EXECUTIVE BOARD MEETING

EBS/20/94
Supplement 1
Correction 1

May 14, 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—Debt Sustainability Analysis**

Board Action:	The attached correction to EBS/20/94, Sup. 1 (5/11/20) has been provided by the staff:
Factual Errors Not Affecting the Presentation of Staff's Analysis or Views	**Page 9**
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)

17. The adverse macroeconomic scenario used in this DSA report is the one presented in the 6th review staff report, which accentuates the negative shocks observed in the baseline. The adverse scenario assumes : (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).[11]

EXTERNAL DEBT SUSTAINABILITY RESULTS

18. The external debt burden indicators remain below the policy-dependent thresholds in the baseline scenario. Under the baseline, all debt indicators remain below their relevant policy-dependent thresholds. The PV of total PPG external debt is expected to stabilize at about 17.5 percent of GDP on average over 2020–24, reaching 7.5 percent of GDP in 2039. Thus, the ratio would remain below the corresponding threshold of 40 percent of GDP throughout the projection period.

19. However, the ratio of debt service-to-revenue exceeds its threshold in the case of an exchange rate depreciation, implying a moderate risk of external debt distress. The ratio is estimated at 20 percent in 202~~0~~4, then assumed to decline to 19 percent in 202~~1~~5 and 18.4 percent in 202~~2~~6, compared to a threshold of 18 percent of GDP. Breaches also occur in 202~~0~~4 under the real GDP growth and export bound tests, where the ratio reaches 18 percent. The alternative scenario, which corresponds to maintaining key variables at their historical averages in 2020-30, displays a breach in 202~~0~~4-2~~2~~6 (at 19 percent). The debt service to exports ratio remains at the edge of a breach under the export bound test (14.9 percent compared to a threshold of 15 percent). These results are mainly explained by the repayment of the Eurobond 2024 onwards. Other indicators—the PV of debt-to-GDP ratio and PV of debt to exports ratio indicators— remain below their thresholds under the extreme shock scenarios. Breaches of the debt service-to-revenue ratio are the reasons behind the assessment of moderate risk for external debt.

20. The supplementary module, which allows qualifying the moderate category for the debt distress risk, indicates that Benin has limited space to absorb shocks (Figure 5). To add granularity to the moderate risk rating, Benin is assessed as having "limited space" to absorb shocks in the current DSA because of the duration of the shocks (although the breach is very small). This reflects a slight deterioration compared to the November DSA report, where Benin had ''some space'' to absorb shocks.

21. The risk of external debt distress would remain also moderate in the adverse macroeconomic scenario of the 6th review staff report. The external debt burden indicators remain below the policy-dependent thresholds in this adverse scenario. However, three indicators breach the thresholds under the most extreme shocks in the adverse macroeconomic scenario (as opposed to one indicator, the debt service-to-revenue ratio, in the baseline scenario). They are: (i) the PV of debt-to-exports ratio, (ii) the debt service-to-exports ratio, and (iii) the debt service-to-revenue ratio (Figure 7).

[11] See Annex III of the Staff Report for the Sixth Review under the ECF-supported arrangement for detailed assumptions.