

**WEST AFRICAN MONETARY AGENCY  
(WAMA)**



**ECOWAS MONETARY COOPERATION PROGRAMME**

***MACROECONOMIC CONVERGENCE REPORT  
2007 BENIN***

***FREETOWN, JUNE 2008***

In Benin, the focus in 2007 was economic recovery. In this regard, projections in terms of public investments were quite high. This trend was expected to lead to an accelerated growth, with a projected growth rate of 5% in production. Such an achievement should provide greater prospects for reaching poverty reduction targets. The accelerated growth was expected to be achieved within a context of relative price stability, with the inflation rate being contained at 2.6%. On the budgetary front, indicators were also to improve on the whole. Particularly, performance in terms of convergence was expected to improve with the country complying with seven (7) criteria as against four (4) in 2006.

At year-end, results were relatively mixed. The growth rate stood at 4.2% as against 3.6% in 2006. This renewed boost in economic activity occurred, as expected, against a backdrop of relative price stability. In effect, the end of period inflation stood at 0.3% against 5.2% in 2006

## **1 Sector Analysis**

### **1.1 Real Sector**

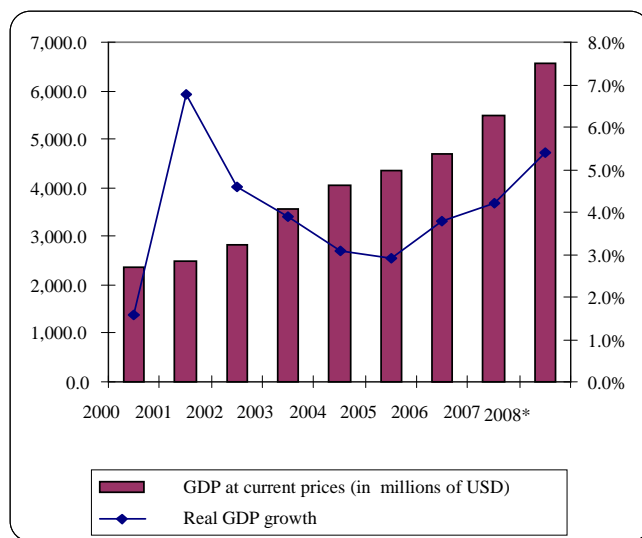
The growth rate of economic activity stood at 4.2% in 2007 against 3.8% in 2006. This acceleration in growth is mainly attributed to the buoyancy in the primary and tertiary sectors.

In 2007, primary sector value added recorded a growth rate of 4.2% spurred on by the agricultural production in 2007. The growth in the primary sector was based on an expansion in cotton production by 24.7% following incentives provided by Government to boost the cotton sub sector, namely the payment of arrears to cotton farmers, timely supply of inputs at competitive prices and the increase in producer prices.

Concerning the secondary sector, its value added also rose by 4.0% in contrast with a 0.6% drop in 2006. This sector was marked by a revamp of activities in cotton ginneries following an increase in cotton production by 26% during 2006-2007 farming season and improved performance in food processing and manufacturing industries. It was also sustained by the buoyancy in the construction and public works sub sectors.

As regards the tertiary sector, thanks to the resumption of trading activities with Nigeria, it recorded a growth rate of 5.4% against 3.4% in 2006. This sector was also sustained by the vibrant performance in the trading, banking and insurance as well as transport and telecommunication sub sectors.

**Graph 3.1** : Trends in nominal GDP and Real growth rate



The growth in demand was driven mainly by overall investment. Also total final consumption went up due to the combined effects of many factors including good cotton harvest, increase in cotton farmers' revenue following the payment of arrears which improved and boosted this activity. Besides, private transfers also increased significantly in 2007. However, the purchasing power was reduced by the hike in crude oil prices and transportation cost.

In nominal terms, gross domestic savings rate improved slightly and accounted for 10.9% of GDP against 10.6% in 2006. In the same vein, the rate of investment sustained by the mobilisation of external resources stood at 22.2% against 21.2% the previous year.

With regard to prices, there was a moderate increase in the Harmonized Consumer Price Index (IHPC) in 2007. End of period annual inflation rate stood at 0.3% in 2007 against 5.2% in 2006. This drop in inflation was ascribed to types of consumptions such as "foodstuffs, beverages and tobacco", "clothing and footwear" and "leisure and culture" which reduced by 0.8%, 1.1% and 1.1% respectively. In addition, a number of measures were taken by Government to lower the prices of some essential commodities. Notable among these measures were the removal of customs duties and taxes on some imported products, the establishment of a buffer stock of foodstuffs and a price adjustment regime for certain types of products over a period of three (3) month, renewable when necessary.

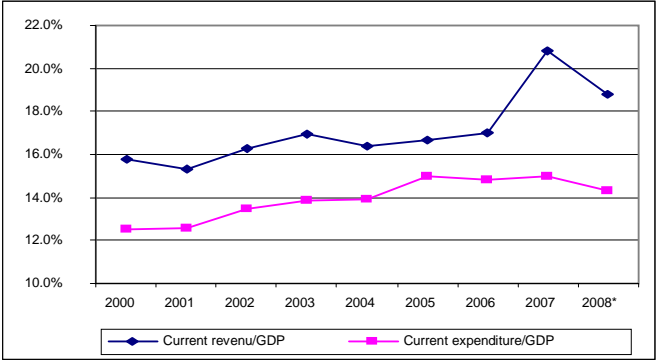
## 1.2 Public Finances

The execution of state financial operations resulted in an improvement of the main budget balances. This was attributed to a better performance in the collection of budget revenue and appropriate adjustment of budget expenditures.

Total revenues increased significantly by 31.4% in 2007 and accounted for a ratio of 20.8% of GDP against 17.0% in 2006. This increase was driven by typical trends in tax revenue collection and particularly non tax revenue. Tax revenues were up by 17.7% thanks to the fight against fraudulent

activities by financial institutions and revenues accruing from operational licenses for GSM mobile telephone operators. These developments pushed the tax revenue criterion to 16.9%, 1.5 point higher than in 2006. This performance was the best ever recorded in Benin since the convergence mechanism was adopted in 2001.

**Graph 3.2: Trends in current revenue and expenditures**



Whilst budget revenues recorded an increase in 2007, concessional loans went down by 57.6% and accounted for only 4.1% of total revenue including grants against 11.1% the previous year. On the whole, total revenue including grants increased by 20.9% in 2007 against 9.6% in 2006. This represents a ratio of 21.7% in relation to nominal GDP, which is 2.5 points higher than in 2006.

Total expenditures and net lending grew by 15.0% and accounted for 20.9% of GDP. This growth is mainly due to capital expenditures which went up by 85.2% as a result of a parallel growth in both externally and internally funded capital expenditures by 54.4% and 97.5% respectively. With regard to current expenditures, they were relatively controlled and grew only by 5.1%. This performance is ascribed to measures taken by the Government since 2006 to streamline public finance management especially through limits on payment orders, improvement in internal management of public institutions and the restoration of budgetary discipline. The increase in the wage bill was insignificant (+0.8%), and this reflected in an improvement in its ratio in relation to tax revenue which fell from 37.1% in 2006 to 34.5% in 2007.

Generally, the execution of public finances ended up with a net improvement in budget deficits. Consequently, the overall deficit excluding grants was almost nil and accounted for only 0.1% of GDP against 2.5% in 2006. With regard to the overall balance (including grants), it recorded a surplus representing 0.8% of nominal GDP against a deficit of 0.2% of nominal GDP in 2006.

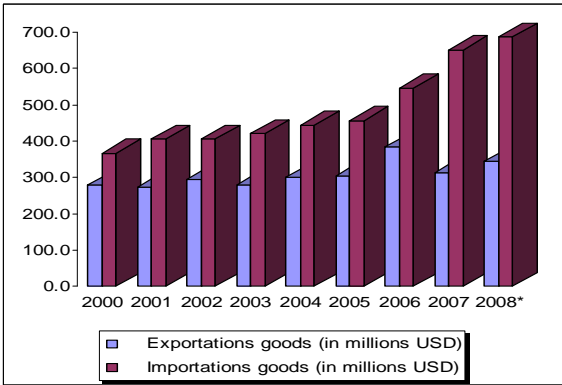
Concerning total public debt, the ratio in relation to GDP stood at 22.8% at end of December 2007 against 22.3% in 2006. External debt servicing as a percentage of budget revenue was 3.4% against 3.6% in 2006

**1.3 External Sector**

The analysis of the balance of payment position as at end of December 2007 showed an overall deficit of CFA F 25 billion. This is due mainly to unfavourable developments in the current account resulting from the deterioration of the terms of trade.

Indeed, exports stood at 314.5 billion in 2007, having recorded a drop of 18.3% stemming from the slump in the prices of major exports, especially cotton. Imports in FOB value were estimated at 652.9 billion, representing an increase of 19.3% compared to 2006. In spite of a rise in transfers without counterpart (+22.8%), this deficit coupled with shortfalls in the services and revenue balances (-57.6) contributed to serious deficits in the balance of recurrent operation equivalent to 9.1% of nominal GDP in 2007. Compared to 2006, this ratio worsened by a 4.5 percentage points.

**Graph 3.3: Trends in Imports and Exports**



The balance of the capital account recorded a credit of 79.1 billion in 2007 against 603.8 billion credit in 2006. That of financial operations account recorded a surplus of 185.0 billion compared to a deficit of 372.2 billion in 2006.

**1.4 Monetary Sector**

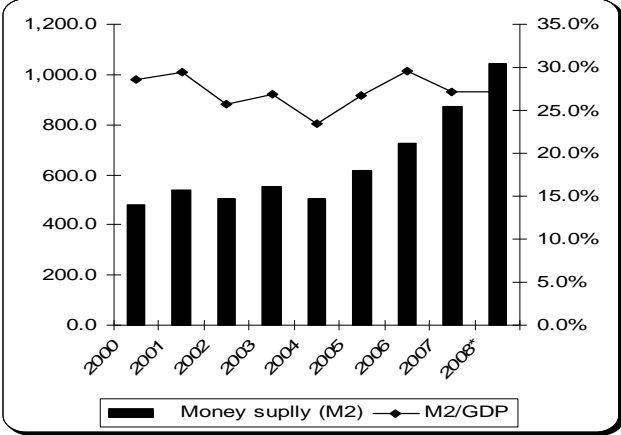
Within the UEMOA Zone, currency and credit management is based on interest rate policy and the mandatory reserves system. In a context where inflation was relatively under control, the Central Bank maintained its key rates at 4.25% for the rediscount rate and 4.75% for the discount rate. The mandatory reserve coefficient remained at 15.0% in Benin. At the end of December 2007, this situation led to uneven growth in key monetary aggregates.

Net foreign assets (NFA) recorded a 26.3% increase at end of December 2007 compared to the same period the previous year. This trend is attributed to an increase of 84.6 billion in BCEAO’s net external assets and a rise of 52.0 billion in external liquid assets of banks.

Outstanding domestic debt stood at 231.9 billion at the end of December 2007, a drop of 9.1% compared to end of December 2006. The net creditor position of the Government settled at – 288.0 billion at the end of December 2007 against 160.7 billion the previous year, representing an improvement of 127.3 billion. This trend is attributed to the increase in bank deposits by 157.4 billion following vigorous debt collection measures implemented by the Government. Outstanding credit to the economy rose by 25.1% to settle at 520.0 billion. This is due to ordinary credits which surged by 92.5

billion. The upward trend in ordinary credits is linked largely to credits allocated to companies in the agro-industry, petroleum product distribution, energy, telecommunication, microfinance and general trade and services sectors.

**Graph 3.4: Trends in money supply**



Money supply grew by 19.7% over the period under review to settle at 869.4 billion in December 2007. This trend reflected in a 33.3% growth in bank deposits which were however mitigated by a 5.6% drop in cash in circulation.

## 2 Performance in terms of macroeconomic convergence

The overall improvement in macroeconomic fundamentals recorded in the economy was reflected in the level of performance in terms of convergence. Eight (8) targets were achieved against four (4) in 2006. This is the best performance in terms of convergence recorded by the Benin economy since 2003.

BENIN : CONVERGENCE POSITION	Target	2003	2004	2005	2006	2007	2008. (*)
<b>Primary criteria</b>							
Budget Deficit/GDP	≤ 4%	3.7	3.6	3.1	2.5	0.1	4.0
Inflation rate	≤ 5%	0.7	2.7	3.8	5.2	0.3	2.5
Monetary financing of budget deficit /Previous year tax revenue	≤ 10%	0.0	0.0	0.0	0.0	0.0	0.0
Gross external reserves in months of imports	≥ 6	7.2	7.8	9.3	10.4	8.4	8.9
<b>Secondary criteria</b>							
Tax revenue/GDP	≥ 20%	15.2	14.6	14.5	15.4	16.9	17.0
Wage bill./tax revenue	≤ 35%	34.4	38.0	39.1	35.6	30.5	33.1
Public invest. /tax revenue	≥ 20%	22.9	19.7	22.8	12.8	20.5	23.7
Real interest rates	≥ 0	2.8	0.8	-0.3	-1.7	3.2	1.0
Real exchange rate stability	± 5%	8.4	2.4	2.2	0.2	-1.9	0.7
<b>Total # of criteria met</b>		<b>7</b>	<b>6</b>	<b>6</b>	<b>4</b>	<b>8</b>	<b>8</b>

Source: WAMA, BCEAO.

(\*\*): Annual estimates

With regard to primary criteria all the targets were achieved in 2007. The continuous improvement in the profile of convergence criteria was maintained in the area of budget deficit which dropped from 3.7% in 2003 to 0.1% in 2007. This trend applied to all convergence criteria between 2003 and 2006, with the exception of the gross external reserves criterion. In view of the policy of pooling and common management of reserves within the framework of UEMOA, an individual analysis could be deceptive. Nevertheless, it can be indicated for information purposes that the level of reserves available to Benin were quite high and could cover eight months of import at the end of December. Similarly, inflationary pressures which were quite high in 2006 eased in 2007.

In respect of secondary criteria, four were also attained in 2007 against one (1) in 2006. The only criterion that could not be achieved was the criterion on tax revenue criterion. However, a marked improvement was recorded in respect of this criterion with a ratio increasing from 15.4% in 2006 to 16.9% in 2007. This improvement had a positive impact on the internally funded investments criteria which rose from 12.8% in 2006 to 20.5% in 2007.

## 3 Prospects for 2008

Benin authorities have recently reaffirmed their commitment to the Millennium Development Goals and those of poverty reduction. To give some concreteness to this commitment, Strategic Guidelines for Development were defined based on six major axes of activities. These include reconstructing an

effective and modern administration for the benefit of all and the development of the private sector, streamlining and stabilizing the macroeconomic framework, promoting economic renewal by creating an economic and institutional environment of international standard, building the human capital to improve productivity in the national economy, developing quality infrastructure to promote private investments and finally ensure balanced and sustainable development within the national space.

The implementation of these guidelines is expected to facilitate the emergence of dynamic entrepreneurship and create favourable conditions for the achievement of vibrant and sustainable national economic growth. The basic assumption hinges on the achievement of a relatively sustained growth of 6.8% in 2008 as a result of trends expected in all the sectors of the economy.

The primary sector would record a growth rate of 7.0% driven mainly by a boost in cotton production with a target of 450 000 tons for 2007 -2008 farming season. With regard to the secondary sector, it would record a growth rate of 6.1% to be driven on by an expansion in activities in the manufacturing industry, especially with the upturn of activities in the cotton processing industries. However, this prospect in the secondary sector could be constrained by the adverse effects of frequent cuts in electric power supply. In fact, in view of high demand and a reduction in the quantity of electric power supplied by Ghana due to the drop in the water level of the Akosombo Dam, these frequent power cuts over long periods are daily occurrences. As regards the tertiary sector, it would grow by 3.0% in 2008. This will be driven by trading activities supported by re-exports to Nigeria as well as an improvement in port activities boosted by the transit towards hinterland countries.

On the public finances front, efforts at ensuring budget discipline would increase budget efficiency and lead to an improvement in key ratios especially those related to the convergence criteria. In 2008, eight convergence criteria would be met as in 2007.

#### **4 Conclusion and recommendations**

Economic achievements recorded in 2007 were impressive despite the harsh international economic situation. However, the persistence of such a situation for a longer period in 2008 may undermine significantly the gains already made and dash prospects for the consolidation of these gains in 2008. Consequently, appropriate measures must be taken to consolidate these results especially by:

- Implementing actions which aims to control prices and safeguard the purchasing power of citizens within the context of poverty reduction and protection for the vulnerable; ;
- Finalising the implementation of structural reform programmes in the various sectors, particularly, the cotton sector;
- Strengthening initiatives geared towards the creation and development of new agricultural sectors as well as the diversification of exports ;
- Intensifying reforms aimed at reducing energy dependency and developing telecommunications in order to strengthen production potentials and increase the competitiveness of the economy.