BENIN

Table 1	2021
Population, million	12.5
GDP, current US$ billion	18.5
GDP per capita, current US$	1487.0
International poverty rate ($1.9)[a]	19.2
Lower middle-income poverty rate ($3.2)[a]	51.3
Upper middle-income poverty rate ($5.5)[a]	79.3
Gini index[a]	37.8
School enrollment, primary (% gross)[b]	114.2
Life expectancy at birth, years[b]	61.8
Total GHG Emissions (mtCO2e)	30.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Backed by a rebound of services and dynamic construction sector, real GDP growth is estimated to have reached 6.6 percent in 2021, in-line with pre-COVID trends. The fiscal deficit deteriorated further as government extended its socio-economic response into 2021 and maintained capital expenditure levels, putting pressure on PPG debt. Global inflation, regional insecurity spreading through the northern border, and tightening global financial conditions cloud the outlook.

Key conditions and challenges

Prior to the pandemic, Benin experienced robust real GDP growth, averaging 6.4 percent between 2017-2019, due to a relatively favorable external environment and commitment to macroeconomic stability. The swift socio-economic response to COVID-19, combined with the continuation of large public infrastructure projects supported growth throughout 2020, keeping the real GDP deceleration among the lowest in SSA. The Government Action Plan (PAG) which initially covered the period 2016-2021 was extended to 2026 following the reelection of President Talon in April 2021, and PAG2 maintains its focus on strengthening governance and on ambitious infrastructure investments (transport, logistics, agriculture, and tourism).

Extending the recovery into the medium term will require continued structural reforms alleviating key constraints. First, productivity growth in services and industry has been slow, due to low quality education and skills mismatches. Second, the COVID-19 crisis highlighted a lack of resilience stemming from high gender disparities and inadequate social safety nets. Finally, even though fiscal consolidation efforts since 2016 enabled the use of countercyclical fiscal policy in response to the COVID-19 crisis, domestic revenue mobilization remains structurally weak, limiting fiscal space for productive spending.

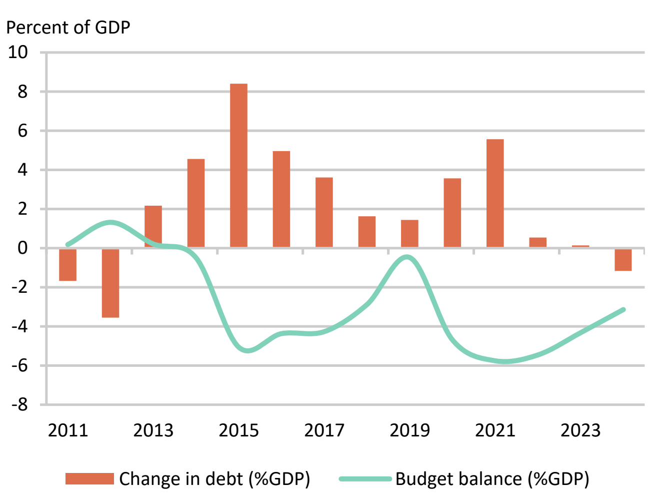
In terms of risks, sustained food and energy price volatility fueled by global geopolitical tensions would negatively impact poor and vulnerable households, increasing food insecurity and slowing poverty reduction. Extreme climate events would also cause damage and jeopardize agricultural output. Increased insecurity in the northern part of the country could threaten the economic development of these rural regions, push more households into fragility and trigger new security spending, reducing fiscal space. Finally, monetary policy tightening in advanced economies would put pressure on Benin's external financing and debt sustainability.

Recent developments

Real GDP growth is expected to have reached 6.6 percent in 2021, 3.8 percent in per capita terms, driven by a strong rebound of the tertiary and construction sectors. Private consumption (+3.9 percent) and total investment (+19.4 percent) benefited from easing cross border restrictions and large public investment projects. Inflation eased to 1.7 percent on average in 2021, notably on the back of lower energy prices until September 2021 and a good, yet delayed, local subsistence farming production.

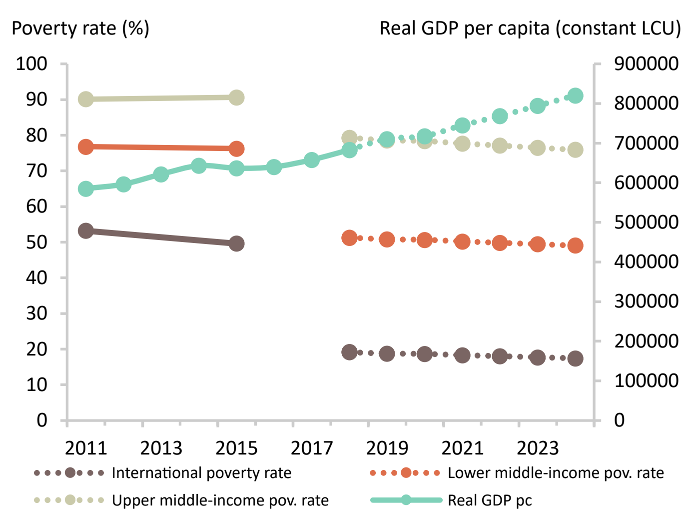
The external current account deficit (CAD) is estimated to have significantly deteriorated to -4.6 percent of GDP in 2021, after a temporary improvement to -1.7 percent of GDP in 2020. In 2021, the resumption of re-export activities following the end of the

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.

border closure with Nigeria and the large import demand required for infrastructure projects fueled the deficit. The CAD was mainly financed by external commercial borrowing in 2021.

Fiscal policy remained expansionary for a second consecutive year with the fiscal deficit (incl. grants) up from 4.7 percent of the GDP in 2020, to 5.8 percent of GDP in 2021. The increase was mostly driven by capital expenditure and the extension of COVID related current spending. Revenues, excluding grants, increased from 12.7 to 13.4 percent of GDP in 2021, due to higher customs revenues and resilient tax revenues. Public and publicly guaranteed (PPG) debt increased to 51.7 percent in 2021 (+9.2 ppt compared to 2019), with Eurobond issuances representing the bulk of 2021's financing.

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 5.8 months of imports of goods and services in 2021, as a result of increased exports, the August 2021 SDR allocation, and portfolio inflows linked to Eurobond issuances in the region.

Poverty and vulnerability remain high. The poverty rate based on the national poverty line was 38.5 percent in 2019, with strong spatial disparities: rural poverty stood at 44.2 percent, +12.8 ppts higher than in urban areas. Poverty reduction ($1.9 a day, 2011 PPP) based on the 2018 EHCVM was estimated at 19.2 percent, and it slightly slowed down in 2021 (-0.5 percent y-o-y) versus 2020, as extreme poor represented 18.3 percent of the population end-2021.

Outlook

The ongoing war in Ukraine and its repercussions in fuel and food prices, are expected to negatively weigh on the short term outlook. Real GDP growth is expected to decelerate to 5.9 percent in 2022, before stabilizing at around 6 percent with fiscal consolidation muting the rebound. A gradual shift from public to private investments in the medium term is expected to drive growth on the demand side, underpinned by the implementation of the PAG 2.

Inflation is projected to sharply increase to 3.9 percent in 2022, and gradually abate as the impact of the ongoing conflict in Ukraine recedes.

The current account deficit (including grants) is expected to widen to 6 percent of GDP in 2022, as import prices rise driven by imports from construction and energy sectors. The CAD will be mainly financed by regional bond emissions and concessional financing.

Swift response to alleviate the surge in food and fuel prices on households, will keep the fiscal deficit (including grants) high at 5.5 percent of GDP in 2022. A revenue-based fiscal consolidation is expected to narrow the fiscal deficit to 4.4 percent in 2023 and reach the WAEMU target of 3 percent of GDP by 2025. As a result, PPG debt is expected to peak at 52.4 percent end 2023 before gradually decreasing.

WAEMU reserves are expected to fall to around 5.5 months of imports in 2022 and 5.3 months in 2023 and 2024, reflecting faster growth in imports and a reduction in net capital inflows (as a percent of GDP), as the environment for Eurobond issuances remains uncertain. Growth-friendly fiscal consolidation and the implementation of structural reforms are key to maintaining reserves at an optimal level.

Poverty reduction is expected to gradually revert to its pre-crisis downward trend as the economy rebounds, but recent increases in food and energy prices could slow its pace. On the back of improved employment indicators, and social protection programs, the $1.9/day PPP poverty headcount rate is expected to decrease to 18 percent in 2022 (-0.3 percent y-o-y), and to 17.4 percent by 2024.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.9	3.8	6.6	5.9	6.1	6.0
Private Consumption	3.5	3.0	3.9	3.5	3.6	4.3
Government Consumption	5.8	19.6	8.5	9.2	-2.0	3.0
Gross Fixed Capital Investment	8.4	-10.9	11.6	11.0	15.4	10.2
Exports, Goods and Services	-1.6	-15.4	23.8	14.0	8.3	5.8
Imports, Goods and Services	-6.1	-21.5	19.8	13.4	6.9	4.6
Real GDP growth, at constant factor prices	6.9	3.8	6.6	5.9	6.1	6.0
Agriculture	7.2	1.8	3.2	5.0	5.4	5.5
Industry	6.2	5.2	9.4	8.4	9.5	10.1
Services	7.1	4.5	7.4	4.7	3.9	2.9
Inflation (Consumer Price Index)	-0.9	3.0	1.7	3.9	2.5	2.0
Current Account Balance (% of GDP)	-4.0	-1.7	-4.6	-6.0	-5.3	-4.8
Net Foreign Direct Investment (% of GDP)	1.3	0.5	1.4	1.5	1.8	2.2
Fiscal Balance (% of GDP)	-0.5	-4.7	-5.8	-5.5	-4.3	-3.1
Debt (% of GDP)	42.5	46.1	51.7	52.2	52.3	51.2
Primary Balance (% of GDP)	1.1	-2.7	-3.6	-3.7	-2.6	-1.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	18.8	18.7	18.3	18.0	17.7	17.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	50.8	50.7	50.2	49.8	49.5	49.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	78.6	78.4	77.7	77.1	76.5	75.9
GHG emissions growth (mtCO2e)	1.6	2.3	4.2	3.6	3.3	3.5
Energy related GHG emissions (% of total)	35.2	36.0	38.0	39.4	40.6	41.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2011-EMICOV, 2015-EMICOV, and 2018-EHCVM.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU.