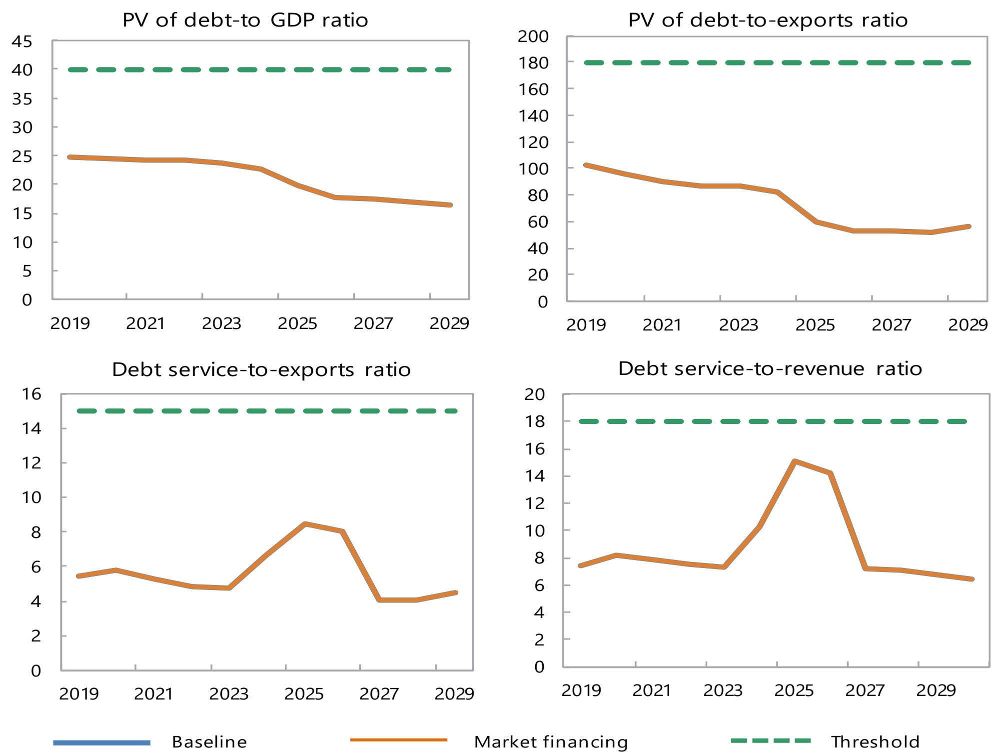
Figure 6. Benin: Market-Financing Risk Indicators, 2019–29

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	10	n.a.
Breach of benchmark	No	n.a.
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

Statement by Mr. Raghani, Executive Director for Benin,
and Mrs. Boukpessi, Advisor to the Executive Director
June 21, 2019

1. On behalf of our Beninese authorities, we would like to thank Staff, Management and the Executive Board for the IMF's continued support. They highly value the constructive engagement with the Fund, including the policy dialogue held with staff in the context of the 2019 Article IV consultation and the Fourth Review under the Extended Credit Facility (ECF) arrangement.

2. Benin's economic performance continues to be solid despite a challenging external environment. Growth has increased since 2016 on the back of robust activity in the primary and tertiary sectors and implementation of a set of far-reaching reforms.

3. Implementation of the ECF-supported program has been very satisfactory, with nearly all the monitoring targets–quantitative and structural–met since the beginning of the program in 2017. The authorities continue to view the arrangement as instrumental to their efforts to strengthen macroeconomic stability, preserve public debt sustainability and advance structural reforms, with the aim to sustain the strong growth momentum, make it more inclusive and achieve their developments goals. They will remain steadfast in pursuing the program objectives which are in line with their reform agenda under the Government's Action Program (*Programme d'Action du Gouvernement,* PAG) for 2016-21 and their National Development Plan (*Plan National de Dévéloppement,* PND) for 2018-25.

4. The authorities broadly share the thrust of the staff report, which properly highlights the major achievements of the recent period, the challenges facing the economy, and the policy priorities going forward.

Recent Developments, Program Performance and Outlook

5. After reaching 5.8 percent in 2017, real GDP growth accelerated to 6.7 percent in 2018, driven by strong cotton production and increased activity in the port and construction sectors. The fiscal deficit stood at 4.0 percent of GDP, lower than the projected 4.7 percent of GDP, owing to investment under-execution but also an overperformance of both domestic tax revenues and nontax revenues. Average inflation was low in 2018 at 1 percent and is projected to remain within the regional target of 3 percent. The current account deficit narrowed significantly last year due to robust exports of cotton and other agriculture products. The banking sector continues to experience daunting structural challenges which hamper profitability. These, combined with the redefinition of bank capital under the Basel II/III reform, brought the sector's capital adequacy ratio below the regulatory threshold. High loan concentration and non-performing loans (NPLs), albeit on a slight decline, add to financial vulnerabilities.

6. The Beninese authorities tapped for the first time international sovereign bonds markets in March 2019, with the issuance of €500 million Eurobond (5.2 percent of GDP) on more favorable terms than those offered at that time in the regional markets. This successful issuance gives Benin access to more financing options. On the other hand, efforts were made to contain domestic borrowing. All in all, Benin's overall risk of debt distress remains moderate.

7. As a result of the strong macroeconomic performance and the authorities' steadfast implementation of their reform agenda, the totality of continuous and end-December 2018 quantitative targets as well as all structural benchmarks (SBs) were met. As for priority social expenditures, the indicative target set for end-December 2018 was also met, exceeding the floor of FCFA 167.0 billion to reach FCFA 202.4 billion.

8. Looking forward, the authorities are optimistic over the country's growth prospects. Projected real GDP growth for 2019 has been revised upward to 6.7 percent on grounds of strengthening agricultural sector and port activity, recent infrastructure improvements under the PAG, and continued tourism activity. In addition, opportunities offered by the digital and knowledge-based economies should sustain growth over the medium- term. On the fiscal front, the authorities' consolidation efforts are poised to help achieve a deficit of 3 percent of GDP in line with the WAEMU convergence criterion and inflation will remain well below the WAEMU convergence criterion as well. Public debt-to-GDP ratio is projected to start declining in 2019 and reach levels below 50 percent over the medium-term. The current account deficit will narrow further on the back of robust exports in cotton and cashew nuts production. The authorities agree on the risks highlighted in the staff report, including uncertainties about the regional outlook and unfavorable external and financial conditions.

Macroeconomic Policies and Structural Reforms Going Forward

9. Against the backdrop of risks, and with a view to strengthening the resilience of the Beninese economy, the authorities' policies will focus over the medium-term on boosting domestic revenue mobilization, safeguarding debt sustainability, promoting financial stability, fostering economic diversification and improving the business environment for a private sector-led growth.

10. The authorities will continue to consider the ECF program objectives as anchor to their policy actions. They are requesting a modification of the following quantitative performance criteria (QPC): (i) the end-June 2019 QPC on the net domestic financing together with the modification of the continuous performance criterion (PC) on new external debt contracted or guaranteed by the government to take into account the Eurobond issuance and reflect the deficit-neutral effect in borrowing composition from domestic towards external financing; (ii) the end-June 2019 (QPC) on the basic primary balance to rightly record domestic arrears in the fiscal balance. They are also proposing three new SBs: (i) a diagnostic of the main impediments to trade (by end-September 2019);

(ii) the reinforcement of the data and risk analysis capacity of the customs administration (by end-December 2019); and (iii) an impact assessment of the TSA on commercial banks (by end-March 2020).

Strengthening fiscal consolidation

11. Sustaining consolidation efforts to reinforce fiscal sustainability while creating the necessary space to accommodate public infrastructure needs and priority social spending continues to rank high on the authorities' agenda. In this vein, tax policy and administrative measures aimed at enhancing domestic revenue mobilization, rationalizing expenditures while protecting social spending have been developed. Key revenue measures include streamlining tax expenditures and exemptions and, over the medium-term, making use of the potential offered by consumption taxes notably the possible increase of excise tax rates for some goods, and further broadening of the VAT. The authorities underscore the importance of transforming the economy, including by bringing the large informal sector into the formal economy, and consequently collecting more revenue. Structural reforms will be also pursued under the Strategic Plan for the Tax Administration., The fiscal deficit for 2019 is projected at 3.0 percent of GDP and the ratio of public debt-to-GDP at 54.1 percent in 2019. All first- order WAEMU convergence criteria on fiscal balance, debt and inflation are expected to be met this year.

Safeguarding debt sustainability

12. Our authorities share staff's conclusion in the new Debt Sustainability Analysis (DSA), that Benin is still at a moderate risk of debt distress. They are fully aware of the new type of risks brought by the access to non-concessional external financing with Eurobond issuances which require enhanced monitoring and management of debt dynamics. In this regard, public debt management will continue to be strengthened in line with international best practices and within the WAEMU requirements. Considerable progress has already been made to this end with recent reforms to reinforce the technical and operational capacity of the debt management office– (*Caisse Autonome d'Amortissement, CAA)*.

13. A prudent borrowing strategy will be pursued and the upcoming update of the Medium-Term Debt Strategy (MTDS) will guide decisions on external borrowing and help achieve a balanced mix of domestic and foreign currency debt. The authorities will continue to strengthen the monitoring of the debt of public enterprises, including by upgrading the related database with the assistance from an international advisory firm. They will also closely monitor fiscal risks stemming from public-private partnerships (PPPs). A unit within the Ministry of Economy and Finance tasked to manage those risks has been established and is about to be fully operational with technical assistance provided by the World Bank.

Enhancing the financial sector

14. The authorities are cognizant of the need to maintain a sound and stable financial sector and promote financial inclusion to support economic activity. They are resolutely committed to strengthening further financial stability in coordination with the regional central bank –*Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)* – and to tackling the high level of NPLs and elevated interest costs paid on deposits and which affect the sector's profitability. Along with the operationalization of the law on Credit Information Bureau (CIB) in 2018, measures being pursued include: (i) decrees relative to the land registry reform and to the formalization of real estate collateral guarantees; and (ii) advances in the operationalization of *Caisse des Dépôts et Consignations (CDC)*, the public entity in charge of securing and channeling savings towards the financing of transformative investments.

15. Important steps are also being taken to restructure two small public banks with a view to mitigate risks to the budget. A merger of the two banks that will allow compliance with capital requirements and expand the network agencies is being considered with the support of an international auditing firm. The authorities will build on international best practices, consult with the Fund and submit a comprehensive restructuring plan to the Secretariat of WAMU Banking Commission by end-2019.

16. Efforts to improve access to credit, while taking steps to enhance the sector's regulatory and supervisory framework are being pursued. Closing microfinance institutions (MFIs) operating without a license, setting up of permanent mechanisms to MFIs' resource mobilization and improving the promotion and coordination of the sector as embodied under the *Fonds National de Microcrédit* are also key aspects of actions to foster financial inclusion in Benin. A national financial inclusion plan in line with the BCEAO strategy is being drafted. In addition, the authorities intend to leverage opportunities offered by mobile money to expand access to finance.

Advancing economic diversification and structural transformation

17. The authorities highly appreciate the Selected Issues paper focusing on Benin's medium-term growth potential. They recognize the impediments in attaining this high potential and would like to emphasize that accelerating economic transformation to sustain high and long-term growth is at the core of their priorities.

18. To advance this transformation agenda, the authorities have developed specific policies notably (i) the strengthening of the agriculture and trade sectors; and (ii) the development of new high-potential sectors such as tourism and openings offered by technological changes with the digital and knowledge-based activities. In the agricultural sector, they will further develop the cotton sector and promote productions of Benin's cashew nuts and pineapples. They will also strive to promote high value-added products and buttress the processing industry through technological innovations. A special economic