

BENIN

Key conditions and challenges

Table 1 2020

Population, million	12.4
GDP, current US\$ billion	15.2
GDP per capita, current US\$	1224.7
International poverty rate (\$ 19) ^a	49.6
Lower middle-income poverty rate (\$3.2) ^a	76.2
Upper middle-income poverty rate (\$5.5) ^a	90.6
Gini index ^a	47.8
School enrollment, primary (% gross) ^b	116.7
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) WDI for school enrollment (2019); life expectancy (2018).

Real GDP growth slowed to 2 percent in 2020, as the COVID-19 crisis affected global demand, containment measures hindered services and recession hit Benin's main trading partner, Nigeria. The fiscal balance deteriorated due to large counter-cyclical fiscal spending and lower tax revenues. Growth and poverty reduction are expected to gradually recover over the medium term, supported by the re-opening of the border with Nigeria in early 2021. Uncertainty over the efficacy and accessibility of vaccines cloud the outlook.

Benin entered the COVID-19 pandemic with real GDP growth averaging 6.4 percent in the period 2017-2019 (3.5 percent in per capita terms), driven by cotton exports, and the construction and transport sectors. The 16-month border closure with Nigeria has however brought to light some of the vulnerabilities of its growth model. Despite some domestic manufacturing in cement and textile, the economy is hampered by its reliance on re-exporting imported goods and commodities (e.g. used cars, rice) to Nigeria through its land border, and the concentration of formal exports in agricultural products (mainly cotton and cashew). Eighty five percent of the labor force is working in the informal economy, which is costly for firms and workers and has hampered productivity growth. Domestic revenue mobilization is low and has remained among the lowest in the WAEMU despite ambitious tax policy and administration reforms since 2016. While economic gains at the macro level have started to translate into better living standards and improved human development indicators, the effects of COVID-19 on informal businesses and households, could reverse recent trends.

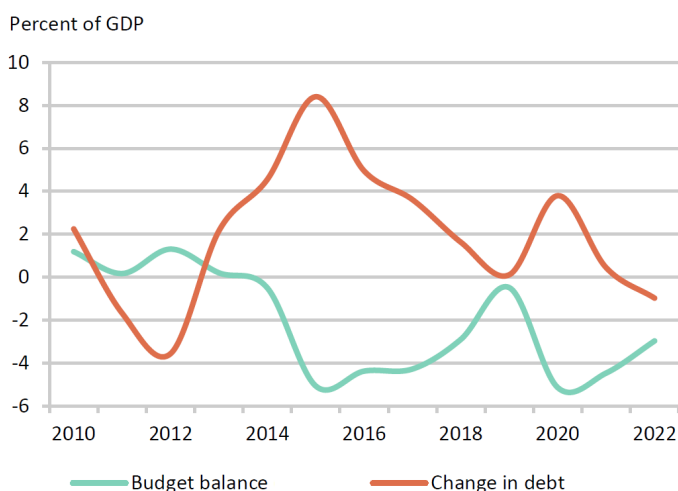
The duration of the COVID-19 pandemic, both regionally and globally, constitute substantial downside risks. A prolonged outbreak would compromise the economic

recovery, with new containment measures undermining poverty reduction by threatening the livelihoods of the large informal sector and increasing food insecurity, while raising fiscal and external financing requirements and debt pressures. Diversifying the economy and reducing the fiscal dependence on trade with Nigeria remain medium-term challenges to economic transformation that raises productivity and reduces poverty. Increased security threats spilling over from the Sahel region could also threaten growth.

Recent developments

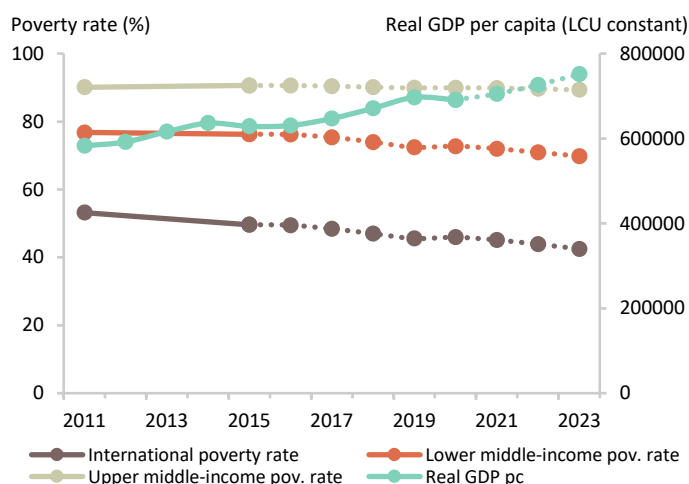
Due to the COVID-19 crisis real GDP growth slowed to 2.0 percent in 2020 (-1.0 percent in per capita terms). H1 2020 experienced the largest slump with quarterly GDP contracting by 2 percent in Q2, following the imposition of COVID-19 restrictions. GDP grew in Q3 (+1.6 percent y/y) as retail and manufacturing activity picked up once containment measures eased. Agriculture was mildly hit by labor shortages due to restrictions on the regional migrant flows. On the demand side, public expenditure was the main driver of growth. Inflation ramped up and reached +3.3 percent at end-2020, on the back of higher food prices in a context of border closures and trade disruptions. The current account deficit (CAD), including grants, widened from 4.0 percent of GDP in 2019 to 4.6 percent in 2020. Despite the strong cotton production (Benin was the major exporter in West Africa),

FIGURE 1 Benin / Budget balance and change in Public and publicly guaranteed debt



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

exports have been hit by declining commodity prices and lower re-export activities. The fiscal deficit (including grants) significantly widened, from 0.5 percent of GDP in 2019 to 5.1 percent in 2020, as authorities turned to counter-cyclical fiscal spending to counter the crisis. The ambitious health and socio-economic response plan amounted to 2.7 percent of GDP. In parallel, subdued demand, combined with the adverse impact of the border closure reduced total revenues (driven by lost customs earnings).

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. Foreign reserves reached 5.5 months of imports in 2020 (up from 4.4 in 2019), due to large donor support and reduced imports during the pandemic. To support regional economy and COVID-19 related extra spending, the BCEAO announced a set of monetary and macroprudential measures, since March 2020, including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds.

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 \$1.9 a day

(2011 PPP) poverty declined from 49.6 percent in 2015, to 45.5 in 2019 increasing only slightly to 45.9 percent in 2020. Inequality is moderate based on consumption aggregates, with a Gini index of 34.7 percent in 2019, but the COVID-19 crisis is expected to reverse some of these achievements in the short and medium terms.

Outlook

Benin is expected to recover gradually. Growth will rebound to 5.0 percent in 2021, and progressively reach 6.5 percent in 2023. Private consumption and exports should drive the recovery, pushed by higher commodity prices, positive growth in Nigeria and the reopening of its border. In per capita terms, however, Benin will not achieve pre-COVID 19 levels in the next two years given its population growth and growth remaining below potential. Inflation should slow to 2.0 percent, as labor restrictions linked to COVID-19 expire.

The CAD should improve slightly and stabilize at -4.3 percent in 2023 as formal and informal trade resumes, even as imports are expected to remain high on the back of strong construction activity. FDI and portfolio flows should increase gradually.

The fiscal deficit (including grants) is expected to gradually decrease as authorities revert to fiscal consolidation by reigning in recurrent spending. As revenues also bounce back, the fiscal deficit will reach the WAEMU convergence criteria of 3 percent of GDP in 2022. The deficit is expected to be increasingly financed by non-concessional borrowing. On January 2021, Benin raised EUR 1 billion (5.7 percent of GDP) in Eurobonds. Part of the proceeds will serve to rollover the 2019 debut Eurobond and improve Benin's debt servicing capacity. Still, increased exposure to commercial borrowing may raise vulnerabilities linked to low domestic revenue collection. The public debt ratio is projected to reach a peak at 46.4 percent of GDP in 2021, before gradually declining.

Poverty is expected to decline over the projection period as the country recovers from the crisis. Despite increasing slightly in 2020, as a result of the slowdown in per capita growth, the \$1.9/day PPP poverty headcount rate is expected to decrease to 42.5 percent in 2023, while the \$3.2/day PPP poverty rate declines from 72.8 percent in 2020 to 69.8 percent by 2023. The recent acceleration in the pace of poverty reduction led by growth in agriculture could be compromised by any resurgence of the COVID-19 pandemic or other border shocks.

TABLE 2 Benin / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.7	6.9	2.0	5.0	6.0	6.5
Private Consumption	3.5	3.5	2.6	5.0	6.0	6.5
Government Consumption	6.0	5.8	19.6	-0.2	-5.0	-10.3
Gross Fixed Capital Investment	16.3	10.2	-7.8	5.1	11.8	12.6
Exports, Goods and Services	5.0	8.6	-31.4	23.2	13.8	5.1
Imports, Goods and Services	4.8	3.4	-26.9	16.6	12.9	4.6
Real GDP growth, at constant factor prices	6.7	6.9	2.0	5.0	6.0	6.5
Agriculture	7.3	7.2	5.6	6.5	7.6	8.4
Industry	6.2	6.2	-1.9	1.3	1.4	2.2
Services	6.7	7.1	1.8	6.3	7.8	7.7
Inflation (Consumer Price Index)	0.8	-0.9	3.0	2.0	2.0	2.0
Current Account Balance (% of GDP)	-4.5	-4.0	-4.6	-4.5	-4.5	-4.3
Net Foreign Direct Investment (% of GDP)	1.2	1.3	0.6	1.0	1.1	1.2
Fiscal Balance (% of GDP)	-2.9	-0.5	-5.1	-4.5	-3.0	-2.6
Debt (% of GDP)	41.1	41.2	46.1	46.4	45.4	44.0
Primary Balance (% of GDP)	-1.3	1.1	-3.1	-2.1	-1.0	-0.6
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	47.0	45.6	45.9	45.1	43.9	42.5
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	74.0	72.4	72.8	72.0	70.9	69.8
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	90.1	89.9	90.0	89.9	89.6	89.4

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

(a) Calculations based on 2015-EM ICOV. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.