

Recent macroeconomic and financial developments

From a health perspective, Benin seems to have fared better than many other countries during the COVID-19 pandemic. But the economic effects of the pandemic have been significant in a country considered among the best-performing in Africa. Benin's real GDP growth was estimated to have slowed to 2.3% in 2020, following 6.9% in 2019 and 6.7% in 2018. The slowdown in growth on the supply side reflects the underperformance of commerce, transport, agriculture, and hotels and restaurants—the sectors most affected by the pandemic. On the demand side, the slowdown in growth in 2020 is linked to lower investment and private consumption. Inflation doubled from -0.9% in 2019 to 2% in 2020, mainly because of higher food prices. Tax revenue fell 6.5%, and spending increased 14.3% in 2020 due to the slowdown in economic activity and higher health and social spending. The budget deficit was 3% of GDP in 2020, compared with 0.5% in 2019. The current account deficit improved slightly to 4.0% of GDP in 2020 from 4.7% in 2019—due to a 4.6% decline in the value of imports.

Outlook and risks

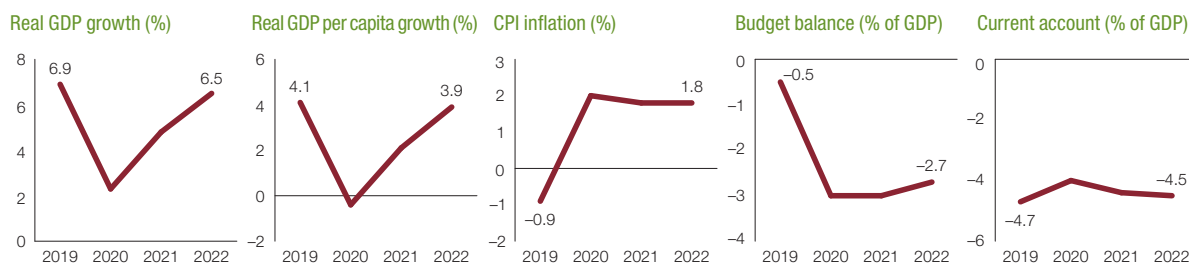
If COVID-19 is brought under control by the middle of 2021, the global economy could restart, which would

allow Benin's growth rate to recover to 4.8% in 2021 and 6.5% in 2022—driven by trade, transport, and agriculture. Inflation is expected to be 1.8% in 2021, below the 3% convergence criterion of the West African Economic and Monetary Union.

The fiscal balance is expected to improve to 3% of GDP in 2021 and 2.7% the following year. The current account balance should deteriorate slightly to 4.4% of GDP in 2021 and 4.5% in 2022, because of an expected 11.5% increase in imports over those two years.

Financing issues and options

The outstanding public debt is 46.1% of GDP in 2020, compared with 41.4% in 2019, and is expected to average 40.9% of GDP over 2021–22. Benin is expected to have additional financing needs equal to 3% of GDP in 2020. External debt accounts for 55.54% of total debt in 2020—56% of which is owed to multilateral lenders (mostly on concessional terms), 12.7% is bilateral, 17% is commercial, and 14.2% is in eurobonds. China holds more than half of Benin's bilateral debt. The risk of debt distress will be moderate through 2022. To hold down debt risk, the country should strengthen the mobilization of domestic resources by broadening the tax base, prioritizing treasury bonds with longer maturity, and seeking concessional external resources.



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.