

GUINEA-BISSAU

Key conditions and challenges

Table 1 2020

Population, million	2.0
GDP, current US\$ billion	1.4
GDP per capita, current US\$	714.9
International poverty rate (\$ 19) ^a	68.4
Lower middle-income poverty rate (\$3.2) ^a	85.4
Upper middle-income poverty rate (\$5.5) ^a	93.8
Gini index ^a	50.7
School enrollment, primary (% gross) ^b	118.7
Life expectancy at birth, years ^b	58.0

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2010), 2011 PPPs.

(b) WDI for school enrollment (2010); life expectancy (2018).

Containment measures against COVID-19 and weak external demand for cashew nuts caused GDP to contract by 2.4 percent in 2020. High spending needs and a slump in tax income widened the fiscal deficit to 9.0 percent of GDP and raised the debt to GDP ratio to 78.4 percent. Growth is projected to increase to 3 percent in 2021 with a slight recovery in the cashew market. The medium term will be characterized by fiscal consolidation to maintain debt sustainability.

Exports of raw cashew nuts, which account for 90 percent of merchandise exports, determine economic performance in Guinea-Bissau. Cashew production is dispersed among many smallholder farmers, whose income supports overall economic activity. Annual GDP grew 5.4 percent on average between 2015 and 2017 (3.2 percent in per capita terms) as cashew prices reached record highs, but Guinea-Bissau is structurally vulnerable to terms-of-trade shocks and climate change risks. Raw cashew prices have been on a downward trajectory since 2018, adversely affecting economic growth, poverty, and government finances. Around 13 percent of tax revenue is directly related to cashew nut exports.

A small tax base and poor tax administration generate tax receipts of less than 10 percent of GDP. Deficient revenue collection capacity has created a high dependency on indirect taxes which are mostly collected through customs procedures. The public wage bill corresponds to more than 50 percent of tax income, limiting public service provision and domestically financed capital expenditure. Primary deficits and externally financed infrastructure projects have led to considerable debt accumulation and high debt servicing costs. However, the country's infrastructure remains in a dire state.

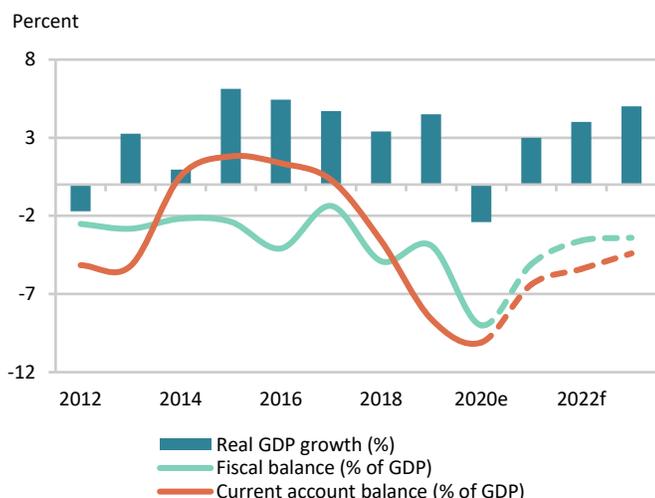
Persistent political instability has taken a heavy toll on economic development and diversification. Policy uncertainty and poor business environment lay at the source of a practically missing industry sector, which combined with low diversification and productivity in the primary sector, keeps the country highly dependent on food and capital imports. As COVID-19 has accentuated the urgent need for transformation, the Government drew a new development plan aiming to i) modernize public institutions, ii) accelerate job creation iii) boost the productive sector and infrastructure iv) improve human capital and living conditions v) promote regional integration and vi) preserve biodiversity. Its success depends on strong political engagement and sufficient means of financing.

Recent developments

The pandemic struck at the onset of the annual cashew marketing season, which reduced external demand, causing farm-gate prices to reach their lowest in 6 years. Strict lockdown measures affected the supply of goods and services, and increased unemployment. Private consumption and investment weakened, while public expenditure grew considerably, supported in part by the international community. Overall, GDP contracted by 2.4 percent in 2020 (-4.7 percent in per capita terms).

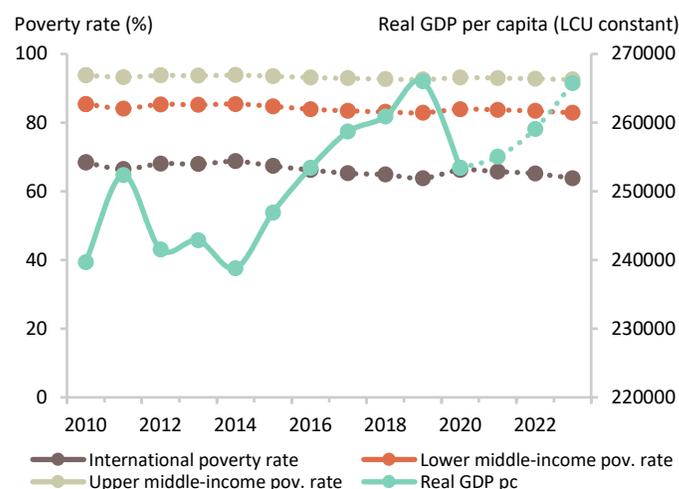
Tax receipts dropped 16.1 percent, but increased non-tax revenue, grants, and

FIGURE 1 Guinea-Bissau / Evolution of main economic indicators



Sources: Ministry of Finance and World Bank.

FIGURE 2 Guinea-Bissau / Actual and projected poverty rates and real GDP per capita



Source: World Bank; see Table 2.

debt service adjustments supported the fiscal space. High recurrent expenses, particularly health and social spending, and new infrastructure investments, significantly increased total expenditure by 32 percent. Thus, the overall fiscal deficit grew from 3.9 percent of GDP in 2019 to 9 percent in 2020. High financing needs of 10 percent of GDP, which includes the payments of arrears, were addressed with concessional borrowing and domestic lending, raising public debt to 78.4 percent of GDP. The latest Debt Sustainability Assessment (DSA) concluded that the risk of external and overall debt distress is high, but public debt is assessed as sustainable on a forward-looking basis. The current account deficit worsened from 8.6 percent of GDP in 2019 to 10.1 percent in 2020, driven by a drop of 22 percent in export value of cashew nuts. Lower prices of oil imports were counterbalanced by high import prices for rice, the main staple food.

Guinea-Bissau'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 an estimated 5.5 months of imports in 2020 due to large donor support and reduced imports during the pandemic. Between March and October 2020, the

REER appreciated by 6.4 percent y/y, reflecting the nominal appreciation of the Euro against the USD. To support regional economy and COVID-19 related extra spending, the BCEAO announced a set of monetary and macroprudential measures since March 2020, including policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds. Inflation accelerated from 0.3 percent in 2019 to 1.5 percent in 2020, reflecting increased food prices (+3.5 percent) as a result of disruption in international trade and national supply channels.

Poverty measured using \$1.90 international poverty line increased from 63.8 to 66.2 percent between 2019 and 2020 corresponding to an augmentation of the number of poor by around 75,000 people.

Outlook

Based on a subsiding of the COVID-19 pandemic around mid-2021, a gradual recovery of the international cashew market and higher investments, GDP growth is set to reach 3 percent in 2021 and increase to 5 percent until 2023.

Fiscal consolidation is set to bolster the medium-term debt sustainability. Better tax administration, increased tax rates,

and efforts to broaden the tax base shall substantially increase revenue in 2021. Prudent current spending, including on the public wage bill, will limit the fiscal deficit to 5.1 percent of GDP in 2021. Over a term of 5 years, the fiscal deficit is set to narrow to 3 percent and the debt ratio to 70 percent of GDP, in line with the WAEMU convergence criteria.

Due to the country's high import dependence, the trade balance will remain in a large deficit over the medium term, despite an increase in cashew exports. Increased foreign aid inflows are set to narrow the current account deficit to 6.4 percent in 2021.

The outlook is subject to high downside risks, including lower cashew nut prices and a more prolonged fallout from the COVID-19 pandemic, as a vaccination program may be delayed. The country's fragile socio-economic context may increase social tensions, which could trigger a renewed political instability, or hinder the authorities' commitment to macroeconomic stability and prudent fiscal policies. The economic recovery is expected to maintain the poverty rate around 66 percent in 2021. Poverty will gradually decline from 2021 and will stand at 63.8 percent in 2023, accompanied by a decrease of the number of poor by about 22,000 people.

TABLE 2 Guinea-Bissau / 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	3.4	4.5	-2.4	3.0	4.0	5.0
Private Consumption	-0.5	1.4	-3.8	2.1	2.3	3.5
Government Consumption	5.1	16.6	9.0	2.4	2.7	4.0
Gross Fixed Capital Investment	7.6	33.8	9.6	4.7	8.0	6.9
Exports, Goods and Services	14.4	8.7	-14.6	10.1	10.4	10.2
Imports, Goods and Services	-8.5	14.1	-3.0	5.0	5.1	5.3
Real GDP growth, at constant factor prices	3.4	4.5	-2.4	3.0	4.0	5.0
Agriculture	3.4	5.8	-0.8	4.1	4.3	5.1
Industry	5.7	4.2	-0.7	2.9	4.8	6.1
Services	2.7	3.5	-4.3	2.1	3.5	4.6
Inflation (Consumer Price Index)	0.4	0.3	1.5	2.0	2.0	2.0
Current Account Balance (% of GDP)	-3.6	-8.6	-10.1	-6.4	-5.4	-4.4
Fiscal Balance (% of GDP)	-4.9	-3.9	-9.0	-5.1	-3.6	-3.4
Debt (% of GDP)	59.2	66.9	78.4	78.4	76.7	74.3
Primary Balance (% of GDP)	-4.3	-2.6	-7.5	-2.7	-1.1	-1.1
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	64.9	63.8	66.2	65.8	65.2	63.8
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	83.1	82.9	83.9	83.7	83.4	82.9
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	92.7	92.5	93.1	93.0	92.8	92.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on 2010-ILAP-II. Actual data: 2010. Nowcast: 2011-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2010) with pass-through = 0,87 based on GDP per capita in constant LCU.