy to support the incipient recovery, they stressed that a prudent implementation of the 2010 budget in line with the ECF-supported program will be essential. Over the medium term, considerable adjustment is needed to preserve fiscal and debt sustainability. In particular, the growth of the wage bill needs to be contained, with a view to safeguarding fiscal space for priority spending, reducing distortions in the labor market, and improving external competitiveness. Directors encouraged the authorities to resist spending pressures in the run up to the 2011 elections. They underscored that undertaking the long-delayed comprehensive reform of the civil service is critical to increased efficiency in public service delivery and keeping expenditures in line with fiscal sustainability.

Directors were encouraged by the authorities' commitment to improve tax and customs administration and broaden the tax base. They noted the delays in public financial management reforms, and called on the authorities to step up their reform efforts to improve expenditure administration, including the implementation of the new public procurement code.

Directors underscored the need to reach higher sustainable growth by implementing the authorities' structural reform agenda, which will help make progress toward the

Millennium Development Goals. Ambitious reforms will also reduce Benin's vulnerability to external shocks, improve the business environment, and reverse the recent erosion of Benin's external competitiveness.

Directors welcomed the progress made in privatizing the cotton and public utility sectors. They encouraged the authorities to proceed with the planned privatization of Benin Telecom and with the implementation of a regulatory framework for the electricity sector. Directors commended the authorities' intention to save the privatization proceeds and use them, after consultation with Fund staff, to finance projects with a high social rate of return. Second generation reforms to improve land registration, property rights, and the financial and judiciary systems will also be essential to improve the business environment.

Directors encouraged the authorities to continue to enhance banking supervision and improve compliance with prudential ratios, while strengthening the application of the regulatory framework of the microfinance sector. They looked forward to the upcoming FSAP review, which should help the authorities further strengthen their supervisory framework.

It is expected that the next Article IV Consultation with Benin will be held in accordance with the Executive Board decision on the consultation cycle for members with Fund arrangements.