S&P Global Ratings

RatingsDirect®

Research Update:

Benin 'B+/B' Ratings Affirmed; Outlook Stable

Primary Credit Analyst:
Remy Carasse, Paris (33) 1-4420-6741; remy.carasse@spglobal.com

Secondary Contact:
Patrice Cochelin, Paris (33) 1-4420-7325; patrice.cochelin@spglobal.com

Research Contributor:
Ashay Gokhale, Mumbai + (91)2240405817; ashay.gokhale@spglobal.com

Table Of Contents

Research Update:

Benin 'B+/B' Ratings Affirmed; Outlook Stable

Overview

- We expect Benin's economy to expand by 6.5% on average in real terms over 2018-2021, spurred by productivity gains in agriculture and port management, recovery in Nigeria, and the implementation of structural reforms.
- Although we foresee gradual fiscal consolidation to continue, we expect that it will be difficult to achieve a headline general government deficit below 3% of GDP next year, as targeted under the 2019 budget and the IMF program.
- We are affirming our 'B+/B' sovereign credit ratings on Benin.
- The outlook is stable.

Rating Action

On Dec. 21, 2018, S&P Global Ratings affirmed its 'B+' long-term and 'B' short-term sovereign credit ratings on Benin. The outlook remains stable.

Outlook

The stable outlook balances our expectation of solid economic growth and gradual 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 more than we currently project. The upcoming rebasing of Benin's national accounts will not affect the country's sovereign rating, although it is likely to alter our estimates of some of Benin's public financial ratios.

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 in fiscal performance. Rating pressures could also emerge if the general government debt burden were to increase significantly beyond our expectations, for example, should public investments lead to significantly high net public borrowing.

Rationale

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

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

- The government's reform agenda continues to demonstrate a proactive approach to policymaking.
- We expect public and private investments will drive economic activity in the coming years.
- Income levels are low, and structural weaknesses remain significant.

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, the business climate, and the labor market; setting up commercial courts; and passing a series of decrees and laws to increase transparency, including on public procurement. We consider that these reforms, if successfully implemented, will boost foreign donors' and investors' confidence, especially given Benin's strong record of broad geopolitical and democratic stability.

We project Benin's annual real GDP growth will average about 6.5% 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 drive annual real GDP growth. 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. We revised up our 2018 real GDP growth to 6.5% from 5.9% on the back of higher port traffic and cotton production than previously expected.

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. Unemployment is high and social demands are significant. 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 have also been a weak point, although we expect increasing investments in infrastructure to lead to gradual improvements.

We consider Benin's economic activity to be vulnerable to economic developments in Nigeria, its main trading partner. The economic slowdown in Nigeria between 2014 and 2016 weighed on Benin's economy and its external and fiscal revenues. Conversely, Nigeria's recovery should support Benin's real GDP growth in the coming years. The authorities have implemented reforms to limit this economic dependency, for example, by implementing new tariffs to reduce incentives for re-export trade.

We understand that the National Institute of Statistics and Economic Analysis (INSAE) will publish the final results of Benin's GDP rebasing in 2019, following the example recently set by several other African countries. This should mean that certain activities that are poorly (or not) evaluated in the current national account series are more accurately assessed in future. 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, but the rebasing is unlikely to have any effect on Benin's sovereign credit rating.

Flexibility and Performance Profile: Large deficits, but fiscal consolidation is on track

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

We project that Benin's fiscal deficit will gradually narrow to below 4% of GDP on average in 2018-2021, from the 7.6% peak in 2015 that stemmed from 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. There are two major challenges to Benin's goal to consolidate public finances further. First, the size of the informal economy is very large, while the government taxes the formal economy to fund the budget. This explains why much of the fiscal strategy is focused on formalizing Benin's economy and, by doing so, collecting more tax. Second, Benin has large infrastructure requirements, and ambitious plans to move ahead with these.

The annual change in net general government debt, our preferred fiscal metric, has exceeded the reported headline fiscal deficit. We understand that the difference partly stems from off-budget spending, including settlement of arrears. In 2015 and 2016, the outgoing government also approved several road projects through nonconcessional prefinancing 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 Benin will finance its fiscal needs through both concessional and commercial debt in the coming years. Foreign-currency-denominated debt currently makes up about 47% of general government debt (mostly owned by multi- and bilateral partners), and we expect this share to increase in the coming years. Benin raised a €260 million loan from an international commercial bank for the first time in October 2018, with a guarantee provided by the World Bank. The terms include an interest rate of 3.5% and a 12-year maturity. This transaction enabled the government to enhance its debt profile by repaying costly and short-term existing loans from domestic banks. We forecast net general government debt will near 50% of GDP by end-2021 and interest expenditure will exceed 10% of general government revenues over the same period.

We forecast the current account deficit will slightly decline to about 7.5% 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 agricultural production, the 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 123% of current account receipts (CARs) and usable reserves in 2018-2021. The country's narrow net external debt will reach about 60% of CARs by 2021.

In our view, external risks are partially mitigated by Benin's membership of WAEMU. 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 more than four months of its 2018 imports. When calculating our external ratios for Benin and other WAEMU member states, we exclude the country's access to surplus pooled reserves (those reserves in the excess of its share) in our calculation of net figures. We view these as additional buffers supporting Benin's creditworthiness, beyond what our ratios indicate.

The BCEAO's primary monetary policy objective is to ensure price stability, and its secondary objective is to support WAEMU's 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 of a monetary union reduces its monetary flexibility.

Key Statistics

Table 1

Benin Selected Indicators										
(Mil. XOF)	**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	5,382	5,790	6,228	6,699	7,205
Nominal GDP (bil. $)	8	9	10	8	9	9	10	11	13	14
GDP per capita (000s $)	0.8	0.9	0.9	0.8	0.8	0.8	0.9	0.9	1.0	1.1
Real GDP growth	4.8	7.2	6.4	2.1	4.0	5.8	6.5	6.5	6.5	6.5
Real GDP per capita growth	1.9	4.2	3.4	(0.7)	1.1	3.0	3.6	3.6	3.6	3.6
Real investment growth	0.4	45.5	13.5	(3.8)	(8.3)	18.1	13.2	10.6	10.0	8.5
Investment/GDP	22.6	27.8	28.6	26.0	21.0	25.5	28.1	29.2	30.2	30.7
Savings/GDP	15.5	20.5	19.5	17.0	11.5	15.5	18.7	20.6	22.1	23.2
Exports/GDP	24.6	28.2	32.1	28.2	28.7	32.3	35.9	38.9	41.8	44.9
Real exports growth	24.1	20.7	24.8	(10.1)	6.5	17.5	18.0	15.0	14.0	14.0
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)	(10.0)	(9.4)	(8.7)	(8.2)	(7.5)
Current account balance/CARs	(25.6)	(22.4)	(24.3)	(31.6)	(31.7)	(31.5)	(26.4)	(22.7)	(20.3)	(17.7)
CARs/GDP	27.6	32.9	37.5	28.5	29.8	31.8	35.5	38.2	40.2	42.7
Trade balance/GDP	(6.9)	(6.7)	(7.3)	(6.1)	(7.8)	(9.2)	(8.9)	(8.1)	(7.6)	(6.9)
Net FDI/GDP	3.0	3.3	4.0	1.4	1.3	1.8	2.0	2.3	2.5	2.7
Net portfolio equity inflow/GDP	(0.0)	0.0	0.1	0.3	0.7	0.2	0.3	0.3	0.3	0.3
Gross external financing needs/CARs plus usable reserves	110.1	121.8	128.0	145.3	142.5	159.1	131.7	121.7	120.2	119.1
Narrow net external debt/CARs	25.8	24.5	32.0	41.9	71.1	62.4	63.1	65.2	62.3	58.9
Narrow net external debt/CAPs	20.5	20.0	25.7	31.8	54.0	47.4	49.9	53.1	51.8	50.1
Net external liabilities/CARs	21.8	30.2	52.6	59.8	123.6	116.4	112.6	115.2	111.2	108.1
Net external liabilities/CAPs	17.4	24.7	42.3	45.5	93.8	88.5	89.1	93.9	92.5	91.8
Short-term external debt by remaining maturity/CARs	28.3	28.0	28.0	58.5	51.7	42.2	33.0	31.7	28.0	25.2
Usable reserves/CAPs (months)	3.8	2.3	1.8	2.8	2.6	0.8	2.0	2.6	2.3	2.0
Usable reserves (mil. $)	705	692	727	733	269	778	1,134	1,177	1,169	1,342
FISCAL INDICATORS (%, General government)										
Balance/GDP	(0.3)	(1.9)	(1.6)	(7.6)	(5.9)	(5.8)	(4.7)	(3.7)	(3.4)	(3.2)
Change in net debt/GDP	(0.2)	(0.3)	6.1	10.8	10.5	7.4	4.9	3.9	3.6	3.4
Primary balance/GDP	0.3	(1.4)	(1.2)	(6.9)	(4.7)	(3.8)	(2.7)	(1.6)	(1.3)	(1.1)
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	23.7	23.7	23.9	23.7
Interest /revenues	2.9	2.4	2.2	4.3	8.1	10.6	10.6	10.3	10.1	10.0
Debt/GDP	26.7	25.3	30.5	42.4	49.4	54.4	55.5	55.5	55.2	54.7
Debt/Revenue	139.4	136.8	177.2	245.3	322.1	292.3	291.9	277.3	269.1	266.7

Table 1

Benin Selected Indicators (cont.)

(Mil. XOF)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net debt/GDP	16.4	14.7	20.0	30.3	39.8	44.9	46.7	47.3	47.6	47.6
Liquid assets/GDP	10.3	10.6	10.5	12.1	9.7	9.4	8.8	8.2	7.6	7.1
MONETARY INDICATORS (%)										
CPI growth	6.7	0.9	(1.0)	0.3	(0.8)	0.1	1.0	1.0	1.0	1.0
GDP deflator growth	7.7	1.4	(0.2)	0.1	(0.3)	0.0	1.0	1.0	1.0	1.0
Exchange rate, year-end (XOF/$)	497.16	475.64	540.28	602.51	622.29	546.95	572.89	546.63	526.87	524.77
Banks' claims on resident non-gov't sector growth	9.3	11.2	10.0	2.9	4.4	2.1	5.0	5.0	5.0	5.0
Banks' claims on resident non-gov't sector/GDP	23.7	24.3	25.2	25.4	25.6	24.6	24.1	23.5	22.9	22.4
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)	(0.9)	(1.6)	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. 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	4
Fiscal assessment: debt burden	4
Monetary assessment	5

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 Dec. 18, 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 Risk Indicators, Dec. 13, 2018. An interactive version is also available at http://www.spratings.com/sri
- Sovereign Ratings History, Dec. 7, 2018
- Sovereign Ratings List, Dec. 7, 2018
- Global Sovereign Rating Trends: Third-Quarter 2018, Oct. 3, 2018
- Default, Transition, and Recovery: 2017 Annual Sovereign Default Study And Rating Transitions, May 8, 2018
- Sovereign Debt 2018: Global Borrowing To Remain Steady At US$7.4 Trillion, Feb. 22, 2018
- Global Sovereign Rating Trends 2018, Jan. 10, 2018
- Credit Trends: 2016 Sovereign Ratings Update: Outlook And CreditWatch Resolutions, April 18, 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

Ratings Affirmed

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

Additional Contact:
EMEA Sovereign and IPF; SovereignIPF@spglobal.com