Summary:

Benin

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Table Of Contents

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Issuer Credit Rating	B+/Stable/B

Key Rating Factors

Institutional and economic profile	Flexibility and performance profile
Economic growth appears robust despite underlying structural weaknesses. • We forecast real GDP growth will average 6.5% in 2019-2022, supported by public and private investments. • We expect that the Beninese authorities will continue to implement reforms supporting growth and fiscal consolidation, although current political tensions may challenge the pace. • Low-income levels underscore Benin's economic structural weaknesses, in our view.	Deficits are large, but fiscal consolidation is on track. • We expect the series of economic reforms, bolstered by the International Monetary Fund program, will support gradual reduction in external and fiscal imbalances. • General government debt has been increasing rapidly, but we project it will remain below 60% of GDP by end-2022. • Benin's membership in the West African Economic and Monetary Union (WAEMU) provides the economy with monetary and external buffers.

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 pressure could also emerge if the general government debt burden were to increase markedly 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 strengthen economic growth. The ratings are constrained by Benin's low per capita income, high external financing needs, and rapid increase in government debt. Although we consider that Benin's membership in the 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

Under Benin's 2016-2021 national development plan (Programme d'action du gouvernement; PAG), we expect the Beninese authorities will continue to implement economic and budgetary reforms supporting growth and fiscal consolidation. Key structural reforms in this context include policies to improve tax collection, business climate, and labor market outcomes. We consider that the PAG, if successfully implemented, will boost foreign donors' and investors' confidence, as well as enhance domestic business activity.

Nevertheless, some of the population's demand for more political and economic participation could challenge the pace of reforms, in our opinion. Political tensions and large protests have emerged this year, notably following the absence of opposition parties in April's legislative elections. We believe that if unchecked, the current political crisis could escalate further, potentially endangering the government's capacity to fully implement the planned reform program. Benin has so far, however, been characterised by a strong record of broad democratic stability, and we do not include any significant socio-political turmoil that could derail the government's policy plans in our base case.

We project Benin's annual real GDP growth will average about 6.5% in 2019-2022. We expect both public and private investments will improve infrastructure and boost the tertiary sector (about 50% of GDP) and agricultural productivity (about 20%) in the medium term. The activity in Port of Cotonou, managed by the Port of Antwerp International since 2018, and the cotton sector, managed by the private sector since 2016, fuelled economic growth to 6.7% in 2018.

Low GDP per capita of about $1,000 underscores Benin's structural weaknesses and limits the country's potential tax and funding bases. Benin's dependence on agriculture (70% of the workforce) makes its economy vulnerable to agricultural price volatility and adverse weather conditions. Energy shortages have also been a weak point, although we expect increasing investments in infrastructure will lead to gradual improvement. Benin's economic activity is also sensitive to economic developments in Nigeria, its main trading partner.

We understand that the National Institute of Statistics and Economic Analysis (INSAE) will publish the final results of Benin's GDP rebasing by the end of 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 the reported 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 our sovereign credit rating on Benin.

Flexibility and performance profile: Large fiscal and external deficits expected to ease in coming years

We project that Benin's fiscal deficit will gradually narrow, averaging 3.4% of GDP in 2019-2022, down from the 7.6% peak in 2015 that stemmed from the recession in Nigeria and a surge in government spending. Government revenues remain low (below 20% of GDP), but we expect they will increase thanks to stronger economic activity, including a better performance in the cotton sector, and a series of fiscal reforms. The government aims for these reforms to enhance revenue intake, modernize the tax and customs administrations, and improve tax compliance. We note that the fiscal deficit reduced to 3.9% of GDP in 2018 compared to our previous projection of 4.7%, mainly on the back of stricter restraint of current spending and slightly lower execution of public investment than we had expected.

In our view, there are two major challenges to Benin's goal to consolidate public finances further. Firstly, the size of the informal economy is very large, which explains why much of the fiscal strategy is focused on formalizing Benin's economy and, by doing so, collecting more revenues. Secondly, Benin has large infrastructure requirements, and ambitious plans to work on these, which we expect will keep the pressure on government spending.

We forecast that Benin will finance its fiscal needs through both concessional and commercial debt in the coming years. In March 2019, Benin raised €500 million in a debut eurobond due 2026 with a 5.75% coupon (see "Benin's Debut Eurobond Assigned 'B+' Issue Rating," published April 2, 2019, on RatingsDirect).
Foreign-currency-denominated debt currently makes up about half of general government debt. Benin raised a €260 million loan from an international commercial bank for the first time in October 2018, with a partial 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 45% of GDP by end-2022, 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 7.1% of GDP in 2022, primarily financed by external debt and inflows of foreign direct investment (for example in infrastructure, energy, and telecommunications in the context of the PAG). 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, although the latter is subject to growing uncertainty in the light of a slowdown in global trade. Imports will increase on the back of higher domestic demand and imports related to investments within the PAG. We expect that gross external financing needs will remain large, averaging 121% of current account receipts (CARs) and usable reserves in 2019-2022. The country's narrow net external debt will reach about 69% of CARs by 2022.

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 the WAEMU's international reserves will cover more than four months of its 2019 imports.

The XOF 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 (see "Who's Most At Risk From A Devaluation Of Africa's CFA Franc Currencies?," published Dec. 4, 2017, on RatingsDirect). We consider that the monetary arrangement in WAEMU mitigates most risks related to substantial exchange rate volatility and helps contain inflation, although Benin's pegged exchange rate regime and its membership in a monetary union reduce its monetary flexibility.

Key Statistics

Table 1

Benin Select Indicators

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Economic indicators (%)										
Nominal GDP (bil. LC)	4,523.7	4,799.5	4,903.8	5,084.0	5,382.5	5,792.0	6,230.2	6,701.5	7,208.5	7,753.8
Nominal GDP (bil. $)	9.2	9.7	8.3	8.6	9.2	10.4	10.8	11.8	13.2	14.7
GDP per capita (000s $)	0.9	0.9	0.8	0.8	0.8	0.9	0.9	1.0	1.1	1.1
Real GDP growth	7.2	6.4	2.1	4.0	5.8	6.7	6.5	6.5	6.5	6.5
Real GDP per capita growth	4.2	3.4	(0.7)	1.1	3.0	3.8	3.6	3.6	3.6	3.6
Real investment growth	45.5	13.5	(3.8)	(8.3)	17.1	14.7	12.0	10.0	9.0	9.0
Investment/GDP	27.8	28.6	26.0	21.0	25.6	27.8	29.3	30.3	31.0	31.8
Savings/GDP	20.5	19.5	17.0	11.5	15.5	19.3	21.2	22.5	23.5	24.6
Exports/GDP	28.2	32.1	28.2	28.7	32.3	33.0	34.1	35.2	36.4	37.6
Real exports growth	20.7	24.8	(10.1)	6.5	18.6	9.7	10.0	10.0	10.0	10.0
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	(7.4)	(9.1)	(9.0)	(9.4)	(10.0)	(8.4)	(8.2)	(7.9)	(7.5)	(7.1)
Current account balance/CARs	(22.4)	(24.3)	(31.6)	(31.7)	(31.5)	(25.6)	(24.0)	(22.6)	(21.1)	(19.6)
CARs/GDP	32.9	37.5	28.5	29.8	31.8	33.0	34.2	34.9	35.6	36.4
Trade balance/GDP	(6.7)	(7.3)	(6.1)	(7.8)	(9.2)	(8.1)	(7.7)	(7.4)	(7.0)	(6.6)
Net FDI/GDP	3.3	4.0	1.4	1.3	1.8	2.0	2.2	2.5	2.7	2.7
Net portfolio equity inflow/GDP	0.0	0.1	0.3	0.7	0.2	0.1	0.1	0.2	0.1	0.1
Gross external financing needs/CARs plus usable reserves	120.9	128.0	145.3	142.5	159.1	131.3	125.4	121.1	119.1	117.9
Narrow net external debt/CARs	24.5	32.0	41.9	71.1	62.4	66.0	72.7	74.0	71.9	69.3
Narrow net external debt/CAPs	20.0	25.7	31.8	54.0	47.4	52.6	58.6	60.4	59.3	58.0
Net external liabilities/CARs	30.2	52.6	59.8	123.6	116.4	118.7	129.1	132.0	130.6	129.0
Net external liabilities/CAPs	24.7	42.3	45.5	93.8	88.5	94.5	104.1	107.7	107.8	107.8
Short-term external debt by remaining maturity/CARs	27.2	28.0	58.5	51.7	42.2	35.4	36.0	34.2	31.2	28.5
Usable reserves/CAPs (months)	2.3	1.8	2.8	2.6	0.8	2.2	2.7	2.9	2.8	2.6

Table 1 (cont.)										
Benin Select Indicators										
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Usable reserves (mil. $)	691.8	727.1	732.8	268.9	778.1	1,012.7	1,208.0	1,311.3	1,367.8	1,487
Fiscal indicators (general government; %)										
Balance/GDP	(1.9)	(1.6)	(7.6)	(5.9)	(5.8)	(3.9)	(3.7)	(3.4)	(3.2)	(3.2)
Change in net debt/GDP	(0.3)	6.1	10.8	10.5	7.4	2.5	3.7	3.4	3.2	3.2
Primary balance/GDP	(1.4)	(1.2)	(6.9)	(4.7)	(3.8)	(1.8)	(1.5)	(1.1)	(0.9)	(1.0)
Revenue/GDP	18.5	17.2	17.3	15.3	18.6	18.6	18.8	19.1	19.3	19.3
Expenditures/GDP	20.4	18.8	24.9	21.3	24.4	22.5	22.5	22.5	22.5	22.5
Interest/revenues	2.4	2.2	4.3	8.1	10.6	11.7	11.9	12.0	11.8	11.6
Debt/GDP	25.3	30.5	42.4	49.4	54.4	56.1	57.5	56.8	56.0	55.3
Debt/revenues	136.8	177.2	245.3	322.1	292.3	302.3	305.6	297.5	290.3	286.4
Net debt/GDP	14.7	20.0	30.3	39.8	44.9	44.3	44.9	45.1	45.2	45.2
Liquid assets/GDP	10.6	10.5	12.1	9.7	9.4	11.8	12.6	11.7	10.9	10.1
Monetary indicators (%)										
CPI growth	0.9	(1.0)	0.3	(0.8)	0.1	1.0	1.0	1.0	1.0	1.0
GDP deflator growth	1.4	(0.2)	0.1	(0.3)	0.0	0.9	1.0	1.0	1.0	1.0
Exchange rate, year-end (LC/$)	475.6	540.3	602.5	622.3	546.9	572.9	580.5	560.6	537.7	524.8
Banks' claims on resident non-gov't sector growth	11.2	10.0	2.9	4.4	2.1	11.3	5.0	5.0	5.0	5.0
Banks' claims on resident non-gov't sector/GDP	24.3	25.2	25.4	25.6	24.6	25.5	24.9	24.3	23.7	23.1
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	2.5	(1.2)	(5.1)	(0.9)	(1.6)	N/A	N/A	N/A	N/A	N/A

Sources: Ministry of Economy and Finance (Economic indicators), BCEAO (External indicators), BCEAO, Ministry of Economy and Finance, International Financial Statistics (Fiscal and Debt indicators), BCEAO, Bruegel (Monetary indicators).
Adjustments: In order to arrive at the net GG debt, we subtract GG deposits in BCEAO and in financial institutions (liquid financial assets) from the GG debt stock.
Definitions: 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. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. e--Estimate. f--Forecast. 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	Score	Explanation
Institutional assessment	4	Institutions and governance are fairly predictable compared with those of peers at the same rating level. The country has established a track record of smooth transfers of power and economic policymaking has improved in recent years. However, there is a moderate risk of challenges to political institutions resulting from parts of the population desiring more political and economic paricipation. Additionally, the checks and balances between institutions, enforcement of contracts, and respect for the rule of law is less reliable than in countries with stronger institutional assessments.
Economic assessment	6	Based on GDP per capita ($) as per as per Selected Indicators in Table 1.
External assessment	5	Based on narrow net external debt and gross external financing needs as per Selected Indicators in Table 1.
		Significant stock-flow mismatches.
Fiscal assessment: flexibility and performance	4	Based on the change in net general government debt (% of GDP) as per the Selected Indicators in Table 1.
		The country has significant shortfalls in basic services to the population and infrastructure as reflected, for instance, in a "low" score under the United Nations Development Programme's Human Development Index, which is likely to result in spending pressure for a long period of time.
Fiscal assessment: debt burden	4	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per the Selected Indicators in Table 1.
		More than 40% of gross government debt is denominated in foreign currency.
Monetary assessment	5	The local currency (West African CFA franc) is pegged to the euro.
		Price stability, one of our key measures of monetary policy credibility, is relatively successfully managed, especially compared with other sub-Saharan African sovereigns. Market-based monetary instruments are in place, but monetary policy effectiveness may be untested in a downside scenario.
Negative: Monetary Union		Monetary union membership (Benin is a member of the West African Economic and Monetary Union) constrains individual countries’ monetary flexibility.
Indicative rating	b	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	1	The expected increase in nominal GDP following the final results of the rebasing by end-2019 will likely improve the economic score to 5 from 6.
Final rating		
Foreign currency	B+	
Notches of uplift	0	We do not believe that default risks apply differently to foreign- and local-currency debt.
Local currency	B+	

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 Ratings History, June 6, 2019
- Sovereign Ratings List, June 6, 2019
- Sovereign Ratings Score Snapshot, June 4, 2019
- Sovereign Risk Indicators, April 11, 2019. An interactive version is also available at http://www.spratings.com/sri
- Global Sovereign Rating Trends: First-Quarter 2019, April 4, 2019
- Default, Transition, and Recovery: 2018 Annual Sovereign Default And Rating Transition Study, March 15, 2019

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