

GUINEA-BISSAU

Key conditions and challenges

Table 1 2021

Population, million	2.0
GDP, current US\$ billion	1.7
GDP per capita, current US\$	855.1
International poverty rate (\$2.15) ^a	21.7
Lower middle-income poverty rate (\$3.65) ^a	56.8
Upper middle-income poverty rate (\$6.85) ^a	87.2
Gini index ^a	34.8
School enrollment, primary (% gross) ^b	118.7
Life expectancy at birth, years ^b	58.6
Total GHG emissions (mtCO2e)	4.3

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2018), 2017 PPPs.
 b/ WDI for School enrollment (2010); Life expectancy (2020).

The Ukraine war has compounded inflationary pressures and is harming growth, causing the pace of poverty decline to slow. Election costs will increase debt while the removal of irregular government workers will help fiscal consolidation. Medium-term growth will improve as infrastructure investments come on-line. The outlook is subject to downside risks from continued inflationary pressure, shocks to international cashew prices, political instability from legislative elections, and climatic shocks.

Exports of raw cashew nuts, which account for 90 percent of merchandise exports, drive economic performance. Cashew production is dispersed among smallholder farmers, whose income supports overall economic activity. Poverty remains widespread, with high levels of inequality and increasing rural-urban disparities, while human development indicators remain among the lowest in the world, and low access to basic services contribute to exclusion and marginalization. Despite a gradual post-pandemic economic recovery, rising prices from the war in Ukraine are a concern, especially for the poor who spend nearly 60 percent of income on food, exposing them to the risk of sliding deeper into poverty.

Guinea-Bissau lacks the enabling environment for private sector-led growth due to poor infrastructure, low levels of human capital, and poor public services. This situation is compounded by strong elite competition for rents and weak public administration. The investment climate is not conducive to business activity as firms and households struggle to obtain access to finance, and the functioning of markets is undermined by the absence of public investments in fundamental economic services, and public goods. Infrastructure is in a poor state, but there have been recent mostly donor financed investments to improve this.

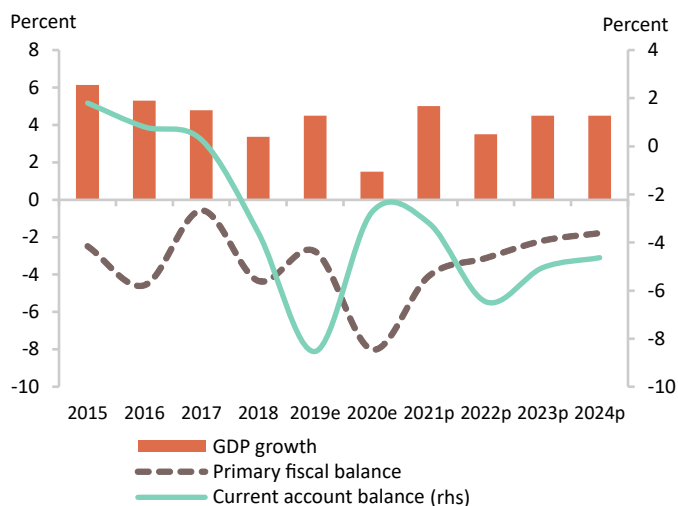
Political economy factors limit the transparency of the SOE sector in Guinea-Bissau. This is especially the case with the national electricity and water utility company (EAGB), which accrued substantial public debt through government guaranteed letters of credit, worth 0.7 percent of GDP to cover arrears. These are activated on a three-month basis. A lack of transparency makes identifying contingent liabilities difficult, which increases the fiscal risks in a country with very little debt absorption capacity for additional shocks. High non-performing loans continue to make the banking sector another possible contingent liability.

Recent developments

Economic activity is projected to slow to 3.5 percent in 2022 (1.5 percent in per capita terms) from 5 percent in 2021. On the demand side, this is driven by inflation that may average 7.5 percent in 2022, as a spillover from the Ukraine war, reducing private consumption. On the supply side, the cashew campaign is marred by problems with shipping and fuel shortages affecting domestic haulage. As of August 2022, cashew exports were 39 percent of exports in August 2021.

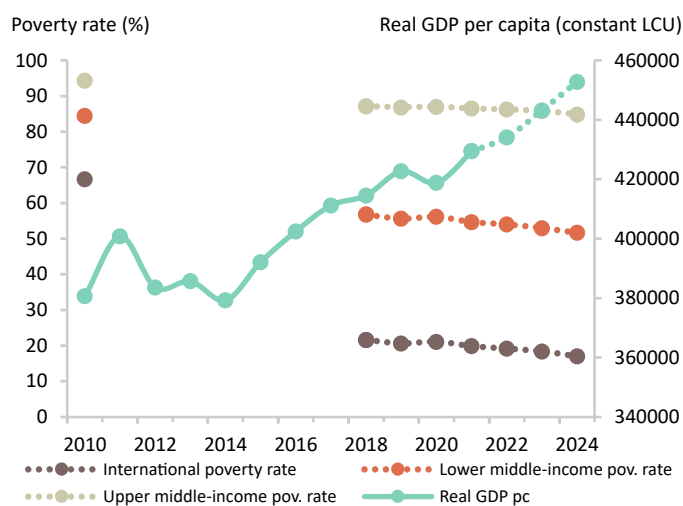
An unexpected fall in cashew prices towards the end of the campaign with substantial quantities in Bissau still to be exported, as well as an increase in oil and food import prices, means the current account deficit (CAD) will increase from 4.5 percent in 2021, to 6.5 percent in 2022. The

FIGURE 1 Guinea-Bissau / Evolution of main economic indicators



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

fiscal deficit is expected to fall from 5.7 percent to 4.5 percent, driven by the removal of irregular government workers. Guarantees to EAGB and December elections, to be financed by borrowing, will increase debt to 81 percent of GDP despite an expected increase in budgetary support from donors.

Monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO). Its reserves declined to 5.2 months of imports in June 2022, from 5.5 months in 2021, due to higher energy prices and food imports caused by the Ukraine crisis. To counter inflation pressures, the BCEAO raised rates for liquidity calls (2 percent to 2.5 percent) and the marginal lending window (4 percent to 4.5 percent) in June and September 2022.

Using the international poverty line of \$2.15 (2017 PPPs), poverty is projected to decline from 19.9 percent in 2021 to 19.2 percent in 2022. This 0.7pp decline, compared to a 1.2pp decline between 2020 and 2021, corresponds to over 4,000 fewer people in

poverty, compared to over 14,000 fewer between 2020 and 2021. The decline in the pace of poverty reduction is driven by the fallout from the war in Ukraine.

Outlook

Real GDP growth is projected to be 4.5 percent in the medium-term from high forecasted cashew production and prices, and as road and energy infrastructure investments come online. Inflation will continue to be high, but will converge towards 3 percent in 2024, as the spillover from the Ukraine war eases. The outlook is subject to substantial downside risks stemming from political instability, climate shocks, uncertainty surrounding EAGB and non-performing loans in the financial sector.

The CAD will fall to 5 percent of GDP in 2023 and 4.6 by 2024, as inflationary pressure eases and cashew exports increase. External financing needs will continue to

be met by concessional loans and grants in 2023. The authorities are committed to medium-term fiscal consolidation, which includes enhanced management of fiscal risks, notably from SOEs, revenue mobilization and control of the wage bill. The primary deficit is projected to decline to 1.8 percent by 2024, with the public debt-to-GDP ratio expected to fall to 75 percent, as energy projects come online and partially mitigate EAGB arrears.

Rising food prices will limit the ability of vulnerable households to increase their real incomes, especially agricultural households who are amongst the country's poorest. An increase in formal remittances of 36 percent on average between January and June 2022, compared to the same period in 2021, and price controls on basic food items (rice, sugar and wheat flour) are likely to mitigate spillover effects from the war on household well-being. Consequently, the poverty rate is expected to continue gradually falling to reach 17 percent in 2024.

TABLE 2 Guinea-Bissau / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.5	1.5	5.0	3.5	4.5	4.5
Private Consumption	1.4	-1.0	3.0	1.0	2.5	2.5
Government Consumption	16.6	9.0	-0.4	5.1	8.2	10.7
Gross Fixed Capital Investment	33.8	7.3	20.7	17.8	11.2	7.5
Exports, Goods and Services	8.7	-2.5	5.3	5.5	6.0	7.0
Imports, Goods and Services	14.1	-1.0	5.9	7.2	6.4	6.2
Real GDP growth, at constant factor prices	4.5	1.5	5.0	3.5	4.5	4.5
Agriculture	5.8	-0.2	4.4	4.6	5.1	5.1
Industry	4.2	-0.2	3.5	3.6	4.4	4.4
Services	3.5	3.5	5.9	2.6	4.0	4.0
Inflation (Consumer Price Index)	0.3	1.5	3.3	7.5	5.0	3.0
Current Account Balance (% of GDP)	-8.5	-2.7	-3.2	-6.5	-5.0	-4.6
Fiscal Balance (% of GDP)	-3.9	-9.6	-5.7	-4.5	-4.3	-3.9
Debt (% of GDP)	64.0	76.5	78.5	80.4	78.4	76.0
Primary Balance (% of GDP)	-2.8	-8.0	-4.1	-3.1	-2.2	-1.8
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	20.6	21.1	19.9	19.2	18.4	17.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	55.6	56.2	54.7	54.1	53.0	51.7
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	86.9	87.0	86.5	86.3	85.8	84.9
GHG emissions growth (mtCO₂e)	0.7	1.0	1.2	1.2	1.3	1.1
Energy related GHG emissions (% of total)	7.9	8.0	8.2	8.4	8.6	8.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.

b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.