

GUINEA-BISSAU

Key conditions and challenges

Table 1	2023
Population, million	2.2
GDP, current US\$ billion	2.0
GDP per capita, current US\$	918.1
International poverty rate (\$2.15) ^a	26.0
Lower middle-income poverty rate (\$3.65) ^a	60.2
Upper middle-income poverty rate (\$6.85) ^a	89.1
Gini index ^a	33.4
School enrollment, primary (% gross) ^b	113.3
Life expectancy at birth, years ^b	59.7
Total GHG emissions (mtCO2e)	4.4

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2021), 2017 PPPs.
 b/ WDI for School enrollment (2010); Life expectancy (2021).

Weak cashew export performance and high inflation kept growth at 4.2 percent in 2023, undermining poverty reduction. Budget slippages and lower revenues derailed fiscal consolidation efforts while infrastructure investment, rice subsidies, and energy arrears increased debt. Growth should improve as energy and transport infrastructure come online, but its sustainability depends on institutional reforms. The outlook is subject to downside risks from political instability, shocks to the cashew sector, and climatic shocks.

Exports of raw cashew nuts, approximately 90 percent of merchandise exports, determine economic performance. Cashew production is dispersed among smallholder farmers, whose income supports overall economic activity. Poverty remains widespread – particularly in rural areas. Human development indicators are among the lowest in the world, and low access to basic services contribute to exclusion and marginalization. Political instability is chronic in Guinea-Bissau, the world’s most coup prone country, and recent regional and international geopolitical uncertainty only threaten to stoke domestic tensions further.

Access to credit is limited and the enabling environment for private sector-led growth is weak due to poor infrastructure, low levels of human capital, and limited public services. Recently, there have been investments to improve infrastructure, though mostly donor financed as fiscal space is limited by low domestic revenue mobilization and the relatively high wage bill.

Transparency and governance of state-owned enterprises is limited, especially the national utility company, EAGB, which accrues substantial public debt in the energy sector through government guaranteed letters of credit that only partially cover mounting arrears. Identifying contingent fiscal liabilities is difficult, increasing fiscal risks and amplifying the high risk of debt

distress and limiting capacity to absorb shocks. Non-performing loans continue to make the banking sector another possible source of contingent liabilities.

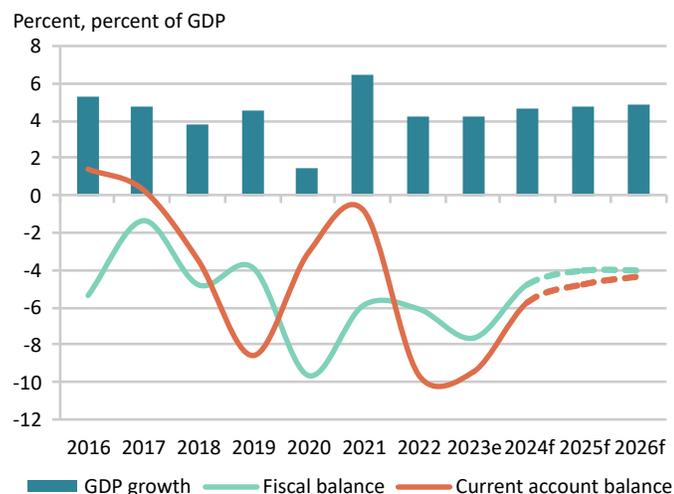
Recent developments

Economic activity grew by 4.2 percent in 2023 (2.1 percent in per capita terms), unchanged from 2022. On the supply side, growth was driven by agriculture and government infrastructure investment stimulating the construction sector. On the demand side, inflationary pressures caused private consumption to fall.

Inflation remained high at 8 percent (y/y) in 2023, from 7.9 percent in 2022, driven by food and energy inflation. This followed an average of 1 percent between 2015 and 2020.

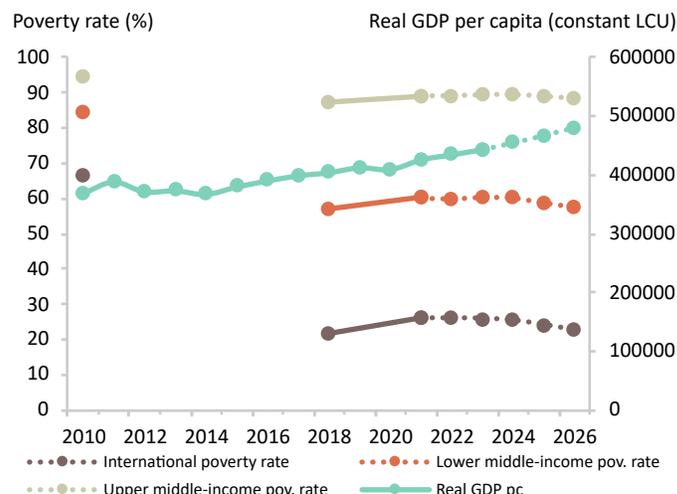
A cashew campaign marred by problems, including shipping container shortages, smuggling, disruptions from legislative elections, and low international demand, put exports at just 168,000tn in 2023 despite production of 260,000tn. This, along with high import costs, kept the current account deficit (CAD) high at 9.4 percent. Fiscal consolidation efforts were derailed as higher-than-planned discretionary spending and lower customs receipts widened the fiscal deficit to 7.6 percent in 2023, from 6.1 percent in 2022. Legislative elections, energy sector arrears accumulation, rice subsidies costing 0.2 percent of GDP, and urban road infrastructure investments kept debt above the convergence criterion at 77.8 percent of GDP.

FIGURE 1 Guinea-Bissau / Evolution of main macroeconomic 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. Notes: see Table 2.

To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 150 basis points since mid-2022 to 3.5 percent for liquidity calls and 5.5 percent for the marginal lending facility. However, inflation in the region (3.7 percent in 2023) was still above the 1-3 percent target range and foreign exchange reserves have been on a downward trend, estimated at 3.5 months of imports at end-2023, down from 4.3 months at end-2022.

The combination of agricultural growth and high food prices is expected to have left poverty unchanged between 2022 and 2023 at about 26 percent, with population growth implying over 10,000 additional poor people.

Outlook

Economic activity is likely to expand by 4.7 percent in 2024 (2.2 percent per capita) following a strong cashew campaign. Agriculture will drive growth with cheaper energy from regional energy project OMVG

stimulating the real sector. Easing of inflationary pressures and a strong cashew season will encourage private consumption. Favorable weather conditions and dividends from government investments into agricultural inputs over the last few years should support strong cashew production. Exports should markedly improve as nine overland border routes are authorized for exports, curtailing smuggling. Historically, only cashew exports via the port of Bissau were authorized. This opening could contribute to higher demand from possible processing activity in neighboring countries. Additionally, Chinese firms should enter the market for processing in Asia, competing with India and Vietnam. Consequently, the CAD is projected to narrow to 5.7 percent of GDP, mostly financed by concessional loans and grants. Higher revenue collection and greater spending discipline could lower the fiscal deficit to 4.8 percent of GDP in 2024, or 5.6 percent including planned arrears clearance, with public debt falling to 75.6 percent of GDP. The pace of the fiscal adjustment is highly dependent on greater revenue mobilization, strengthened expenditure controls, and increased grant financing, and thus

subject to considerable uncertainty given the country's ongoing political volatility. The BCEAO may need to continue monetary tightening in 2024 to bring inflation under control and in the context of rising uncertainties over the withdrawal of Niger, Mali, and Burkina Faso from ECOWAS and potential spillovers to WAEMU. These uncertainties are likely to increase investors' risk perceptions leading to tighter financing conditions and putting additional strain on already low foreign exchange reserves.

A rebound in the agriculture sector will partly drive the poverty rate to decline to 25.4 percent in 2024. Further progress is expected to be supported by lower food prices reducing poverty to 24.1 percent in 2025, lifting over 15,000 out of poverty, and reaching 22.6 percent by 2026. Household purchasing power will improve with higher cashew prices and lower food prices, benefiting the poorest who spend a higher share of their income on food.

The outlook is subject to substantial downside risks stemming from political instability, climate and agricultural shocks, uncertainty of EAGB operations, and financial sector non-performing loans.

TABLE 2 Guinea-Bissau / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	6.4	4.2	4.2	4.7	4.8	4.9
Private consumption	16.0	3.0	-1.2	5.1	4.4	4.2
Government consumption	16.0	7.0	5.5	-8.5	-5.6	3.9
Gross fixed capital investment	-5.0	15.7	23.0	5.6	7.6	2.6
Exports, goods and services	15.0	-6.5	-3.1	12.2	9.6	7.6
Imports, goods and services	4.0	2.5	0.8	3.0	4.0	3.0
Real GDP growth, at constant factor prices	6.3	4.7	4.2	4.7	4.8	4.9
Agriculture	5.4	6.1	7.5	5.1	5.1	5.1
Industry	5.6	4.8	4.0	4.4	4.5	4.6
Services	7.3	3.7	1.8	4.4	4.7	4.8
Inflation (consumer price index)	3.3	7.9	8.0	4.5	2.0	2.0
Current account balance (% of GDP)	-0.8	-9.6	-9.4	-5.7	-4.7	-4.4
Fiscal balance (% of GDP)	-5.9	-6.1	-7.6	-4.8	-4.0	-4.0
Revenues (% of GDP)	19.1	15.2	13.9	16.0	15.3	15.2
Debt (% of GDP)	78.8	80.4	77.8	75.6	72.8	70.4
Primary balance (% of GDP)	-4.3	-4.7	-5.0	-2.2	-1.6	-1.6
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	26.0	26.0	25.9	25.4	24.1	22.6
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	60.2	59.9	60.4	60.2	58.8	57.7
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	89.1	89.2	89.5	89.6	89.0	88.3
GHG emissions growth (mtCO₂e)	1.4	1.4	1.4	1.5	1.5	1.6
Energy related GHG emissions (% of total)	8.0	8.2	8.3	8.6	8.8	9.0

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

Notes: e = estimate, f = forecast.

a/ Calculations based on 2021-EHCVM. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.

b/ Projections using microsimulation methodology.