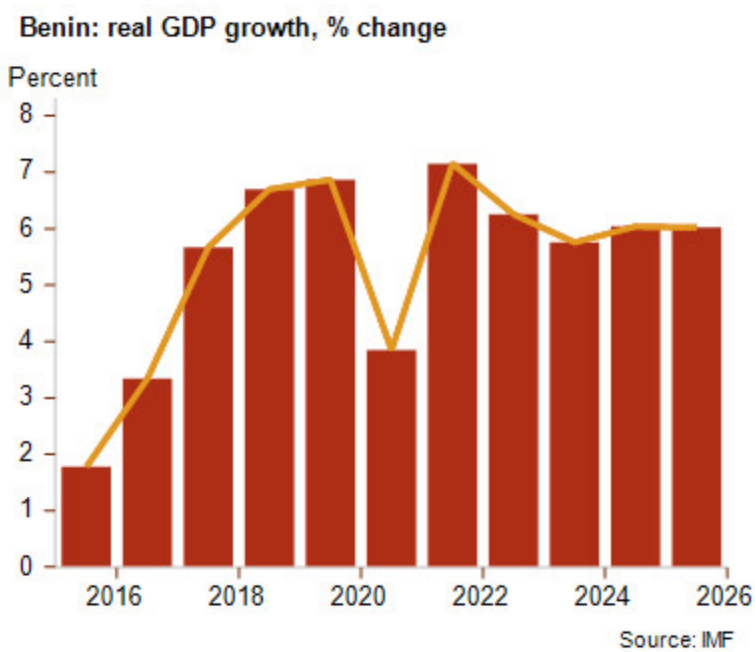
Benin: Strong growth trajectory is here to stay despite headwinds | Credendo

An upbeat economic momentum, a reform-minded government

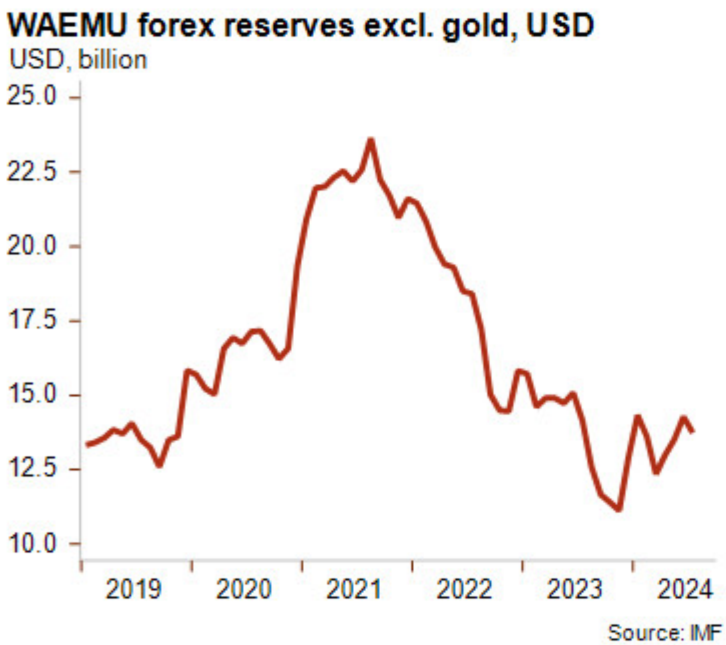
Since Patrice Talon became president in 2016, the country has been on a strong growth trajectory – except during the Covid shock. It benefited from business-friendly policies, institutional improvements (notably when it comes to corruption and government effectiveness), structural reforms and general commitments to develop the country. The economic outlook remains positive with real GDP growth forecast to remain above 6% in the MLT, making Benin one of the best performers in West Africa. While infrastructure investments will remain a main growth driver, the domestic economy is expected to continue to benefit from positive developments in agroindustry, natural resource transformation into finished goods (e.g. processed soyabeans, textile, etc.) and transit trade through the Port of Cotonou – a major trade hub in the West African sub-region. Moreover, tourism is an expanding services industry with interesting potential, whereas cotton is a traditional robust source of foreign currency (only second to food exports) for the country. This said, cotton production is increasingly exposed to climate change as shown by recent disruptions from extreme heat and floods. Besides, a diplomatic dispute between Niger and Benin and a temporary border closure temporarily affected port activity this year. This hindered oil exports from Niger's new oil pipeline until August 2024, when the border re-opened. Although the junta regime in Niger has become more unpredictable, the bilateral economic interest in operating the pipeline (bringing trade and customs revenues to Benin) will be a powerful mitigating factor. Internal uncertainty can also be expected around the presidential elections in 2026, when President Talon will not be constitutionally allowed to seek a third term. Political developments will be closely monitored to see whether Talon's legacy is ensured beyond his ten-year rule.



Benefits from BCEAO's cautious monetary policy

The economic climate is supported by an inflation at 3% in August (expected to fall to 2% in 2025), a low level explained by the peg of the CFA franc to the euro. As a member state of the West African CFA franc zone, Benin benefits from the BCEAO's (Central Bank of West African States) disciplined monetary policy and from a stable currency. This said, the eco will become the new sub-regional currency in the MLT. The timeframe for the transition to the eco is unclear as most member states are still far from complying with convergence criteria. At this stage, the eco should aim at keeping most economic benefits from the CFA franc in order to preserve economic stability and investor confidence.

Within the monetary zone, Benin has access to pooled foreign exchange reserves. However, this benefit has been hit since 2021 by adverse terms of trade (in a net fuel and food importing region), rising security risks and the isolation of three former member states (Burkina Faso, Mali and Niger). The resulting liquidity pressures translated into a drop of regional foreign exchange reserves to less than 2.5 months of import cover in 2023, a low level to defend the peg to the euro. In the first half year of 2024, pressures eased as reserves recovered somewhat, notably supported by Eurobond issuances of Benin, Côte d'Ivoire and Senegal.



Ongoing fiscal consolidation

Investor confidence in Benin was reflected earlier this year in February when the country returned to the international bond markets and successfully issued a USD 750 million 14-year Eurobond – albeit at an 8% rate. Indeed, in addition to business-friendly policies, investors are attracted by the country's lowest public debt in West Africa (54% of GDP in 2023) and government plans to keep public debt at around 50%. Under the IMF programme (2023–2026), fiscal consolidation has been translating into gradually rising government revenues (towards 14% of GDP this year) and a fiscal deficit approaching the 3% (of GDP) threshold.

External debt sustainability weakened by a small export base

In spite of remarkable progress in reducing risks and improving the economic outlook over the past years, Benin's MLT political risk rating – which represents the solvency of a country – stays high in category 6/7. Like in many African countries, the dominant explanation for this rating relates to external debt sustainability. In the case of Benin, it has much to do with a still fragile financial situation and volatile export revenues. The relatively limited export base, though widening, remains a core fragility when assessing country risks. This results in a structural current account deficit and harms the country's external financing capacity. External debt ratios have been on an upward trend since 2018 but are expected to peak this year (at 46% of GDP) before decreasing in the MLT. On a positive note, as from 2025, external debt service forecasts are sustainable, amounting to hardly more than 10% of export revenues in the MLT thanks to extended maturities.

Climate change and security risks

Benin's risk outlook is faced with two expanding risks. First, climate change acceleration is a rising economic burden for a country that is very vulnerable to it, especially because of rising sea levels, the negative impact on agriculture and the lack of financing to adapt to this huge challenge. Second, Benin is exposed to security risks related to spillovers of jihadist violence from the Sahel. In the past years, cross-border militant raids from neighbouring Burkina Faso and Niger, and attacks against government and security targets in northern Atakora and Alibori departments have become more frequent. As a result, the government has deployed thousands of troops along the border. The situation is also made more difficult by declined regional counterterrorism since junta-led Sahel states (Mali, Niger and Burkina Faso) have withdrawn from regional economic and political bodies and agreements.

Credendo has a positive outlook for the MLT political risk (category 6/7), and a stable outlook for the ST political risk (category 5/7) and business environment risk (category E/G).

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