Country Report

Benin

April 2008

The Economist Intelligence Unit
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The Economist Intelligence Unit

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Summary

Outlook for 2008-09

The president, Boni Yayi, will remain in power over the forecast period. His position has been strengthened by the March 2007 legislative election, in which his coalition, Force cauris pour un Bénin émergent (FCBE), secured the largest number of seats and negotiated a pro-government majority in the National Assembly. This is expected to facilitate the implementation of Mr Yayi's reform programme. Meanwhile, the main traditional parties, whose decline has been confirmed by their poor scoring in the legislative poll and their exclusion from the government, will remain weak. Mr Yayi and his government will remain broadly on track with the economic reforms agreed under Benin's poverty reduction and growth facility (PRGF), although they could face popular opposition to structural reforms. Real GDP growth is forecast to rise to 5% in 2008 and 5.5% in 2009, owing mainly to a recovery in re-export activity and cotton production and strong growth in construction.

The political scene

In March the four main opposition parties in the National Assembly announced a list of criticisms of Mr Yayi's government. Local and municipal elections were delayed again from February and are now to take place on April 20th. The elections have been plagued by funding and logistical problems. A technical commission charged with proposing changes to the constitution was established in February, after the idea had first been mooted in October 2007.

Economic policy

In mid-March the IMF's fourth review of Benin's PRGF commended the government's performance in improving fiscal management. Standard & Poor's Sovereign Ratings Service confirmed Benin's B-ratings for both long-term and short-term credit in mid-December 2007. The Ministry of Finance has highlighted a lack of institutional capacity as a major cause of underspending. In a setback to the government's privatisation programme the national oil marketing company, Société nationale de commercialisation des produits pétroliers (SONACOP), was renationalised in January.

The domestic economy

The government has ordered the purchase of buffer food stocks to help offset food price inflation. Positive developments have continued in the agricultural sector, but poultry suffered from an outbreak of bird flu in early 2008. New investments in cement production have been announced. Substantial investments to improve Cotonou's international airport and sea port have been announced.

Foreign trade and payments

According to World Bank figures, Benin's stock of external debt fell to just US$824m at the end of 2006, from US$1.86bn at the end of 2005—a result of debt relief received under the multilateral debt relief initiative (MDRI) in 2006.

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Next report: Full schedule on www.eiu.com/schedule

Political structure

Official name	République du Bénin	
Form of state	Unitary republic	
Legal system	Based on December 1990 constitution	
National legislature	National Assembly with 83 seats, elected by universal suffrage for a four-year term	
National elections	March 2006 (presidential); March 2007 (legislative); next presidential and legislative elections due in 2011 and 2012 respectively	
Head of state	President, elected by universal suffrage for a five-year term; a maximum of two terms may be served	
National government	The president and his appointed government; the cabinet was reshuffled on November 2nd 2007	
Main political parties	Force cauris pour un Bénin émergent (FCBE), created in January 2007 to support the president, Boni Yayi, won 35 seats in the National Assembly in the March 2007 legislative election; the other main coalitions and parties in parliament are: Alliance pour une dynamique démocratique (ADD; 20 seats), which includes Renaissance du Bénin, Parti social démocrate (PSD), and Mouvement africain pour la démocratie et le progrès (MADEP); and Parti du renouveau démocratique (PRD; 10 seats)	
	President	Boni Yayi
Ministers of state	**Development & co-ordination**	Pascal Koupaki
	Defence	Issifou Kogui N'Douro
Key ministers	**Administrative & institutional reforms**	Bio Idrissou Sina
	Agriculture, livestock & fisheries	Roger Dovonou
	Civil service & labour	Emmanuel Tiando
	Culture & crafts	Soumanou Toleba
	Environment	Juliette Knoudenoukpo Biaou
	Economy & finance	Mana Soulé Lawani
	Foreign affairs	Moussa Okanla
	Health	Kessile Tchala
	Higher education & research	Vicentia Bocco
	Industry & small & medium-sized enterprises	Grégoire Akofodji
	Interior & security	Félix Hessou
	Justice, legislation & human rights	Gustave Anani Cassa
	Literacy & national languages	Roger Gbégnonvi
	Microfinance & youth & female employment	Sakinatou Sidi
	Mines, energy & water	Sacca Lafia
	Relations with institutions & government spokesman	Alexandre Hountondji
	Urban affairs, housing & land reform	François G Noudegbessi
	Youth, sport & leisure	Ganiou Soglo
Delegate ministers	**Communications & new technology**	Désiré Adadja
	Transport & public works	Armand Zinzindohoué
Governor of regional central bank (BCEAO)	Philippe-Henri Dacoury-Tabley	

Economic structure

Annual indicators

	2003[a]	2004[a]	2005[a]	2006[b]	2007[b]
GDP at market prices (CFAfr bn)	2,067.5	2,140.0	2,298.7	2,459.4	2,634.8
GDP (US$ bn)	3.6	4.1	4.4	4.7	5.5
Real GDP growth (%)	3.9	3.1	3.9	3.8	4.5
Consumer price inflation (av; %)	1.5	0.9	5.4	3.8[a]	1.3[a]
Population (m)	8.0	8.2[b]	8.5[b]	8.8	9.0
Exports of goods fob (US$ m)	540.8	568.6	578.3	501.2	584.7
Imports of goods fob (US$ m)	818.7	842.0	865.7	885.9	1,095.1
Current-account balance (US$ m)	-348.6	-316.5	-270.3	-329.1	-452.8
Foreign-exchange reserves excl gold (US$ m)	717.9	640.0	656.8	912.2[a]	1,209.2
Exchange rate (av) CFAfr:US$	581.2	528.3	527.5	522.9[a]	479.3[a]

[a] Actual. [b] Economist Intelligence Unit estimates.

Origins of gross domestic product 2006	% of total
Agriculture	37.1
Industry	14.5
Services	48.4
GDP at factor cost	**100.0**

Components of gross domestic product 2006	% of total
Total consumption	88.7
Gross domestic investment	20.6
Exports of goods & services	18.5
Imports of goods & services	27.8
GDP at market prices	**100.0**

Principal exports 2006	% of total
Cotton	16.7
Re-exports	41.2

Principal imports 2006	% of total
Food	32.5
Petroleum products	16.6

Main destinations of exports 2006[a]	% of total
China	32.5
Indonesia	12.1
India	10.9
Netherlands	9.7
Niger	5.7

Main origins of imports 2006[a]	% of total
China	47.3
France	7.6
Thailand	6.1
US	3.8
Côte d'Ivoire	3.6

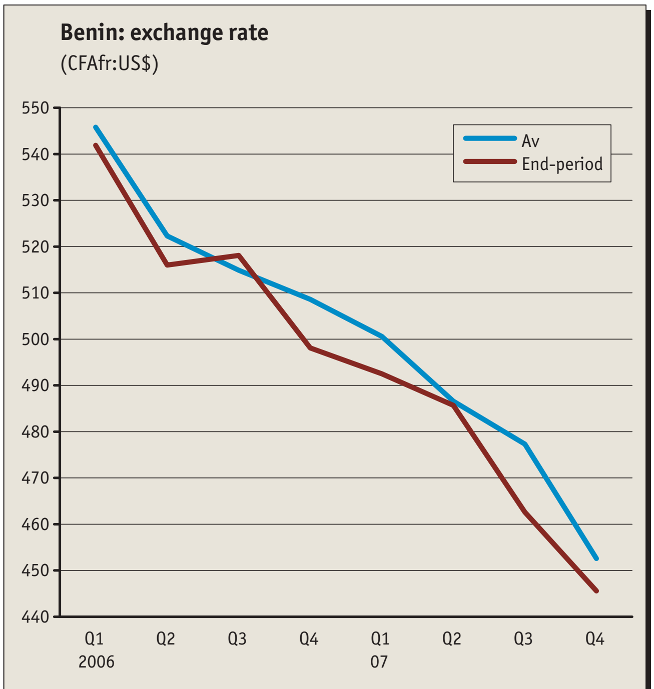
[a] Based on partners' trade returns; subject to a wide margin of error.

Quarterly indicators

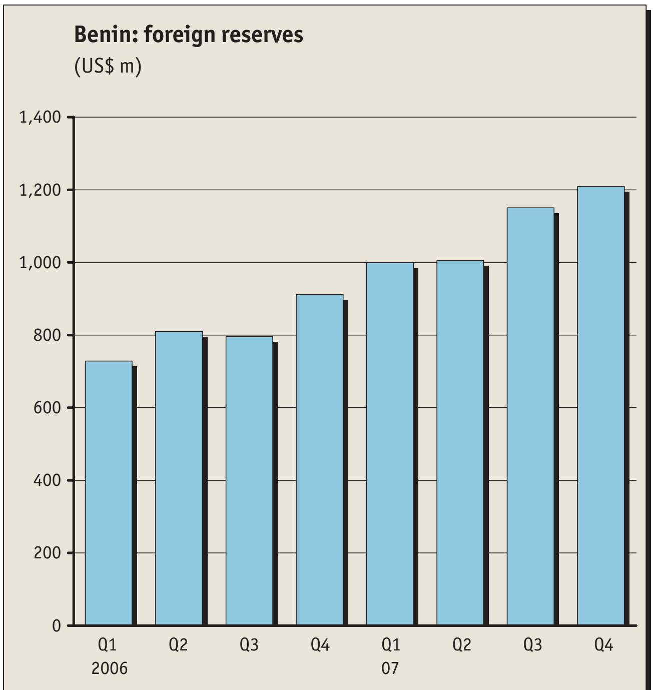
	2006 1 Qtr	2 Qtr	3 Qtr	4 Qtr	2007 1 Qtr	2 Qtr	3 Qtr	4 Qtr
Prices								
Consumer prices (2000=100)	118.0	120.5	118.5	120.2	120.8	120.5	119.5	122.6
Consumer prices (% change, year on year)	4.9	5.1	1.8	3.4	2.4	0.0	0.8	2.0
Financial indicators								
Exchange rate CFAfr:US$ (av)	545.8	522.3	514.9	508.6	500.6	486.6	477.3	452.6
Exchange rate CFAfr:US$ (end-period)	541.9	516.0	518.1	498.1	492.5	485.7	462.6	445.6
Deposit rate (av; %)	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Discount rate (end-period; %)	4.00	4.00	4.25	4.25	4.25	4.25	4.25	4.25
M1 (end-period; CFAfr bn)	439.4	435.1	438.4	503.1	456.8	471.2	497.0	589.9
M1 (% change, year on year)	12.0	10.3	20.6	11.9	4.0	8.3	13.4	17.3
M2 (end-period; CFAfr bn)	646.7	638.3	654.5	726.7	689.2	717.6	762.3	869.4
M2 (% change, year on year)	15.9	11.8	19.4	14.5	6.6	12.4	16.5	19.6
Foreign trade (US$ m)[a]								
Exports fob	87.77	120.79	90.03	91.20	69.48	141.11	113.85	n/a
Imports cif	-617.05	-791.94	-984.67	-1,033.81	-908.54	-1,146.49	-1,315.48	n/a
Trade balance	-529.28	-671.15	-894.64	-942.61	-839.06	-1,005.38	-1,201.63	n/a
Foreign reserves (US$ m)								
Reserves excl gold (end-period)	728.6	810.2	795.9	912.2	999.2	1,005.7	1,150.6	1,209.2

[a] *DOTS* estimates.

Source: IMF, *International Financial Statistics*.



Source: IMF, *International Financial Statistics*.



Source: IMF, *International Financial Statistics*.

Outlook for 2008-09

Political outlook

Domestic politics

The presidential coalition, Force cauris pour un Bénin émergent (FCBE), won the largest number of seats (35 out of 83) in the National Assembly in the March 2007 legislative election, confirming the popularity of the president, Boni Yayi, and the decline of the main traditional parties. Following the poll Mr Yayi successfully negotiated a pro-government parliamentary majority, with seven minor parties and coalitions joining the FCBE. This, coupled with the appointment of a new cabinet of technocrats in June and a minor technical reshuffle in November, has strengthened the president's position further and is expected to facilitate the implementation of his ambitious economic reform programme, although the timetable of privatisations in 2008-09 has been called into question, owing to financial irregularities. The victory of Mr Yayi's alliance should allow him to take measures to improve governance by stepping up the fight against corruption and strengthening the independence of the judiciary. However, protests by both opposition and alliance members make it likely that Mr Yayi will have to concede more to those parties in order to push through his reform programme.

Over the forecast period Mr Yayi will be intent on cementing his good relations with the local and regional business community and foreign governments, while also seeking to reform state institutions through constitutional reform and the extension of decentralisation, notably through the transfer of financial resources to local authorities. In this regard local elections, delayed once again and now scheduled for April 20th 2008, will be of political importance, in particular for the main traditional parties, which have been excluded from the government, as they are seen as vital to accessing political power on the national scale.

International relations

Mr Yayi will continue to strengthen relations with neighbouring countries and seek increased economic co-operation with other countries, particularly China, Libya and Brazil. Benin's relations with Nigeria are expected to improve, owing to the relaxation of the Nigerian restriction on imports from Benin and measures to encourage economic partnerships. Following the resolution of the frontier dispute with Niger in 2007, efforts to redefine the 870-km Benin-Nigeria border and to formalise trade relations will also continue. However, a new frontier dispute with neighbouring Burkina Faso arose in early 2008, although both sides have promised a peaceful resolution. Encouraged by Benin's record of political stability, donors, especially the EU countries, will continue to support its economic programme through bilateral and multilateral aid.

Economic policy outlook

Policy trends

Over the forecast period economic policy will continue to be guided by the current three-year poverty reduction and growth facility (PRGF) with the IMF, which was originally set to expire in August 2008 and was recently extended until August 2009. It will focus on fiscal consolidation by strengthening revenue-generation and restraining recurrent budgetary expenditure in order to release more funds for priority sectors, and on improving the business environment in order to attract further private investment. Priority-sector spending will be guided by the government's new poverty reduction strategy paper (PRSP) for 2006-09. Its main aims are improving literacy and access to basic education; healthcare and safe drinking water; combating HIV/AIDS and malaria; fighting corruption; consolidating democracy and decentralisation; creating employment; giving the poor better access to revenue-producing activities; and developing sound policies on land management.

The government's privatisation programme is expected to continue to move ahead slowly over the forecast period. Problems have been highlighted following delays to various privatisation initiatives affecting the cotton sector, the port of Cotonou (Port autonome de Cotonou, or PAC), and the electricity and telecommunications parastatals. The privatisation of the cotton parastatal, Société nationale pour la promotion agricole (SONAPRA), which had been expected to be completed by the end of September, met with financial irregularities, requiring the process to begin anew at the end of 2007. Another serious setback occurred in January 2008, when the national oil marketing company, Société nationale de commercialisation des produits pétroliers (SONACOP), was renationalised, following a contract dispute over payments to the government. The divestiture of the state-owned Bénin Télécoms and of the water and electricity utility, Société béninoise d'électricité et d'eau (SBEE), scheduled for the end of June and September 2008, is not expected to take place as planned. Although the existence of a pro-government majority in the National Assembly should help to push forward unpopular measures, there are concerns that the trade unions could delay the whole privatisation process. The privatisation of SONAPRA and the SBEE are particularly controversial and could be politically, economically and socially disruptive. Over the forecast period the government will also push ahead with large infrastructure projects, including the upgrading of new ports and airports.

Fiscal policy

Benin's fiscal deficit is estimated to have widened to 4.6% of GDP in 2007, reflecting increased social and election-related expenditure—the legislative election was held in March 2007—and a larger wage bill following the recruitment of new civil servants. Given that local elections are scheduled for April 2008, expenditure will remain high in early 2008, although a period of consolidation is expected from the second quarter of the year. Cuts in civil service costs are likely to be difficult to achieve politically. Consequently, only slow progress will be made with the reform of the civil service pay structure urged by the IMF and donors, under which across-the-board pay rises would be replaced by a system based on merit. However, revenue should increase, owing to reforms in tax collection and customs administration. As a result of these trends the Economist Intelligence Unit expects the fiscal deficit to narrow to 4.4% of GDP in 2008 and 4.1% of GDP in 2009. As in recent years, the deficits will be financed largely through external borrowing.

Monetary policy

Benin's monetary policy is set by the regional central bank, Banque centrale des Etats de l'Afrique de l'ouest (BCEAO), whose priorities are to control inflation and maintain the CFA franc's peg to the euro. Monetary policies will therefore remain influenced by those of the European Central Bank (ECB), although BCEAO interest rates are typically higher than ECB rates and also take account of local circumstances, such as the level of inflation and bank liquidity. We currently forecast that the BCEAO's discount rate will remain at 4.5% in 2008 and fall to 4.25% in 2009.

Economic forecast

International assumptions

Benin: international assumptions summary
(% unless otherwise indicated)

	2006	2007	2008	2009
Real GDP growth				
World	4.9	4.7	3.7	3.9
OECD	3.1	2.7	1.6	2.0
EU27	3.1	2.8	1.8	2.1
Exchange rates				
¥:US$	116.2	117.8	102.0	96.0
US$:€	1.256	1.369	1.458	1.328
SDR:US$	0.680	0.651	0.628	0.649
Financial indicators				
€ 3-month interbank rate	3.08	4.27	4.18	4.00
US$ 3-month commercial paper rate	5.03	5.06	2.35	2.93
Commodity prices				
Oil (Brent; US$/b)	65.3	72.7	91.3	85.0
Cotton (US cents/lb)	58.6	64.0	72.8	78.5
Food, feedstuffs & beverages (% change in US$ terms)	10.2	37.8	27.4	-3.7
Industrial raw materials (% change in US$ terms)	49.6	10.8	-8.0	-13.1

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

We expect global growth to slow to 3.7% in 2008 (on a purchasing power parity basis), reflecting the troubles afflicting the US economy and their global repercussions, before rising modestly, to 3.9%, in 2009. Growth in the EU, one of Benin's main trading partners, is forecast to fall to 1.8% in 2008 and 2.1% in 2009. We now forecast that average world oil prices will jump sharply in 2008, before easing slightly in 2009. Cotton prices are expected to stage a further recovery to 72.8 US cents/lb in 2008 and 78.5 US cents/lb in 2009. However, developments in Benin's cotton industry will be influenced more by domestic cotton prices and reforms in the sector.

Economic growth

In recent years Nigeria's partial lifting of the ban on imports from Benin and improvements at the PAC have given the re-export trade a modest boost, although bureaucratic problems remain. We expect that continued efforts to normalise trade relations with Nigeria and measures to facilitate trade with hinterland countries will boost the export sector further in 2008-09. We also expect a gradual increase in cotton production, as the government implements reforms in the sector. Strong growth will continue in construction, as large infrastructure projects are launched, and in telecommunications. However, continued energy shortages in 2008 will remain a constraint on all sectors. Public spending will rise, as funds from the PRGF and lower debt-servicing costs through write-offs under the multilateral debt relief initiative (MDRI) will help towards the financing of social and infrastructure projects. As a result, we expect real GDP growth to pick up modestly, from an estimated 4.5% in 2007 to 5% in 2008 and 5.5% in 2009.

Inflation

The BCEAO's tight monetary policy will help to contain inflation over the forecast period. Inflation slowed to an average of 1.3% in 2007, owing mainly to the good harvest (food accounts for the largest share of the consumer price index). Assuming continued normal food production, average inflation is expected to remain at the same level in 2008, before rising slightly, to 2%, in 2009.

Exchange rates

The CFA franc is pegged to the euro at a rate of CFAfr655.96:€1 and trades against the US dollar in line with the US$:€ exchange rate. We currently forecast that the CFA franc will strengthen to an average of CFAfr450:US$1 in 2008, its highest level since devaluation in 1994, in line with the weakness of the US dollar against the euro. However, we expect the US dollar to begin to recover in 2009 and the exchange rate to drop back to CFAfr494:US$1. The French Treasury will continue to guarantee the CFA franc, which limits the risk of volatility.

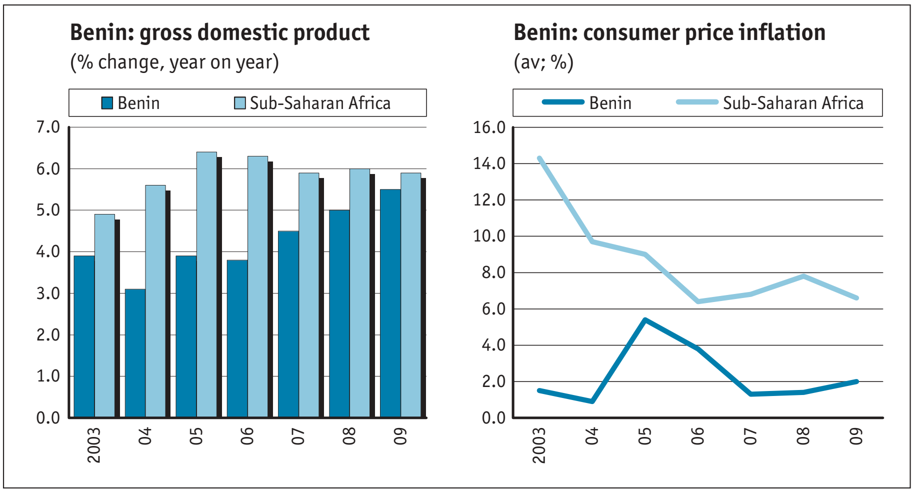
External sector

The re-export trade is expected to recover steadily during the forecast period, owing to the slow resolution of border issues with Nigeria and increased traffic with the hinterland countries, as well as improvements at the PAC. However, in March 2008 disputes over levies on goods transshipped to Niger risked reducing the amount of re-export trade to its neighbour in the north. Given the porous nature of Benin's long land borders and the high level of corruption, efforts to crack down on cross-border smuggling will be difficult, and the informal trading sector will remain significant. A recovery in the cotton sector, coupled with increased international prices, should boost cotton exports over the forecast period. However, Benin's imports will also increase, in line with new investment projects. The trade deficit is therefore forecast to narrow slightly in 2008-09. The structural deficit on the services account will widen, reflecting higher spending on imported services. However, the deficit on the income account will narrow slightly in 2008-09, owing to debt relief under the MDRI. Current transfers are set to increase as a result of strong donor support for Benin's reform efforts and remittances. Overall, the current-account deficit is expected to narrow from an estimated 8.2% of GDP in 2007 to 7.2% of GDP in 2008 and 7% of GDP in 2009, in line with movements in the trade balance.

Benin: forecast summary
(% unless otherwise indicated)

	2006[a]	2007[a]	2008[b]	2009[b]
Real GDP growth	3.8	4.5	5.0	5.5
Gross agricultural production growth	2.0	3.0	6.0	7.0
Consumer price inflation (av)	3.8[c]	1.3[c]	1.4	2.0
Central Bank discount rate[d]	4.3[c]	4.3[c]	4.3	4.0
Government balance (% of GDP)	-2.5	-4.6	-4.4	-4.1
Exports of goods fob (US$ m)	501.2	584.7	760.2	855.5
Imports of goods fob (US$ m)	885.9	1,095.1	1,270.8	1,337.0
Current-account balance (US$ m)	-329.1	-452.8	-443.0	-423.3
Current-account balance (% of GDP)	-7.0	-8.2	-7.2	-7.0
Exchange rate CFAfr:US$ (av)	522.9[c]	479.3[c]	450.1	494.1
Exchange rate CFAfr:¥100 (av)	449.9[c]	406.9[c]	441.2	514.7
Exchange rate CFAfr:€ (av)	656.0[c]	656.0[c]	656.0	656.0

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual. [d] End-period.



The political scene

There has been strong criticism from the opposition

The president, Boni Yayi, reached his second year in office on April 6th without much fanfare. There was, however, a cloud of controversy, as the four opposition parties that had chosen to co-operate with the president's Force cauris pour un Bénin émergent (FCBE) in the legislature lashed out at Mr Yayi's leadership in an electoral move calculated to win more support at the key local and municipal elections being held on April 20th. Describing a "total disenchantment and the beginnings of disillusionment", Léhady Soglo of Renaissance du Bénin (RB), Adrien Houngbédji of the Parti du renouveau démocratique (PRD), Bruno Amoussou of the Parti social démocrate (PSD) and d'Antoine Kolawolé Idji from the Mouvement africain pour la démocratie et le progrès (MADEP) laid out their 12 criticisms of what they saw as "threats" to democracy from Mr Yayi's government. On March 12th they presented their criticisms of his government's treatment of the press and unions, and the political dominance of the presidency over the other institutions of government.

This move has not yet signalled any great shift in Benin's electoral alliances, as none of the parties that criticised Mr Yayi has chosen to revoke its co-operation with the governing FCBE in the National Assembly. However, the four opposition parties (RB, PRD, PSD and MADEP), which together hold 30 seats in the 83-seat assembly, received the support of the 13 non-FCBE members of parliament (MPs)—the so-called G-13—including four MPs of the Forces Clés, which had previously not been affiliated to any political grouping. This could potentially provoke a crisis in parliament, as a majority of MPs have now made clear their dissatisfaction with the FCBE.

With Mr Yayi hailing from the north and the opposition parties from the south, the opposition parties saw it as important to mark their differences with the president in order to ward off any potential victory by allies of Mr Yayi in key local elections, especially that of the mayor of Cotonou, a traditional stronghold of the RB. Rather than causing the FCBE and its allies to lose their parliamentary majority, the opposition move is likely to elicit concessions from the FCBE in terms of ministerial positions and the management of parliamentary affairs.

Local and municipal elections are to take place in late April

Political, financial and administrative difficulties have plagued Benin's national and local elections for the past few years, and the problem continues. Local and municipal elections scheduled for February 18th have been postponed twice and are now set to be held on April 20th. The president of the Commission électorale nationale autonome (CENA; the autonomous national electoral commission), Pascal Todjinou, claims that the elections will cost CFAfr7.4bn (US$16.4m) and that the national budget at first only proposed CFAfr4.7bn, then raising the total allocated to CFAfr5.4bn. Behind the battle over the final costs have been administrative quarrels between the Ministry of Finance and CENA as to who will control the budget after it has been allocated.

As a sign of the intense political contentions surrounding the organisation of the elections, CENA's board has been reprimanded by the Supreme Court three times for politicisation and violating CENA's own bylaws. Problems of electoral organisation will continue as long as the management of CENA and associated bodies is politically contested and the state is unwilling or unable to provide the finance to hold elections on schedule and on budget. The president of the Supreme Court, Conceptia Ouinsou, has pointed to this fact, arguing that the "politicisation and the lack of probity" of members of the electoral commission continue to undermine public faith in the institution.

Proposed constitutional reform moves ahead

Plans for substantial changes to Benin's December 1990 constitution were put into practice on February 20th with the appointment of a commission, the Commission technique ad hoc chargée de la relecture de la Constitution Béninoise, which was originally announced in October 2007 (January 2008, The political scene). At its inauguration ceremony Mr Yayi stated: "The Beninese need to leave behind the concept of Marxism-Leninism in 1990. The spirit of our constitution was then centred upon fundamental rights and individual liberties, above and to the detriment of, everything else." Mr Yayi also claimed that the current constitution does not lend itself to political stability, failing to clearly state the functions and systems by which the country is supposed to be governed. Mr Yayi's comments at the inauguration of the commission have left many wondering what the proposed amendments will be. The commission, presided over by a professor and former member of the Constitutional Court, Maurice Ahanhanzo-Glèle, has been given six months to report back to the president with suggested constitutional changes.

In order to achieve constitutional reform, Mr Yayi will have to persuade a public distrustful of politicians' attempts to change the constitution for what it regards as being for the politicians' own benefit. To calm these feelings, the president announced that the constitutional revision would not be overly concerned with the articles governing limits of governmental terms, the president's age or the duration of the terms of deputies in the National Assembly. Any constitutional reform will require a great effort to be passed, since the president's allies only hold a slim majority in the National Assembly. Amendments to the constitution can be passed only with the votes of three-quarters of the National Assembly, and must then be approved by a popular referendum, unless it is initially approved by fourth-fifths of the members of the National Assembly. Currently, the FCBE and its allies do not have a sufficiently strong majority to push through controversial reform measures, which means that any changes would probably require a popular referendum.

Economic policy

IMF relations are good amid positive economic outlook

Benin's relations with donors and the international financial institutions have remained good. In mid-March the IMF's fourth review of Benin's poverty reduction and growth facility (PRGF) reported real GDP growth of 4.6% in 2007, with a prediction of 5.3% growth in 2008 based on the strength of the cotton and other agricultural sectors and the performance of the port of Cotonou. In a speech to the National Assembly before the New Year the president, Boni Yayi, was more bullish, predicting real GDP growth of 7% in 2008. Inflation, which was well controlled throughout 2007 at 1.3%, began to rise into 2008, but this is still well below the desired upper limit of 3% of the Banque centrale des Etats de l'Afrique de l'ouest (BCEAO, the regional central bank).

S&P maintains ratings and upgrades outlook

The positive sentiment about Benin's economic outlook was further reinforced when Standard & Poor's Sovereign Ratings Service confirmed Benin's B-ratings for both long-term and short-term credit in mid-December 2007. According to Standard & Poor's, "the positive outlook reflects the government's economic achievements in less than two years in office, notably a rebound in economic growth and the restoration of a sustainable budget deficit". Simultaneously, Standard & Poor's changed its outlook on the country from stable to positive, based on the government's "prudent" fiscal performance and marked improvements in the cotton sector and Benin's relations with Nigeria.

Capacity constraints lead to underspending

A key to the government's strong fiscal performance has been strong revenue collection and restrained government spending. However, government investment has been slowed by the implementation of extremely cautious fiscal allocation procedures. The 2008 budget (January 2008, Economic policy), proposes spending of CFAfr1trn (US$2.2bn), an increase of 17.2% on the budget for 2007. The budget was passed by parliament without significant changes on December 29th 2007. The minister of finance has argued that the weak spending level of the government comes from a lack of institutional capacity in line ministries, which hinders the disbursement of funds. For example, out of an allocation of CFAfr700bn in the 2007 budget, the Ministry of Primary Education only spent 58%, while other ministries recorded disbursement levels as low as 9%. As a result, there are serious doubts about the ability of the various ministries to use up the increased funding levels provided for in the 2008 budget.

Privatisation programme runs into more problems

The government's much delayed privatisation programme suffered yet another setback with the failed privatisation of Société nationale pour la promotion agricole (Sonapra) and its ginning factories (January 2008, The domestic economy). On January 14th the state reclaimed a 55% stake in the national oil marketing company, Société nationale de commercialisation des produits pétroliers (Sonacop), sold to Continental des pétroles d'investissement (CPI) in 1999. This action was taken in response to a decision by a Cotonou magistrate's court that CPI had not made its legally required payments to the state, as provided for in the privatisation agreement—the government's total stake in Sonacop is now 90%. Control of Sonacop is likely to increase the fiscal burden of the state, owing to the pressure to keep petrol prices down in spite of high world prices. In addition, Sonacop had debts of CFAfr35.2bn (US$78.2m) as of December 31st 2005.

The domestic economy

Policy changes are announced to offset food price inflation

The government has begun to take steps to mitigate the impact of mounting food price inflation that is common throughout West Africa. In January 2008 the Union économique et monétaire ouest-africaine (UEMOA) recorded year-on-year regional food price inflation of 7.3%. To lessen the impact of increasing prices the Beninese government disbursed CFAfr480m (US$1.1m) to the Office national d'appui à la sécurité alimentaire (ONASA; the national office charged with safeguarding food supplies), for the purchase of buffer stocks of key food products. In early January the government also announced the reduction of import duty on important staples such as rice, milk, sugar and flour. In total, nine products are covered, costing the state an estimated CFAfr12bn in lost revenue. On January 8th the government also announced the funding of CFAfr6.25bn for the Programme d'urgence d'appui à la sécurité alimentaire (Emergency programme for food security support), which will employ 1,800 agricultural professionals to help farmers increase the national production of staple agricultural goods, especially rice and maize.

Cotton is doing better, but poultry receives a knock

Benin's agriculture has experienced a series of successes and failures in the past few months. In December and January the poultry industry had to cope with the effects of avian influenza (bird flu) being found in commercial farms outside Cotonou. These outbreaks, and their effects, are now largely under control. The agriculture minister, Roger Dovonou, announced in late November that the 2007 cotton harvest (picked in October-December) was 300,000 tonnes—20% higher than the 240,000 tonnes recorded in 2006. This was in part the result of improved payment systems to farmers, although the harvest still failed to meet the government's ambitious targets. The government's plan for the next cotton planting season is focused on improving technical skills and increasing the acreage planted further.

Hope for increased production of rice and pineapples

The government is pushing for a programme of agricultural diversification to improve livelihoods and the national economy. As a result, Benin is the testing ground for Nerica (New Rice for Africa), a breed of hardy and disease-resistant rice that could enable Benin to become a major producer of rice in the region. Benin's pineapple growers have also launched a plan to expand the national the pineapple production to 619,000 tonnes per year by 2017, from 120,000 tonnes produced in 2006. Pineapple production in Benin has started and stopped over the past decades and must overcome issues of logistics and transport deficiencies to become a leading earner for the national economy, having been the second-largest Beninese export commodity at various stages in the 1990s.

Cement production is to get a boost from new investments

To meet demand from the recent deficit in cement production (January 2008, The domestic economy), final documents for the planned cement factory being built by a Beninese businessman, Mathias de Chacus, and the Société des ciments du Golfe near the Benin-Nigeria border at Djrègbé in the Sèmè-Kpodji commune were signed in early February 2008 (April 2007, The domestic economy: Construction). The project will cost an estimated CFAfr28bn (US$62.2m) and is planned to begin production in 2009. This will bring the number of cement factories in Benin to four. A fifth factory project, Cimenterie nouvelle du Bénin, led by a Lebanese investor and costing CFAfr130bn, is planned to be located in Massé in Plateau department, with a capacity of 1.2m tonnes. Plans envisage the creation of 4,000 direct jobs and 2,500 indirect ones, but possible overproduction for the domestic market may create opportunities for export to neighbouring states such as Togo and Nigeria. Annual domestic demand is estimated at 2.3m tonnes, largely as a result of demand for cement from government road construction projects, the building of new ministerial offices and the construction of hotels and villas, particularly for the hosting of the Communauté des États Sahélo-Sahariens (CEN-SAD) summit to be held in Cotonou in June 2008.

However, until domestic production can be increased, the government has decided to take steps to meet the chronic lack of cement and continually rising prices in the short term. The most immediate action will be the monthly import of 18,000 tonnes of cement from two Togolese cement companies, Cimtogo and Fortia. The government's Council of Ministers has also announced its decision to reduce the amount of cement allowed for export by a Beninese company, SCB-Lafarge, which will add an additional 15,000 tonnes to stocks. The decision has important financial implications for the state, as it has decided to prefinance the purchase of cement and subsidise the differential in cost from importing it, at an estimated cost of CFAfr415.9m (US$920,000) per month for the cement, which will be destined exclusively for government projects in preparation for the CEN-SAD summit.

Improvements are planned for the airport and Cotonou port

The provision and extension of infrastructure is currently a top governmental priority, with roads, airports and seaports attracting the most attention. In December 2007 the state disbursed CFAfr6.67bn (US$14.8m) for improvements to the Cotonou international airport, including the expansion of holding capacity to cope with the increased air traffic expected from the June 2008 CEN-SAD summit. Eliminating the backlog, inefficiencies and criminality at the port of Cotnou have also been a focus of the government. A project to extend the container terminal, adding two container parks, began in January 2008 and is being carried out by three companies, SMTC (Bolloré), Société béninoise de manutentions portuaires (Sobemap) and COMAN (Maersk Line), and is scheduled to be finished by mid-2009. With estimated costs of CFAfr9bn, each company will extend a portion of the container port: the increase will include 95,000 sq metres for Maersk Line; 82,000 sq metres for SMTC; and 77,000 sq metres for Sobemap. However, regardless of these investments, improvements in the management of the port will be equally necessary to increase performance.

Foreign trade and payments

New data show full impact of 2006 MDRI debt relief

According to the latest figures from the World Bank, Benin's stock of external debt fell to just US$824m at the end of 2006, from US$1.86bn at the end of 2005. The dramatic fall is the result of debt relief received under the multilateral debt relief initiative (MDRI) in 2006 (October 2006, Foreign trade and payments). The country received a total of US$1.03bn in write-offs from the IMF, the World Bank and the African Development Bank. The remaining outstanding stock is owed to multilateral and bilateral institutions and consists of borrowing that took place after the MDRI cut-off date of end-2005 (loans agreed after that date were not eligible for cancellation). As a result, Benin's total debt to GNP ratio fell from 43.6% at end-2005 to 17.5% at end-2006. Of the US$369m of bilateral debt, the majority is thought to be owed to the former Soviet Union and is also likely be written off at some stage.

Benin: external debt

(US$ m unless otherwise indicated; end-period)

	2003	2004	2005	2006
Long-term debt	1,726	1,827	1,762	782
Official creditors	1,722	1,823	1,762	782
Multilateral	1,294	1,408	1,344	413
Bilateral	429	415	418	369
Private creditors	4	4	0	0
Use of IMF credit	73	65	53	3
Short-term debt	29	24	39	40
Interest arrears on long-term debt	0	0	0	1
Total debt	**1,828**	**1,916**	**1,855**	**824**
Disbursements	60	76	86	81
Debt-service paid	48	55	60	81
Principal repayments	32	37	41	65
Interest payments	17	18	19	16
Ratios (%)				
Debt/GNP	52.0	47.8	43.6	17.5
Debt-service ratio	7.6	7.2	n/a	n/a

Source: World Bank.

