EXECUTIVE BOARD MEETING

EBS/20/94
Correction 2

May 18, 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:	The attached correction to EBS/20/94 (5/11/20) has been provided by the staff:
Factual Errors Not Affecting the Presentation of Staff's Analysis or Views	**Page 34**
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)

Annex II. Risk Assessment Matrix[1]

	Relative Likelihood/ Time Horizon	Excepted Impact if Realized	Recommended Policy Response
External Risks			
Rising protectionism and retreat from multilateralism	**High** **Short to Medium Term**	**Low** 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	**High** **Short to Medium Term**	**Medium** 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	**High** **Short Term**	**Medium** ~~A tightening of the ECB policy~~A decompression of spreads 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	**High** **Short Term**	**High** 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	**Medium** **Short to Medium Term**	**High** 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	**Medium** **Short Term**	**Medium** Security risks from neighboring countries could impact domestic stability, trade, tourism; tighten financing conditions on regional market; and result in immigration flows	Create fiscal space for security spending; develop further food security strategy; ensure prudent debt management to contain financing needs
Domestic Risks			
Rise in interest rates on regional financial markets	**High** **Short to Medium Term**	**Medium** 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	**Medium** **Short to Medium Term**	**High** 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	**Medium** **Short to Medium Term**	**High** 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	**Medium** **Short to Medium Term**	**Medium** 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

[1]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.