EXECUTIVE BOARD MEETING

EBS/18/102
Correction 1

December 12, 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**

Board Action:	The attached correction to EBS/18/102 (11/21/18) has been provided by the staff:
Typographical Errors	**Page 40 (subsequent paragraphs have been renumbered)**
Questions:	Mr. Eyraud, AFR (ext. 35684) Ms. Diallo, AFR (ext. 37541) Mr. Sy, FAD (ext. 38657) Ms. Mugnier, AFR (ext. 34242)

Attachment I. Memorandum of Economic and Financial Policies for 2018–19

1. This report is an update of the Memorandum of Economic and Financial Policies (MEFP) of June 2018, attached to the staff report for the second review of the ECF-supported program. The document describes recent economic developments and sets out the policies that the government intends to implement in the 2018-19 period. The aim of these policies is to facilitate the continuation of fiscal consolidation and domestic revenue mobilization efforts, as well as strengthen domestic and external economic stability. Implementation of the quantitative performance criteria and structural benchmarks up to end-June 2018 will be assessed in this MEFP, and those for 2019 will be included.

RECENT ECONOMIC DEVELOPMENTS

~~1.~~2. The recovery of economic growth begun in 2016 continues. In 2017, growth was essentially driven by public investment, the record level of cotton production, and the recovery of the Nigerian economy. The secondary sector (construction and public works in particular) and the primary sector (agriculture in particular) were the main contributors to growth in 2017, estimated at 5.8 percent. The initial estimates point to more accelerated growth in 2018, owing to the strong performance of the port sector, particularly the significant increase in transit traffic to other countries that use the Port of Cotonou. Inflation became slightly positive in 2017 (0.1 percent), as a result of rising food and transport prices. Inflation continued to increase in the first six months of 2018, reaching 0.9 percent in September 2018.

~~2.~~3. The current account deficit (including grants) worsened in 2017 as a result of high import volumes related to public investments. Thus, despite a rise in exports linked to strong cotton production outcomes, the deficit is estimated at 9.9 percent of GDP in 2017. It is expected to begin narrowing this year, in response to the increase in exports. Benin’s external position is expected to continue improving in the years ahead, owing to the growth of exports driven by the resurgence of the cotton sector and a decline in imports caused by the slowing of public investment.

~~3.~~4. Fiscal consolidation continues in 2018. The containment of expenditure and the improvement in domestic resource mobilization led to an estimated fiscal deficit (on a commitment basis, grants included) of 4.7 percent of GDP in 2018, compared to 5.9 percent of GDP in 2017. The mobilized revenue at end-September 2018 amounted to CFAF 714.6 billion, compared to an initial program target of CFAF 707.1 billion. This strong revenue performance is explained by the very good performance of nontax revenue (CFAF 148.0 billion, compared to an initial target of CFAF 94.7 billion), which made up for the shortfall in customs revenue (CFAF 31.50 billion) and tax revenue (CFAF 14.3 billion). However, it should be noted that most of the customs and tax shortfall occurred in the first half of 2018. An improvement in revenue performance was observed in the third quarter of 2018.