

**EXECUTIVE  
BOARD  
MEETING**

EBS/20/94  
Corrected: 5/14/2020\*\*

May 11, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Benin—Sixth Review Under the Extended Credit Facility and Request for Augmentation of Access**

Board Action:	Executive Directors' <b>consideration</b> (Formal)
Tentative Board Date:	<b>Friday, May 15, 2020</b>
Proposed Decisions:	Page 17
Publication:	Yes*
Questions:	Mr. Eyraud, AFR (ext. 35684) Mr. Nguyen-Duong, AFR (ext. 36296) Mr. Amidzic, AFR (ext. 38069) Mr. Sy, FAD (ext. 38657) Mr. Pouhe, AFR (ext. 37274) Ms. Arellano Banoni, AFR (ext. 39011)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—African Development Bank, Islamic Development Bank, West African Economic and Monetary Union, World Trade Organization

\*The authorities have indicated that they consent to the Fund's publication of this paper.

\*\*Secretary's cover note replace on 5/14/20 to refer to correct document title.





# BENIN

May 8, 2020

## SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR AUGMENTATION OF ACCESS

### EXECUTIVE SUMMARY

**Context.** Program implementation continues to be strong, with all end-December 2019 quantitative performance criteria (QPCs) and the structural benchmarks (SB) under review being met. Economic activity is expected to decelerate sharply in 2020 due to the COVID-19 pandemic. The authorities have prepared a response plan of 1.7 percent of GDP to contain health risks and support the economy. As a result of the projected revenue shortfall and the new measures, the 2020 fiscal deficit is revised upward to 3.5 percent of GDP.

**Program Objectives.** The authorities' policies under the Extended Credit Facility (ECF)-supported program are substantially adapted to cope with the health and economic emergency, with the intention of:

- Taking urgent health measures to ramp up the country's ability to contain and manage the domestic virus outbreak;
- Providing targeted and temporary relief to impacted businesses and households;
- Making reallocations within the budget to create space for the new measures;
- Catalyzing donors' financial support to allow for the fiscal accommodation of the shocks; and
- Promoting sound public financial management practices to maintain transparency and accountability in the execution of the response package and the use of funds.

**Staff View.** Staff supports the completion of the sixth review under the ECF-supported arrangement. Staff also supports the request for an augmentation of access equivalent to 61.4 percent of quota to address larger financing needs. Completion of this review will release a disbursement equivalent to SDR 91.931 million, of which SDR 76.013 million from the augmentation.

Approved By  
**Dominique Desruelle**  
**(AFR) and Craig**  
**Beaumont (SPR)**

Discussions on the Sixth Review under the Extended Credit Facility (ECF) Arrangement were held remotely from Washington D.C. during April 9-16, 2020. The mission team comprised Messrs. Luc Eyraud (head), Goran Amidzic, Alexandre Nguyen-Duong and Alex Pouhe and Ms. Vanessa Arellano Banoni (all AFR), Mr. Mouhamadou Sy (FAD), Mr. Karim Barhoumi (Resident Representative), and Mr. Joseph Houessou (Economist at the Res. Rep. Office). Ms. Esso Boukpepsi (OED) participated in the mission. The mission met with Mr. Romuald Wadagni, Minister of Economy and Finance; Mr. Alain Komaclo, BCEAO National Director; and senior economic and financial officials. Ms. Nathalie Picarelli (World Bank) participated in some of the meetings. Ms. Christelle Ndome-Yandun provided assistance for the preparation of this report.

## CONTENTS

<b>BACKGROUND</b>	<b>4</b>
<b>RECENT DEVELOPMENTS</b>	<b>5</b>
<b>OUTLOOK AND RISKS</b>	<b>6</b>
<b>POLICY DISCUSSIONS</b>	<b>7</b>
A. Adjusting the 2020 Fiscal Response to the Economic Slowdown and Virus Outbreak	7
B. Preserving Long-Term Debt Sustainability Amidst Fiscal and Economic Shocks	10
C. Making Benin's Growth More Resilient to External Shocks	11
<b>PROGRAM PERFORMANCE AND MODALITIES</b>	<b>13</b>
<b>STAFF APPRAISAL</b>	<b>15</b>
<b>BOX</b>	
1. Initial Response of the Authorities to the Virus Outbreak	4
<b>FIGURES</b>	
1. Recent Developments, 2012-20	18
2. Fiscal Developments and Projections, 2012-20	19
3. Real and External Sector Developments, 2012-20	20
<b>TABLES</b>	
1. Quantitative Performance Criteria and Indicative Targets, 2019	21

2. Structural Benchmarks for 2018-20	22
3. Selected Economic and Financial Indicators, 2018-25	25
4. Consolidated Central Government Operations, 2018-25 (CFAF billion)	26
5. Consolidated Central Government Operations, 2018-25 (Percent of GDP)	27
6. Balance of Payments, 2018-25	28
7. Monetary Survey, 2018-20	29
8. Schedule of Disbursements Under the ECF Arrangement	30
9. Indicators of Capacity to Repay the Fund, 2020-34	31
10. Financial Soundness Indicators, 2012-19	32

## ANNEXES

I. Assumptions Underlying the 2020 Growth Projections	33
II. Risk Assessment Matrix	34
III. Adverse Macroeconomic Scenario	35
IV. Authorities' Response Plan	38
V. Preliminary Review of the 2017-20 ECF-Supported Arrangement	40

## APPENDICES

I. Letter of Intent	42
Attachment I. Table of Quantitative Performance Criteria and Indicative Targets, 2019	48
Attachment II. Table of the Structural Benchmarks for 2019-20	49
Attachment III. Technical Memorandum of Understanding	50

## BACKGROUND

**1. The sixth review marks the end of the current ECF arrangement.** The three-year arrangement was approved in April 2017. Performance under the program has been very satisfactory, with all semi-annual quantitative performance criteria (QPCs) and all but one structural benchmarks (SBs) being met since its beginning.

**2. The spread of COVID-19 is still limited in Benin, but the risk of a large outbreak is rising.** As of May 6, 96 cases have been reported in Benin. According to the World Health Organization (WHO), Benin has relatively low capacity to manage a potential health emergency. The authorities have already taken a number of mitigation and containment measures (Box 1).

### Box 1. Initial Response of the Authorities to the Virus Outbreak

Since March 19, 2020, the authorities have (i) significantly limited the transit of people across land borders; (ii) restricted the issuance of entry visas to the country; (iii) introduced a systematic and compulsory quarantine of all people coming to Benin by air; and (iv) suspended all public gatherings including conferences, funerals, festivals, political rallies, sporting events, and religious activities. Starting from March 31, 2020, the authorities have also decided to establish a partial lockdown around ten cities most exposed to the pandemic in order to isolate the infected population and contain the spread of COVID-19. The authorities have also made wearing face masks in public compulsory until mid-May 2020. Finally, in cooperation with the WHO and the World Bank, the authorities are strengthening their capacity to mitigate the risk of a possibly larger domestic outbreak, in particular by intensifying surveillance, notably at points of entries; building capacity for case confirmation and follow-up; and organizing quarantine and self-isolation protocols.

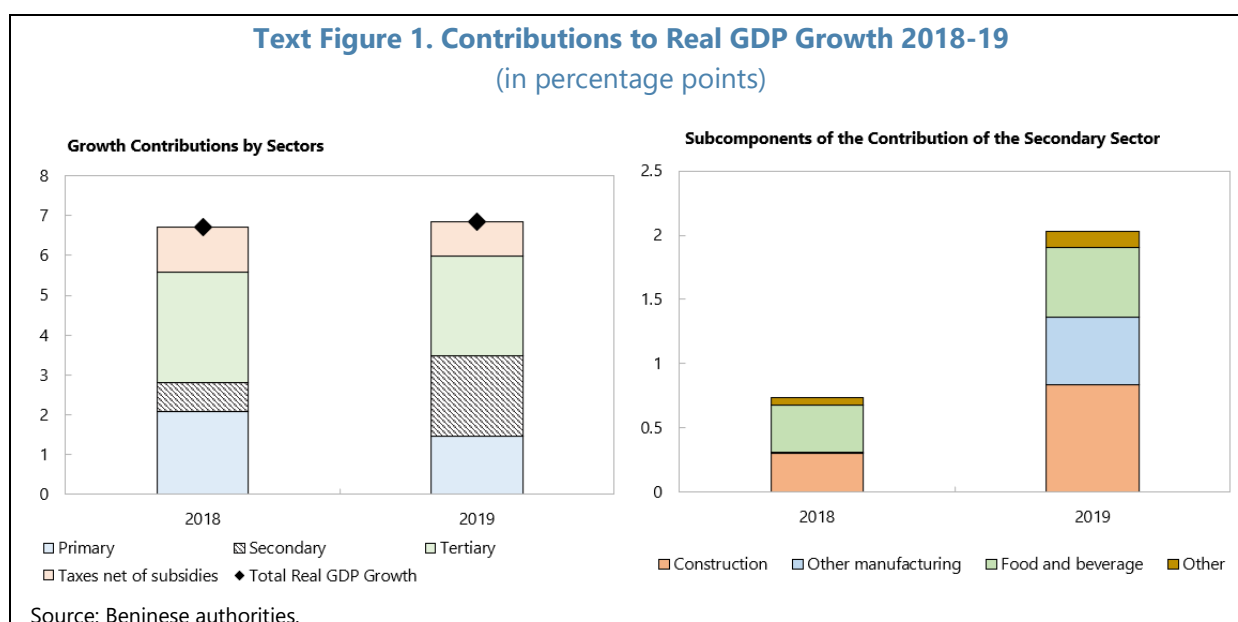
**3. On top of the COVID-19 shock, the border with Nigeria continues to be closed.** In August 2019, Nigeria decided unilaterally to close the border with some neighboring countries, including Benin. The Nigerian authorities motivated their decision by the need to curb smuggling and spur local agricultural production. Although a permanent solution is yet to be found, several measures have been agreed upon with Nigeria, including setting up joint customs checkpoints and police brigades.

**4. In this difficult context, the policies under the ECF-supported program are substantially adapted to support measures to cope with the pandemic and border closure shocks.** Discussions on the review of the program focused on the response to the crisis in the areas of fiscal policy, debt management, and pro-growth reforms. An augmentation of access is also proposed to address larger financing needs.

## RECENT DEVELOPMENTS

### 5. GDP growth remained strong in 2019 despite the closure of the border with Nigeria.

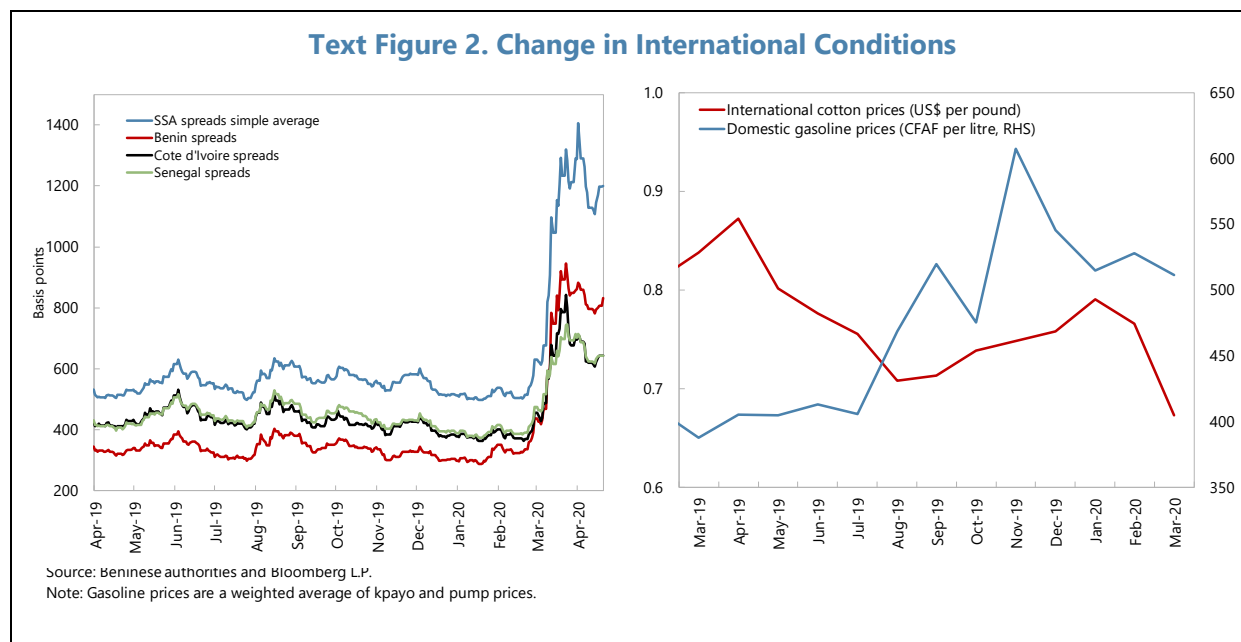
Preliminary estimates from the National Institute of Statistics estimate growth at 6.9 percent last year, mostly driven by the construction and manufacturing sectors (Text Figure 1). Inflation stood at -0.9 percent in 2019, reflecting lower water utility prices and high agriculture production.



**6. The economic impact of the COVID-19 pandemic is beginning to materialize.** With the flight to safety and other macroeconomic uncertainties, Benin's Eurobond spreads have soared by about 550 bps since the beginning of the year (Text Figure 2). International cotton prices in U.S. dollar have declined by about 15 percent over the same period. At the same time, Benin is now enjoying lower gasoline prices than at the end of 2019, when domestic oil prices spiked after the border closure with Nigeria.

**7. The fiscal deficit narrowed significantly in 2019.** The 2019 deficit is estimated at 0.5 percent of GDP, significantly lower than anticipated at the time of the fifth review (2.3 percent of GDP). This is mainly due to continued efforts to rationalize the wage bill and a significant under-execution of externally-financed public investment.<sup>1</sup> Domestic tax and non-tax revenues overperformed in 2019, while customs revenue fell short of target due to the border closure with Nigeria.

<sup>1</sup> Box 1 of IMF Country Report 18/364 presents wage bill rationalization measures. Regarding public investment, the authorities struggle to meet all the requirements imposed by donors to implement projects.



**8. The banking sector continued its gradual recapitalization, though structural weaknesses remain.** The aggregate capital adequacy ratio of banks increased from 8.2 percent at end-December 2018 to 9.6 percent at end-June 2019, exceeding the regulatory threshold of 9.5 percent required for end-2019. Portfolio quality improved somewhat, with the ratio of gross NPLs to total loans decreasing from 21.6 percent at end-December 2018 to 20.2 percent at end-June 2019. Credit to the private sector grew fast by 11.9 percent between end-2018 and end-2019. However, the sector continued to show high credit concentration and low liquidity.

## OUTLOOK AND RISKS

**9. Short-term economic prospects are revised downward to account for the two negative shocks.** Based on the assumptions presented in Annex I, 2020 GDP growth is revised down to 3.2 percent, to reflect the contraction of private demand and the longer-than-expected border closure with Nigeria (now assumed to last until mid-2020). The trade deficit is projected to widen in 2020 because of the weaker external demand, although the deterioration is less dramatic than anticipated at the time of the 5<sup>th</sup> review, since Benin, an oil importer, is enjoying a positive terms-of-trade shock. Both the wider trade deficit and lower capital inflows contribute to the projected deterioration of the overall balance of payments in 2020.

**10. The medium-term outlook continues to be favorable.** Given that the negative shocks are assumed to be temporary and dissipate later this year, the medium-term outlook is largely unchanged, with the main economic ratios converging towards levels broadly similar to those projected at the time of the 5<sup>th</sup> review. A gradual recovery in economic activity is expected to take place from 2021, driven by a rebound in the retail and transport sectors. Nonetheless, the nominal GDP level would still remain lower than anticipated in the last staff report by the end of the forecast horizon.



**11. There are large downside risks** (Annex II). At the global level, the main risks originate from weaker-than-expected global growth and further spillovers from the COVID-19 pandemic, which would adversely affect Benin's outlook through trade, remittances and FDI channels. At the national level, a larger domestic virus outbreak would hit manufacturing, commerce and transport activities, deteriorate tax revenues, and add further pressure to Benin's external position. The April 2021 presidential election elevates policy implementation risks and may generate public spending pressures. A prolonged closure of the border with Nigeria would take a heavy toll on Benin's exports, growth and fiscal revenues. Unresolved banking sector vulnerabilities may also pose fiscal risks if not handled carefully and in timely manner. At the regional level, a contagion of security risks, which have intensified in neighboring countries, could generate budgetary costs related to security spending and revenue losses.

**12. A downside scenario with a larger domestic coronavirus outbreak and a more negative external environment could bring down GDP growth below 2 percent.** Given the elevated risks, macroeconomic projections are subject to a high degree of uncertainty. Annex III describes an adverse but not unlikely scenario assuming (i) lower international demand for Benin's exports; (ii) a larger domestic COVID-19 outbreak, which affects negatively domestic consumption and investment; (iii) a sharper decline in capital inflows; and (iv) an extension of the border closure with Nigeria until end-2020. In this scenario, 2020 GDP growth would be revised down to 1.7 percent and the fiscal deficit would surge to 4.5 percent of GDP.<sup>2</sup> The trade deficit would reach around 5 percent of GDP in 2020, while the overall balance would record a deficit of 1.4 percent of GDP.

## POLICY DISCUSSIONS

*The discussions focused on how macroeconomic and structural policies should adapt to the more difficult environment marked by the combined shocks of the COVID-19 pandemic and the prolonged border closure with Nigeria.*

### A. Adjusting the 2020 Fiscal Response to the Economic Slowdown and Virus Outbreak

**13. Continued fiscal discipline under the program has created fiscal space that the authorities will use to respond to the crisis.** In December, the authorities passed an ambitious budget targeting a deficit of 1.8 percent of GDP in 2020, well below the regional ceiling of 3 percent of GDP and the lowest among WAEMU countries. At 41.2 percent of GDP, the 2019 debt ratio stood below the average of SSA countries (50.1 percent of GDP) and the WAEMU (44.5 percent of GDP).

**14. The authorities have prepared an emergency package of new measures equivalent to 1.7 percent of GDP to address the emerging health crisis, provide relief to households, and**

<sup>2</sup> This negative scenario assumes unchanged fiscal policy—the adequate response is discussed below in the policy section.

**support the economy.** Within the budget envelope, the authorities have already reallocated some funds towards prevention measures (Text Box I). Their new plan, presented in more detail in Annex IV, is based on a three-pronged strategy:

- *Health response.* The budget envelope for public health expenditure will be increased by 0.7 percent of GDP to allow for the purchase of medical equipment and the construction of temporary health facilities and retention areas for quarantined people.
- *Transfers to households.* One third of the plan will consist of transfers to vulnerable households representing above one quarter of the population. A system of cash wires through mobile banking building on ARCH (the new health insurance system) or channeled through the safety nets component of the World Bank ACCESS project is being considered.<sup>3</sup> If technical constraints prevent its use, the authorities will resort to more traditional forms of transfer, such as food distribution programs and utility bill subsidies. Both cash transfers and subsidies are expected to benefit the formal and informal sectors.
- *Support to impacted businesses.* In addition to some flexibility with tax payment deadlines, targeted and temporary tax exemptions will be provided to businesses most affected by the crisis.

**15. Along with the expected revenue shortfall, these new measures would bring the fiscal deficit to 3.5 percent of GDP in 2020.** On the revenue side, the projected tax and customs shortfall due to the economic slowdown and the border closure with Nigeria is estimated at 1.1 percent of GDP (under the assumption that the border remains closed until mid-year). On the spending side, the authorities plan to reallocate 0.6 percent of GDP from non-essential goods and services and non-health capital expenditure towards the new priorities of the emergency package estimated at 1.7 percent of GDP. As a result, the 2020 fiscal deficit is revised upward by 1.7 percent of GDP relative to the 5<sup>th</sup> review (Text Table 1). The increase in the deficit is broadly appropriate given the needs and the available fiscal space. In addition, the higher deficit will not entail a breach of the regional fiscal framework, since the application of the 3 percent of GDP ceiling has been temporarily suspended by the WAEMU Head of States on April 27, 2020 in response to the crisis.

<sup>3</sup> The ACCESS project has supported the development of Benin's National Social Registry, based on a two-stage identification of poor populations through consultation of local communities and proxy means testing (PMT). The first stage is already completed, while the second stage is expected to be finalized this year. At the moment, about 550,000 vulnerable households (representing 29 percent of the population) have been identified, but their number could be revised once the PMT is extended to all Benin's "communes."

**Text Table 1. Sources and Financing of the 2020 Fiscal Gap**  
(Relative to the 5th review report)

		CFAF bn	% of GDP
<b>Sources of the fiscal gap</b>	(1) Emergency response package	150.0	1.7
	of which: Spending measures	110.0	1.3
	of which: Tax measures	40.0	0.5
	(2) Revenue losses due to COVID-19 and border closure	93.0	1.1
	→ Fiscal gap = (1) + (2) = (3)	243.0	2.8
<b>Financing of the fiscal gap</b>	(4) Reallocation of spending and savings within budget	50.7	0.6
	of which: Underexecution of low-priority capital projects <sup>1</sup>	31.0	0.4
	of which: Current expenditure savings	19.7	0.2
	(5) Additional domestic financing relative to budget plan	65.4	0.7
	of which: BOAD <sup>2</sup>	26.0	0.3
	of which: New domestic issuances	39.4	0.4
	(6) Additional external grants <sup>3</sup>	41.9	0.5
	(7) Additional external borrowing at concessional terms from donors <sup>4</sup>	16.9	0.2
	(8) Proposed IMF augmentation and CCRT	68.2	0.8
<b>Note: Higher 2020 fiscal deficit<sup>5</sup></b>	Higher deficit relative to 5 <sup>th</sup> review = (3)-(4)-(6) [above the line] =	150.5	1.7
	(5)+(7)+(8) [below the line]		

<sup>1</sup> If the authorities gather additional external concessional financing relative to (7), the execution of capex will be adjusted upward accordingly.

<sup>2</sup> Concessional loan and debt service relief in CFAF provided by the regional bank BOAD.

<sup>3</sup> Including the European Union and the World Bank.

<sup>4</sup> Including the Islamic Development Bank (ISDB), the African Development Bank (AFDB), and the World Bank.

<sup>5</sup> Cash basis, including grants.

**16. Staff also encouraged the authorities to prepare a contingency plan in case the shocks become more persistent and severe than anticipated under the baseline.** Under the downside scenario presented in Annex III (with lower economic growth and longer border closure with Nigeria), the 2020 fiscal deficit would increase further to 4.5 percent of GDP. The debt sustainability assessment (DSA) rating for debt distress would remain moderate in this scenario. However, the government may face financing constraints. In this context, the mission recommended a three-step strategy. First, the authorities should seek additional external financing at concessional terms to cover the higher deficit. Second, if donors' support is insufficient, the authorities could contract additional domestic debt on the regional market (where rates, have, so far, remained moderate since the beginning of the year). Third, if domestic financing at reasonable terms is unavailable, further expenditure rationalization measures could be taken to make space for priority spending. This would entail slowing down further the implementation of capital projects, which may occur anyway if the domestic outbreak halts economic activity.

**17. Sound public finance management is paramount in times of reprioritization of public policies.** Once the size of the COVID-19 spending is fully assessed, the authorities will, most likely, need to prepare a supplementary budget to maintain budget transparency and ensure that all the new priorities are appropriated in 2020. This will mitigate the risks of off-budget spending and pressures on next year's budget. Moreover, quarterly budget execution reports should highlight the state of implementation of the COVID-19 measures, their main outcomes, and the difficulties encountered. The authorities are also committed to conducting an audit of their response plan next

year, which will be independently carried out by the Accounting Chamber and made available to the public on its website. The authorities will also publish the procurement contracts of the main projects, indicating their amount and beneficiaries (see paragraph 10 of the Letter of Intent).

## B. Preserving Long-Term Debt Sustainability Amidst Fiscal and Economic Shocks

**18. For 2020, the financing of the higher fiscal deficit is expected to rely mostly on additional concessional borrowing and grants.** Under the baseline scenario, the additional fiscal deficit is mostly covered by resources brought by developing partners. These resources are currently estimated at 1.8 percent of GDP, out of which 0.8 percent of GDP will come from the IMF (proposed program augmentation and CCRT) and 1.0 percent of GDP from donors (in the form of new loans and grants).<sup>4</sup> The authorities are also reaching out to other donors to gather additional financing. If they succeed to secure more financial support than envisaged in Text Table 1, this will reduce the need for the expenditure reallocations currently envisaged in the projections. In this case, the 2020 fiscal deficit could increase to up to 3.9 percent of GDP.<sup>5</sup>

**19. Because the higher fiscal deficit is financed mostly from concessional resources, the risk of debt distress remains moderate, even under adverse scenarios.** Compared to the 5<sup>th</sup> review of the program, the overall debt distress risk rating of the DSA is unchanged at moderate. However, the room to absorb shocks deteriorates from “some space” to “limited space” (see attached DSA report).

**20. From 2021 onwards, the authorities plan to revert to the medium-term fiscal path.** To preserve fiscal sustainability, the increase in the fiscal deficit should be temporary and reversed after the shocks dissipate. The projections presented in the staff report assume that both shocks (pandemic and border closure with Nigeria) will wear off later this year. Under this assumption, the fiscal deficit should revert to the previous path and remain within the regional deficit ceiling of 3 percent of GDP. Staff also reemphasized the importance of making further progress on revenue mobilization in the medium term, given that Benin lags comparator countries in this area.<sup>6</sup>

**21. To stick to their medium-term plan, the authorities may need to take measures to offset the permanent losses of customs revenues.** Part of the revenue losses from the border closure with Nigeria are expected to be permanent, even after the border reopens, because of the reduction of informal cross-border trade. Staff advised that compensatory measures be taken to offset these

<sup>4</sup> 1.0 percent of GDP corresponds to the sum of rows (5) (excluding domestic issuances), (6), and (7) in Text Table 1.

<sup>5</sup> As indicated in Text Table 1, the capital expenditure cuts required to close to the financing gap are estimated at 0.4 percent of GDP. If additional financing makes these cuts unnecessary and revenue performs as planned under the baseline scenario, the fiscal deficit would increase from 3.5 to 3.9 percent of GDP.

<sup>6</sup> As in previous reports, the projections are made under unchanged tax policy (with a constant tax ratio over 2021–25). Medium-term fiscal consolidation is assumed to rely on expenditure cuts. But a preferable approach would be to enhance domestic revenue mobilization.

permanent losses, preferably through tax increases and revenue administration measures.<sup>7</sup> Given the large economic slowdown in 2020 and the difficulty to disentangle permanent from temporary revenue shortfalls at the moment, these measures should be calibrated and implemented once the COVID-19 shock is over.

**22. In addition, preserving debt sustainability will require that risks arising from future infrastructure projects be actively monitored and managed.** More than half of the Government Action Plan projects are expected to be financed by the private sector, mainly in the form of PPPs. A PPP law was enacted in 2016. As of April 2020, no PPP has been signed yet. To ensure that future PPPs do not create excessive risks to public finances, they should be properly reflected in fiscal accounts, and the potential contingent liabilities should be carefully assessed.

### C. Making Benin's Growth More Resilient to External Shocks

**23. The current crisis is testing the resilience of Benin's growth model.** Although Benin's growth potential is elevated (estimated at 6.7 percent in the 2019 Article IV report), the activity is projected to decelerate strongly as a result of the COVID-19 pandemic and the border closure with Nigeria. The crisis will expose and aggravate some vulnerabilities of Benin's growth model. Structural transformation remains limited, with a stable share of the agriculture sector and signs of deindustrialization in the past two decades. On the trade side, diversification and sophistication are relatively low, hampered by the economic reliance on Nigeria and the concentration of exports in traditional products like cotton and cashew nuts. Economic resilience is also hindered by the lack of financial development, with the banking sector suffering from a structurally weak profitability, poor credit quality, and elevated credit concentration.

**24. In the short term, the authorities could contemplate additional measures to support economic activity if the situation deteriorates relative to the baseline.** The authorities' emergency package already comprises key measures to support economic activity (see paragraph 14). Annex III presents a downside scenario where growth could decelerate by another 1½ percentage point in 2020 (from 3.2 to 1.7 percent), because of a longer border closure with Nigeria and more adverse conditions due to the pandemic. In this case, further measures could be contemplated, such as (i) increasing the size or expanding the coverage of transfers to vulnerable households; (ii) improving access to credit for cash-constrained businesses through guarantees or subsidized loans; (iii) broadening the range of inputs or production factors concerned by cost-based tax incentives; (iv) accelerating government payments to private sector suppliers; and (v) reducing the turnover tax for micro and small enterprises.

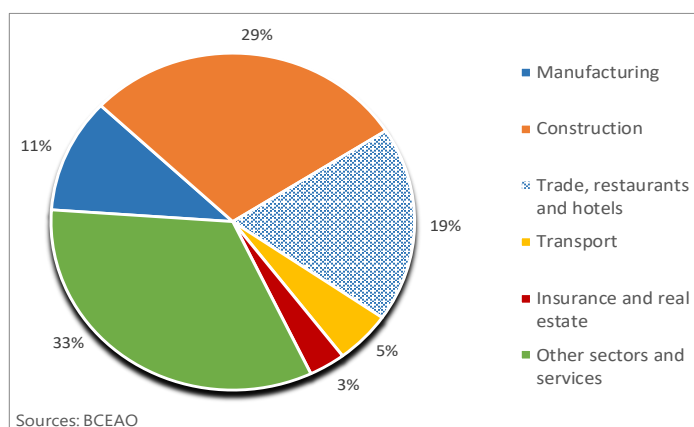
**25. The impact of the border closure with Nigeria highlights the importance of reducing further the role of informal trade in the Beninese economy.** Informal re-exports represent almost half of Benin's exports. The authorities are taking measures to reduce informal activity, including by

<sup>7</sup> Tables 4 and 5 assume permanent tax losses of 0.2 percent of GDP relative to the 5<sup>th</sup> review. Compensatory measures could include enhancing the Large Taxpayer Office's audit capacity; collecting more actively tax arrears; enforcing penalties on importers without a tax ID; and curbing VAT tax expenditures.

providing support for businesses entering the formalization process; promoting digitalization of transactions through mobile banking and e-tax services; strengthening risk-based tax compliance; and developing special tax regimes for micro and small enterprises. On the trade side, the mission argued that accelerating the digitalization of trade procedures and simplifying them could reduce trade informality, by enhancing control and making formal transactions less burdensome.

**26. Economic resilience will also depend on the banks' ability to weather the crisis and continue providing credit to support domestic demand.** While it is difficult to gauge the impact of the crisis on credit growth given the current uncertainty, it should be recognized that the Beninese banking sector has done major efforts to rebuild buffers in the past two years, in the context of the move towards Basel II/III and IFRS9 standards. Most banks have conducted recapitalization plans, with the aggregate capital adequacy exceeding the regulatory minimum at end-June 2019. The cleaning of banks' balance sheets is also advancing, reflected in a significant decline in the share of NPLs.<sup>8</sup> And the formalization of real estate guarantees has been well received by banks, reducing their provisioning needs and generating capital that could be used for credit.<sup>9</sup> To strengthen the financial architecture, the authorities have also made further steps towards the operationalization of the Caisse des Depots et Consignations (CDC), by appointing the board of directors at the end of last year, while providing it with an endowment to start its activities. However, vulnerabilities remain. Banks are significantly exposed to sectors, such as hotels and restaurants, that are likely to be hit hard by containment measures and the slowdown of economic activity (Text Figure 3). In addition, three banks (out of 15), representing 10 percent of the banking system's assets, still fail to meet the capital requirements.<sup>10</sup> The merger of two small public banks is underway, with the plan being sent to the Banking Commission for approval. The third undercapitalized private bank is in the process of raising additional capital from its shareholders. More generally, the mission recommended that all banks

**Text Figure 3. Banking Sector Credit Distribution, 2019**  
(in percent)



<sup>8</sup> The reduction of NPLs has been supported by a number of measures, including the extension of the credit bureau database in 2019 to the information received from utility companies; and the adoption of the regional accounting plan (operationalized in 2019) mandating banks to write off NPLs older than 5 years.

<sup>9</sup> In April 2019 the authorities adopted a decree facilitating the conversion of occupancy permits into real estate titles that are recognized as collateral by the regulator. This has, so far, led to the formalization of 916 guarantees, corresponding to CFAF 104 billion (1.2 percent of GDP) of underlying collateral. In order to improve the efficiency of public notaries who manage the formalization procedure, the authorities have also launched a digital "e-notary" platform in April 2020, which significantly lowered the cost and length of the conversion process.

<sup>10</sup> These three banks are undercapitalized both in terms of capital adequacy ratio and minimum capital per bank.

continue to apply existing prudential rules, while using the flexibility embedded in the regional framework to support borrowers hit by the pandemic. Banks should report NPLs and potential losses as accurately as possible. And corporate governance could be strengthened in order to mitigate the risk of transmission of localized problems across the banking sector.

**27. In the medium term, the growth strategy should remain firmly rooted in the objective of increasing economic diversification.** Although the short-term priority is to respond to the cyclical downturn, the authorities are fully aware of the importance of putting in place conditions conducive to the structural transformation of the economy. In staff view, three main strategies—described in further details in the 2019 Article IV report—can support this transformation: (i) further improve the business environment, in particular access to finance, infrastructure quality, and governance; (ii) promote industrial development and move up the quality ladder for agriculture; and (iii) close the large gaps in education and health outcomes.

**28. Benin should also continue to enhance governance and the fight against corruption and money laundering.** This will bolster medium-growth prospects by improving the country's competitiveness and attractiveness to international investors. More precisely, the authorities should enhance the effectiveness of both the anti-corruption and AML/CFT frameworks:

- *Anti-corruption framework.* In April 2020, the government submitted a draft law to the National Assembly for the creation of the High Commission for the Prevention of Corruption (HCPC). This commission, which will replace the National Anti-Corruption Authority (ANLC), will focus on the aspects of corruption prevention. Further efforts could focus on: (i) updating the 2001 national anti-corruption strategy to enhance the effectiveness of the prevention and enforcement efforts commensurate with the risks; and (ii) ensuring that the declaration of assets for senior officials is in line with international best practices and is effectively implemented. In addition to improving the level of compliance in the submission of declarations<sup>11</sup>, the Chamber of Accounts at the Supreme Court should enhance its verification process and the sanctions for non-compliance or false declarations. Access to asset declarations could also be improved.
- *AML/CFT framework.* The mission advised the authorities to keep improving the effective implementation of the AML/CFT standards and address the deficiencies identified in the draft GIABA report (expected to be approved in October 2020).

## PROGRAM PERFORMANCE AND MODALITIES

**29. Performance through end-December 2019 was satisfactory.** All end-December QPCs and the indicative target for priority social spending were met. The authorities have also met all the SBs under review.

<sup>11</sup> Compliance rates range between 60 and 100 percent among senior public officials.



**30. Overall performance under the 2017-20 program has been very positive.** Annex V reviews the experience over the three years of the ECF arrangement. The authorities have met almost all performance criteria and SBs, and made advances in the areas of fiscal discipline, revenue mobilization and debt management. However, progress has been more uneven for private sector development and public investment management.

**31. The authorities have requested a program augmentation.** The current ECF arrangement expires in July 2020. Staff proposes an augmentation at the time of this 6<sup>th</sup> review to meet Benin's fiscal financing needs and related BoP needs. These arise from higher expenditure to contain the virus risk as well as the loss of tax and customs revenues due to the pandemic and the protracted border closure with Nigeria (Text Table 1). Given the tightening of global market conditions, access to external commercial financing is also becoming more difficult. An augmentation of 61.4 percent of quota—corresponding to SDR 76.013 million for the last disbursement—would bring outstanding IMF credit to 173 percent of quota at the end of the program. The proposed augmentation is consistent with applicable normal access limits under an ECF arrangement.

**32. Upside risk on financing needs.** As shown in Annex III, a further deterioration of the economic environment could increase the tax revenue shortfall. Also, the fiscal deficit is supposed to be partly covered by issuances on the domestic debt market, which may become more difficult in the near future. Therefore, financing needs could prove challenging to fill, especially if downside risks materialize. In this context, staff's view is that the authorities could address this in part by seeking additional Fund support.

**33. Catastrophe Containment and Relief Trust (CCRT).** On April 13, 2020, Benin, like 24 other countries, was granted relief on its debt service to the IMF over April-October 2020, amounting to SDR 7.4 million (CFAF 6.4 billion), as part of the IMF response to the crisis and the enhancement to its CCRT.

**34. Successor arrangement.** The authorities have expressed interest in continuing their medium-term collaboration with the IMF after the current program expires (see attached Letter of Intent). The mission discussed available options to signal commitment to reforms and catalyze financing from other sources. The discussions will continue later this year to identify the most appropriate form of engagement with the Fund.

**35. Financing assurances.** The program is fully financed until the end of the arrangement (July 2020). Expenditure reallocation, domestic financing, and external grants helped reduce the residual gap, which was closed with additional donor support, as shown in Tables 4 and 5.

**36. Capacity to repay the Fund.** Benin's capacity is assessed to be adequate. The country has a track record of meeting its obligations to the Fund. At end-April 2020, outstanding Fund credit (including the GRA) was around 98.6 percent of quota or SDR 122.03 million. Debt service payments to the Fund will remain manageable, with obligations peaking in 2020 at 1 percent of government revenue.



**37. Safeguard assessment.** The BCEAO has only one recommendation outstanding from the 2018 safeguards assessment. This recommendation relates to the strengthening of the risk management function, which is in process. The assessment found that overall the central bank has maintained a strong control culture.

## STAFF APPRAISAL

**38. The strong growth momentum has been halted by the health and economic crisis.** Benin's growth reached almost 7 percent in 2019, driven by the construction and manufacturing sectors. In 2020, economic activity is expected to decelerate to 3.2 percent, as result of the pandemic. The macroeconomic projections are subject to a high degree of uncertainty given the rapidly evolving impacts of the COVID-19. If the pandemic persists and spreads further, the 2020 macroeconomic performance may worsen even more.

**39. Staff welcomes the authorities' ambitious plan to respond to the COVID-19 pandemic.** The plan will raise healthcare spending, grant cash transfers to vulnerable households, and provide support to impacted businesses. The 2020 fiscal deficit is forecast to widen to 3.5 percent of GDP to accommodate the new measures and the revenue shortfall. Although its financing will rely mostly on greater financial support from donors, the authorities also plan to reallocate, within the budget, spending from less urgent projects towards new priorities defined by the response plan.

**40. Sound public finance management and transparency are paramount in times of sizeable reprioritization of public policies.** Once the size of the COVID-19 spending is fully assessed, the authorities will, most likely, need to prepare a supplementary budget to maintain budget transparency. Careful monitoring and ex-post audit of the execution of the new measures will strengthen accountability and ensure that the additional funds are spent as intended. The mission also welcomes the authorities' commitment to publish next year's audit of the response plan as well as the procurement documents for the main projects.

**41. Once the shocks wear off, the authorities should revert to their medium-term fiscal path, by maintaining the fiscal deficit below the regional ceiling.** This will ensure that the crisis does not jeopardize fiscal sustainability. On the economic reform front, the authorities' efforts to modernize the Beninese economy should be pursued, with special emphasis on the diversification of the economic structure, the improvement of the business environment, and the strengthening of the banking sector.

**42. Staff commends the authorities' very satisfactory performance under the Fund-supported program.** All QPCs at end-December 2019 and the SBs under review were met. Data received so far shows that the continuous PCs continue to be observed. More generally, over the three-year program, all semi-annual QPCs and most SBs have been met. The fiscal deficit ratio declined sharply from 4.4 percent of rebased GDP in 2016 (before the program started) to 0.5 percent of GDP in 2019. The sound policies conducted under the program have cemented Benin's credibility

with international investors, allowing the country to issue its first Eurobond in March 2019 and bringing it closer to the frontier market status.

**43. Staff supports the authorities' request for completion of the sixth review of the ECF-supported program and augmentation of access.** The augmentation will help the authorities address the human and economic implications of the COVID-19 pandemic. The capacity to repay the Fund is adequate.

**44. Staff also recommends that Benin be placed on the standard 12-month cycle for Article IV Consultations.**

## Proposed Decisions

The following decisions, which may be adopted by a majority of the votes cast, are proposed for adoption by the Executive Board.

### Decision 1

1. Benin has consulted with the Fund in accordance with paragraph 4.D(b) of the arrangement for Benin under the Extended Credit Facility (ECF) (EBS/17/25, 3/24/2017), (the “ECF Arrangement”) to review program implementation and to reach understandings regarding the conditions for further disbursements.
2. The letter dated May 8, 2020 from the Minister of Economy and Finance of Benin (the “May 2020 Letter” ) together with its Technical Memorandum of Understanding (the “May 2020 TMU” ) shall be attached to the ECF Arrangement, and the letter dated March 23, 2017 from the Minister of Economy and Finance of Benin, together with its attachments, as supplemented and modified, shall be read as further supplemented and modified by the May 2020 Letter and its attachments.
3. Accordingly, the ECF Arrangement for Benin shall be amended as follows:
  - a. In paragraph 1(a) of the ECF Arrangement, “SDR 111.42 million” shall be replaced by “SDR 187.433 million”.
  - b. In paragraph 2(g) of the ECF Arrangement, “SDR 15.918 million” shall be replaced by “SDR 91.931 million”.
4. The Fund decides that the sixth review referred to in paragraph 4.D(b) of the ECF Arrangement is completed, and that Benin may request the seventh disbursement referred to in paragraph 2(g) of the ECF Arrangement.

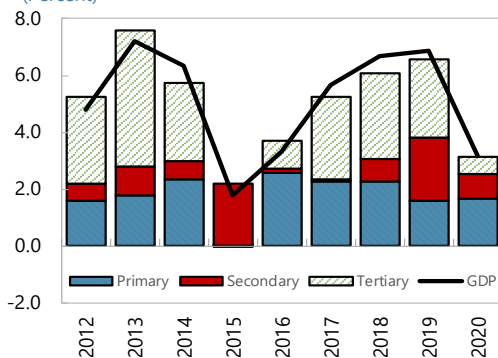
### Decision 2

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

**Figure 1. Benin: Recent Developments, 2012-20**

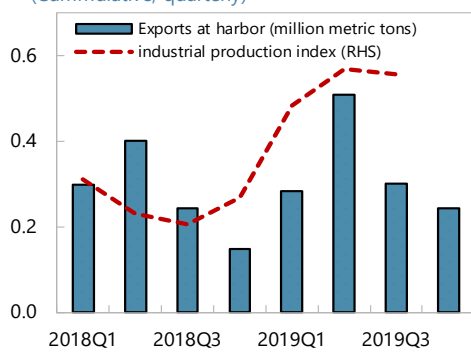
Growth, primarily driven by the tertiary sector over 2016-19, will decelerate in 2020 as COVID-19 shock negatively impacts the secondary and tertiary sectors.

#### Contribution to GDP Growth (Percent)



Port activity has contracted in the second half of 2019.

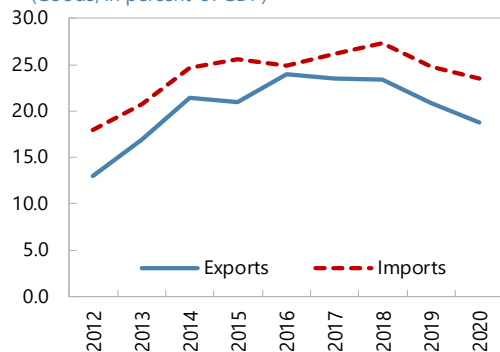
#### Economic Activity (Cumulative, quarterly)



Note: 2019Q4 data is not available for industrial production index.

Structurally higher imports...

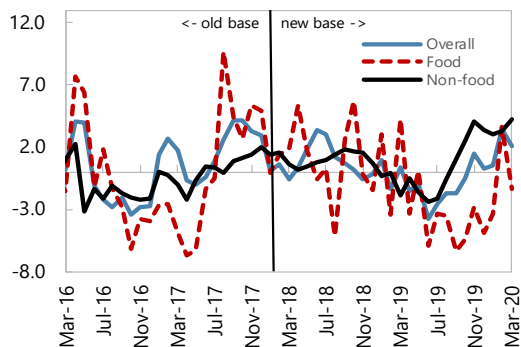
#### International Trade (Goods, in percent of GDP)



Sources: Beninese authorities and IMF staff calculations.

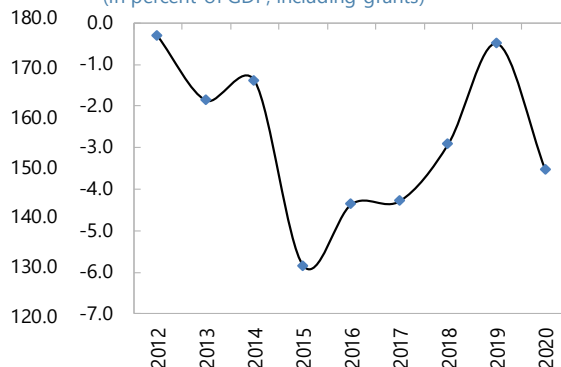
Inflation remained subdued over 2016-19.

#### Inflation (CPI, annual percentage change)



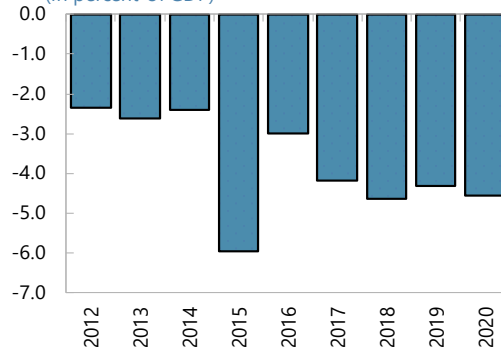
The fiscal deficit has narrowed significantly under the program, and is expected to widen in 2020 due to the COVID-19 shock.

#### Overall Fiscal Balance (In percent of GDP, including grants)



...led to a deterioration of the current account deficit.

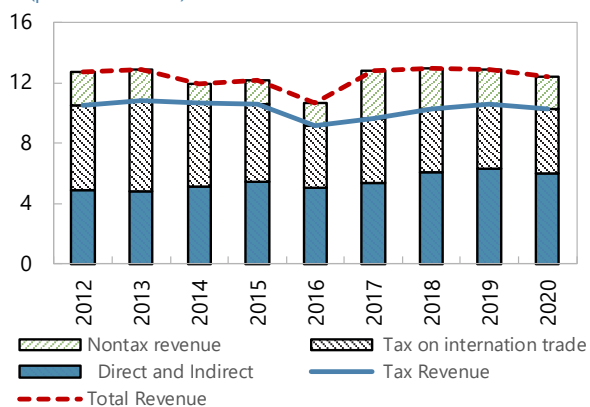
#### Current Account Balance (In percent of GDP)



**Figure 2. Benin: Fiscal Developments and Projections, 2012-20**

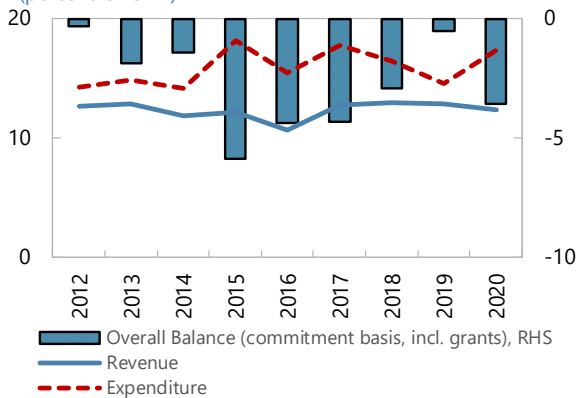
Tax revenues are expected to be negatively impacted by the COVID-19 shock...

### Revenue (percent of GDP)



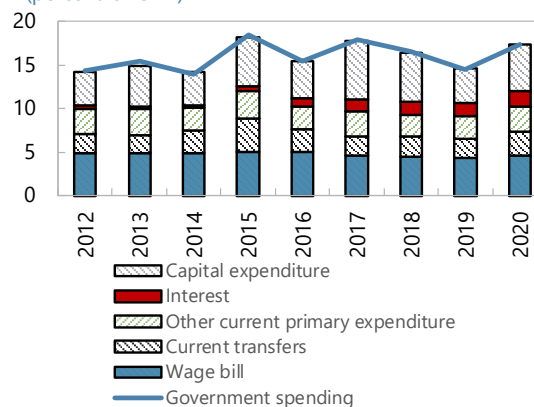
...is expected to worsen the fiscal position in 2020.

### Overall fiscal deficit (percent of GDP)



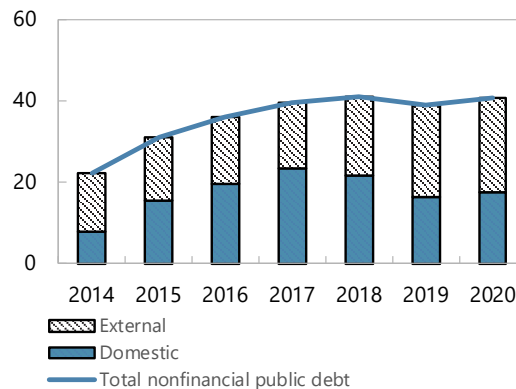
...which, combined with an anticipated increase in expenditure in 2020...

### Expenditure (percent of GDP)



Government debt is expected to peak in 2020.

### Total Government Debt (percent of GDP)

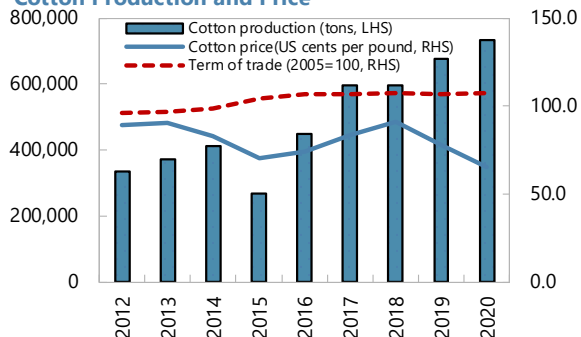


Sources: Beninese authorities and IMF staff calculations.

Figure 3. Benin Real and External Sector Developments, 2012-20

Cotton production rose in recent years...

#### Cotton Production and Price



... but prices have declined since the second half of 2018.

#### International Cotton Prices

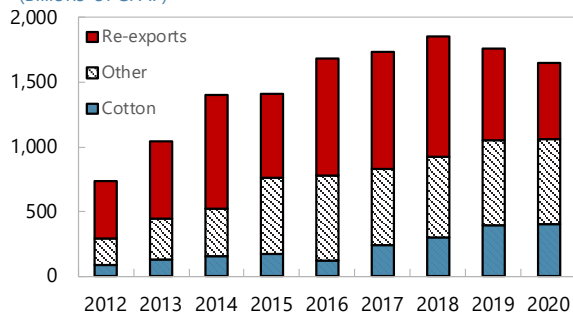
(US cents per pound)



Total exports peaked in 2018.

#### Composition of Exports

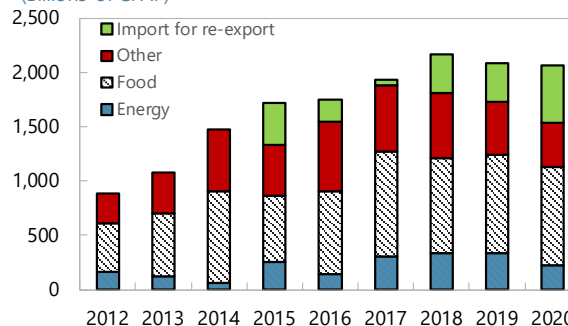
(Billions of CFAF)



... and so did imports.

#### Composition of Imports

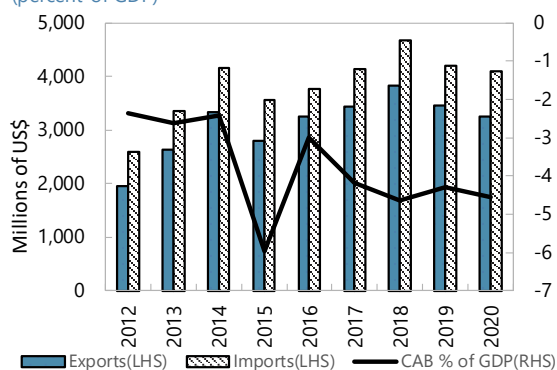
(Billions of CFAF)



The current account has deteriorated since 2017.

#### Current Account Balance

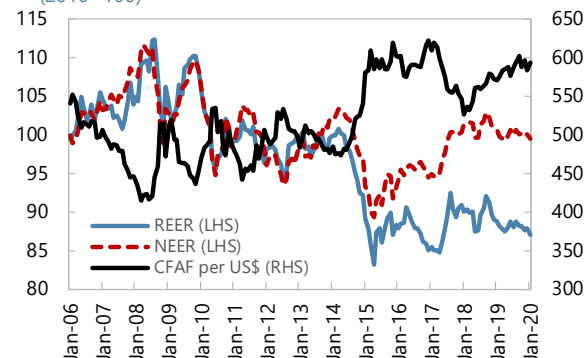
(percent of GDP)



While the CFA franc continued to depreciate against the US dollar since 2018, the real effective exchange rate remained broadly stable.

#### Exchange Rates

(2010=100)



Sources: Beninese authorities and IMF staff calculations.

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets, 2019 <sup>1</sup>

	March 31, 2019			June 30, 2019			September 30, 2019			December 31, 2019		
	Indicative Targets			Performance Criteria			Indicative Targets			Performance Criteria		
	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Adjusted <sup>4</sup>	Prel. Status
<b>A. Quantitative performance criteria<sup>2</sup></b>												
Net domestic financing of the government (ceiling) <sup>3</sup>	15.0	27.6	Not Met	-38.0	-50.4	Met	-158.5	-68.0	Not Met	-289.0	-282.8	-302.9 Met
Basic primary balance (excluding grants) (floor)	15.6	-0.3	Not Met	44.5	50.7	Met	47.7	15.9	Not Met	101.7	71.7	93.5 Met
Total revenue (floor)	235.1	250.2	Met	505.5	522.8	Met	762.5	779.6	Met	1,112.4	1,082.4	1,088.0 Met
<b>B. Continuous quantitative performance criteria (ceilings)</b>												
Accumulation of external payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0 Met
Accumulation of domestic payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0 Met
Contracts by the government for the prefinancing of public investments projects	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0 Met
Ceiling on the present value of new external debt contracted or guaranteed by the government	468.9	458.0	Met	797.0	458.0	Met	797.0	797.0	Met	797.0		797.0 Met
<b>C. Memorandum Items<sup>2</sup></b>												
Priority social expenditure (floor)	37.2	38.2	Met	82.5	84.3	Met	140.7	137.1	Not Met	180.0		192.0 Met
Budgetary assistance	0.0	3.9		3.9	3.9			3.9		45.4		64.2

Sources: Beninese authorities; IMF staff estimates and projections.

<sup>1</sup> The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

<sup>2</sup> The performance criteria and indicative targets are cumulative from the beginning of the calendar year.

<sup>3</sup> If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-rata, subject to limits specified in the TMU. If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement unless it is used to reduce domestic payment arrears.

<sup>4</sup> Adjustors are applied to the end-December 2019 QPCs on revenue, basic primary balance, and net domestic financing to account for the effect of the border closure with Nigeria (see TMU).

Table 2. Benin: Structural Benchmarks for 2018-20

Measures	Dates	Rationale	Status
Submit a 2019 budget that is consistent with the ECF-supported program to the parliamentary commission for consideration.	<b>Prior action for Third Review</b>	Preserve fiscal sustainability.	Met
Government should submit a 2020 budget consistent with the ECF-supported program to the parliamentary commission.	<b>Prior action for Fifth Review</b>	Preserve fiscal sustainability.	Met
<b>Revenue mobilization</b>			
Limit the granting of special conventions outside the investment code to exceptional cases after decision by the Council of Ministers.	June 2018 (continuous thereafter)	Boost revenue collection.	Met
Implement a plan to strengthen tax compliance.	June 2018	Boost tax revenues by improving tax compliance-risk management.	Met
The 2019 adopted budget eliminates tax expenditures equivalent to CFAF 60 billion.	December 2018	Boost tax revenues.	Met
The Ministry of Finance implements the system of control and verification of the investments envisaged under the frameworks of the code of investment and the special economic zones.	November 2019	Rationalize exemptions and fight tax fraud.	Met
Strengthen the research and statistics office within the customs administration by staffing it with statistics personnel with a view to improving risk analysis, the monitoring of exemptions, and fraud detection.	December 2019	Improve customs revenues and fight customs fraud.	Met



Table 2. Benin: Structural Benchmarks for 2018-20 (continued)

Measures	Dates	Rationale	Status
Adopt a 2020 budget that includes a tax package with revenue-raising measures equivalent to CFAF 45 billion.	December 2019	Foster revenue mobilization.	Met
<b>Public financial management</b>			
Prepare and adopt in the Council of Ministers a plan for the reorganization and professionalization of the administrative control bodies of the State.	June 2018	Improve economic governance.	Met
Prepare monthly cash flow forecasting plans and comprehensive quarterly budget performance evaluations.	June 2018	Improve budget information.	Met
Adopt a comprehensive and high-level regulatory text for public investment, as agreed under the PIMA evaluation.	September 2018	Improve public investment management and help identify governance weaknesses.	Not met (implemented in November 2018)
Prepare an updated audit of the stock of past debt due by the government to domestic suppliers at end of December 2018. <sup>1</sup>	January 2019	Enhance fiscal transparency.	Met
Perform an impact assessment of the transfer of government deposits from commercial banks to the Treasury Single Account.	March 2020	Reduce fiscal and financial risks.	Met
<sup>1</sup> The unpaid services to suppliers were inherited from the previous governments.			

**Table 2. Benin: Structural Benchmarks for 2018-20 (concluded)**

Measures	Dates	Rationale	Status
<b>Financial Inclusion</b>			
The Ministry of Finance should establish a credit bureau.	December 2018	Improve crisis management.	Met
The Ministry of Finance should adopt a decision to strengthen the implementation of the regulatory framework for the licensing and supervision of microfinance institutions.	December 2018	Promote financial inclusion.	Met
<b>State-owned enterprises reform</b>			
Complete the data collection of SOEs' debt and operationalize the monitoring framework.	September 2018	Better monitor contingent liabilities and improve public debt management.	Met
Set performance contracts with key SOEs.	December 2018	Improve SOEs' contribution to government revenues.	Met
<b>Trade</b>			
Perform a diagnostic assessment of the main trade barriers, based on the framework used for the notification stage of the WTO Trade Facilitation Agreement.	September 2019	Facilitate trade.	Met

Table 3. Benin: Selected Economic and Financial Indicators, 2018-25

	2018	2019		2020		2021	2022	2023	2024	2025
	Est.	EBS/ 19/398	Est.	EBS/ 19/398	Proj.	Projections				
<b>National income and prices</b>										
				(Annual percentage change)						
Real GDP	6.7	6.4	6.9	6.7	3.2	6.0	7.0	7.0	6.7	6.7
Nominal GDP	7.3	5.6	6.5	8.0	4.2	7.9	9.1	9.4	8.8	8.7
GDP deflator	0.6	-0.8	-0.3	1.2	1.0	1.8	2.0	2.2	2.0	1.8
Consumer price inflation (average)	0.8	-0.6	-0.9	1.0	0.6	1.3	2.0	2.0	2.0	2.0
Consumer price inflation (end of period)	-0.1	1.8	0.3	1.9	0.6	1.3	2.0	2.0	2.0	2.0
<b>External sector</b>										
Terms of trade (minus = deterioration)	0.5	0.8	-0.8	0.0	0.9	1.7	-0.4	0.4	-0.3	-0.8
Real effective exchange rate (minus = deterioration)	1.9	...	-1.9	...	...	...	...	...	...	...
<b>Money and credit</b>										
Credit to the government	-39.7	1.6	-269.9	7.6	-30.8	...	...	...	...	...
Credit to the private sector	8.5	9.0	11.9	10.1	2.2	...	...	...	...	...
Broad money (M2)	4.8	5.6	4.8	8.0	4.2	...	...	...	...	...
<b>Central government finance</b>				(Percent of GDP, unless otherwise indicated)						
Total revenue	13.0	13.3	12.9	13.5	12.4	13.3	13.3	13.3	13.3	13.3
<i>of which: Tax revenue</i>	<i>10.3</i>	<i>11.2</i>	<i>10.6</i>	<i>11.4</i>	<i>10.3</i>	<i>11.2</i>	<i>11.2</i>	<i>11.2</i>	<i>11.2</i>	<i>11.2</i>
Grants	0.6	1.1	1.2	1.0	1.5	1.0	1.0	1.0	1.0	1.0
Total expenditure and net lending	16.5	16.7	14.6	16.3	17.4	17.2	16.9	16.6	16.3	16.1
Overall balance (commitment basis, including grants)	-2.9	-2.3	-0.5	-1.8	-3.5	-3.0	-2.7	-2.4	-2.0	-1.8
Overall balance (cash basis, including grants)	-3.0	-2.2	-0.6	-2.0	-3.7	-3.1	-2.8	-2.5	-2.1	-1.9
<b>External sector</b>										
Balance of goods and services <sup>1</sup>	-5.9	-7.5	-5.2	-6.8	-5.7	-4.8	-4.9	-4.8	-4.7	-4.7
Exports of goods and services <sup>1</sup>	26.9	14.0	24.0	14.7	21.8	25.2	24.7	24.7	24.7	24.7
Imports of goods and services <sup>1</sup>	-32.8	-19.9	-29.2	-20.0	-27.5	-30.0	-29.7	-29.5	-29.4	-29.3
Current account balance, including official transfers <sup>1</sup>	-4.6	-4.9	-4.3	-4.7	-4.6	-4.5	-4.5	-4.3	-4.0	-3.9
Overall balance of payments <sup>1 2</sup>	2.4	4.2	0.5	3.1	-0.5	0.1	0.1	0.1	-0.6	-0.5
<b>Public debt (end period)<sup>3</sup></b>										
Total public debt	41.1	41.1	41.2	40.1	43.3	42.2	40.4	38.4	36.6	34.9
External public debt	19.4	24.3	24.0	23.3	25.1	24.3	23.4	22.5	21.2	20.0
Domestic public debt	21.7	16.9	17.3	16.7	18.3	17.9	17.1	15.9	15.3	14.9
<b>Memorandum items</b>										
Nominal GDP (CFAF billions)	7,916	8,368	8,432	9,036	8,784	9,477	10,340	11,313	12,312	13,380
Nominal GDP (US\$ billions)	14.3	14.3	14.4	15.4	14.9	...	...	...	...	...
Nominal GDP per capita (US\$)	1,240.8	1,213.0	1,218.2	1,271.0	1,228.7	...	...	...	...	...
US\$ exchange rate (average)	555.2	584.1	585.9	585.4	588.5	...	...	...	...	...
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	91.4	76.8	77.9	73.3	69.9	70.6	70.4	70.4	70.4	70.4
International price of oil (U.S. dollars a barrel)	68.3	60.5	61.4	55.5	39.1	40.3	44.1	46.9	48.8	50.1

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

<sup>1</sup> Includes re-exports and imports for re-export, except for EBS/19/398 for which re-export activities are recorded in current transfers.<sup>2</sup> In 2024 and 2025, the decline in the overall balance of payments reflects the first repayment of the 2019 eurobond.<sup>3</sup> The GDP rebasing published in 2019 revised down the public debt ratio by about 15 percentage points (see Annex I of IMF Country Report No. 19/398).

**Table 4. Benin: Consolidated Central Government Operations, 2018-25**  
(CFAF billion)

	2018	2019		2020		2021	2022	2023	2024	2025
		EBS/ 19/398	Est.	EBS/ 19/398	Proj.	Projections				
<b>Total revenue and grants</b>	<b>1,075.8</b>	<b>1,205.2</b>	<b>1,185.7</b>	<b>1,307.8</b>	<b>1,216.7</b>	<b>1,353.5</b>	<b>1,476.8</b>	<b>1,615.8</b>	<b>1,758.5</b>	<b>1,910.9</b>
Total revenue	1,028.6	1,112.4	1,088.0	1,220.0	1,087.0	1,261.7	1,376.6	1,506.2	1,639.2	1,781.3
Tax revenue	811.4	935.6	893.3	1,030.0	900.6	1,060.7	1,157.3	1,266.2	1,378.0	1,497.5
Tax on international trade	331.9	412.1	358.0	444.0	371.3	446.4	487.1	532.9	580.0	630.3
Direct and indirect taxes	479.4	523.4	535.3	586.0	529.3	614.2	670.2	733.2	798.0	867.2
Nontax revenue	217.2	176.8	194.8	190.0	186.3	201.0	219.4	240.0	261.2	283.8
Grants	47.2	92.8	97.7	87.8	129.7	91.8	100.2	109.6	119.3	129.6
Project grants	31.2	67.5	66.8	74.0	74.0	77.4	84.4	92.4	100.5	109.3
Budgetary grants	16.0	25.3	30.8	13.8	55.7	14.4	15.7	17.2	18.8	20.4
<b>Total expenditure and net lending</b>	<b>1,305.9</b>	<b>1,395.7</b>	<b>1,227.3</b>	<b>1,469.2</b>	<b>1,528.5</b>	<b>1,634.1</b>	<b>1,750.9</b>	<b>1,883.0</b>	<b>2,009.6</b>	<b>2,153.1</b>
Current expenditure	857.8	944.2	900.8	969.2	1,059.5	1,116.2	1,196.1	1,287.3	1,373.7	1,448.6
Current primary expenditure	731.8	790.3	766.2	806.9	897.2	905.5	967.3	1,035.7	1,127.2	1,224.9
Wage bill	356.7	397.7	369.7	405.9	405.9	437.9	477.8	522.7	568.9	618.2
Pensions and scholarships	92.2	99.3	90.5	103.0	103.0	111.1	121.3	132.7	144.4	156.9
Current transfers	179.4	173.1	180.9	186.5	236.5	236.2	237.0	236.7	257.6	279.9
Expenditure on goods and services <sup>1</sup>	103.6	120.2	125.1	111.5	151.8	120.3	131.3	143.6	156.3	169.8
Interest	126.0	153.9	134.6	162.3	162.3	210.7	228.8	251.6	246.5	223.7
Domestic debt	108.8	121.9	106.8	123.4	123.4	130.9	146.0	165.3	167.5	141.2
External debt	17.1	32.0	27.8	38.9	38.9	79.8	82.8	86.4	79.1	82.6
Capital expenditure	445.6	451.5	330.4	500.0	469.0	517.9	554.8	595.7	636.0	704.5
Financed by domestic resources	279.1	220.4	228.3	285.8	254.8	293.9	310.3	328.2	344.9	388.2
Financed by external resources	166.5	231.1	102.1	214.2	214.2	224.0	244.4	267.4	291.0	316.3
Net lending	2.5	0.0	-3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance (commitment basis, incl. grants)<sup>1</sup></b>	<b>-230.1</b>	<b>-190.5</b>	<b>-41.6</b>	<b>-161.4</b>	<b>-311.8</b>	<b>-280.6</b>	<b>-274.0</b>	<b>-267.2</b>	<b>-251.2</b>	<b>-242.2</b>
Primary balance <sup>2</sup>	-151.4	-129.4	-4.6	-86.9	-279.2	-161.8	-145.5	-125.2	-124.0	-148.1
Basic primary balance <sup>3</sup>	17.6	101.7	93.5	127.4	-65.0	62.3	99.0	142.2	167.1	168.2
Change in arrears	-0.4	9.1	0.0	-16.4	-16.4	-16.4	-16.4	-10.0	-10.0	-10.0
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	-0.4	9.1	0.0	-16.4	-16.4	-16.4	-16.4	-10.0	-10.0	-10.0
of which: net change in arrears stock <sup>1</sup>	...	19.1	19.1	-6.4	-6.4	-6.4	-6.4	0.0	0.0	0.0
Float	-3.7	0.0	-7.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance (cash basis, incl. grants)</b>	<b>-234.2</b>	<b>-181.4</b>	<b>-48.9</b>	<b>-177.7</b>	<b>-328.2</b>	<b>-297.0</b>	<b>-290.4</b>	<b>-277.2</b>	<b>-261.2</b>	<b>-252.2</b>
<b>Financing</b>	<b>234.2</b>	<b>181.4</b>	<b>48.9</b>	<b>177.7</b>	<b>328.2</b>	<b>297.0</b>	<b>290.4</b>	<b>277.2</b>	<b>261.2</b>	<b>252.2</b>
Domestic financing	-51.4	-289.0	-302.9	74.5	114.3	196.9	180.2	153.4	233.1	208.9
Bank financing	-57.1	13.8	-14.0	23.7	63.5	141.7	119.9	87.5	161.4	131.0
Net use of IMF resources	14.1	11.9	14.5	1.4	1.8	-9.4	-7.3	-8.6	-11.1	-22.9
Disbursements	23.0	24.4	25.7	12.5	12.9	0.0	0.0	0.0	0.0	0.0
Repayments	-8.8	-12.5	-11.2	-11.1	-11.2	-9.4	-7.3	-8.6	-11.1	-22.9
Other <sup>4</sup>	-71.2	1.9	-28.5	22.3	61.7	151.2	127.2	96.0	172.5	153.8
Nonbank and regional financing	5.7	-302.8	-288.9	50.8	50.8	55.2	60.3	65.9	71.7	78.0
Privatization	-8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	-1.7	-2.0	18.2	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0
Other <sup>5</sup>	15.4	-300.8	-307.1	52.8	52.8	55.2	60.3	65.9	71.7	78.0
External financing	285.5	470.4	351.9	103.2	103.2	100.0	110.2	123.8	28.0	43.2
Project financing	135.3	163.6	35.2	140.2	140.2	146.6	160.0	175.0	190.5	207.0
Budgetary assistance	179.0	20.1	33.3	34.2	34.2	35.8	39.0	42.7	45.2	49.2
Eurobond issuance	0.0	325.0	325.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-28.8	-38.2	-41.7	-71.2	-71.2	-82.4	-88.8	-93.9	-207.7	-212.9
Financing gap				0.0	110.7	0.0	0.0	0.0	0.0	0.0
Of which: ECF-supported arrangement augmentation and CCRT <sup>6</sup>				0.0	67.8	0.0	0.0	0.0	0.0	0.0
Of which: other donors' financing <sup>7</sup>				0.0	42.9	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items: additional financing relative to the 5th review (EBS/19/398)</b>					<b>192.4</b>					
Additional domestic issuances on the regional market					39.4					
Additional external grants					41.9					
Additional external borrowing at concessional terms from donors <sup>7</sup>					42.9					
ECF-supported arrangement augmentation and CCRT <sup>8</sup>					68.2					
Nominal GDP	7,916	8,368	8,432	9,036	8,784	9,477	10,340	11,313	12,312	13,380

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

<sup>1</sup> For 2019, arrears to suppliers of CFAF 19.1 billion are included in expenditure and deficit (see IMF Country report 19/203). Arrears were accumulated before 2016 and recognized in 2019.

<sup>2</sup> Total revenue (excluding grants) minus current primary expenditure, capital expenditure, and net lending.

<sup>3</sup> Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.

<sup>4</sup> Includes financing by Beninese banks.

<sup>5</sup> Includes financing by regional commercial banks.

<sup>6</sup> Includes the ECF-supported arrangement augmentation of CFAF 61.8 billion and the IMF debt service relief of CFAF 6 billion from the Catastrophe Containment and Relief Trust (CCRT) approved on April 13, 2020, corresponding to the period of April 14–October 13, 2020.

<sup>7</sup> Includes financing in CFAF from the West African Development Bank (BOAD).

<sup>8</sup> Of which CFAF 67.8 billion are related to the ECF augmentation and CCRT; and CFAF 0.4 billion is due to the change in the exchange rate assumptions relative to the 5th review for 2020.

**Table 5. Benin: Consolidated Central Government Operations, 2018-25**  
(Percent of GDP)

	2018	2019		2020		2021	2022	2023	2024	2025
		EBS/ 19/398	Est.	EBS/ 19/398	Proj.	Projections				
<b>Total revenue and grants</b>	<b>13.6</b>	<b>14.4</b>	<b>14.1</b>	<b>14.5</b>	<b>13.9</b>	<b>14.3</b>	<b>14.3</b>	<b>14.3</b>	<b>14.3</b>	<b>14.3</b>
Total revenue	13.0	13.3	12.9	13.5	12.4	13.3	13.3	13.3	13.3	13.3
Tax revenue	10.3	11.2	10.6	11.4	10.3	11.2	11.2	11.2	11.2	11.2
Tax on international trade	4.2	4.9	4.2	4.9	4.2	4.7	4.7	4.7	4.7	4.7
Direct and indirect taxes	6.1	6.3	6.3	6.5	6.0	6.5	6.5	6.5	6.5	6.5
Nontax revenue	2.7	2.1	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Grants	0.6	1.1	1.2	1.0	1.5	1.0	1.0	1.0	1.0	1.0
Project grants	0.4	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Budgetary grants	0.2	0.3	0.4	0.2	0.6	0.2	0.2	0.2	0.2	0.2
<b>Total expenditure and net lending</b>	<b>16.5</b>	<b>16.7</b>	<b>14.6</b>	<b>16.3</b>	<b>17.4</b>	<b>17.2</b>	<b>16.9</b>	<b>16.6</b>	<b>16.3</b>	<b>16.1</b>
Current expenditure	10.8	11.3	10.7	10.7	12.1	11.8	11.6	11.4	11.2	10.8
Current primary expenditure	9.2	9.4	9.1	8.9	10.2	9.6	9.4	9.2	9.2	9.2
Wage bill	4.5	4.8	4.4	4.5	4.6	4.6	4.6	4.6	4.6	4.6
Pensions and scholarships	1.2	1.2	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Current transfers	2.3	2.1	2.1	2.1	2.7	2.5	2.3	2.1	2.1	2.1
Expenditure on goods and services <sup>1</sup>	1.3	1.4	1.5	1.2	1.7	1.3	1.3	1.3	1.3	1.3
Interest	1.6	1.8	1.6	1.8	1.8	2.2	2.2	2.2	2.0	1.7
Domestic debt	1.4	1.5	1.3	1.4	1.4	1.4	1.4	1.5	1.4	1.1
External debt	0.2	0.4	0.3	0.4	0.4	0.8	0.8	0.8	0.6	0.6
Capital expenditure	5.6	5.4	3.9	5.5	5.3	5.5	5.4	5.3	5.2	5.3
Financed by domestic resources	3.5	2.6	2.7	3.2	2.9	3.1	3.0	2.9	2.8	2.9
Financed by external resources	2.1	2.8	1.2	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance (commitment basis, incl. grants)<sup>1</sup></b>	<b>-2.9</b>	<b>-2.3</b>	<b>-0.5</b>	<b>-1.8</b>	<b>-3.5</b>	<b>-3.0</b>	<b>-2.7</b>	<b>-2.4</b>	<b>-2.0</b>	<b>-1.8</b>
Primary balance <sup>2</sup>	-1.9	-1.5	-0.1	-1.0	-3.2	-1.7	-1.4	-1.1	-1.0	-1.1
Basic primary balance <sup>3</sup>	0.2	1.2	1.1	1.4	-0.7	0.7	1.0	1.3	1.4	1.3
Change in arrears	0.0	0.1	0.0	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (net)	0.0	0.1	0.0	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
of which: net change in arrears stock <sup>1</sup>	...	0.2	0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Float	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance (cash basis, incl. grants)</b>	<b>-3.0</b>	<b>-2.2</b>	<b>-0.6</b>	<b>-2.0</b>	<b>-3.7</b>	<b>-3.1</b>	<b>-2.8</b>	<b>-2.5</b>	<b>-2.1</b>	<b>-1.9</b>
<b>Financing</b>	<b>3.0</b>	<b>2.2</b>	<b>0.6</b>	<b>2.0</b>	<b>3.7</b>	<b>3.1</b>	<b>2.8</b>	<b>2.5</b>	<b>2.1</b>	<b>1.9</b>
Domestic financing	-0.6	-3.5	-3.6	0.8	1.3	2.1	1.7	1.4	1.9	1.6
Bank financing	-0.7	0.2	-0.2	0.3	0.7	1.5	1.2	0.8	1.3	1.0
Net use of IMF resources	0.2	0.1	0.2	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.2
Disbursements	0.3	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Repayments	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
Other <sup>4</sup>	-0.9	0.0	-0.3	0.2	0.7	1.6	1.2	0.8	1.4	1.1
Nonbank and regional financing	0.1	-3.6	-3.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Privatization	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other <sup>5</sup>	0.2	-3.6	-3.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
External financing	3.6	5.6	4.2	1.1	1.2	1.1	1.1	1.1	0.2	0.3
Project financing	1.7	2.0	0.4	1.6	1.6	1.5	1.5	1.5	1.5	1.5
Budgetary assistance	2.3	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Eurobond issuance	0.0	3.9	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due	-0.4	-0.5	-0.5	-0.8	-0.8	-0.9	-0.9	-0.8	-1.7	-1.6
Financing gap				0.0	1.3	0.0	0.0	0.0	0.0	0.0
Of which: ECF-supported arrangement augmentation and CCRT <sup>6</sup>				0.0	0.8	0.0	0.0	0.0	0.0	0.0
Of which: other donors' financing <sup>7</sup>				0.0	0.5	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items: additional financing relative to the 5th review (EBS/19/398)</b>					<b>2.2</b>					
Additional domestic issuances on the regional market					0.4					
Additional external grants					0.5					
Additional external borrowing at concessional terms from donors <sup>7</sup>					0.5					
ECF-supported arrangement augmentation and CCRT <sup>8</sup>					0.8					
Nominal GDP	7,916	8,368	8,432	9,036	8,784	9,477	10,340	11,313	12,312	13,380

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

<sup>1</sup> For 2019, arrears to suppliers of CFAF 19.1 billion are included in expenditure and deficit (see IMF Country report 19/203). Arrears were accumulated before 2016 and recognized in 2019.

<sup>2</sup> Total revenue (excluding grants) minus current primary expenditure, capital expenditure, and net lending.

<sup>3</sup> Total revenue (excluding grants) minus current primary expenditure and capital expenditure financed by domestic resources.

<sup>4</sup> Includes financing by Beninese banks.

<sup>5</sup> Includes financing by regional commercial banks.

<sup>6</sup> Includes the ECF-supported arrangement augmentation of CFAF 61.8 billion and the IMF debt service relief of CFAF 6 billion from the Catastrophe Containment and Relief Trust (CCRT) approved on April 13,

<sup>7</sup> Includes financing in CFAF from the West African Development Bank (BOAD).

<sup>8</sup> Of which CFAF 67.8 billion are related to the ECF augmentation and CCRT; and CFAF 0.4 billion is due to the change in the exchange rate assumptions relative to the 5th review for 2020.

**Table 6. Benin: Balance of Payments, 2018-25**  
(CFAF billion)

	2018	2019		2020		2021	2022	2023	2024	2025
		EBS/ 19/398	Est.	EBS/ 19/398	Proj.	Projections				
<b>Current account balance</b>	<b>-367.6</b>	<b>-410.5</b>	<b>-363.0</b>	<b>-424.2</b>	<b>-400.1</b>	<b>-423.9</b>	<b>-462.4</b>	<b>-481.8</b>	<b>-492.8</b>	<b>-520.1</b>
Current account balance (excl. grants)	-383.6	-435.8	-393.8	-449.5	-455.8	-438.4	-478.2	-499.1	-511.5	-540.5
Trade balance <sup>1</sup>	-315.8	-489.3	-328.2	-477.2	-415.9	-318.7	-365.4	-391.7	-419.8	-454.4
Exports, f.o.b. <sup>1</sup>	1850.4	1175.3	1757.3	1329.3	1647.9	2076.0	2219.9	2432.1	2647.0	2876.5
Cotton and textiles	300.2	424.4	391.5	578.4	406.2	446.2	487.4	534.8	587.1	632.8
Re-exports	928.6	...	708.0	...	584.0	900.0	941.4	987.3	1042.7	1110.8
Other	621.6	750.9	657.7	750.9	657.7	729.7	791.1	910.0	1017.1	1132.9
Imports, f.o.b. <sup>1</sup>	-2166.2	-1664.6	-2085.4	-1806.5	-2063.9	-2394.6	-2585.4	-2823.9	-3066.8	-3330.8
Services (net)	-147.4	-142.2	-107.6	-140.9	-85.0	-139.3	-144.8	-150.9	-158.7	-168.5
Income (net)	-30.6	-59.5	-39.2	-68.1	-50.7	-92.5	-96.7	-101.6	-95.6	-100.5
Current transfers (net) <sup>2</sup>	126.3	280.5	111.9	262.0	151.5	126.5	144.5	162.4	181.3	203.3
Private transfers	67.5	55.3	81.1	73.8	95.8	112.1	128.7	145.1	162.6	182.9
Public transfers	58.8	225.3	30.8	188.2	55.7	14.4	15.7	17.2	18.8	20.4
<b>Capital account balance</b>	<b>109.1</b>	<b>67.5</b>	<b>147.4</b>	<b>74.0</b>	<b>155.2</b>	<b>161.0</b>	<b>170.9</b>	<b>181.9</b>	<b>193.4</b>	<b>205.5</b>
<b>Financial account balance</b>	<b>444.7</b>	<b>696.2</b>	<b>261.2</b>	<b>631.5</b>	<b>196.6</b>	<b>275.3</b>	<b>302.5</b>	<b>308.7</b>	<b>227.6</b>	<b>253.9</b>
Medium- and long-term public capital	285.5	149.4	26.9	139.8	120.1	100.0	110.2	123.8	28.0	43.2
Disbursements	314.3	187.7	68.6	211.0	191.3	182.4	199.0	217.7	235.7	256.2
Project loans	135.3	167.6	35.2	176.8	140.2	146.6	160.0	175.0	190.5	207.0
Budgetary assistance loans	179.0	20.1	33.3	34.2	51.1	35.8	39.0	42.7	45.2	49.2
Amortization due <sup>3</sup>	-28.8	-38.2	-41.7	-71.2	-71.2	-82.4	-88.8	-93.9	-207.7	-212.9
Foreign direct investment	102.4	116.4	109.1	140.5	85.2	147.3	151.1	141.3	148.6	152.1
Portfolio investment	-54.0	250.9	382.5	162.6	44.9	72.1	78.0	77.1	83.9	91.2
Other medium- and long-term private capital	110.7	179.5	-257.2	188.7	-53.6	-44.1	-36.8	-33.6	-33.0	-32.7
Errors and omissions	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance<sup>3</sup></b>	<b>190.5</b>	<b>353.2</b>	<b>45.6</b>	<b>281.3</b>	<b>-48.3</b>	<b>12.4</b>	<b>11.0</b>	<b>8.8</b>	<b>-71.8</b>	<b>-60.7</b>
Change in net foreign assets, BCEAO ("-" = increase)	-191.1	-353.2	-45.6	-281.3	48.3	-12.4	-11.0	-8.8	71.8	60.7
Change in gross foreign assets, BCEAO ("-" = increase)	-205.2	-365.1	-60.1	-282.6	-21.3	-3.0	-3.7	-0.2	83.0	83.6
Use of IMF resources, net ("-" = increase) <sup>4</sup>	-14.1	-11.9	-14.5	-1.4	-7.8	9.4	7.3	8.6	11.1	22.9
Proposed ECF-supported arrangement augmentation ("-" = increase)	-0.7	0.0	0.0	0.0	-61.8	0.0	0.0	0.0	0.0	0.0
(Percent of GDP, unless otherwise indicated)										
<b>Current account balance</b>	<b>-4.6</b>	<b>-4.9</b>	<b>-4.3</b>	<b>-4.7</b>	<b>-4.6</b>	<b>-4.5</b>	<b>-4.5</b>	<b>-4.3</b>	<b>-4.0</b>	<b>-3.9</b>
Trade balance of goods <sup>1</sup>	-4.0	-5.8	-3.9	-5.3	-4.7	-3.4	-3.5	-3.5	-3.4	-3.4
Exports, f.o.b. <sup>1</sup>	23.4	14.0	20.8	14.7	18.8	21.9	21.5	21.5	21.5	21.5
Imports, f.o.b. <sup>1</sup>	-27.4	-19.9	-24.7	-20.0	-23.5	-25.3	-25.0	-25.0	-24.9	-24.9
Capital account balance	1.4	0.8	1.7	0.8	1.8	1.7	1.7	1.6	1.6	1.5
Financial account balance	5.6	8.3	3.1	7.0	2.2	2.9	2.9	2.7	1.8	1.9
<b>Overall balance<sup>3</sup></b>	<b>2.4</b>	<b>4.2</b>	<b>0.5</b>	<b>3.1</b>	<b>-0.5</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>-0.6</b>	<b>-0.5</b>
<b>Memorandum items:</b>										
International price of cotton (Cotlook "A" Index, U.S. cents a lb.)	91.4	76.8	77.9	73.3	69.9	70.6	70.4	70.4	70.4	70.4
International price of oil (U.S. dollars a barrel)	68.3	60.5	61.4	55.5	39.1	40.3	44.1	46.9	48.8	50.1
Nominal GDP (CFAF billion)	7,916	8,368	8,432	9,036	8,784	9,477	10,340	11,313	12,312	13,380

Sources: Beninese authorities; IMF staff estimates and projections.

<sup>1</sup> Includes re-exports and imports for re-export, except for EBS/19/398 where re-export activities were captured in current transfers.

<sup>2</sup> Re-export activities were captured in current transfers in EBS/19/398 where re-export activities were captured in current transfers.

<sup>3</sup> In 2024 and 2025, the declines in the financial account and overall balance of payments reflect the first repayments of the 2019 eurobond.

<sup>4</sup> Includes the IMF debt service relief of CFAF 6 billion from the Catastrophe Containment and Relief Trust (CCRT) approved on April 13, 2020, corresponding to the period of April 14-October 13,

Table 7. Benin: Monetary Survey, 2018–20

	2018	2019		2020	
	Act.	EBS/ 19/398	Est.	EBS/ 19/398	Proj.
(CFAF Billion)					
<b>Net foreign assets</b>	<b>1185.0</b>	<b>1547.1</b>	<b>1232.7</b>	<b>1932.7</b>	<b>1254.0</b>
Central Bank of West African States (BCEAO)	423.8	766.4	314.0	1132.2	335.3
Banks	761.1	780.6	918.7	800.6	918.7
<b>Net domestic assets</b>	<b>1024.0</b>	<b>1138.8</b>	<b>1082.8</b>	<b>1285.1</b>	<b>1158.0</b>
Domestic credit	1550.5	1671.7	1449.9	1827.0	1544.2
Net claims on central government	118.1	120.0	-200.6	129.1	-138.9
Credit to the nongovernment sector <sup>1</sup>	1432.4	1551.8	1650.5	1697.9	1683.1
Of which: Credit to the private sector	1326.7	1446.0	1485.0	1592.1	1517.6
Other items <sup>2</sup>	526.4	532.9	377.9	541.9	386.2
<b>Broad money (M2)</b>	<b>2209.0</b>	<b>2333.4</b>	<b>2315.5</b>	<b>2519.6</b>	<b>2412.0</b>
Currency	520.2	549.6	543.5	593.4	566.1
Bank deposits	817.1	863.1	878.1	932.0	914.7
Other deposits	871.6	920.7	894.0	994.2	931.3
(Change, in percent of beginning-of-period broad money)					
<b>Net foreign assets</b>	<b>9.1</b>	<b>16.4</b>	<b>2.2</b>	<b>16.5</b>	<b>0.9</b>
Central Bank of West African States (BCEAO)	10.3	15.5	-5.0	15.7	0.9
Banks	-1.2	0.9	7.1	0.9	0.0
<b>Net domestic assets</b>	<b>-4.3</b>	<b>5.5</b>	<b>2.7</b>	<b>6.7</b>	<b>3.2</b>
Domestic credit	1.1	5.5	-4.6	6.7	4.1
Net claims on central government	-3.7	0.1	-14.4	0.4	2.7
Credit to the nongovernment sector	4.8	5.4	9.9	6.3	1.4
Other items	5.4	0.3	-6.7	0.4	-0.7
<b>Broad money (M2)</b>	<b>4.8</b>	<b>5.6</b>	<b>4.8</b>	<b>8.0</b>	<b>4.2</b>
Currency	-0.6	1.3	1.1	1.9	1.0
Bank deposits	4.2	2.1	2.8	3.0	1.6
Other deposits	1.2	2.2	1.0	3.1	1.6
<b>Memorandum items:</b>					
Velocity of broad money	3.7	3.7	3.7	3.7	3.7
Broad money (percent of GDP)	27.9	27.9	27.5	27.9	27.5
Credit to the private sector (annual percentage change)	8.5	9.0	11.9	9.4	2.2
Nominal GDP (CFAF billion)	7,916	8,368	8,432	9,036	8,784
Nominal GDP growth (annual percentage change)	7.3	5.6	6.5	8.0	4.2

Sources: BCEAO; IMF staff estimates and projections.

<sup>1</sup> Including credit to the private sector and to other non-financial public sector.<sup>2</sup> Including deposits excluded from broad money, securities other than shares excluded from broad money, loans, financial derivatives, insurance technical reserves, and shares and other equity.

**Table 8. Benin: Schedule of Disbursements Under the ECF Arrangement**

Amount	Availability date	Conditions for disbursement <sup>1</sup>
SDR 15.917 million (12.9 percent of quota)	April 7, 2017	Executive Board approval of the ECF arrangement.
SDR 15.917 million (12.9 percent of quota)	October 31, 2017	Observance of end-June 2017 performance criteria, and completion of the first review under the arrangement.
SDR 15.917 million (12.9 percent of quota)	April 30, 2018	Observance of end-December 2017 performance criteria, and completion of the second review under the arrangement.
SDR 15.917 million (12.9 percent of quota)	October 31, 2018	Observance of end-June 2018 performance criteria, and completion of the third review under the arrangement.
SDR 15.917 million (12.9 percent of quota)	April 30, 2019	Observance of end-December 2018 performance criteria, and completion of the fourth review under the arrangement.
SDR 15.917 million (12.9 percent of quota)	October 31, 2019	Observance of end-June, 2019 performance criteria, and completion of the fifth review under the arrangement.
SDR 91.931 million (15.918 + 76.013) <sup>2</sup> (74.3 percent of quota)	March 23, 2020	Observance of end-December 2019 performance criteria, and completion of the sixth review under the arrangement.
SDR 187.43 million (111.42 + 76.013) (151.4 percent of quota)	Total amount of the arrangement	

Sources: International Monetary Fund

<sup>1</sup> In addition to the generally applicable conditions under the Extended Credit Facility.<sup>2</sup> Includes ECF arrangement augmentation of 61.4 percent of quota (SDR 76.013 million).



Table 9. Benin: Indicators of Capacity to Repay the Fund, 2020-34<sup>1</sup>

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>IMF obligations based on existing credit (millions of SDRs)</b>															
Principal	2.1	11.7	9.0	10.6	13.8	19.1	19.1	19.1	11.1	6.4	0.0	0.0	0.0	0.0	0.0
Charges and interest <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total obligations based on existing and prospective credit</b>															
Millions of SDRs	2.1	11.7	9.0	10.6	13.8	28.3	37.5	37.5	29.5	24.8	9.2	0.0	0.0	0.0	0.0
Billions of CFA francs	1.7	9.4	7.3	8.6	11.1	22.9	30.3	30.3	23.9	20.0	7.4	0.0	0.0	0.0	0.0
Percent of government revenue	0.2	0.7	0.5	0.6	0.7	1.3	1.6	1.4	1.1	0.8	0.3	0.0	0.0	0.0	0.0
Percent of exports of goods and services	0.1	0.4	0.3	0.3	0.4	0.7	0.8	0.8	0.6	0.4	0.2	0.0	0.0	0.0	0.0
Percent of debt service <sup>3</sup>	0.7	3.1	2.2	2.4	2.4	5.0	6.4	8.0	6.2	5.3	2.0	0.0	0.0	0.0	0.0
Percent of GDP	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Percent of quota	1.7	9.4	7.3	8.6	11.1	22.9	30.3	30.3	23.9	20.0	7.4	0.0	0.0	0.0	0.0
<b>Outstanding IMF credit</b>															
Millions of SDRs	211.8	200.2	191.2	180.5	166.7	138.5	101.0	63.5	34.0	9.2	0.0	0.0	0.0	0.0	0.0
Billions of CFA francs	172.2	161.8	154.3	145.8	134.7	112.0	81.7	51.4	27.5	7.4	0.0	0.0	0.0	0.0	0.0
Percent of government revenue	15.8	12.8	11.2	9.7	8.2	6.3	4.2	2.4	1.2	0.3	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	9.0	6.8	6.0	5.2	4.4	3.4	2.3	1.3	0.7	0.2	0.0	0.0	0.0	0.0	0.0
Percent of debt service <sup>3</sup>	73.2	53.5	47.5	41.2	28.9	24.4	17.2	13.6	7.2	2.0	0.0	0.0	0.0	0.0	0.0
Percent of GDP	2.0	1.7	1.5	1.3	1.1	0.8	0.6	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Percent of quota	171.1	161.7	154.4	145.8	134.7	111.8	81.6	51.3	27.4	7.4	0.0	0.0	0.0	0.0	0.0
<b>Net use of IMF credit (millions of SDRs)</b>															
Disbursements (including prospective ones)	89.8	-11.7	-9.0	-10.6	-13.8	-28.3	-37.5	-37.5	-29.5	-24.8	-9.2	0.0	0.0	0.0	0.0
Repayments and repurchases	91.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2.1	11.7	9.0	10.6	13.8	28.3	37.5	37.5	29.5	24.8	9.2	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>															
Nominal GDP (billions of CFA francs)	8,784	9,477	10,340	11,313	12,312	13,380	14,522	15,751	17,085	18,502	20,031	21,691	23,455	25,340	27,386
Exports of goods and services (billions of CFA francs)	1,912	2,389	2,557	2,797	3,040	3,302	3,584	3,887	4,216	4,566	4,943	5,353	5,788	6,253	6,758
Government revenue (billions of CFA francs)	1,087	1,262	1,377	1,506	1,639	1,781	1,933	2,097	2,275	2,463	2,667	2,888	3,123	3,374	3,646
Debt service (billions of CFA francs) <sup>3</sup>	235	303	325	354	465	460	474	378	383	381	378	359	368	351	432
GFAF/SDR (period average)	813	808	807	807	808	809	809	809	809	809	809	809	809	809	809
Quota (millions of SDRs)	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8	123.8

Sources: IMF staff estimates and projections.

<sup>1</sup> Data are projections

<sup>2</sup> On May 24, 2019, the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through June 2021 and, possibly longer. The Board also decided to extend zero interest rate on ESF until end June 2021 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of the SDR rate, the following interest rates are assumed beyond June 2021: 0/0/0/0 percent per annum for the ECF, SCF, RCF and ESF respectively. The Executive Board will review the interest rates on concessional lending by end-June 2021 and every two years thereafter.

<sup>3</sup> Total debt service includes IMF repurchases and repayments.

Table 10. Benin: Financial Soundness Indicators, 2012-19

	2012 Dec.	2013 Dec.	2014 Dec.	2015 Dec.	2016 Dec.	2017 Dec.	2018 <sup>1</sup> June	2018 <sup>1</sup> Dec.	2019 June
Regulatory capital to risk-weighted assets	9.2	9.5	9.0	7.9	9.3	11.9	7.6	8.2	9.6
Core capital to risk-weighted assets	7.9	7.2	7.1	5.2	7.4	10.2	6.7	7.2	8.7
Provisions to risk-weighted assets	8.6	11.4	12.1	15.6	16.0	16.4	12.2	12.6	11.1
Capital to total assets	4.8	4.5	4.0	2.7	3.7	4.7	4.5	5.1	5.6
Composition and quality of assets									
Total loans to total assets	47.4	47.7	46.1	39.0	39.6	43.5	47.3	46.1	47.5
Concentration: Credit to the 5 largest borrowers	61.1	56.3	103.9	175.7	99.6	91.6	103.3	90.4	99.6
Credit by sector <sup>2</sup>									
Agriculture, Forestry, and Fishing	2.1	2.0	1.6	3.2	1.9	1.8	2.4	4.4	2.6
Extractive Industries	0.7	1.7	1.8	2.1	2.6	1.5	1.8	1.2	1.0
Manufacturing	10.1	11.2	11.7	12.5	15.0	15.2	12.1	12.2	11.0
Electricity, Water, and Gas	2.8	3.3	2.5	3.0	5.0	4.4	2.9	4.3	5.2
Buildings and Public Works	7.5	9.4	12.0	14.9	16.3	17.0	13.8	27.9	28.8
Commerce, Restaurants, and Hotels	40.2	36.9	34.4	29.9	28.2	24.1	23.8	18.7	18.7
Transportation and Communication	10.3	9.6	7.5	6.0	6.2	5.9	4.5	3.9	5.0
Financial and Business Services	5.7	5.2	5.6	4.9	7.9	8.0	2.9	3.4	3.3
Other Services	20.6	20.8	22.8	23.5	16.7	22.1	35.8	23.9	24.4
Non-Performing Loans (NPLs)									
Gross NPLs to Total loans	18.6	21.2	21.5	22.1	21.8	19.4	18.9	21.6	20.2
Provisioning rate	46.8	48.0	49.0	55.0	64.0	66.4	70.0	66.5	59.0
Net NPLs to total loans	10.8	12.3	12.3	11.3	9.1	7.5	6.5	8.5	9.4
Net NPLs to capital	106.2	130.9	140.8	161.2	96.9	69.2	68.6	77.2	80.0
Earnings and profitability									
Average cost of borrowed funds	3.3	3.3	3.1	3.1	3.2	3.0	...	3.2	...
Average interest rate on loans	9.5	9.1	8.4	8.3	7.8	7.4	...	7.5	...
Average interest margin <sup>3</sup>	6.2	5.8	5.3	5.2	4.6	4.3	...	4.3	...
After-tax return on average assets (ROA)	0.0	0.4	0.9	0.3	0.0	0.0	...	0.1	...
After-tax return on average equity (ROE)	-0.6	5.6	14.4	4.9	0.5	0.4	...	1.9	...
Noninterest expenses/net banking income	68.9	69.9	60.9	63.7	73.2	76.9	...	74.8	...
Salaries and wages/net banking income	28.4	29.8	26.2	27.5	32.3	33.9	...	32.4	...
Liquidity									
Liquid assets to total assets	22.9	21.9	23.0	18.9	16.2	14.5	14.4	12.5	11.7
Liquid assets to total deposits	35.7	34.7	36.7	30.9	28.0	24.4	21.8	19.3	16.8
Total loans to total deposits	80.7	84.1	82.2	72.6	79.4	84.4	82.3	83.4	77.9
Total deposits to total liabilities	64.3	63.1	62.7	61.1	57.9	59.2	66.3	64.6	69.3
Demand deposits to total liabilities <sup>4</sup>	27.4	26.9	26.6	25.9	24.4	26.3	30.8	29.4	31.3
Term deposits to total liabilities	36.8	36.2	36.1	35.2	33.5	32.9	35.5	35.1	38.0

Source: BCEAO.

Note: ... = not available.

<sup>1</sup> The first year of data reporting in accordance with Basel II/III and Revised Chart of Accounts (Interim Data)<sup>2</sup> Identified sectors represent at least 80 percent of credit<sup>3</sup> Excluding taxes on banking operations.<sup>4</sup> Including savings accounts.

## Annex I. Assumptions Underlying the 2020 Growth Projections

- GDP growth projections for 2020 are subject to large uncertainty.** The high degree of uncertainty is due to the rapidly evolving COVID-19 outbreak and the difficulty to assess the impact of containment measures in countries with a large informal sector.
- To account for this uncertainty, staff has projected 2020 growth using two alternative approaches on the demand and supply sides.** On the demand side (Text Figure A.1.1.), the projection assumes that (i) public expenditure increases in response to the crisis (consistent with the revised budgetary projections); (ii) private demand (consumption and investment) decelerates as a result of containment measures and lower capital inflows; and (iii) the trade balance deteriorates due to lower reexport activities and lower international demand for Beninese exports. On the supply side (Text Figure A.1.2.), the projection assumes that hotel and restaurants, construction and transport sectors will be most affected by the crisis, partly offset by higher contributions of sectors related to government.

**Text Figure A.1.1. Benin: Contributions to Real GDP Growth – Demand Side**

	2019	2020	Diff.	Underlying assumptions
<b>Private consumption</b>	4.6	1.1	-3.5	Decline calibrated based on international experience and the 2020 Spring World Economic Outlook (WEO) macroeconomic assumptions
<b>Private investment</b>	2.2	0.3	-1.9	Mimics collapse observed in 2015 and reflects also 50% decline in FDI inflows
<b>Public consumption and investment</b>	1.0	3.0	2.0	Higher public spending in response to the COVID-19 pandemic
<b>Net Exports</b>	-0.8	-1.2	-0.3	Reduction in re-export activities due to a 6-months Nigeria border closure; no growth in volume of non-cotton exports; lower imports for domestic consumption due to contraction in total domestic demand (based on historical observations)
<b>Real GDP</b>	<b>6.9</b>	<b>3.2</b>	<b>-3.7</b>	

**Text Figure A.1.2. Benin: Contributions to Real GDP Growth – Supply Side**

	2019	2020	Diff.	Underlying assumptions
<b>Primary</b>	<b>1.5</b>	<b>1.5</b>	<b>0.0</b>	Fall harvest not expected to be impacted
<b>Secondary</b>	<b>2.0</b>	<b>0.8</b>	<b>-1.2</b>	
Food and Beverage Industries	0.5	0.3	-0.3	Social distancing measures
Other Manufacturing Industries	0.5	0.2	-0.3	Lower external demand
Construction	0.8	0.3	-0.5	Difficulties to implement projects
Other	0.1	0.0	-0.1	
<b>Tertiary</b>	<b>3.4</b>	<b>0.8</b>	<b>-2.5</b>	
Commerce	0.3	-0.3	-0.6	Lower household income and domestic consumption
Restaurants and hotels	0.3	-0.6	-0.8	Social distancing and containment measures
Transport	0.4	-0.5	-0.9	Lower external demand affecting port activities and impact of social distancing on use of public transportation
Public sector*	1.6	1.8	0.2	Higher public expenditure partly offset by lower taxes
Other	0.8	0.4	-0.4	
<b>Real GDP</b>	<b>6.9</b>	<b>3.2</b>	<b>-3.7</b>	

\* Includes public administration and social security, health, education and taxes.

Annex II. Risk Assessment Matrix<sup>1</sup>

Source of Risks	Relative Likelihood/ Time Horizon	Expected Impact if Realized	Recommended Policy Response
<b>External Risks</b>			
Rising protectionism and retreat from multilateralism	<b>High</b>  <b>Short to Medium Term</b>	<b>Low</b>  Would reduce exports; although impact likely to be limited given the high share of informal exports	Accelerate reforms to diversify exports; enhance competitiveness; access new markets; pursue efforts to promote regional integration and regional trade
Weaker-than-expected global growth and larger drop in commodity prices	<b>High</b>  <b>Short to Medium Term</b>	<b>Medium</b>  Negative impact on Benin cotton and other commodity exports, which would transmit to growth and fiscal position	Strengthen the business climate; diversify exports; preserve fiscal space for countercyclical policy; reinforce the resilience of the banking sector by building up capital buffers
Sharp tightening of global financial conditions	<b>High</b>  <b>Short Term</b>	<b>Medium</b>  A tightening of the ECB policy would be transmitted to financial conditions of the WAEMU region due to the peg to the euro; and raise sovereign debt service	Reduce non-priority spending to accommodate higher interest bill and preserve programmed fiscal targets; bolster investors' confidence through domestic revenue mobilization, and prudent investment and debt policy; mobilize concessional financing
More severe Covid-19 pandemic	<b>High</b>  <b>Short Term</b>	<b>High</b>  Would impair exports, reduce confidence, and lower capital inflows. A widespread domestic outbreak could cause significant disruption to economic activity	Create fiscal space for higher spending on health services, including disease prevention and control, and support for affected sectors and households; reach out to donors for additional grants and concessional financing
Adverse developments coming from Nigeria	<b>Medium</b>  <b>Short to Medium Term</b>	<b>High</b>  Slower recovery and adverse security situation would reduce trade revenues and growth; fuel subsidy cuts in Nigeria can cause price spikes in Benin; a prolonged border closure would impact trade and customs revenue	Accelerate the structural transformation of the economy to lower its dependence on Nigeria; improve the business environment to support private sector growth and diversification
Intensification of regional security risks	<b>Medium</b>  <b>Short Term</b>	<b>Medium</b>  A tightening of the ECB policy would be transmitted to financial conditions of the WAEMU region due to the peg to the euro; and raise sovereign debt service	Create fiscal space for security spending; develop further food security strategy; ensure prudent debt management to contain financing needs
<b>Domestic Risks</b>			
Rise in interest rates on regional financial markets	<b>High</b>  <b>Short to Medium Term</b>	<b>Medium</b>  Higher costs of domestic borrowing for the government	Rely predominantly on concessional financing; optimize debt portfolio; adjust public investment level to reduce borrowing needs
Adverse weather conditions	<b>Medium</b>  <b>Short to Medium Term</b>	<b>High</b>  Adversely affect agricultural output and exports; increase subsidy needs; and reduce the population's living standards	Develop further food security strategy; strengthen resilience through irrigation and productivity in agriculture; mitigate the impact on the poor through targeted fiscal transfers and other types of public spending
Policy implementation risks, due to social-political disturbances, elections or pressures from interest groups	<b>Medium</b>  <b>Short to Medium Term</b>	<b>High</b>  Interruption of the reform agenda; lower revenue mobilization and higher current expenditure, resulting in a deterioration of the fiscal position	Build coalition of stakeholders to support the reform program; implement contingency plans, such as offsetting cuts in non-priority spending; reprioritize public investment; strengthen governance
Intensification of financial sector vulnerabilities	<b>Medium</b>  <b>Short to Medium Term</b>	<b>Medium</b>  A surge in non-performing loans could deteriorate confidence and lower capital, affecting banking sector stability and credit to the private sector	Step up the monitoring of financial sector developments. Consult with the regional banking commission and communicate with banks on measures needed to ensure a prompt resolution of NPLs and adequate capitalization

<sup>1</sup>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). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 and 3 years, respectively.

## Annex III. Adverse Macroeconomic Scenario

**1. This annex presents a downside scenario assuming a prolonged border closure with Nigeria combined with a more severe COVID-19 outbreak in Benin.** The scenario accentuates the negative shocks observed in the baseline (Text Box A.3.1). It assumes, for the year 2020: (i) lower international demand for Benin's exports; (ii) a larger domestic outbreak of the COVID-19 in the country; (iii) a more adverse external environment (with less capital inflows to low-income countries); and (iv) a longer border closure with Nigeria (extended until end-2020).

### Text Box A.3.1. Downside Scenario Assumptions

The following assumptions are made for 2020 *relative to the baseline scenario*:

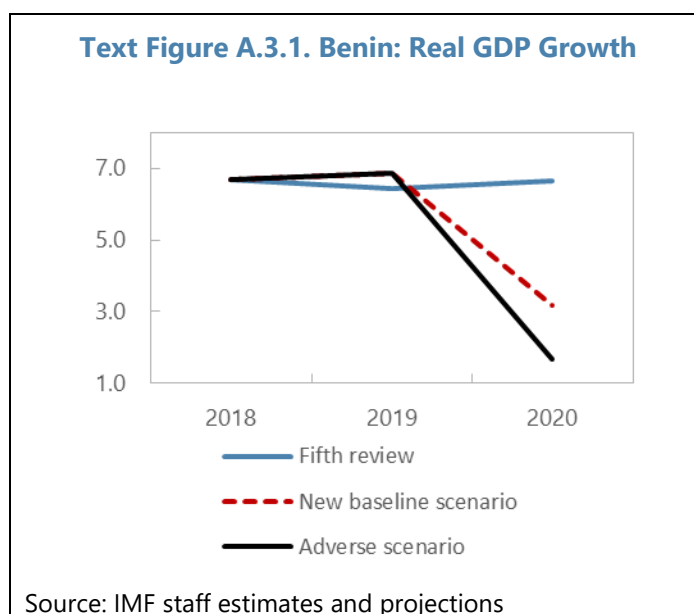
- The domestic outbreak on economic activity is expected to reduce private demand by 1.7 percent (relative to baseline), corresponding to a reduction of private consumption by 1.9 percent and private investment by 1.3 percent (relative to baseline).
- The border closure with Nigeria is extended until end-December 2020 (compared to mid-2020 in the baseline).
- Customs revenue decrease by CFAF 55 billion (0.6 percent of GDP) due to the border closure and the deceleration of activity (relative to baseline).
- Government spending remains unchanged (relative to baseline).
- Exports of domestically produced goods are expected to decrease by 10 percent (relative to baseline).
- Remittances are reduced by 20 percent due to a more adverse external environment (relative to baseline).
- Foreign direct investment and portfolio investment are cut by additional 35 percent relative to the baseline, due to higher business uncertainty and worsening financing conditions (which corresponds to a 50 percent decline relative to the pre-COVID 19 projections).

**2. A more severe COVID-19 outbreak in Benin is a downside risk to the growth outlook and would generate additional budgetary and external pressures.** A larger COVID-19 outbreak would hit manufacturing, commerce and transport activities, owing to the closure of international borders, lower trade activities, social distancing, and the reduction in labor supply. Private investment would decrease as non-priority investment opportunities would be postponed, while private consumption would be affected by income losses and containment measures. Weaker tax revenues would deteriorate Benin's fiscal position even further. Finally, lower foreign direct investment and portfolio investment as well as a deterioration of the trade balance would add pressure to Benin's external position.

**3. In addition, a prolonged border closure with Nigeria would take a heavy toll on Benin's exports, growth, and customs revenue.** The downside scenario assumes that the border will be closed until December 2020, while the baseline scenario assumes closure until end-2020. The

extended closure would exacerbate the negative impact on customs revenue and the contraction of re-export activities.

**4. The combination of these two shocks would lower 2020 GDP growth to below 2 percent and raise the fiscal deficit to 4.5 percent of GDP (Text Figure A.3.1, Text Table A.3.1).** Real GDP growth would weaken from 3.2 percent under the baseline to 1.7 percent in 2020 (compared to 6.7 percent at the time of the 5<sup>th</sup> review). The overall fiscal deficit would deteriorate further from 3.5 percent of GDP under the baseline to 4.5 percent of GDP—compared to 1.8 percent at the time of the 5<sup>th</sup> review. The current account deficit would be revised upward to 5.0 percent of GDP due to a stronger contraction of the re-export activity and lower remittances. As a result, the overall balance of payments would record a deficit of 1.4 percent of GDP (compared to a deficit of 0.9 in the baseline).



Text Table A.3.1. Selected Economic Indicators, 2020

	EBS/19/398	Baseline Scenario	Adverse Scenario
<b>National income and prices</b> (annual percentage change)			
Real GDP growth	6.7	3.2	1.7
Nominal GDP growth	8.0	4.2	2.8
GDP Deflator	1.2	1.0	1.2
Consumer price inflation (average)	1.0	0.6	0.6
<b>External sector</b> (percent of GDP, unless otherwise indicated)			
Current account balance	-4.7	-4.6	-5.0
Trade balance of goods <sup>1</sup>	-5.3	-4.7	-4.9
Exports (fob)	14.7	18.8	17.1
Imports (fob)	-20.0	-23.5	-22.0
Private current transfers, net	1.4	1.1	0.9
Financial account balance	7.0	2.2	1.8
of which: foreign direct investment	1.6	1.0	0.6
of which: portfolio investment	1.8	0.5	0.3
Overall balance of payments	3.1	-0.5	-1.4
<b>Central government finance</b>			
Total revenue (excl. grants)	13.5	12.4	11.7
of which: tax revenue	11.4	10.3	9.5
Total expenditure and net lending	16.3	17.4	17.6
Overall balance <sup>2</sup>	-1.8	-3.5	-4.5
Overall balance <sup>2</sup> (CFAF billion)	-161.4	-311.8	-386.9
Public debt (end period)	40.1	43.3	44.8
<b>Memorandum items:</b>			
Nominal GDP (CFAF billion)	9,036	8,784	8,672

Sources: Beninese authorities; IMF staff estimates and projections.

<sup>1</sup> Includes re-exports and imports for re-export, except for EBS/19/398 for which re-export activities are recorded in current transfers.

<sup>2</sup> Commitments basis, including grants

## Annex IV. Authorities' Response Plan

### 1. The authorities' response plan amounts to 1.7 percent of GDP (CFAF 150 billion) in 2020.

It is articulated around three pillars that focus on (i) raising healthcare spending; (ii) providing assistance to vulnerable households; and (iii) supporting businesses in difficulty (Text Table A.4.1.). The plan has been incorporated in the staff report's fiscal Tables 4 and 5 according to the conversion Text Table A.4.2. While the total envelope and the main components are settled, specific measures are still being worked out. The plan may undergo adjustments in the coming months, in particular the modality of the assistance to households, which will depend on the ability to piggyback on and scale up the ARCH/ACCESS systems.

**Text Table A.4.1. Benin: Draft Budgetary Cost of the Response to the COVID-19 in 2020**

	In billions of CFAF	In Percent of GDP
<b>(1) Healthcare response</b>	<b>60</b>	<b>0.7</b>
Organization of quarantine operations	10	0.1
Purchase of medical equipment	35	0.4
Construction of temporary health facilities	15	0.2
<b>(2) Assistance to vulnerable households</b>	<b>50</b>	<b>0.6</b>
Extremely poor households	30	0.4
Other poor households	20	0.2
<b>(3) Support to impacted businesses</b>	<b>40</b>	<b>0.4</b>
Targeted and temporary corporate tax measures	20	0.2
Temporary flexibility on selected tax payment rules and deadlines	20	0.2
<b>(4) = (1) + (2) + (3) Total budgetary cost in 2020</b>	<b>150</b>	<b>1.7</b>

Source: Beninese Authorities and IMF staff estimates

**2. Assistance to vulnerable households.** The ARCH insurance system and the ACCESS safety nets program, currently developed by the authorities with support from the World Bank, can help target and provide transfers to vulnerable households. The authorities are investigating whether they could use these two systems to provide cash transfers via mobile banking to, at least, 550,000 households (29 percent of the population) already identified as poor or extremely poor. The authorities could also resort to other social transfers (e.g., utility bill subsidies or food distribution programs) if technological and logistics constraints prevent the use of ARCH/ACCESS for this purpose.

**3. Support to businesses in difficulty.** Two broad types of measures—to be adopted by end-June 2020 at the latest—will provide relief to businesses affected by the crisis. First, the authorities will grant targeted and temporary tax cuts. Among the measures considered are tax exemptions on



sanitary and hygiene products imported by businesses; tax incentives on purchases of inputs and production equipment; and the suspension of penalties for small businesses in case of delay in public procurement contracts execution. Second, tax administration measures could include postponing filing dates, extending payment arrangements for taxpayers experiencing cash flow problems, expediting VAT refunds, relaxing the terms and conditions for paying tax arrears, and temporarily reducing audit actions.

**Text Table A.4.2. Benin: Cost of the Response to the COVID-19 by Economic Classification in 2020**

	<b>Budgetary cost (CFAF billion)</b>	<b>Budgetary cost (percent of GDP)</b>
(1) Revenue losses	40	0.4
(2) Spending on goods and services	60	0.7
(3) Current transfer	50	0.6
<b>(4) = (1) + (2) + (3) Total budgetary cost in 2020</b>	<b>150</b>	<b>1.7</b>

Source: Beninese Authorities and IMF staff estimates

## Annex V. Preliminary Review of the 2017-20 ECF-Supported Arrangement

1. **The newly elected Beninese government decided in 2017 to adopt an ambitious economic reform program supported by the ECF-supported arrangement.** The arrangement focused on (i) creating fiscal space by stepping up domestic revenue mobilization and enhancing the efficiency of government spending; (ii) gradually increasing absorptive capacity to scale up investment; (iii) strengthening public debt management and pursuing prudent borrowing policy; and (iv) promoting private sector investment by strengthening institutions and improving the business environment (see IMF Country Report 18/1).
2. **Performance has been very satisfactory throughout the program.** The authorities have met all semi-annual QPCs and all but one SBs since the beginning of the program.<sup>1</sup> The continuous QPC on non-accumulation of new domestic arrears was not observed over March-June 2018 due to an institutional oversight, which led to a small accumulation of domestic arrears. In addition, the Indicative Target (IT) on priority social expenditure was met consistently, except at end-June 2017.
3. **Compared to the initial program objectives, progress achieved over 2017-20 has been commendable in the area of macroeconomic stability.** The program, which started from a deteriorated fiscal position, has succeeded to consolidate public finances, while accelerating economic growth. Sound and prudent macroeconomic policies have also contributed to strengthen Benin's credibility with international investors, culminating with its first Eurobond issuance in 2019.
  - *Creating fiscal space.* The fiscal deficit decreased from 4.4 percent of GDP in 2016 (prior to the program) to 0.5 percent of GDP in 2019. About one third of this decline can be explained by spending rationalization, while the remainder was due to tax mobilization efforts.
  - *Accelerating domestic resource mobilization.* Although from a low level, the tax-to-GDP increased from 9.2 percent of GDP in 2016 to 10.6 percent of GDP in 2019. This increase was mostly driven by domestic taxes— from 5.0 percent of GDP in 2016 to 6.3 percent of GDP in 2019—result of two important tax packages taken in the 2018 and 2019 budgets. At the same time, important reforms of the tax administration were implemented, including the introduction of e-services for medium and large enterprises, a simplification of the tax system for small taxpayers, and improved bancarization of tax payments. Nevertheless, customs revenues have repeatedly fell short of expectation, in particular in the context of the closure of the border with Nigeria.
  - *Strengthening public debt management and pursuing prudent borrowing policy.* The sustained fiscal consolidation has put the public debt on a firm downward path. Compared to the beginning of the program, the debt composition has been rebalanced towards external debt; domestic debt had more than tripled as a share of GDP between 2014 and 2017. This is largely a

<sup>1</sup> The SB on adopting a comprehensive and high-level regulatory text for public investment, as agreed under the PIMA evaluation, suffered a two-month delay (in November 2018, as opposed to September 2018).

result of two external debt operations conducted by the authorities, with a debt reprofiling operation and a Eurobond issuance taking place in 2018 and 2019, respectively. The authorities have also prepared a revised medium-term debt strategy covering the period 2020-24.

- *Fostering macroeconomic stability.* The ECF-supported program helped catalyze additional financing from donors to more effectively tackle development needs and foster economic growth. Real GDP growth has been strong at about 6 ½ between 2017-19, driven by agriculture and port activity. Inflation has remained subdued, below the WAEMU convergence criterion of 3 percent. Poverty seems to have declined but stays high.<sup>2</sup>

**4. Progress has been less significant in the areas of public investment management and private sector development.** Further efforts could focus on these two areas, given that the authorities' Government Action Plan (GAP) envisages that more than half of its overall cost should be covered by the private sector.

- *Improving the efficiency of public investment.* Between 2017-20, Benin received two PIMA assessments. They found that, despite having a high-quality institutional framework, public investment efficiency in Benin remained low, and below comparator countries. Following the PIMA recommendations, the authorities adopted in 2018 a high-level regulatory text on public investment procedures, which encompasses all phases of the investment management cycle. In addition, Benin's National Assembly adopted a legal framework for PPPs in 2016, which was promulgated by the president in 2017. However, important weaknesses persist. Project selection and ex-ante and ex-post assessments are not conducted systematically, and the current procedures require substantial reorganization. In addition, there is room for improving the protection of investments (against quick cuts), the availability of financing, and the implementation management. Finally, the execution of externally-financed public investment has been relatively slow throughout the program.
- *Promoting private sector investment by strengthening institutions and improving the business environment.* Between 2017-20, Benin's ranking by the World Bank's Doing Business Report improved by 6 places. Despite these improvements, access to finance, weak governance and poor infrastructure remain key impediments to doing business in the country. Although private investment in nominal terms increased by 27 percent between 2017 and 2019 according to the national accounts, some evidence suggests that the authorities have struggled to achieve a structural transformation of the economy and boost private sector-led growth. In 2017, Benin became member of the Compact with Africa (CwA), with the aim of bolstering the private sector financing of the GAP. Nevertheless, the CwA participation is yet to produce tangible benefits, with no new foreign financed project initiated under the CwA banner.

<sup>2</sup> In the household survey of 2015, the poverty rate in national definition was estimated at 40 percent of the population.

## Appendix I. Letter of Intent

### THE MINISTER

Cotonou, May 8, 2020

### TO

Madame Kristalina GEORGIEVA  
Managing Director  
International Monetary Fund  
Washington, DC 20431, USA

Dear Madame Georgieva,

1. The government of Benin is continuing its implementation of the 2016-2021 Government Action Program (GAP) and the measures recommended as part of its economic program supported by the arrangement under the International Monetary Fund's Extended Credit Facility (ECF) for the period 2017-2020, which expires in July 2020.
2. The purpose of the ECF arrangement is to promote inclusive growth and reduce poverty by creating fiscal space for investment in infrastructure and priority social spending. It is also aimed at catalyzing official and private funding, and at building resilience in the event of potential economic shocks.
3. The sixth review under the arrangement shows significant progress, both in terms of the implementation of the GAP and in the pursuit of reforms related to the program concluded with the IMF.
4. This sixth review is also marked by the COVID-19 pandemic, which our country is having to cope with, in addition to a complex regional situation marked by the closure of the borders between Benin and Nigeria since August 2019.<sup>1</sup> As in the other African countries, we expect a sharp slowdown in economic activity this year. Without the support of our technical and financial

---

<sup>1</sup> This measure, which was decided upon unilaterally by Nigeria, affects not only Benin, but also Niger, Chad, and Cameroon.

partners, we are concerned that this pandemic will undermine our hard-won macroeconomic stability and will erase the gains and efforts made in recent years in transforming Benin's economy.

5. In this context, we are asking for extraordinary support from all of our technical and financial partners in the form of supplementary budget support. Assistance from the IMF is essential. The government is requesting for the disbursement of SDR 76.013 million (61.4 percent of Benin's quota) through the increased access process. This increase will make it possible to cover the balance of payments financing needs, in particular those arising from the COVID-19 response plan. In addition, the government is asking for the disbursement of the last tranche under the ECF arrangement in the amount of SDR 15.918 million, bringing the total disbursement related to the sixth review to SDR 91.931 million. We are committed to using the additional IMF financing for the sole purpose of responding to the health and economic crisis. Our response plan, which will be partly financed by the access augmentation, is presented below.

### **Recent Economic Developments and Performance Under the Program**

6. In 2019, economic activity was marked by robust growth estimated at 6.9 percent by the National Institute of Statistics and Economic Analysis (INSAE), in spite of the closing of the border between Benin and Nigeria. The acceleration of growth compared to 2018 can be explained primarily by strong activity in the construction and agrobusiness sectors. Average annual inflation was negative at -0.9 percent, owing to a decline in food prices. The government also continued to exercise sound fiscal discipline. The fiscal deficit (including grants) was equal to 0.5 percent of GDP in 2019, compared to 2.9 percent of GDP in 2018. The current account deficit is projected at around 4.3 percent of GDP for 2019, slightly lower than the figure for 2018 owing to an improvement in the balance of services.

7. The results under the sixth and final review of the program supported by the ECF arrangement were very satisfactory. Namely:

- All of the quantitative performance criteria were met at end-December 2019 (Attachment I);
- All of the structural benchmarks were met (Attachment II). These are benchmarks regarding: (i) the implementation of a mechanism for the monitoring and verification of investments provided for under the Investment Code and special economic zones; (ii) the strengthening of the research and statistics unit within the customs administration by adding statisticians to the staff, with a view to improving risk analysis, the monitoring of exemptions, and fraud detection; (iii) the 2020 Budget Law, which includes a set of fiscal measures generating an amount equal to CFAF 45 billion; and (iv) performance of an assessment of the impact of the transfer of government deposits from commercial banks to the Treasury Single Account.

8. More generally, Benin has made significant progress under the program since 2017. All of the semi-annual quantitative performance criteria have been met, as well as almost all of the structural benchmarks. The fiscal deficit has been reduced considerably over the past three years with a view to ensuring the country's macroeconomic stability. The arrangement has allowed for a strengthening of tax administration and mobilization of revenues, as well as public financial management. It has also made it possible to maintain a sustained rate of growth in economic activity, marked by low inflation and a favorable trend over the medium term in the current account balance. In March 2019, Benin issued its first Eurobond at very competitive market terms, offering evidence of the high degree of credibility of Benin's public policies on the international stage.

### Response Plan to Fight the COVID-19 Epidemic

9. In 2020, like many countries around the world, Benin has been hit hard by the COVID-19 pandemic. In addition to the health crisis, there is also an economic slowdown linked to the global recession and the measures taken to contain the transmission of the virus:

- *From a health standpoint*, Benin has 50 confirmed cases, including 27 cases in which the patients recovered and one death, as of April 20, 2020. Unfortunately, some of the persons infected came into contact with many people before being identified as carriers of the virus and being required to remain in quarantine, thus giving rise to fears of multiple outbreaks. In addition, Benin's healthcare system is already highly mobilized, but its capacity to provide care could be exceeded very rapidly if they are not adequately reinforced on an urgent basis.
- *From an economic standpoint*, we expect a sharp slowdown in economic activity in 2020. We have therefore revised the growth rate downward to 3.2 percent (from 6.74 percent before the start of the pandemic). The closing of the borders and the slowdown in trade with importer and exporter countries will slow the momentum seen in practically all sectors. In addition, the measures to fight the spread of the virus within the country are severely constraining economic activity, affecting production, investment, and household consumption.

10. To address the situation, we have developed a response plan consisting of: (i) public health measures to combat the epidemic and to support the healthcare system; (ii) measures to protect the most vulnerable segments of the population; and (iii) economic support and recovery measures. The cost of this plan for 2020 has been set at CFAF 150 billion (1.7 percent of GDP).

- *Measures already taken*. Since February, measures have been taken in collaboration with the World Health Organization (WHO) and with the support of the World Bank, in particular at the borders and at the international airport in Cotonou. At this time, our land borders remain closed to the movement of persons, but the movement of goods is still allowed. Travelers arriving by air are systematically subject to quarantine in hotels requisitioned for this purpose. In addition, cordons sanitaires have been established to limit the spread of the virus and to contain new outbreaks. The use of taxis is strictly

controlled, and the operation of other public transport has been temporarily suspended. Gatherings of more than 10 persons are prohibited. People are required to wear a protective mask in public and to maintain a minimum distance of one meter from one another. We communicate daily and transparently on the evolution of the epidemic and the measures that are being taken. Multiple infographics describing the “barrier measures” have been made available to the public and a dedicated website lists all the official documents, press releases, videos, audio recordings, solidarity initiatives, and useful numbers.

- *New measures.* Our response plan is organized around three core areas: (i) an increase in health spending by CFAF 60 billion to cover the cost of purchasing medical equipment, the construction of temporary centers to care for people who are sick, and quarantine arrangements for at-risk populations; (ii) a total of CFAF 50 billion to help the most vulnerable segments of the population through the strengthening of the ARCH program (*Assurance pour Renforcement du Capital Humain*, or Insurance for Strengthening Human Capital) and the ACCESS program (*Appui aux Communes et Communautés pour l'Expansion des Services Sociaux*, or Community and Local Government Basic Social Services) and various social transfers (covering more than 550,000 households) carried out by means of mobile banking services or, failing that, through the payment of water and electricity bills or the distribution of foodstuffs for these households; and (iii) a CFAF 40 billion package to support struggling businesses through targeted and temporary tax exemptions and a relaxation of certain payment rules. In order to ensure proper implementation of the response plan, we will make sure that new spending is properly budgeted and that its execution is in line with the international rules of fiscal credibility and transparency. In this context, the Accounting Chamber will perform an independent audit next year of the use and effectiveness of the funds committed. This audit will be published by the Accounting Chamber in 2021 in its annual activity report and made available on its internet website. In addition, we will publish the procurement documents and contracts relating to the major projects implemented under the response plan, indicating the amounts and the names of the beneficial owners of the awarded companies.

**11.** In order to finance this ambitious plan and address the revenue shortfall related to the economic shock, we are planning to raise additional resources in the domestic market as well as from donors. We anticipate an increase in domestic funding in the amount of CFAF 65 billion (0.7 percent of GDP). As of mid-April 2020, we have already received additional support from donors, but we will continue to call on the international community to increase the concessional funding needed to implement the response plan. At the same time, we will also take steps to reallocate CFAF 51 billion in non-priority spending in the budget (equal to 0.6 percent of GDP). As a result, the 2020 fiscal deficit has been revised upward to 3.5 percent of GDP (from the 1.8 percent of GDP originally planned).

## Macroeconomic Priorities and Future Structural Reforms

**12.** Beyond the short-term crisis, we remain determined to pursue our plan to modernize Benin's economy in four core areas: (i) the maintenance of macroeconomic stability by means of a credible and prudent fiscal policy; (ii) a policy of structural investments in infrastructure; (iii) the promotion of inclusive growth and protection of the most vulnerable segments of the population; and (iv) the development of the private sector and improvement of the business climate to enable Benin to be increasingly competitive in the African economic space.

**13.** *Fiscal discipline.* The increase in the fiscal deficit in 2020 in response to the COVID-19 pandemic is temporary and does not call into question our objective of keeping the fiscal deficit below the convergence criterion of the West African Economic and Monetary Union (WAEMU) of 3 percent of GDP from 2021 onwards. The government is determined to continue its efforts aimed at strengthening tax administration and revenue mobilization, as well as those related to public financial management. This will make it possible to generate fiscal space needed for an infrastructure investment policy and the implementation of priority social protection programs.

**14.** *Major infrastructure projects.* The government intends to strengthen the infrastructure investment policy, particularly in the areas of transport and energy, in collaboration with the private sector. An analysis of the GAP financing options made it possible to prepare a catalogue of projects that would be good candidates for public-private partnerships (PPPs). In line with international best practices, we will ensure that: (i) investments involving PPPs are integrated into budget documents and government finance statistics; and (ii) liabilities related to PPPs are evaluated and annexed to the budget law. We will analyze the fiscal risks related to these PPP projects. Finally, in 2018 we established a unit for the management of fiscal risks related to PPPs within the Ministry of Economy and Finance. We are in the process of building capacity to make the unit fully operational.

**15.** *Inclusive growth.* The government intends to continue its efforts to foster inclusive growth and achieve a significant reduction in the poverty rate. In particular, the government is planning to accelerate the implementation of the insurance component of the government social protection project (ARCH), which entered its pilot phase in 2019 for the poorest segments of the population (300,000 people). The program will be extended to the entire population in 2021.

**16.** *Development of the private sector.* The government is determined to continue its policy of support for development of the private sector. In order to breathe new dynamism into its economy, since 2018 the government of Benin has undertaken a series of reforms that put the private sector at the heart of the structural transformation of the economy. In particular, numerous reforms are under way in the following areas: (i) business creation; (ii) access to electricity and water; (iii) obtaining building permits; (iv) payment of taxes and fees; (v) cross-border trade; (vi) access to public contracts; (vii) transfer of property; and (viii) obtaining loans. The parliament adopted a new Investment Code on January 29, 2020, which establishes the conditions, advantages, and general rules applicable to direct investment, both domestic and foreign, in Benin. In addition, a draft law was recently sent to the National Assembly to improve the legislative environment for the enforcement of contracts and the protection of minority investors. All the reforms thus implemented are aimed primarily at improving the business



climate in order to make the business environment of the Beninese market competitive vis-à-vis the sub-regional and African economic space, and thus diversify the Beninese economy and develop new growth sectors.

**17.** In order to implement these priorities and support its credibility in the international community, Benin intends to maintain its productive relationship with the IMF after the current program expires in the summer of 2020. To this end, we are planning to lay the foundations for future innovative collaboration. In consultation with your staff, we will assess the optimal form of support that will meet Benin's needs and that will be in line with President Talon's desire to implement a policy of structural investments in physical infrastructure, but also in human capital.

Sincerely yours,

/s/

**Romuald WADAGNI**

Minister of Economy and Finance

Attachments (3):

1. Table of the Quantitative Performance Criteria and Indicative Targets, 2019
2. Table of the Structural Benchmarks for 2019-20
3. Technical Memorandum of Understanding

## Attachment I. Table of Quantitative Performance Criteria and Indicative Targets, 2019

Attachment I. Table of the Quantitative Performance Criteria and Indicative Targets , 2019 <sup>1</sup>									
	March 31, 2019			June 30, 2019			September 30, 2019		
	Indicative Targets			Performance Criteria			Indicative Targets		
	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status
<b>A. Quantitative performance criteria<sup>2</sup></b>									
Net domestic financing of the government (ceiling) <sup>3</sup>	15.0	27.6	Not Met	-38.0	-50.4	Met	-158.5	-68.0	Not Met
Basic primary balance (excluding grants) (floor)	15.6	-0.3	Not Met	44.5	50.7	Met	47.7	15.9	Not Met
Total revenue (floor)	235.1	250.2	Met	505.5	522.8	Met	762.5	779.6	Met
							1,112.4	1,082.4	1,088.0
									Met
<b>B. Continuous quantitative performance criteria (ceilings)</b>									
Accumulation of external payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Accumulation of domestic payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Contracts by the government for the prefinancing of public investments projects	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met
Ceiling on the present value of new external debt contracted or guaranteed by the government	468.9	458.0	Met	797.0	458.0	Met	797.0	797.0	Met
							797.0		797.0
									Met
<b>C. Memorandum Items<sup>2</sup></b>									
Priority social expenditure (floor)	37.2	38.2	Met	82.5	84.3	Met	140.7	137.1	Not Met
							180.0		192.0
									Met
Budgetary assistance	0.0	3.9		3.9	3.9		3.9		64.2
							45.4		

Sources: Beninese authorities; IMF staff estimates and projections.

<sup>1</sup>The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

<sup>2</sup>The performance criteria and indicative targets are cumulative from the beginning of the calendar year.

<sup>3</sup>If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-rata, subject to limits specified in the TMU. If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement unless it is used to reduce domestic payment arrears.

<sup>4</sup>Adjustors are applied to the end-December 2019 QPCs on revenue, basic primary balance, and net domestic financing to account for the effect of the border closure with Nigeria (see TMU).

## Attachment II. Table of the Structural Benchmarks for 2019-20

Measures	Dates	Rationale	Status
<b>Revenue mobilization</b>			
The Ministry of Finance implements the system of control and verification of the investments envisaged under the frameworks of the code of investment and the special economic zones.	November 2019	Rationalize exemptions and fight tax fraud.	Met
Strengthen the research and statistics office within the customs administration by staffing it with statistics personnel with a view to improving risk analysis, the monitoring of exemptions, and fraud detection.	December 2019	Improve customs revenues and fight customs fraud.	Met
Adopt a 2020 budget that includes a tax package with revenue-raising measures equivalent to CFAF 45 billion.	December 2019	Foster revenue mobilization.	Met
<b>Public financial management</b>			
Prepare an updated audit of the stock of past debt due by the government to domestic suppliers at end of December 2018. <sup>1</sup>	January 2019	Enhance fiscal transparency.	Met
Perform an impact assessment of the transfer of government deposits from commercial banks to the Treasury Single Account.	March 2020	Reduce fiscal and financial risks.	Met
<b>Trade</b>			
Perform a diagnostic assessment of the main trade barriers, based on the framework used for the notification stage of the WTO Trade Facilitation Agreement.	September 2019	Facilitate trade.	Met
<sup>1</sup> The unpaid services to suppliers were inherited from the previous governments.			

## Attachment III. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (the “Memorandum”) defines the performance criteria, quantitative benchmarks, and structural benchmarks of the Republic of Benin’s program supported by the Extended Credit Facility (ECF). It also specifies the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

### PROGRAM ASSUMPTIONS

2. **Exchange rates under the program.** For the purposes of this Memorandum, the value of transactions denominated in foreign currencies will be converted into the domestic currency of Benin (the CFA franc, or CFAF), based on the exchange rates agreed upon for the program projections. The key exchange rates are presented below.<sup>1</sup>

CFAF/US\$	557.6
CFAF/euro	655.96
CFAF/SDR	785.4

### DEFINITIONS

3. Unless otherwise indicated, “government” is understood to mean the central government of the Republic of Benin and does not include any political subdivisions (such as local governments), the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government’s flow-of-funds table (Tableau des opérations financières de l’État, TOFE).

4. The definitions of “debt” and borrowing for the purposes of this Memorandum are set out in point 8 of IMF Executive Board Decision No. 6230-(79/140), as subsequently amended on December 5, 2014 by Executive Board Decision No. 15688-(14/107):

- a. **Debt** is understood to mean a current – as opposed to a contingent – liability, created under a contractual agreement for the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time, and these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms; the primary ones being as follows:

<sup>1</sup> Exchange rates as of August 19, 2017.

- i. loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the seller in the future (such as repurchase agreements and official swap arrangements);
- ii. suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided;
- iii. leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property; and
- iv. Treasury bills and bonds issued in Communauté Financière Africaine (CFA) francs on the West African Economic and Monetary Union's (WAEMU) regional market, which are included in public debt for the purpose of this Memorandum.

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

- b. The present value of the loan will be calculated using a single discount rate set at 5 percent.
- c. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 2.63 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -294 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -260 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -197 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -200 basis points.<sup>2</sup> Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added; and (d) Domestic debt is defined as debt denominated in CFA francs.

- d. "External debt" is defined as debt denominated in any currency other than the CFA franc

## QUANTITATIVE PERFORMANCE CRITERIA

### A. Ceiling on Net Domestic Financing of the Government

#### *Definitions*

5. Net domestic financing (NDF) of the government is defined as the sum of (i) net bank credit to the government, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, which includes proceeds from the divestiture of shares of public enterprises, that is, privatizations, Treasury bills, and other securitized obligations issued by the government and listed in CFA francs on the WAEMU regional financial market, and any BCEAO credit to the government, including any drawings on the CFA franc counterpart of the Special Drawing Rights (SDR) allocation.

6. Net bank credit to the government is defined as the balance between the debts and claims of the government vis-à-vis the central bank and local commercial banks. The scope of net credit to the government is that used by the BCEAO and is in keeping with general IMF practice in this area. It implies a definition of government that is broader than the one indicated in paragraph 2. Government claims include the CFA franc cash balance, postal checking accounts, customs duty bills, and all deposits with the BCEAO and commercial banks of government-owned entities, except for industrial or commercial public agencies (EPIC) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and local commercial banks, including Treasury bills and other securitized debt.

7. The data deemed valid within the framework of the program will be the figures for net bank credit to the government and for the net amount of Treasury bills and bonds issued in CFA francs on the WAEMU regional financial market, calculated by the BCEAO, and the figures for nonbank financing calculated by the Treasury of Benin.

8. Gross external budgetary assistance is defined as grants, loans, and non-earmarked debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives. Net external budgetary assistance is defined as the difference between gross external budgetary assistance and the sum of total debt service obligations on all external debt (defined as the sum of interest payments and amortizations on all external loans, including interest payments and other charges to the IMF and on project-related loans, but excluding repayment obligations to the IMF), and all payments of external arrears.

### ***Performance Criteria and Indicative Targets***

**9.** The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 74.7 billion at end-March 2018; CFAF 190.9 billion at end-June 2018; CFAF 103.0 billion at end-September 2018; and CFAF 118.8 billion at end December 2018. These ceilings are performance criteria for end-June and end-December 2018, and an indicative target for end-September 2018.

**10.** The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 15 billion at end-March 2019; CFAF -38.0 billion at end-June 2019; CFAF -158.5 billion at end-September 2019; and CFAF -289.0 billion at end December 2019. These ceilings are performance criteria for end-June and end-December 2019, and an indicative target for end-September 2019.

### ***Adjustments***

**11.** Net domestic financing of the government will be adjusted if net external budgetary assistance exceeds or falls short of the program projections indicated in paragraph 10:

- If, at the end of a quarter, net external budgetary assistance exceeds the total projected amounts (cumulative since January 1 of the same year) by more than CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to that excess, minus CFAF 5 billion.
- If at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be increased by an amount equivalent to this shortfall, within the following limits: the increase may not exceed CFAF 15 billion at end-June 2018 and CFAF 25 billion at end-December 2018. The same rule applies for 2019.

**12.** For the purposes of calculating the adjustment to the NDF ceiling, the following amounts are projected in the program:

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 22.6 billion at end-March 2018; CFAF 22.6 billion at end-June 2018; CFAF 39.6 billion at end-September 2018; and CFAF 55.4 billion at end-December 2018.
- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 0 billion at end-March 2019; CFAF 3.9 billion at end-June 2019; CFAF 10.1 billion at end-September 2019; and CFAF 45.4 billion at end-December 2019.

**13.** The ceiling on the net domestic financing will be increased by an amount equivalent to the shortfall in customs revenue compared to the program's projections (CFAF 412 billion for 2019) in

the event of a prolonged Benin/Nigeria border closure. The adjuster will be capped at CFAF 10 billion if the Benin/Nigeria border closure lasts until the end of October 2019, CFAF 20 billion if it lasts until the end of November 2019 and CFAF 30 billion if it lasts until the end of December 2019.

## B. Floor of the Basic Primary Fiscal Balance

### *Definition*

**14.** The basic primary fiscal balance is defined as the difference between total fiscal revenue (tax and nontax) and basic primary fiscal expenditure (on a commitment basis). Basic primary fiscal expenditure is defined as fiscal (current plus capital) expenditure minus (a) interest payments on domestic and external debt; and (b) capital expenditure financed by external grants and loans. Grants are excluded from revenue and net government lending is excluded from fiscal expenditure.

### *Performance Criteria and Indicative Targets*

**15.** The floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF -69.7 billion at end-March 2018; CFAF -47.5 billion at end-June 2018; CFAF -20.3 billion at end-September 2018; and CFAF +3.9 billion at end-December 2018. The floors for end-June 2018 and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

**16.** Similarly, the floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF +15.6 billion at end-March 2019; CFAF +44.5 billion at end-June 2019; CFAF 47.7 billion at end-September 2019; and CFAF 101.7 billion at end-December 2019. The floors for end-June 2019 and end-December 2019 are performance criteria and the floor for end-September 2019 is an indicative target.

### *Adjustments*

**17.** The floor of the primary budget balance will be adjusted downwards by an amount equivalent to the customs revenue deficit compared to the program projections (CFAF 412 billion for 2019) in the event of a prolonged Benin/Nigeria border closure. The adjuster will be capped at CFAF 10 billion if the Benin/Nigeria border closure lasts until the end of October 2019, CFAF 20 billion if it lasts until the end of November 2019 and CFAF 30 billion if it lasts until the end of December 2019.



## C. Floor of Total Government Revenue

### **Definition**

**18.** Total government revenue includes tax and nontax revenue, as shown in the TOFE, but excludes external grants, revenue of autonomous agencies, and privatization receipts.

### **Performance Criteria and Indicative Targets**

**19.** The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 204.8 billion at end-March 2018; CFAF 445.5 billion at end-June 2018; CFAF 701.1 billion at end-September 2018; and CFAF 1021.6 billion at end-December 2018. The floors for end-June and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

**20.** The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 235.1 billion at end-March 2019; CFAF 505.5 billion at end-June 2019; CFAF 762.5 billion at end-September 2019; and CFAF 1112.4 billion at end-December 2019. The floors for end-June and end-December 2019 are performance criteria and the floor for end-September 2019 is an indicative target.

### **Adjustments**

**21.** The government revenue floor will be adjusted downward by an amount equivalent to the shortfall in customs revenue compared to the program projections (CFAF 412 billion for 2019) in the event of a prolonged Benin/Nigeria border closure. The adjuster will be capped at CFAF 10 billion if the Benin/Nigeria border closure lasts until the end of October 2019, CFAF 20 billion if it lasts until the end of November 2019 and CFAF 30 billion if it lasts until the end of December 2019.

## D. Non-Accumulation of New Domestic Payments Arrears by the Government

### **Definition**

**22.** Domestic payments arrears are defined as domestic payments due but not paid by the government after a 90-day grace period, unless the payment arrangements specify a longer repayment period. The Autonomous Amortization Fund (CAA) and the Treasury record and update the data on the accumulation and reduction of domestic payments arrears. The definitions of debt given in paragraph 4a, of domestic debt in paragraph 4d, and of the government in paragraph 3 apply here.

**Continuous Performance Criteria**

**23.** The government undertakes not to accumulate any new domestic payments arrears. The non-accumulation of new domestic payments arrears will be continuously monitored throughout the program.

**E. Non-Accumulation of External Payments Arrears by the Government****Definition**

**24.** External public payments arrears are defined as payments due but not paid by the government as of the due date specified in the contract, taking into account any applicable grace periods, on the external debt of the government or external debt guaranteed by the government. The definitions of debt given in paragraph 4a, of external debt in paragraph 4e, and of the government in paragraph 3 apply here.

**Continuous Performance Criterion**

**25.** The government undertakes not to accumulate any external public payments arrears, with the exception of arrears related to debt that is the subject of renegotiation or rescheduling. The performance criterion on the non-accumulation of external public payments arrears will be continuously monitored throughout the program.

**F. Ceiling on the Present Value of New External Debt Contracted or Guaranteed by the Government with a Maturity of One Year or More****Definition**

**26.** This performance criterion applies not only to debt as defined in paragraph 4a, but also to commitments contracted or guaranteed by the government (including lease-purchase contracts) for which no value has been received. This criterion also applies to private sector debt guaranteed by the government, which constitutes a contingent liability of the government. As indicated in paragraph 4e, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market.

**27.** The term “government” used for this performance criterion and for the performance criterion on the contracting or guaranteeing by the government of new external debt, includes the government, as defined in paragraph 3, local governments, and all public enterprises, including administrative public agencies (EPA), scientific and technical public agencies, professional public agencies, and enterprises jointly owned by the Beninese government with the governments of other countries.

### ***Continuous Performance Criterion***

**28.** The present value of new external borrowing contracted or guaranteed by the government in 2019 will not exceed a cumulative amount of CFAF 797 billion. Changes to this ceiling may be made (subject to approval by the IMF Executive Board) based on the results of the public debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

## **G. Ceiling on Pre-Financing Contracts for Public Investments**

### ***Definition***

**29.** Pre-financing contracts are defined as contracts pursuant to which the following steps are taken concurrently: (i) the government entrusts a private entity with the responsibility for executing public works, financed by a loan to the entity from a domestic commercial bank or group of commercial banks; (ii) the Minister of Finance guarantees this loan and signs an unconditional and irrevocable agreement to replace the private entity to honor the full amount of principal and interest of the loan, which are automatically paid from the Treasury's account at the BCEAO. The concept of government used for this performance criterion is the one defined in paragraph 3.

### ***Continuous Performance Criterion***

**30.** The government undertakes not to enter into any pre-financing contracts during the program. This performance criterion on pre-financing contracts for public investments will be continuously monitored throughout the program.

## **INDICATIVE TARGETS**

### **A. Floor for Priority Social Expenditures**

**31.** Priority social expenditures are determined in line with the priority programs identified in the GAP. These expenditures consist of selected (nonwage) expenditures in the following sectors, inter alia: health; energy, water, and mines; agriculture; livestock and fisheries; social affairs; education; and living standards. The execution of these expenditures is monitored on a payment order basis during the program through the Integrated Government Finance Management System (SIGFIP).

### ***Definition***

**32.** The indicative target for priority social expenditures is defined as the total amount (cumulative since January 1 of the same year) of the payment orders issued under the budget lines indicated in Table 1 below.

**Table 1. Priority Social Expenditure Categories**

<b>Budget code</b>	<b>Description</b>
25	Ministry of Economy and Finance
36	Ministry of Health
37	Ministry of Energy
76	Ministry of Water and Mines
39	Ministry of Agriculture Livestock, and Fisheries
46	Ministry of SMEs and the Promotion of Employment
26	Ministry of Justice
52	Ministry of Labor and Public Affairs
41	Ministry of Social Affairs and Microfinance
44	Ministry of Higher Education and Scientific Research
27	Ministry of Plan and Development
62	Ministry of Nursery School and Primary School Education
63	Ministry of Secondary and Technical Education and Vocational Training
60	Ministry of Domestic and Public Security
51	Ministry of Infrastructure and Transport
38	Ministry of Tourism, Culture and Arts
40	Ministry of Sport

***Indicative Target***

**33.** The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 15.0 billion at end-March 2018, CFAF 50.0 billion at end-June 2018; CFAF 101.0 billion at end-September 2018; and CFAF 167.0 billion at end-December 2018.

**34.** The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 37.2 billion at end-March 2019, CFAF 82.5 billion at end-June 2019; CFAF 140.7 billion at end-September 2019; and CFAF 180.0 billion at end-December 2019.

## INFORMATION FOR PROGRAM MONITORING

### A. Data on Performance Criteria and Indicative Targets

**35.** To facilitate effective program monitoring, the authorities will provide IMF staff with the following data:

Every month:

- Data on any loan (terms and creditors) contracted or guaranteed by the government, in the first week after the end of the month;

- Monthly consumer price index, within two weeks of the end of the month;
- The TOFE, including revenue, detailed data on net domestic financing of the government (bank and nonbank domestic financing, including claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by SIGFIP, within six weeks of the end of the month;
- Data on the balance, accumulation, amount (stock), and repayment of public domestic and external payments arrears, including in the event that these arrears amount to zero, within six weeks of the end of the month;
- The monetary survey, within eight weeks of the end of the month.

Every quarter:

- Data pertaining to the amount of exceptional payment orders or other exceptional measures, within six weeks of the end of the quarter; and
- Data pertaining to priority social expenditures, within six weeks of the end of the quarter.

## B. Other Information

**36.** The authorities will provide IMF staff with the following data:

Every month:

- Bank supervision indicators for bank and nonbank financial institutions within eight weeks of the end of the month.

Every quarter:

- Data on the implementation of the public investment program, including detailed information on sources of financing, within four weeks of the end of the quarter; and
- Data on the stock of external debt, external debt service, the signing of external loan agreements and disbursements of external loans, within twelve weeks of the end of the quarter.

On an ad hoc basis:

In the quarter when they become available: a copy of the budget law and its supplementary documents; a copy of the most recent budget review law; as well as any decree or law pertaining to the budget or the implementation.