Benin

Recent macroeconomic and financial developments

Benin's growth improved in 2021 to 7.0% from 3.8% in 2020. On the supply side, growth resulted from the good performance, on the one hand, of the primary sector (up 3.9% after 2% growth in 2020), benefiting from the positive effects of the reforms that helped to increase yields and improve governance of the agriculture sector; and, on the other, of the tertiary sector, which grew 7.2% in 2021, up from 4.9% expansion in 2020, due to an increase in port traffic, the opening of Nigeria's borders, and better governance of Cotonou Port. On the demand side, growth stemmed from the 17% increase in investment, with a continued countercyclical fiscal policy. Inflation dropped to 1.7% in 2021 owing to improved food supply.

The budget deficit worsened, however, in 2021, to 6.1% of GDP, financed in part by the allocation of 118.6 million in SDR for Benin; the remainder of the amount is to finance the 2022 budget deficit. Public debt was 47.2% of GDP in 2021 against 46.1% in 2020, but the risk of debt distress remains moderate. The current account deficit is estimated to have doubled in 2021, reaching 3.7% of GDP, due to a 64.5% decrease in public transfers; foreign exchange reserves covered 5.9 months of imports in 2021. The solidity of the financial system was strengthened with a fall in the rate of outstanding loans to 14.8% in September 2021, against 17% in September 2020. The poverty rate was estimated at 38.5% in 2019 and unemployment 2.4%, with a high level of underemployment (72.9%).

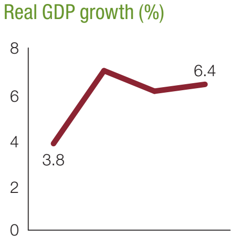
Outlook and risks

Growth is expected to reach 6.1% in 2022 and 6.4% in 2023. These forecasts rely on reforms in agriculture sector governance, and improvements in public financial management and the business climate. The food supply increase should allow inflation to continue to decrease to roughly 2.8% by 2023. The budget deficit is projected to narrow to 4.3% of GDP in 2022 and 3.7% in 2023, but these are still wider than the WAEMU criterion of 3% of GDP. After rising to 48.9% of GDP in 2022, public debt is projected to decrease to 46.3% in 2023, helped by robust growth and better debt structuring during this period. The current account deficit is expected to widen to 5.4% of GDP in 2022 before narrowing to 4.6% in 2023, in the latter year due to a narrowing trade balance. Foreign exchange reserves are forecast to increase to 6 months of import cover on average in 2022–23. The main risks are the resurgence of the health crisis, fluctuations in cotton and oil prices, the impacts of the Russia–Ukraine conflict, adverse weather, and deteriorating security in northern areas.

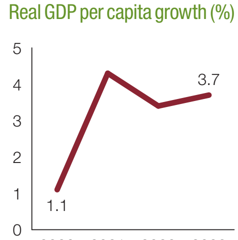
Climate change issues and policy options

Benin is vulnerable to climate change, which is seen in drought, deforestation, soil degradation, and flooding. The Bank's 2021 Country Policy and Institutional Assessment puts Benin's Environmental Policies and Regulations score at 4 in 2021. The socioeconomic effects of climate change could, by 2030 and 2050, decrease corn yields by 21.6% and 28.8%, and cotton's by 0.9% and 6.3%. GHGs were estimated at 17.3 $MtCO_2eq$, or 1.5 tCO_2eq per capita, in 2018. Benin adopted a National Climate Change Management Policy 2020–2030 and prepared its NDC for 2030. It has implemented a National Renewable Energy Policy 2020–2030. A 25 MW PV solar plant, expandable to 50 MW, should become operational in April 2022 and produce 35 GWh of electricity, reducing the country's CO_2 emissions by 23,000 tons over 25 years. Finally, Benin has created the National Fund for the Environment and Climate, for FCFA 1.2 billion.

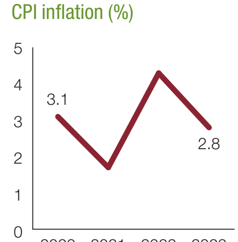
Real GDP growth (%)



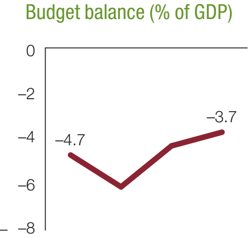
Real GDP per capita growth (%)



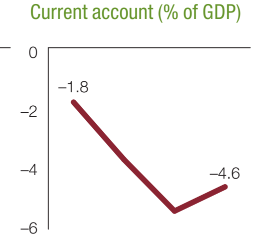
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.