BENIN

Table 1	2019
Population, million	12.0
GDP, current US$ billion	14.4
GDP per capita, current US$	1193.7
International poverty rate ($1.9)[a]	49.6
Lower middle-income poverty rate ($3.2)[a]	76.3
Upper middle-income poverty rate ($5.5)[a]	90.6
Gini index[a]	47.8
School enrollment, primary (% gross)[b]	122.0
Life expectancy at birth, years[b]	61.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2018).

Following strong growth in 2019 (6.9 percent), driven by a pickup in manufacturing, the economy is expected to decelerate in 2020 due to the COVID-19 crisis affecting trade and services sectors. The external and fiscal balances will deteriorate. Growth and poverty reduction are expected to gradually recover over the medium term. The outlook is tilted to the downside with risks stemming from a sustained COVID-19 outbreak, the continued border closure with Nigeria, and the 2021 Presidential elections.

Recent developments

Following a robust 6.9 percent growth (4.0 percent in per capita terms) in 2019, economic activity decelerated in early 2020 due to the COVID-19. Growth reached 3.9 percent year-on-year (y-oy) in the first quarter, down 2.8 percentage points (ppts) on a yearly basis. On the supply side, the fall was due to disruptions in manufacturing (-2.9 percent y-o-y) while COVID-19 containment and mitigation measures adversely effected the retail sector (-6.5 percent y-o-y). Inflation turned negative in 2019 (-0.9 percent), but the trend reversed in the first half of 2020 reaching 2.0 percent in August 2020, on the back of higher transport and produce prices.

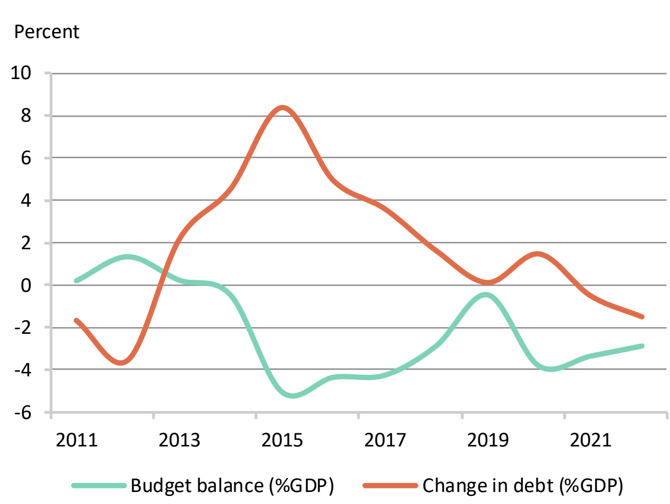
The current account deficit (including grants) shrank from -4.5 percent in 2018 to -4.3 percent of GDP in 2019. Boosted by high cotton production, formal exports increased by 6.7 percent y-o-y in the first quarter, but were down in the second (-39.5 percent y-o-y seasonally adjusted) due to the impact of COVID-19 on cotton and cashew prices. Imports were also down (-36.2 percent y-o-y) as the Nigerian border closure weighted on re-exports. Still, the terms of trade improved in early 2020 as a result of the drop in oil prices, but the impact should be limited due to reliance on smuggled fuel from Nigeria.

The fiscal deficit (including grants) significantly narrowed, from 2.9 percent of GDP in 2018 to 0.5 percent of GDP in 2019, mostly due to the under-execution of externally-financed projects. During the first half of 2020, the fiscal deficit increased (to 2.4 percent of GDP) because of higher spending associated with the crisis response and persistently lower customs revenues linked to the border closure (-25 percent y-o-y). Domestic revenues have shown resilience however (+26.1 percent y-o-y) thanks to reforms on VAT. The debt-to-GDP ratio was stable at 41.2 percent of GDP in 2019.

Benin's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a fixed peg between the CFA Franc and the Euro. Its reserves reached 5.4 months of imports in 2019, driven by fiscal consolidation in member states and higher net capital inflows. To support the regional economy and COVID-19 related extra spending, the BCEAO has implemented a set of monetary and macroprudential measures since March 2020. These include lowering its policy rate to a fixed 2.5 percent and extended refinancing operations of the 3-month "Covid-19 T-Bills" at 2.5 percent for limited amounts.

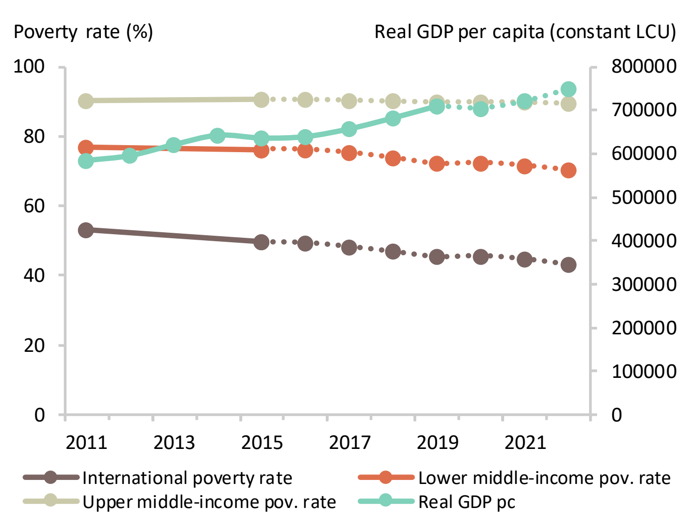
The recent 2018-19 WAEMU harmonized households survey confirms that poverty and vulnerability remain high. National poverty stood at 38.5 percent in 2019, with rural poverty at 44.2 percent (+12.8 ppts higher than urban). World Bank estimates suggest that the $1.9 a day (2011 PPP) poverty rate declined from 49.6 percent in 2015 to 45.4 percent in 2019. Non-monetary poverty indicators have improved as well. Inequality is estimated to be moderate based on consumption aggregates, with a Gini index of 34.7 percent in 2019. The COVID-19

FIGURE 1 Benin / Fiscal deficit and government debt



Sources: Beninese authorities and World Bank projections.

FIGURE 2 Benin / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

crisis is expected to reverse some of these gains in the short-term.

Outlook

COVID-19 has led to a deterioration of Benin's economic outlook. GDP growth is projected to decelerate by close to 5 ppts to 2 percent in 2020 (-1.0 percent in per capita terms) driven by a slowdown in services and manufacturing. Notwithstanding the high uncertainty, growth is expected to recover slowly to potential by 2022. Exports and private consumption could bounce back in 2021, as the pandemic wanes. The gradual recovery assumes a rebound in the global economy due to the rollout of vaccine in 2021 and a re-opening of the border with Nigeria. Inflation is expected to reach 2.5 percent in 2020 due to the impact of COVID-19 on trade.

In the short-term, Benin's external position will deteriorate. The current account deficit is expected to widen in 2020 (to 5.3 percent of GDP) with a decline in cotton exports and re-export activity with Nigeria. The deficit will be increasingly financed through concessional borrowing and grants from development partners. WAEMU reserves are expected to decline to 4.5 months of imports in 2020 as member countries are hit by the COVID-19 crisis. Over the medium term, the current account deficit should gradually decline to 4.8 percent of GDP by 2022, as exports recover.

The fiscal deficit is projected to increase to 3.7 percent of GDP (including grants) in 2020, compared with the pre-COVID estimate of 2.0 percent of GDP, due to increased social and healthcare spending, and lower tax revenues due to subdued economic activity, and persistent border closures and recession in Nigeria. The wider deficit is expected to be financed by grants, concessional financing, and additional bond issuance in the regional market. The deficit should gradually return to the WAEMU convergence criterion by 2022. The public debt to GDP ratio is projected to decrease to 42.2 percent as early as 2021, confirming the moderate risk of debt distress.

Poverty is expected to decrease over the projection period as the country recovers from the crisis, despite increasing in 2020 as a result of the slowdown in per capita growth. The pace of poverty reduction will stumble however, due to the ongoing COVID-19 pandemic. The $1.9/day PPP poverty headcount rate would decrease from 45.7 percent in 2020 to 43.1 percent in 2022, while the $3.2/day PPP poverty rate would decrease from 72.5 percent in 2020 to 70.3 percent by 2022.

Risks and challenges

The outlook is highly uncertain with substantial downside risks primarily linked to the duration of the COVID-19 pandemic both globally and regionally. A prolonged outbreak would compromise economic recovery, increasing the fiscal and external financing requirements and debt pressures. Additional containment measures would also undermine poverty reduction by threatening the livelihoods of the large informal sector (85 percent of employed). Lower cotton prices, weather fluctuations and the persistence of the border closure with Nigeria into 2021 are additional risks. Presidential elections in March 2021 could increase the risk of higher discretionary spending. Achieving economic diversification and reducing the economic and fiscal dependence from Nigeria remain medium-term challenges to accelerate economic transformation and poverty reduction.

TABLE 2 Benin / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	5.7	6.7	6.9	2.0	5.0	6.7
Private Consumption	3.5	3.5	3.5	2.9	3.4	3.7
Government Consumption	7.0	6.0	5.8	10.0	1.1	3.3
Gross Fixed Capital Investment	25.5	16.3	10.2	4.4	5.9	14.2
Exports, Goods and Services	7.0	5.0	8.6	-27.8	27.2	27.8
Imports, Goods and Services	14.3	4.8	3.4	-16.5	16.1	22.3
Real GDP growth, at constant factor prices	6.0	6.7	6.9	2.0	5.0	6.7
Agriculture	7.3	7.3	7.2	4.2	6.7	7.8
Industry	10.5	6.2	6.2	1.0	5.7	7.4
Services	1.6	6.7	7.1	0.8	2.9	5.0
Inflation (Consumer Price Index)	1.8	0.8	-0.9	2.5	2.0	2.0
Current Account Balance (% of GDP)	-4.1	-4.5	-4.3	-5.3	-4.8	-4.8
Net Foreign Direct Investment (% of GDP)	1.1	1.2	1.3	0.6	1.0	1.3
Fiscal Balance (% of GDP)	-4.3	-2.9	-0.5	-3.7	-3.4	-2.8
Debt (% of GDP)	39.5	41.1	41.2	42.7	42.2	40.7
Primary Balance (% of GDP)	-2.8	-1.3	1.1	-1.8	-1.2	-0.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	48.3	46.8	45.4	45.7	44.7	43.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	75.3	73.8	72.2	72.5	71.6	70.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	90.4	90.1	89.9	89.9	89.8	89.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2015-EMICOV. Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.