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Research Update:

Benin Assigned 'B+/B' Foreign And Local Currency Ratings; Outlook Stable; 132nd Rated Sovereign

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Overview

- Economic reforms and increasing public and private investments should support Benin's growth prospects.
- Low per-capita income and large external and fiscal needs constrain our view of Benin's credit quality.
- We are assigning our 'B+/B' long- and short-term foreign and local currency sovereign credit ratings to Benin.
- The outlook is stable.

Rating Action

On July 5, 2018, S&P Global Ratings assigned its 'B+/B' long- and short-term foreign and local currency sovereign credit ratings to Benin. The outlook is stable. The transfer and convertibility (T&C) assessment is 'BBB-'. Benin is the 132nd sovereign rated by S&P Global Ratings.

Outlook

The stable outlook balances our expectation of strong economic growth and fiscal consolidation against risks of weaker reform delivery than we currently anticipate.

We could raise the ratings if the pace of Benin's economic growth is materially stronger than we currently forecast, or if external and fiscal deficits and net government debt as a share of GDP fall substantially.

Conversely, we could lower the ratings on Benin if economic and fiscal reform slackens, leading for example to sluggish real GDP growth or to a slippage of fiscal performance. Rating pressures could also emerge if the general government debt and interest burden increase significantly.

Rationale

The ratings on Benin are supported by our expectation that the country's economic activity, as well as its external and fiscal positions, will gradually strengthen in the coming years, spurred by Benin's program of pro-growth reforms.

The ratings are constrained by Benin's low per-capita income, high external financing needs, and rapidly increasing public debt. Although we consider that Benin's membership in the West African Economic and Monetary Union (WAEMU) limits its monetary flexibility, it also lessens external risks and successfully anchors low inflation.

Institutional and Economic Profile: Reform momentum will support real GDP growth

- In our view, the government's reform agenda demonstrates a proactive approach to policymaking.
- Income levels are low, and we think structural weaknesses are significant.
- We expect that public and private investments will drive real GDP growth in the coming years.

We think policymaking in Benin has improved in recent years. The Beninese authorities have been focusing on strengthening public governance and accountability. They have been implementing reforms to support growth and fiscal consolidation, under Benin's national development plan (Programme d'action du gouvernement; PAG). Key reforms within the PAG include efforts to improve tax collection and the business climate, setting up commercial courts, and passing a series of decrees and laws to increase transparency, including on public procurement. We believe these reforms, if successfully implemented, will boost foreign donors' and investors' confidence, especially given Benin's strong record of broad geopolitical and democratic stability. However, high social demands, unemployment, and sporadic strikes will likely constrain the pace of implementation of more controversial policies, such as the transfer of management of key public sectors to the private sector.

We project Benin's real GDP growth will average about 6.3% in 2018-2021, supported by both public and private investments, which will improve infrastructure and boost the tertiary sector (about 50% of GDP) and agricultural productivity (about 20% of GDP). The roadmaps for the Port of Cotonou and the cotton sector, the two pillars of the Beninese economy, will be the main drivers. The appointment of Belgium's Port of Antwerp International to manage the Port of Cotonou, and its modernization and future expansion, will boost its activities. The transfer of the cotton sector's governance back to the private sector in 2016, coupled with higher cotton prices, will enhance agricultural performance.

Nevertheless, GDP per capita will remain low, at about $1,000 over the coming years. In our opinion, low-income levels underscore Benin's structural weaknesses and limit the country's potential tax and funding bases. The

National Institute of Statistics and Economic Analysis (INSAE) will publish the final results of Benin's GDP rebasing in the coming months, following the example recently set by several other African countries. This should depict a better assessment of certain activities, poorly or not evaluated in the current national account series. We understand that the authorities expect a marked increase in nominal GDP. We will take into account the revised data once the final figures become available.

We believe Benin's economic activity will remain highly vulnerable to the economic developments in Nigeria, its main trading partner. The economic slowdown in Nigeria between 2014 and 2016 had substantial negative spillovers on Benin's economy and its external and fiscal revenues. However, Nigeria's recovery should support Benin's real GDP growth in the coming years. We understand that the authorities have implemented reforms to limit this economic dependency, by implementing new tariffs to reduce incentives for re-export trade, for example. Benin's dependence on agriculture (70% of the workforce) makes its economy vulnerable to the volatility of agricultural prices and adverse weather conditions. Energy shortages remain a weakness too, although we expect gradual improvements on the back of increasing investments in infrastructure.

Flexibility and Performance Profile: Economic reforms will ease large external and fiscal deficits

- We expect the series of economic reforms and the program by the International Monetary Fund (IMF) will support external and fiscal gradual consolidation.
- We forecast net general government debt will reach nearly 50% of GDP by end-2021.
- While Benin's membership in WAEMU limits the country's monetary flexibility, it has helped contain inflation and provided a buffer against external risks.

We project that Benin's fiscal deficit will gradually narrow, to 4.0% of GDP on average in 2018-2021, from its 7.6% peak in 2015 (owing to the recession in Nigeria and a surge in expenditures). Government revenues remain low (below 20% of GDP), but they will increase thanks to stronger economic activity, better performance in the cotton sector, and a series of fiscal reforms. The government aims for these reforms to enhance revenue mobilization, modernize the tax and customs administrations, and improve tax compliance. Current weaknesses in infrastructure and the related government investment plans and relatively high social demands will strain government expenditures. However, we understand that the government is committed to prioritizing key projects to rein in expenditures.

We note that the annual change in net general government debt (our preferred fiscal metric) has exceeded the reported headline fiscal deficit. We understand that the difference has partly stemmed from off-budget spending, including settlement of arrears. In 2015 and 2016, the outgoing government also approved several road projects through nonconcessional pre-financing schemes, without budgetary allocations. In line with the IMF's requirements, the new administration cancelled most of the contracts and discontinued the use of this type of financing as a funding method for public investments. We forecast that issuance on the regional market and multi- and bilateral partners' loans will finance most of the fiscal financing needs. Foreign-currency denominated debt currently makes up 40% of general government debt (mostly owned by multi- and bilateral partners), and we expect this share to increase in the coming years. We forecast net general government debt will near 50% of GDP by end-2021 and interest expenditures will average 8.7% of general government revenues over the same period.

We forecast the current account deficit will gradually decline to about 7% of GDP in 2021, primarily financed by net inflows of foreign direct investment (FDI) and external debt. Benin's exports will increase both in volume and value terms, thanks to a rise in agriculture production, modernization of the port of Cotonou, and an increase in external demand. Imports will grow on the back of higher domestic demand and Benin's PAG national development plan. We expect that gross external financing needs will remain large, averaging 129% of current account receipts (CARs) and usable reserves in 2018-2021. The country's narrow net external debt will reach about 73% of CARs by 2021.

Membership in WAEMU lessens Benin's external risks, in our view. The guarantee of convertibility of the West African CFA franc (XOF) to the euro by the French Treasury and the pool of the eight member states' foreign exchange reserves at the regional level at the Central Bank of West African States (BCEAO) have provided a buffer against country-specific balance-of-payments shocks. We expect WAEMU's international reserves will cover about four months of its 2018 imports.

The BCEAO's primary monetary policy objective is to ensure price stability, and secondly to support WAEMU economic policies. The BCEAO is responsible for conducting monetary and exchange rate policies, managing the members' foreign exchange reserves, and issuing the XOF. The currency is pegged to the euro, and although the French treasury guarantees its convertibility, the level of the exchange rate is not guaranteed. The XOF was devalued by 50% in 1994. A devaluation is not in our current base-case scenario, however. We consider that the monetary arrangement for the XOF zone mitigates most risks related to substantial exchange rate volatility and helps contain inflation, with temporary price spikes, mostly related to commodity price swings and weather-related shifts in agricultural production. At the same time, we consider that Benin's pegged exchange rate regime and its membership in a monetary union reduce its monetary flexibility.

Key Statistics

Table 1

Benin Selected Indicators

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
ECONOMIC INDICATORS (%)										
Nominal GDP (bil. XOF)	4,162	4,524	4,800	4,904	5,084	5,374	5,805	6,319	6,898	7,530
Nominal GDP (bil. $)	8	9	10	8	9	9	11	12	13	14
GDP per capita (000s $)	0.8	0.9	0.9	0.8	0.8	0.8	1.0	1.1	1.1	1.1
Real GDP growth	4.8	7.2	6.4	2.1	4.0	5.6	5.9	6.2	6.5	6.5
Real GDP per capita growth	1.9	4.2	3.4	(0.7)	1.1	2.7	3.0	3.3	3.6	3.6
Real investment growth	0.4	45.5	13.5	(3.8)	5.8	7.9	8.0	8.2	8.4	8.4
Investment/GDP	22.6	27.8	28.6	26.0	24.6	25.2	25.5	25.6	25.6	25.6
Savings/GDP	15.5	20.5	19.5	17.0	15.2	15.2	16.3	17.1	17.9	18.5
Exports/GDP	24.6	27.3	31.6	24.4	20.4	22.0	23.3	24.8	26.4	28.1
Real exports growth	24.1	20.7	24.8	(10.1)	7.0	8.0	9.0	10.0	10.5	10.5
Unemployment rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EXTERNAL INDICATORS (%)										
Current account balance/GDP	(7.1)	(7.4)	(9.1)	(9.0)	(9.4)	(10.1)	(9.2)	(8.5)	(7.7)	(7.1)
Current account balance/CARs	(25.6)	(22.4)	(24.3)	(31.5)	(31.7)	(31.9)	(28.2)	(24.6)	(21.2)	(18.5)
CARs/GDP	27.6	32.8	37.4	28.5	29.8	31.5	32.8	34.3	36.2	38.2
Trade balance/GDP	(6.9)	(6.7)	(7.3)	(6.1)	(7.8)	(7.9)	(7.2)	(6.5)	(5.8)	(5.3)
Net FDI/GDP	3.0	3.3	4.0	1.4	1.3	1.6	1.9	2.2	2.4	2.4
Net portfolio equity inflow/GDP	(0.0)	0.0	0.1	0.3	0.7	0.3	0.3	0.3	0.3	0.3
Gross external financing needs/CARs plus usable reserves	110.1	121.8	128.0	145.2	142.5	159.8	138.0	128.8	126.0	123.8
Narrow net external debt/CARs	25.8	24.5	32.0	41.8	71.1	81.4	79.2	78.5	77.9	73.2
Narrow net external debt/CAPs	20.5	20.0	25.7	31.8	54.0	61.7	61.8	63.0	64.3	61.8
Net external liabilities/CARs	21.8	30.2	52.6	59.7	123.6	133.5	127.3	126.8	128.7	124.5
Net external liabilities/CAPs	17.4	24.7	42.3	45.4	93.8	101.2	99.3	101.8	106.2	105.1
Short-term external debt by remaining maturity/CARs	28.3	28.0	28.0	58.3	51.7	42.7	37.3	33.8	32.5	29.9
Usable reserves/CAPs (months)	3.8	2.3	1.8	2.8	2.6	0.8	1.9	2.2	2.2	2.0
Usable reserves (mil. $)	705	692	727	733	269	730	984	1,045	1,088	1,292
FISCAL INDICATORS (%, General government)										
Balance/GDP	(0.3)	(1.9)	(1.6)	(7.6)	(5.9)	(5.7)	(5.0)	(4.0)	(3.5)	(3.5)
Change in net debt/GDP	(0.7)	(0.3)	6.1	10.8	10.5	7.4	6.0	5.0	4.0	4.0
Primary balance/GDP	0.3	(1.4)	(1.2)	(6.9)	(4.7)	(4.0)	(3.3)	(2.2)	(1.7)	(1.8)
Revenue/GDP	19.2	18.5	17.2	17.3	15.3	18.6	19.0	20.0	20.5	20.5
Expenditures/GDP	19.5	20.4	18.8	24.9	21.3	24.4	24.0	24.0	24.0	24.0

Table 1

Benin Selected Indicators (cont.)										
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Interest /revenues	2.9	2.4	2.2	4.3	8.1	9.6	9.0	8.8	8.6	8.5
Debt/GDP	26.7	25.3	30.5	42.4	49.4	54.5	56.4	56.8	56.1	55.4
Debt/Revenue	139.4	136.8	177.2	245.3	322.1	292.3	297.0	284.2	273.5	270.1
Net debt/GDP	16.4	14.7	20.0	30.3	39.8	45.0	47.7	48.8	48.7	48.6
Liquid assets/GDP	10.3	10.5	10.5	12.1	9.7	9.5	8.8	8.0	7.4	6.7
MONETARY INDICATORS (%)										
CPI growth	6.7	0.9	(1.0)	0.3	(0.8)	0.1	2.0	2.5	2.5	2.5
GDP deflator growth	7.7	1.4	(0.3)	0.1	(0.3)	0.1	2.0	2.5	2.5	2.5
Exchange rate, year-end (XOF/$)	497.16	475.64	540.28	602.51	622.29	546.95	504.58	512.47	524.77	524.77
Banks' claims on resident non-gov't sector growth	8.9	10.0	8.6	0.5	2.9	1.7	5.0	5.0	5.0	5.0
Banks' claims on resident non-gov't sector/GDP	22.9	23.2	23.7	23.3	23.1	22.3	21.6	20.9	20.1	19.3
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Real effective exchange rate growth	1.3	2.5	(1.2)	(5.1)	(1.0)	N/A	N/A	N/A	N/A	N/A

Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid assets held by nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. XOF--West African CFA franc. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. N/A--Not applicable. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Benin Ratings Score Snapshot	
Key rating factors	
Institutional assessment	4
Economic assessment	6
External assessment	5
Fiscal assessment: flexibility and performance	5
Fiscal assessment: debt burden	3
Monetary assessment	5

Table 2

Benin Ratings Score Snapshot (cont.)
S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- Criteria - Governments - Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings History, July 5, 2018
- Sovereign Ratings List, July 5, 2018
- Default, Transition, and Recovery: 2017 Annual Sovereign Default Study And Rating Transitions, May 8, 2018
- Global Sovereign Rating Trends: First-Quarter 2018, April 11, 2018
- Sovereign Risk Indicators, April 10, 2018. An interactive version is also available at http://www.spratings.com/sri
- Sovereign Debt 2018: Global Borrowing To Remain Steady At US$7.4 Trillion, Feb. 22, 2018
- Who's Most At Risk From A Devaluation Of Africa's CFA Franc Currencies?, Dec. 4, 2017

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

New Rating

Benin	
Sovereign Credit Rating	B+/Stable/B
Transfer & Convertibility Assessment	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.