Economic activity accelerated as real GDP growth increased from 5.8 percent in 2017 to 6.7 percent (3.8 in per capita terms) in 2018. This exceeds the potential growth rate estimated at 6.2 percent. Stronger economic activity was driven by agriculture and services, including record-levels of cotton production (+17 percent) and increased port activity (+8.5 percent). As a result of a narrowing output gap, inflation accelerated from 0.1 percent in 2017 to 1.0 percent in 2018 but remained subdued supported by the prudent monetary policy at the regional level.

The external current account deficit (excl. grants) narrowed from 10.2 percent in 2017 to 8.5 percent of GDP in 2018 reflecting an increase in agricultural exports and reduced food imports following reforms in the agricultural sector. Export growth reached 20.2 percent in 2018 while imports only decreased by 4.3 percent.

The fiscal deficit (including grants) declined from 5.9 percent of GDP in 2017 to 4.0 percent in 2018 owing to increased revenues and lower capital expenditure. High royalty payments by mobile phone companies and new measures improving tax administration were behind the revenue gains. The sharp reduction in the fiscal deficit is overall due to the under execution of public investment. It was largely financed by concessional loans and external commercial borrowing. The debt-to-GDP ratio increased nonetheless from 54.4 percent in 2017 to 56.8 percent in 2018. While the stock of domestic debt declined from 32.4 to 30.3 percent of GDP, that of external debt increased by 4.4 percent of GDP to 26.5 percent as a result of a repaying operation in October 2018 that improved the overall profile. Also, a guarantee of half a percent of GDP to the electricity distribution company was added to the 2018 debt stock. The risk of external debt distress remains moderate.

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. BCEAO’s international reserves reached 4.5 months of imports in 2018, up from 4.1 months in 2017, supported by Eurobond issuances by Senegal and Côte d’Ivoire and fiscal consolidation. Despite tighter monetary policy in 2018, with BCEAO reducing its refinancing to banks, regional liquidity pressures were alleviated by the Eurobond issuances. The real effective exchange rate (REER) appreciated by 2.4 percent in 2018, after being stable in 2017, partly reflecting the strengthening of the Euro.

Poverty levels remain high with a declining trend. World Bank estimates based on official consumption aggregates suggest that $1.9 a day (2011 PPP) poverty declined from 49.5 percent in 2015 to 46.4 percent in 2018. Non-monetary poverty indicators have improved over this period as well. Inequality is estimated to be moderate based on consumption aggregates, with a Gini index of 48.0 percent in 2015.

**FIGURE 1** Benin/ Real GDP growth and contributions to real GDP growth

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

Sources: WDI, Beninese authorities and World Bank.
Outlook

Growth is projected to average 6.7 percent over 2019-2021. Economic activity will be led by the agriculture and services sector. On the supply side, this assumes the continued expansion in cotton production, and the development of new sectors such as tourism and digital economy. On the demand side, public investment of previous years starts to pay off and private investment is expected to increase further. Inflation is projected to increase to 2.0 percent during 2019-2021 as the output gap turns positive. The current account deficit should continue to narrow and converge to 6.9 percent of GDP in 2021, driven by continued export growth. The deficit is expected to be financed mainly by FDI, concessional and external borrowing. WAEMU reserves would reach about 4.6 months of imports by 2021 as member countries continue to implement fiscal consolidation measures and external competitiveness improves. The fiscal deficit is expected to gradually converge to 2 percent of GDP in 2021, and remain below the WAEMU norm of 3 percent of GDP during the forecast period. Efforts to contain expenditures, continued improvements in tax administration, as well as emphasis on tax revenue mobilization should work in that direction. Public debt is also expected to decrease in the forecast horizon, and should fall below 50 percent of GDP by 2021 as a result of continued fiscal consolidation and strong economic growth. Improved external borrowing conditions and access to international financial markets should improve debt terms. In March 2019, Benin issued its first Eurobond (EUR500 million).

Poverty is expected to decrease over the projection period. Projections indicate that the $1.9/day PPP poverty headcount rate would decrease from 46.4 percent in 2017 to 42.0 percent in 2021, while the $3.2/day PPP poverty rate would decrease from 73.3 percent to 69.4 percent over the same period. The slower pace of reduction here is due among others to low per capita income growth resulting from low productivity in sectors where most of the poor work (e.g., agriculture, informal non-agriculture self-employment).

Risks and challenges

The outlook is subject to downside risks. Growth could be weaker if the efficiency of public investment is low or private investment falls short of expectations due to political tensions during the electoral cycle starting in 2019. A slower implementation of the fiscal adjustment and structural reforms might discourage private investors and compromise the government’s PPP agenda. Similarly, banking sector vulnerabilities (e.g., high NPLs) could further hamper private sector growth. External factors could also weigh down on the positive outlook. Adverse developments in Nigeria (the border to Benin was partially closed in August 2019) would negatively impact exports, thus lowering economic growth and widening the trade deficit. Similarly, adverse weather conditions and commodity price volatility could negatively affect exports. Significant fluctuations in agricultural crop prices would also adversely affect the income of the poor. A tightening of monetary policy in international and regional markets would increase the cost of borrowing.