EXECUTIVE BOARD MEETING

EBS/18/102
Supplement 1
Correction 1

December 6, 2018

To: Members of the Executive Board

From: The Secretary

Subject: **Benin—Third Review Under the Extended Credit Facility Arrangement and Request for Waiver of Nonobservance of Performance Criterion—Debt Sustainability Analysis**

Board Action:	The attached correction to EBS/18/102, Sup. 1 (11/21/18) has been provided by the staff:
Typographical Errors	Page 3
Questions:	Mr. Eyraud, AFR (ext. 35684) Ms. Diallo, AFR (ext. 37541) Ms. Mugnier, AFR (ext. 34242) Mr. Sy, FAD (ext. 38657)

the domestic and regional financial market to finance public investment projects at non-concessional terms.

3. The debt service burden is relatively high in Benin. The ratio of debt service to revenue stands at 66 percent in 2018[3] and is expected to decrease around 37 percent on average in the medium term and 25 percent in long run. By comparison, the debt service is projected to account for 28 percent of revenue, on average, in WAEMU countries and 21 percent in all low-income developing countries in 2018.

4. Fiscal risks also arise from state-owned enterprises (SOEs), which entail contingent liabilities for the government.[4] The Beninese authorities have made some progress in monitoring SOEs debt in recent years. They have collected information on all 22 SOEs and 140 autonomous agencies to assess their indebtedness. Such exercise allowed the authorities to measure the debt of state-owned companies to commercial banks. However, further work is needed to identify and analyze other SOEs liabilities and increase the debt coverage in the next DSA[5]. Few enterprises submit their budgets and financial statements to the government as required by law, making it challenging to monitor accurately SOEs debt. Also, public enterprises continue to weigh on the government budget. Over 2014-2017, they contributed – taxes, fees, and dividends – 0.3 percent of GDP to the national budget and, in return, received 1.5 percent of GDP in grants and subsidies. Ad hoc cross-debt offsetting settlements between the government and these enterprises, and their poor economic and financial performances are the main drivers of the reliance of SOEs on public resources. To address some of these issues, the authorities are in the process of adopting a new law on SOEs that aims at improving their governance and indirectly their economic and financial performance.

5. Another risk to the public debt trajectory relates to the ongoing audit about the stock of unpaid claims held by the private sector on the government. The authorities are in the process of preparing an audit to estimate the stock of unpaid services provided by suppliers (the payments were made outside the traditional budget cycle). The audit will be available at the beginning of 2019. If some of these claims are considered as arrears by international statistical standards, they will have to be included in the 2019 debt stock. However, the amount at stake is likely to remain limited, since the total amount of claims is 0.9 percent of GDP. To account for this risk, the public debt sustainability analysis includes a scenario with a contingent liability shock equivalent to 0.9 percent of GDP.

6. Borrowing conditions eased substantially on the WAEMU financial market in the first half of 2018. Due to lower demand, subscription rates for sovereign securities' auctions recovered in the second quarter of 2018. The average subscription rate rose to 104 percent in the second quarter of 2018, up from

[3] An additional amount of debt repayment of CFA 170 billion, related to the debt reprofiling operation (see box 1), is included in the 2018 debt service.

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

[5] Current estimate of the debt of 6~~5~~ state-owned companies to commercial banks is 0.9 percent of GDP.