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BENIN

30 October 2018

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Ready for lift off

- Benin's medium-term economic outlook is favourable, with economic growth projected to average c6.5% over 2019-23, according to the IMF. Real GDP growth is expected to rise to 6% in 2018, among the highest in Sub-Saharan Africa (SSA), up from 5.6% in 2017, according to the IMF. A cyclical recovery has been supported by record cotton production and the recovery in the Nigerian economy (a key trading partner). The medium-term outlook is supported by low inflation (in the context of CFA franc – CFAF – membership) and President Patrice Talon's IMF-backed reform agenda, which includes fiscal and structural reforms, scaling up public investment and measures to boost the business environment and FDI.
- Twin deficits (after a rising fiscal deficit and widening current account deficit) and a rising debt burden are the main macroeconomic challenges today. Public debt has doubled in the past five years, rising to 55% of GDP in 2017 from 25% in 2013, according to IMF estimates, and the risk of debt distress is classified by the IMF as moderate. The government's planned fiscal consolidation aims to increase domestic revenue, better prioritise public spending and strengthen debt management, with the intention of lowering the budget deficit to below 3% by 2019 (from 5.8% in 2017). The IMF projects the current account deficit at 10.6% of GDP in 2018, little changed from 2017.
- Benin currently has a three-year extended credit facility (ECF) with the IMF, approved in April 2017 for cUS$151mn (90% of quota) to support the government's reform programme. Performance under the IMF programme has so far been satisfactory.
- Benin conducted its first international financing from private investors in October 2018 after S&P assigned a B+ rating in July. The country borrowed a total of EUR260mn (cUS$300mn) from a global bank, with a World Bank guarantee equivalent to 40% of principal. The financing was used to improve the debt service profile by repaying more expensive, short-term local debt. More external borrowing is possible, consistent with an external borrowing limit in Benin's IMF programme.
- Benin is one of the more politically stable democracies in Africa, although one of the poorest, and ranks lowly on various measures of institutional and economic development. There has been stability since the first multi-party elections in 1991, and recent elections (presidential in 2016, which saw the Talon's election, and legislative in 2015) have been competitive and peaceful, and the results were unchallenged.
- Its main vulnerabilities include its narrow economic base, agricultural dependence, vulnerability to external conditions (lower cotton prices, adverse weather conditions), low reserve cover (2m imports), and limited policy flexibility, while Benin's pursuit of debt sustainability would be jeopardised by weaker fiscal performance and lower-than-expected GDP growth. Debt service is high (debt interest is c12% of government revenue, excluding grants – the highest in the WEAMU region) and is another source of vulnerability.

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Country overview

Benin (population 11.1mn, nominal GDP US$9.2bn in 2017) is a small West African country sandwiched between Nigeria to the east, Togo to the west and Burkina Faso and Niger to its north. There is a short coastline (121km) to the south of the country (the Bight of Benin). Although Porto-Novo on the southern coastal border near Nigeria is the capital city, Cotonou, just 21 miles east on the coast, is the largest city and economic centre of Benin. It is also a major export and transport hub, through its port, airport and railway links, which create trade routes for other locations within Benin and neighbouring countries. The Port of Cotonou contributes greatly to Benin's economy and has been modernised in recent years.

Formerly part of a French colony known as French Dahomey, with increasing autonomy, the Republic of Dahomey gained full independence in August 1960 and changed its name to Benin in 1975. In the decade that followed its independence, Benin suffered from instability, characterised by multiple military coups. Successive military governments were replaced by a Marxist-Leninist regime in 1972 which lasted until 1989, in part due to the end of support from the Soviet Union. Constitutional reform and the introduction of democracy in 1990 allowed multi-party elections to be held in 1991, since when there has been political stability, even during government transitions. French remains the official language although others are spoken by some groups. Christianity is the largest religion, with all denominations totalling almost half of the population, followed by Islam at 28% and traditional beliefs.

Although scoring well on some indicators as a stable democracy, Benin is one of the poorest countries in the world and ranks low on various other measures of human, institutional and economic development. Its per capita income of US$831 (IMF WEO estimate for 2017) puts it just above the bottom decile. Benin has a young population, with almost 65% of the population under the age of 25, although poverty and unemployment force many to migrate (c40% of Beninese people live in other countries, especially Nigeria and Cote d'Ivoire). The World Bank reported that poverty rates had increased between 2006-15. The literacy rate is c40%.

Table 1: Development indicators

Indicator	Ranking order	Year	Benin's ranking	Out of
UN Human Development Index	1 = best	2018	163	189 countries
TI Corruption Perceptions Index	1 = best	2017	86	180 countries
Fund for Peace Fragile States	1 = worst	2018	74	178 countries
WB Doing Business	1 = best	2018	151	190 countries
Heritage Foundation Index of Economic Freedom	1 = best	2018	120	180 countries

Source: Relevant index publishers

Politics

The president is chief of state and head of government, and appoints the cabinet. Presidential terms are five years in length and are renewable once. The president is directly elected by absolute majority, with a second round if necessary.

Cotton businessman Patrice Talon (running as an independent) won the last presidential election in March 2016, with 65% of the second-round vote. Talon had been a former associate of previous President Thomas Boni Yayi (2006-16), of the ruling Forces Couris pour un Benin Emergent (FCBE) party, but Boni Yayi supported his Prime Minister Lionel Zinsou for president in 2016. Talon defeated Zinsou in the run-off vote – a surprise turnaround after Zinsou led in the first round with 28.4% of the vote to Talon's 24.8% (a difference that equated to just 109,000 votes). Zinsou quickly accepted the result and congratulated Talon, with a peaceful election further demonstrating the country's political stability.

Benin has a unicameral National Assembly with 83 seats. Members serve four-year terms. The last parliamentary election was held in April 2015, in which FCBE secured 33 seats, down from the 41 seats it had won in the previous 2011 elections, making it

still the single biggest party but lacking an outright majority (no election since the introduction of multi-party elections in 1991 has yielded a parliamentary majority, although Boni Yayi in 2011 formed a government with another party).

Shortly after President Talon's election, in December 2016, the government unveiled its government action programme (GAP) to transform the economy and governance, aiming to improve living standards and competitiveness. Under President Talon, there has been significant investment in infrastructure, education and institutions, running simultaneously with the current IMF programme. This has, however, led to increases in public debt, including external debt on concessional terms. Some of Talon's reforms were, however, rejected by parliament in April 2017, which would have included a new Auditor General's Office and new methods of appointing figures to the judicial branch of government. He had also attempted to reduce government size and limit presidential terms to only one, which parliament did not approve.

Economic structure

Benin is one of the 14 regional members of the CFA franc (CFAF) monetary union[1]. The CFAF is fixed against the euro (previously the French franc) at a rate of CFAF655.95 per euro (convertibility is guaranteed by the French Treasury). The CFA zone, which dates back to 1945, is a central pillar of macroeconomic policy in the region and has provided a long period of exchange rate stability (the CFAF was devalued against the then French franc in 1994). The monetary union ensures that inflation among its member countries converges to that in the eurozone, although inflation in the CFA zone displays more volatility. To ensure the success (and sustainability) of the monetary union, members commit to meeting certain macroeconomic targets (convergence criteria). For regional members in the BCEAO sub-group, these are set by the West African Economic and Monetary Union (WAEMU) and include inflation at or below 3%, a fiscal deficit below 3% of GDP by 2019 and a public debt ratio below 70% of GDP[2]. There are also targets for public sector wages and salaries (less than 35% of tax revenue) and tax revenue (over 20% of GDP).

Benin benefitted from significant debt relief under the multilateral debt relief initiatives, the heavily indebted poor country (HIPC) initiative and the multilateral debt relief initiative (MDRI). Benin reached completion point under HIPC in March 2003, having got to decision point under the enhanced framework in July 2000. The common reduction factor (CRF), which shows the amount of debt relief in PV terms to be granted by all creditors (once traditional debt relief is taken into account), was 31.3%, implying total debt relief of nearly 80% (not one of the highest, but not one of the lowest either).

Economic transformation has continued since the 1980s, including government reforms and economic liberalisation, an expanding private sector and financial sector restructuring. Strong GDP growth, controlled inflation due to the exchange rate peg and sustainable public finances have followed. Benin's real GDP growth has averaged c4.2% over the past decade, a little below that of its regional neighbours, while inflation has been around average (Figures 1 and 2). Agriculture is a key economic sector, accounting for c25% of GDP, but employing around half of the population. The services sector contributes around half of GDP, and industry the remaining quarter. Key industries are textiles (including cotton), food processing, construction materials and cement. Some 65% of the economy and 90% of the labour force is in the informal sector, and the IMF notes that, despite progress already made by President Talon, widening the tax base is needed, among other reforms. Access to electricity improved continuously over the 20 years to 2012, although it declined over 2013-14, before rising again since. Given the north-south geographic orientation, there is unequal distribution of resources around the country. Northern areas of the country are classified as having

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[1] Benin belongs to the eight-member subgroup under the BCEAO regional central bank that consists also of Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo (ticker XOF). The other six-member subgroup under the BEAC regional central bank consists of Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea and Gabon (ticker XAF).

[2] Similar targets apply for XAF members under the Central African Economic and Monetary Community (CEMAC).

high levels of water scarcity, which means a drought is expected on average once every five years. Nigeria is a key export market.

Key economic sectors

Cotton: There have been two consecutive record cotton production and processing seasons over 2016-18. Headed by Talon, formerly a cotton businessman, the government plans to increase cotton production to 700,000 tons in 2018-19, from just under 600,000 in 2017-18, while farm-gate prices are expected to rise slightly to CFA265/kg for first- and CFA215/kg for second-choice seed cotton. Benin is Africa's third-largest cotton producer, behind Mali and Burkina Faso. This comes as government policies have helped the private sector to manage the cotton industry and economic recovery in Nigeria boosted exports.

Oil: Extraction of oil from the Seme offshore oil fields began in 1982. With 44mn barrels of estimated reserves, this was considered sufficient to satisfy domestic consumption. Benin has no oil refineries and so has relied upon re-importing refined oil. SONACOP is the importing company. Originally a state-owned enterprise, it became a joint stock company in 1994. Significant quantities of oil were discovered in 2009. Proved crude oil reserves were 8mn barrels as of January 2017.

Figure 1: Real GDP growth (%)

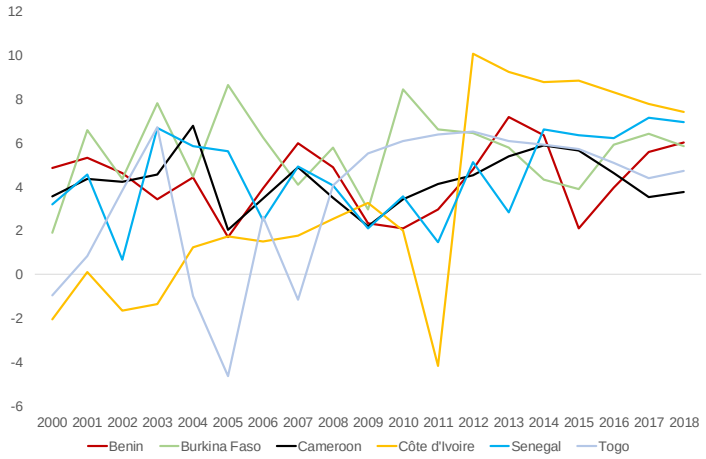


Figure 2: CPI inflation (%)

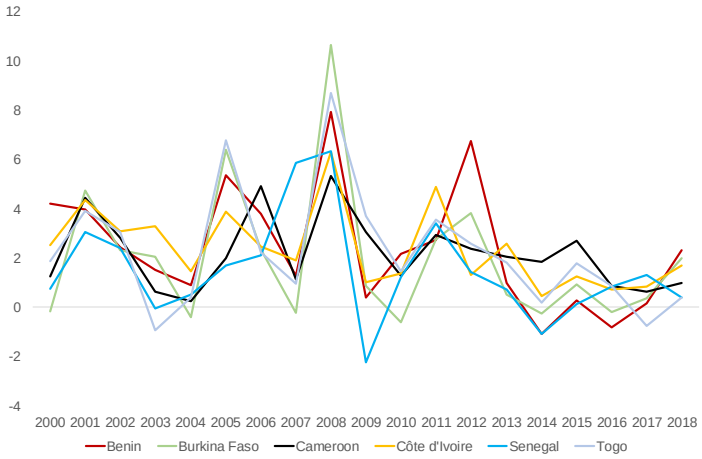


Figure 3: Current account balance (% of GDP)

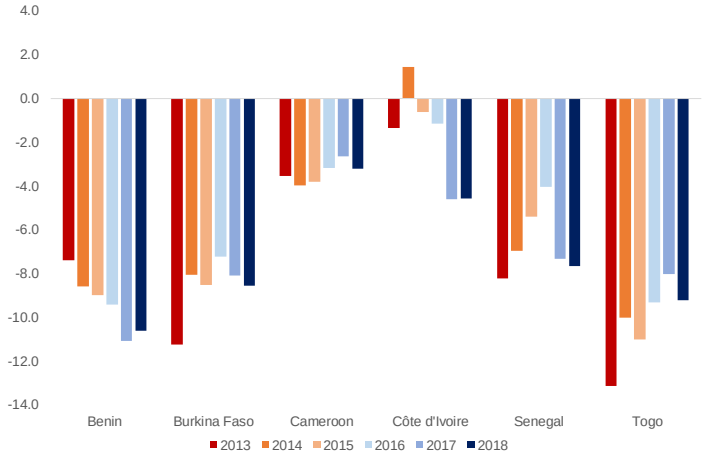
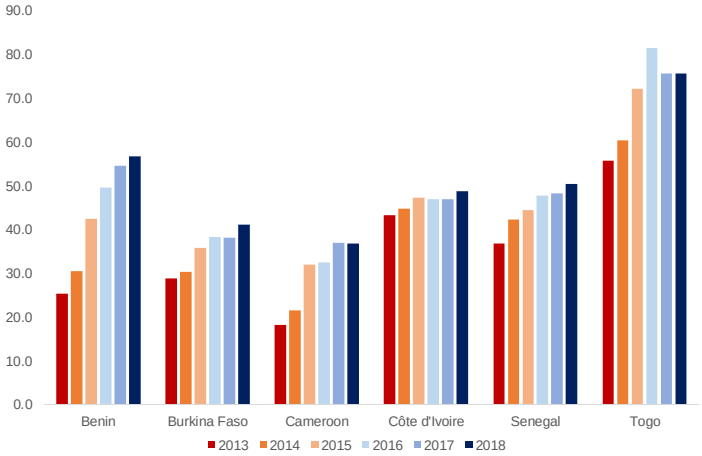


Figure 4: Gross government debt (% of GDP)



Source: IMF WEO

IMF relations

The IMF approved a three-year ECF programme for Benin in April 2017 to support the authorities' economic and financial reform programme. The programme amounted to SDR111.4mn (cUS$151mn, 90% of quota). The request for a programme followed the election of President Talon the previous year and marked the new government's prudent response to the weakening economic situation following fiscal slippages over late 2015/early 2016 and negative spill-overs from Nigeria, as well as a BOP need following a sharp fall in reserves during 2016. The overall fiscal deficit (excluding grants) rose to 8.6% in 2015 of GDP from 2.8% in 2014, according to the IMF at the time, as a heavy election calendar led to increased public spending (on and off budget), with the deficit financed by costly borrowing on the regional debt market. The new government responded quickly, with parliament approving a revised 2016 budget, including spending cuts.

The IMF noted the ECF was in support of the new government's ambitious reform agenda, as set out in the government's action plan (GAP) for 2016-21. The programme focuses on four main areas: (i) creating fiscal space by stepping up domestic revenue mobilisation and enhancing the efficiency of government spending (government revenue, at 14.7% of GDP in 2016, was below the WAEMU target of 20% to be achieved by 2020); (ii) increasing capacity to scale up investment; (iii) strengthening public debt management and pursuing prudent borrowing policy; and (iv) promoting private sector investment by strengthening institutions and improving the business environment.

Performance under the programme has so far been satisfactory. The first review of the programme was completed in January 2018 and the second in July. An IMF statement published on 29 October said that staff-level agreement (SLA) on the third review had been reached. Consideration by the IMF executive board is expected in December.

Although macro performance has generally been consistent with the programme, structural reform is lagging in some areas. Progress in strengthening audit institutions, governance and transparency lagged after parliament's rejection of constitutional amendments in April 2017. The IMF noted that the authorities committed to accelerate these reforms during discussions on the second review. The Fund also noted that vulnerabilities are emerging in the financial sector, with concerns over the quality of banks' loan portfolios, unresolved NPLs and high loan concentrations. Regarding public expenditure management, the statement accompanying the SLA on the third review noted that further efforts are needed to strengthen the evaluation and prioritisation of new investment projects and improve the efficiency of public investment.

Before the current ECF, Benin had two IMF programmes since reaching HIPC completion point. Both were small ECFs (formerly known as PRGF), one over 2005-09 (after final HIPC debt relief) and the other over 2010-14 (after the global financial crisis and to build on the post-HIPC reform agenda).

Recent economic developments

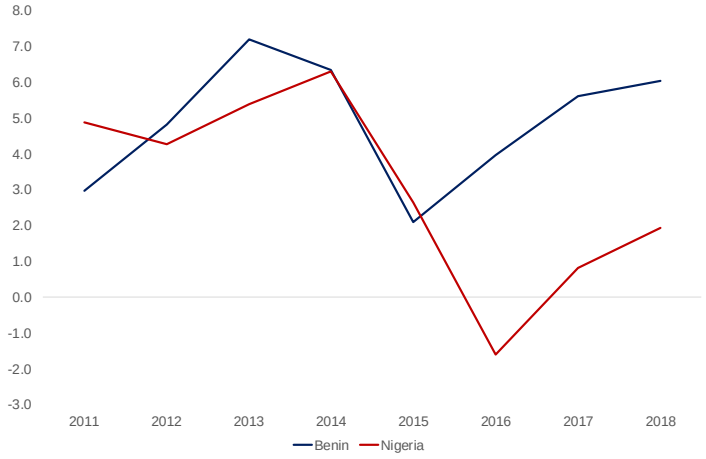
Real GDP growth is projected to pick up in 2018 and growth prospects look promising, according to both the IMF and African Development Bank (AFDB). The IMF projects growth of 6% in 2018, according to forecasts contained in the second review of the ECF in July and repeated in the latest WEO in October, among the highest rates in SSA, up from 5.6% in 2017 and 4.0% in 2016, and following a cycle low of 2.1% in 2015. Stronger growth in 2017 reflected the recovery in the Nigerian economy, record cotton production and processing, and higher public investment (Figure 5). Cotton prices rose by an average of 9% in 2017 compared to 2016, and are up 12% on average so far this year (average YTD to September 2018 compared to the same period a year earlier – Figure 6). Growth in 2018 is expected to be boosted further by buoyant port activity.

Moreover, the medium-term growth outlook looks favourable, with real GDP growth projected to remain above 6% over 2019-23, according to the IMF, driven by rising private investment and stronger demand from Nigeria, as well as an increase in agricultural production. Growth is expected to rise further in 2019, to 6.3%, and continue rising to 6.7% in 2020 and 7.1% in 2021. The AFDB considers the growth prospects over 2018-19 to be as promising as over 2016-17, with performance attributed to the

2016-21 GAP, unveiled by President Talon in December 2016, which will increase public investment in infrastructure and strengthen institutions, to structurally transform the economy. The GAP has received World Bank support, including US$482mn in lending for 2018-23 for various infrastructure projects.

Over Talon's term, under its GAP, the government plans to spend CFAF9.039tn (cUS$14.5bn) on 45 projects, creating half a million long-term jobs and providing housing and universal health insurance. Additional World Bank resources are planned for Benin's development projects. Meanwhile, inflation is projected to rise to 2.3% in 2018, according to the IMF, up from 0.1% in 2017, due to higher food and petroleum prices.

Figure 5: Real GDP growth (%)



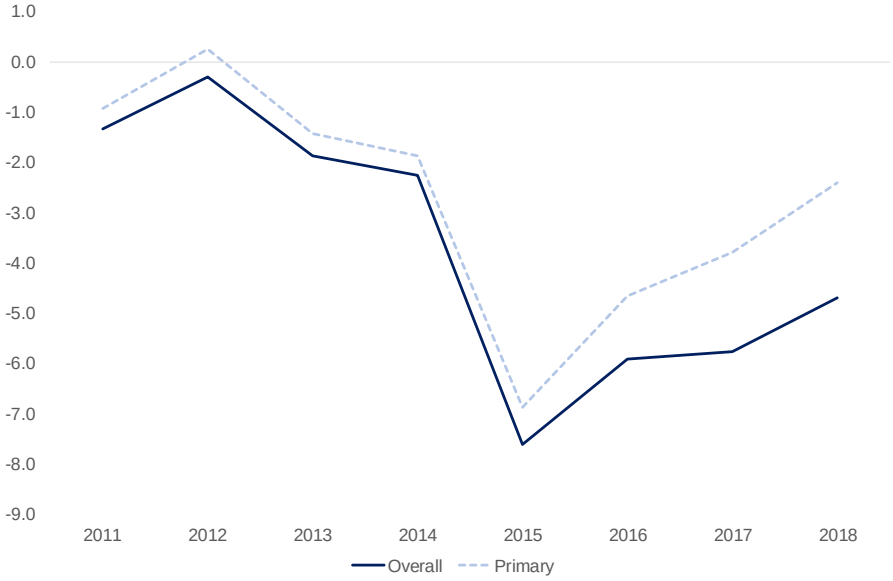
Source: IMF WEO

Figure 6: Cotton prices (US$/pound)

Source: Bloomberg. USDA Middling Grade average spot price.

Fiscal consolidation is taking hold, according to the IMF. The budget deficit increased significantly after 2014 amid large development spending and reduced inflows during the Nigerian recession. The government plans to reduce spending over 2018-19, containing it to the level agreed under the current IMF programme, as it has since 2017. According to the IMF in the second review, budget execution in 2017 was better than initially programmed, with the overall fiscal deficit (excluding grants) 2.3ppts lower than planned, due to stronger domestic revenues and public spending control. Q1 18 data point to a similar performance. The deficit is projected to drop below 3% in 2019 (including grants), consistent with the WAEMU convergence criterion.

Figure 7: Fiscal deficit (% of GDP)



Source: IMF WEO. General government net lending/borrowing.

In its statement on the SLA for the third review, the IMF noted that the authorities and the IMF mission agreed on fiscal policy measures for the 2019 budget that should enable the projected fiscal deficit to fall to 2.7% of GDP in 2019. As such, public debt growth was slower than programmed over 2017-Q1 18, and achieving debt sustainability should be helped by a prudent borrowing strategy and reinforcement of debt management, according to the IMF's SLA on the third review.

Trade and balance of payments

Benin has generally had persistent current account deficits, although varying in size. The deficit has averaged 8.4% of GDP over the past decade (according to IMF WEO data), but this masks a period of general stability over 2008-14 (when it averaged 7.8%) and deterioration since then. The IMF estimates the current account deficit to have widened to 11.1% of GDP in 2017 (US$1bn) due to an increase in goods imports, reflecting a scaling-up of investment and higher food imports. The current account deficit is expected to remain near this level in 2018. This is wider than most of its neighbours.

Over the medium term, the IMF expects the deficit to remain elevated at c8% of GDP over 2019-22, although expected budgetary assistance grants will dampen this negative progression. In recent years, the trade balance, net services and net income have all worsened, the trade balance most significantly, almost continuously since 2009. Part of this may be attributed to development projects requiring resources not domestically available, and boosting the domestic private sector, including the importing industries. There is significant re-export trade, especially with Nigeria, much of which is informal and unrecorded, with a high correlation between Benin's exports and Nigeria's economic growth.

According to OEC trade data (which differs to IMF data), Benin exported US$1.1bn and imported US$4.8bn in 2016, resulting in a trade deficit of US$3.6bn (c30% of GDP). Its main exports were gold (c34% of the total), raw cotton (18%), various nuts (11%) and refined petroleum (7%). Its main imports were rice (20%), palm oil (6%), electricity (4%), refined petroleum (3%) and cars (3%). This shows that Benin is a net importer of refined oil. Its main export markets are the UAE, India, Mali, Lebanon and China. Its main import markets are China (c27% of all imports), Thailand, India, France and Malaysia.

Figure 8: Nigeria's imports and Benin's exports of goods and services (US$bn)

Source: IMF, Haver

The overall balance of payments (BOP) was in deficit in 2016, as it was over 2011-13, which may have prompted the need for IMF financial support, as reserves and reserve coverage fell to very low levels. This was in part due to a wider current account deficit and lower financial account inflows (based on IMF figures). Benin's reserves (net foreign assets (NFA) at BCEAO) fell by nearly US$0.4bn in 2016. However, the balance

of payments improved in 2017, moving into an estimated surplus of US$317mn, despite a further widening in the current account deficit, due to stronger FDI and other financial account inflows. The IMF projects a balance of payments surplus to continue in both 2018 and 2019, led by increasing FDI and portfolio investment, allowing further reserve accumulation.

Reserve coverage, while improving, remains low and is a source of vulnerability. Based on BCEAO data, Benin's net foreign assets at the central bank (as a proxy for reserves) fell to less than one months' imports of goods and services (G&S) in 2016 on Exotix calculations. The balance of payments surplus seen in 2017 saw NFA recover to CFAF206.5bn (US$378mn) by the end of the year (an increase of US$313mn over the year), although standing at c1.4 months of G&S imports on Exotix calculations (based on IMF projections for imports), reserve coverage remained low. NFA increased further to CFAF312bn (US$559mn) by July 2018, nearly two months of the IMF's projected annual G&S imports on Exotix calculations. The IMF's balance of payments projections suggest a further improvement in NFA by end-2019, with reserve coverage rising to nearly four months of import cover on Exotix calculations.

Table 2: Benin's balance of payments

US$mn	2016	2017	2018f	2019f
Exports of goods	1,054.8	1,468.5	1,786.4	2,094.1
o/w cotton and textiles	225.0	359.3	455.3	518.1
Imports of goods	1,738.9	2,364.4	2,705.9	2,927.4
Trade balance	-684.1	-895.9	-919.5	-833.3
Services credits	279.9	341.9	367.6	385.0
Services debits	644.9	870.6	990.7	1,087.9
Net income	3.1	-12.4	-32.7	-53.1
Net current transfers	276.9	349.0	387.5	473.9
Current account balance	-769.3	-1,088.0	-1,187.9	-1,115.7
% of GDP	-9.4	-11.1	-10.8	-9.2
Capital account	41.9	79.2	126.6	135.7
Financial account	444.6	1,014.0	1,358.5	1,605.6
Including FDI	114.1	329.3	449.4	493.8
Portfolio investment	81.0	194.5	239.3	341.8
Errors and omissions	-142.7	311.7	0.0	0.0
Overall balance of payments	-425.4	316.7	297.3	625.7
Change in BCEAO assets (-ve = increase)	425.4	-316.7	-297.3	-625.7
Net use of IMF resources	-8.2	32.7	29.3	24.9
WAEMU gross official reserves US$bn	10.9	12.4	14.4	16.0
CFAF per US$ eop	622.3	547.0	529.1	523.1

Source: IMF, Haver

Benin is a member of ECOWAS, a 15-member group of countries in west Africa. It was established in 1975 by the Treaty of Lagos and seeks to promote economic integration of its member countries: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Sierra Leone, Senegal and Togo. A resolution between members in June 2007 led to the introduction of ECOWAS Vision 2020, aiming to raise living standards through development projects, economic growth, sustainability and poverty reduction. ECOWAS has an Economic Partnership Agreement with the EU (and Mauritania). The two regions hope to reduce trade restrictions but, in April 2018, Nigerian President Buhari refused to sign a related agreement to protect Nigeria's national industries and youth population. This has not changed since. According to ECOWAS, Europe receives 28% of its exports, 23% of which goes to EU countries.

ECOWAS applies a common external tariff, and a free trade zone within the union, which promotes regional trade and integration but reduces individual member states'

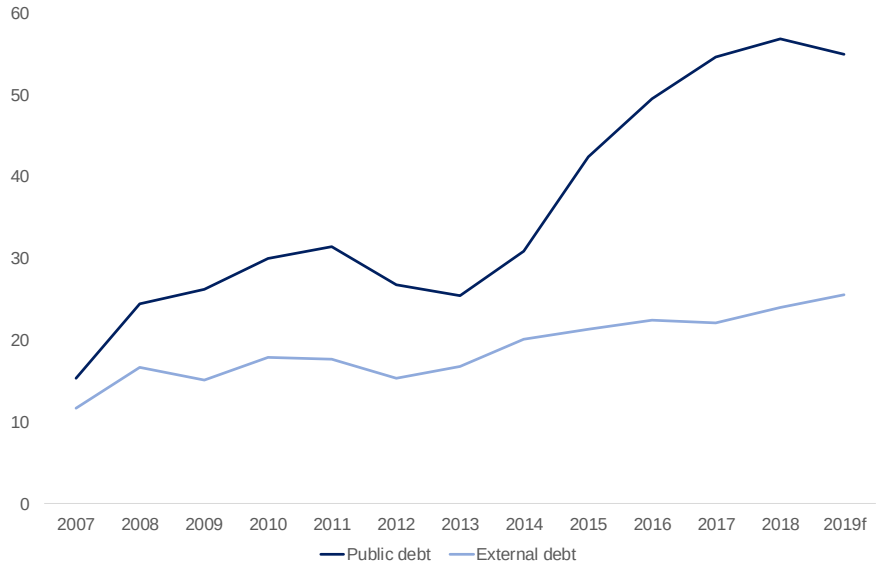
ability to flexibly trade internationally. There are still restrictions on trade in certain products with Nigeria – these were introduced when Nigeria was facing recession over 2016-17. In an attempt to encourage domestic production, Nigeria banned certain goods from being imported, although domestic production was insufficient, and this incentivised smuggling, including from Benin. For this reason, official figures can understate trade.

Public debt and external borrowing

Benin's public debt ratio has been on a sharply rising trend in recent years, estimated at 55% of GDP in 2017 by the IMF (cUS$5bn[3]), more than double the ratio in 2013, and expected to rise further to 57% in 2018. Public and publicly guaranteed (PPG) external debt was around one-third of the total, standing at c22% of GDP in 2017. The present value of PPG external debt was, though, lower, at just 13% of GDP and 70% of exports, while the external debt service ratio was just 5%. The public sector remains Benin's only external debtor, according to IMF data (ie there was no private external debt).

As a result, the IMF's latest DSA (December 2017, contained in the second review of the ECF published in July 2018) assessed the risk of public debt distress and external debt distress as moderate, unchanged from its previous review in September 2017. The increase in public debt, with a 20ppts increase over 2014-16, was mainly due a rapid increase in domestic debt, following the wider budget deficits over these years, in part due to increasing public investment and election-related spending.

Figure 9: Public and external debt to GDP (%)



Source: IMF

Benin's public debt has been rising in nominal terms over recent years, from US$2.4bn in 2013 to US$5.4bn in 2017, according to official figures provided by the Autonomous Sinking Fund for Benin (CAA)[4] – a public institution, responsible for public debt management in Benin, accumulating the funds necessary for the government to refinance efficiently, and satisfies the obligation of the government to provide online public debt statistics. The composition of Benin's public debt shows that official sector creditors (multilaterals and bilaterals) accounted for 40% of the total, while domestic bonds comprised another 40% (as at end-2017). World Bank data show that, as a proportion of external debt, all of which was owed by the public sector, concessional borrowing has increased to 82% in 2015 (latest) from 62% in 2012. This included additional World Bank borrowing in support of the GAP (US$482mn IDA loans). Benin

[3] *Note, IMF WEO data differ slightly to official data.*

[4] *Note, however, that the CFAF, pegged to the euro, has weakened versus the dollar over this comparison period (CFAF475.64:US$1 to CFAF546.95:US$1), so US dollar figures for 2017 may underrepresent the magnitude of increase.*

has not issued a sovereign eurobond (nor has any private entity in Benin[5]) nor did the government have any outstanding foreign commercial debt as at end-2017. The government has been an issuer of CFAF-denominated bonds since 2007.

The country, however, conducted its first international financing from private investors in October. Benin borrowed a total of EUR260mn (cUS$300mn) from a global bank, with a World Bank guarantee equivalent to 40% of the principal amount. The 12-year loan had an interest rate margin of under 3.5%. The loan will be used to repay existing loans from local banks that have an average maturity of two years, thereby improving the debt service profile at low cost.

A prudent borrowing strategy and strengthening debt management are, though, needed to secure public debt sustainability. Debt service is high (debt interest is c12% of government revenue, excluding grants – the highest in the WEAMU region) and remains a key source of vulnerability. The IMF's statement on the SLA for the third review encouraged the authorities to pursue their recent actions to lengthen debt maturities, lower interest costs and rebalance the structure of the debt portfolio. Seen in this light, the recent debt reprofiling operation (which we assume means the international borrowing) was welcome.

Table 3: Composition of Benin's total public debt

	2013 US$mn	Share of 2013 total	2017 US$mn	Share of 2017 total
Marketable debt	**795**	**33.1**	**2,363**	**44.1**
Treasuries	550	22.9	291	5.4
Bonds	245	10.2	2,072	38.7
Non-marketable debt	**1,610**	**66.9**	**2,989**	**55.9**
Bank loans	187	7.8	824	15.4
Multilaterals	1,190	49.4	1,752	32.8
Bilaterals	233	9.7	413	7.7
Total public debt	**2,405**	**100.0**	**5,352**	**100.0**

Source: CAA. Converted from CFAF using eop exchange rates provided by Haver.

However, Benin faces limited capacity to increase its external borrowing (whether from private investors or official sector creditors) because of the existence of an external borrowing limit on its IMF programme. A CFAF468.9bn ceiling on the present value of new external debt contracted or guaranteed by the government exists over the course of 2018-March 2019 (this would have translated to cUS$800mn at end-September 2018). It is unclear where Benin stands regarding this limit from borrowing to date.

Looking forward, the IMF's DSA expects Benin's public debt to decline over the next five years, to 40.7% of GDP in 2023. This is due to a combination of fiscal consolidation and stronger GDP growth. Public external debt is expected to rise to c26% of GDP and remain at that level over the longer term, under baseline assumptions; hence, the main driver in the lower public debt burden is lower domestic public debt. Further external borrowing will likely be on concessional terms, despite the current administration's very large (cUS$14.5bn) development spending plans, as the World Bank has already planned to provide additional resources to Benin and the current ECF helps to facilitate further foreign aid and financing.

Projections for a declining debt/GDP ratio are, though, sensitive to assumptions over growth and fiscal performance, over which there must be some uncertainty:

- ***Growth assumptions.*** The IMF's latest growth assumptions have remained roughly unchanged since the previous DSA in September 2017. That might point to some stability in forecasts (reflecting confidence in growth projections), although it might also reflect the fairly short interval between the forecast vintages. The DSA expects the economy to grow by 6.4% over 2018-20, supported by the good performance of the agricultural sector, the ongoing recovery of the Nigerian

[5] *Two franc-denominated corporate bonds have been issued: a CFAF6.69mn bond by Sobebra (SBBRA) that matured in 2003; and a CFAF12.39mn bond by Bank of Africa, Benin (BOABBC), that matured in 2014.*

economy, the scaling up of public investment and an uptake in private investment in response to the expected improvement in infrastructure. The Fund expects growth to stabilise at 6.6% in 2021-22. However, this stronger growth outlook contrasts with the weaker historical growth performance, at just 4.2% over the past decade and 3.8% over the past 40 years. The hope will be that the reform agenda will boost growth compared with the past, but this remains uncertain.

- ***Fiscal assumptions.*** The fiscal consolidation in the IMF programme is expected to bring down the budget deficit (including grants) to below the WAEMU convergence criterion of 3% of GDP by 2019 and shift it to a surplus in 2022. Crucially, this depends on a successful revenue mobilisation effort, with government revenue projected to increase from 14.7% of GDP in 2016 to 17.7% of GDP in 2020 as the expected reforms in tax policy and administration take hold. The primary deficit remains below the levels initially programmed and turns into a surplus in 2021. Weaker-than-expected fiscal performance will undermine debt dynamics.

The IMF's own sensitivity analysis shows that, by 2023, if growth and the primary balance remain at their historical averages, the debt/GDP ratio will fail to decline as expected (albeit remaining at around current levels rather than rising rapidly).

Ratings

- ***S&P*** assigned a B+ rating (stable outlook) in July 2018. The rating is supported by strong growth prospects and economic reforms. The rating is constrained by low per capita income and large external and fiscal needs. S&P had assigned its first rating in December 2003 (B+) and this was downgraded to B in September 2006. The rating was then withdrawn in November 2013.
- ***Fitch:*** Not rated. Fitch had assigned a B rating in September 2004, but this was withdrawn in January 2012. Fitch said that the authorities had chosen not to participate in the ratings process and the agency would therefore not have sufficient information to cover Benin.
- ***Moody's:*** Not rated.

S&P's rating for Benin compares favourably with the country's regional peers (see Annex table). Its ratings' considerations are as follows:

Rating positives:

1. The stable outlook reflects expectations of growth and fiscal consolidation.
2. Membership of the WAEMU reduces external risks and keeps inflation low.
3. The national development programme has been implementing reforms, including improvements in tax collection, the business climate, commercial courts and public accountability. In some cases, reform projects likely to increase government revenue appear to have been given priority.
4. Net inflows from FDI and external debt lead to forecasts of a falling current account deficit (9.4% of GDP in 2017 to 5.1% in 2023). Reforms and infrastructure improvements will lead to higher exports.

Rating negatives:

1. Membership of the WAEMU limits flexibility in monetary policy.
2. Some more controversial reforms, such as increasing the role of the private sector, may be threatened by delay.
3. Benin remains exposed to developments in Nigeria, a key trading partner. The slowdown in Nigeria over 2014-16 adversely affected Benin's economy and contributed to lower growth in 2015 (2.1% from 6.4% in 2014).
4. The large agricultural sector (70% of the workforce) exposes the economy to exogenous shocks.
5. Domestic demand will raise imports, keeping gross external financing needs large.

Risks and vulnerabilities

Although Benin's outlook is favourable, given strong real GDP growth prospects, monetary stability (afforded by CFAF membership), reinforced by the president's strong ownership of an IMF-backed reform agenda, Benin remains vulnerable to domestic and external shocks. Key risks include the following.

- Domestic and regional political instability.
- Benin's narrow economic base is dependent on cotton (prices and production) and its key market of Nigeria. It is also vulnerable to higher oil prices (given net oil imports).
- Public sector investment could crowd out the private sector, which is further hampered by the weak business environment, inadequate infrastructure and governance.
- Limited policy flexibility given the fixed currency (in the form of the CFAF monetary union) means there is limited room to respond to macroeconomic shocks (domestic or external). This puts the onus on flexible fiscal policy and structural reforms, although fiscal flexibility is limited by the widening budget deficit and need to increase secure debt sustainability given the rise in the public debt burden.
- Debt sustainability will be at risk if growth is weaker than expected.
- Weaker FDI inflows will put renewed pressure on the external accounts (balance of payments), which could lead to liquidity problems, as well as weaker growth prospects.
- Low reserves cover (around 2 months of imports of goods and services on Exotix estimates) exposes the country to liquidity shocks.
- Compliance with the IMF programme will be key to anchoring external sentiment.
- Ensuring domestic revenue mobilisation and greater efficiency in public spending will be crucial to the fiscal consolidation effort. Fiscal consolidation could weaken due to weaker GDP growth or waning reform commitment. This would put debt sustainability at risk.
- Large development project spending needs to be properly prioritised, evaluated and monitored to be consistent with debt sustainability.
- Climate change presents risks to agriculture, food prices and cotton production. Benin remains dependent on the primary sector, which has a significant contribution to GDP and employment.

Annex: Regional comparison table

	IMF programme	FC LT rating			Nominal GDP	Population	GDP per capita	Real GDP growth	Inflation*	Current account	Fiscal balance**	Public debt***	US$ bond yield^
	(current)	Moody's	S&P	Fitch	US$bn	thousand	US$	%	%	% of GDP	% of GDP	% of GDP	%
					2018(f)	2018(f)	2018(f)	2018(f)	2018(f)	2018(f)	2018(f)	2018(f)	latest
Benin	ECF (2017-20)	NR	B+	WD	10.5	11,423	923	6.0	1.7	-10.6	-4.7	56.8	n/a
Burkina Faso	ECF (2018-21)	NR	B	NR	14.3	19,460	734	5.9	2.0	-8.6	-5.1	41.2	n/a
Cote d'Ivoire	ECF+EFF (2016-19)	Ba3	NR	B+	45.9	25,609	1,791	7.4	2.0	-4.6	-3.8	48.8	6.6
Guinea-Bissau	n/a	NR	NR	NR	1.5	1,738	851	4.5	2.0	-3.6	-2.6	55.3	n/a
Mali	ECF (2013-Dec 18)	NR	NR	WD	17.4	19,517	892	5.1	2.0	-7.2	-3.3	36.9	n/a
Niger	ECF (2017-20)	NR	NR	NR	9.5	19,339	489	5.3	2.4	-16.2	-5.9	46.3	n/a
Senegal	PSI (2015-19)	Ba3	B+	NR	24.2	16,319	1,485	7.0	0.8	-7.7	-3.5	50.4	6.6
Togo	ECF (2017-20)	NR	NR	NR	5.3	8,000	668	4.7	1.5	-9.2	-3.2	75.7	n/a
Cameroon	ECF (2017-20)	B2	B	B	38.4	24,884	1,545	3.8	1.0	-3.2	-2.6	36.9	8.4
Central African Republic	ECF (2016-19)	NR	NR	NR	2.3	5,081	454	4.3	3.6	-8.9	0.9	46.9	n/a
Chad	ECF (2017-20)	NR	NR	NR	11.1	12,490	890	3.5	-2.3	-4.2	1.3	49.2	n/a
Equatorial Guinea	n/a	NR	NR	NR	13.2	865	15,294	-7.7	1.3	-3.1	0.6	37.3	n/a
Gabon	EFF (2017-20)	Caa1	NR	B	17.2	2,053	8,385	2.0	2.8	-1.6	1.3	58.4	8.3
Republic of Congo	n/a	Caa2	B-	CC	11.5	4,456	2,572	2.0	2.1	9.1	9.0	100.7	11.0
Nigeria	n/a	B2	B	B+	397.5	193,875	2,050	1.9	12.9	2.0	-5.1	24.8	7.6

Source: Exotix, IMF WEO (October 2018), Bloomberg

**Consumer prices (EOP).*

***General government net lending.*

****General government gross debt.*

^Around five years' duration or nearest available: Cote d'Ivoire 5.375% 2024, Senegal 6.25% 2024, Cameroon 9.5% 2025, Gabon 6.95% 2025, REPCON 6% 2029, Nigeria 6.5% 2027.

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