

GUINEA-BISSAU

Recent developments

Table 1 **2019**

Population, million	2.0
GDP, current US\$ billion	1.4
GDP per capita, current US\$	738.2
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)

Growth recovered in 2019 supported by higher cashew production. The current account deficit increased owing to a deterioration in the terms-of-trade. The rise in the fiscal deficit was driven by higher recurrent spending. Growth is projected to decline to -2.9 percent in 2020, due to economic disruptions caused by COVID-19 containment measures and global economic shock. Poverty will remain high, but gradually decrease in the medium-term. Risks to the outlook remain significant, including political instability, pandemic effects, and from the volatility of cashew exports.

Growth increased from 3.8 percent in 2018 to an estimated 4.5 percent (2.4 percent in per capita terms) in 2019. The recovery was underpinned by higher cashew output and higher electricity production due to newly installed power generation capacity. Growth will be severely impacted by COVID-19 in 2020. The lockdown imposed to contain the spread of the disease has already lowered consumption and domestic investment, and disrupted trade. Inflation, which remained low at 0.2 percent in 2019, increased sharply in 2020, reaching 3 percent in April. The rise in inflation was driven mainly by higher food prices in the context of the crisis.

The current account deficit is estimated to have increased from 4.3 percent of GDP in 2018 to 5.0 percent in 2019, largely due to a decline in cashew prices. The COVID-19 lockdown delayed the cashew harvest and trade, and the volume of cashew exported is expected to almost halve in 2020. Cashew prices also decreased amid subdued global demand, which combined with higher prices for imported food, will lead to a deterioration in the terms-of-trade.

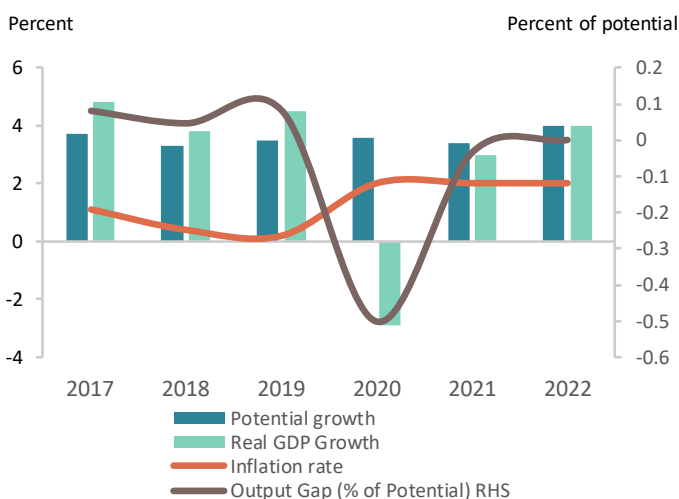
The overall fiscal deficit increased from 4.9 percent of GDP in 2018, to 5.2 percent in 2019, mainly owing to higher recurrent spending in the wage bill, following salary adjustments in 2018, transfers to the public utility company, and interest payments. Tax revenue increased marginally from 9.4 percent of GDP in 2018 to 9.7 percent in 2019, but will decline in 2020

due to the delayed cashew trade and reduced domestic economic activity. Tax revenue during the cashew season, April-September, has fallen well short of the expected CFAF 26.5 billion (3 percent of GDP). Public debt surged to 67.6 percent of GDP in 2019, from 60.2 percent in 2018, driven by external loans financing public infrastructure projects. The profile of public debt has become riskier in recent years as non-concessional borrowing in domestic currency (notably from the West African Development Bank—BOAD) increased. Fiscal deficits have been the main driver of the increase in domestic debt levels. The government has been resorting to the regional market to support people and firms affected by the COVID crisis, which will further increase overall debt levels. The risk of external debt distress remains moderate, but the risk of overall debt distress is high.

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 5.4 months of imports in 2019, driven by fiscal consolidation in member states and higher net capital inflows. To support the regional economy and COVID-19 related extra spending, the BCEAO has implemented a set of monetary and macroprudential measures since March 2020. These include lowering its policy rate to a fixed 2.5 percent and extended refinancing operations of the 3-month "Covid-19 T-Bills" at 2.5 percent for limited amounts.

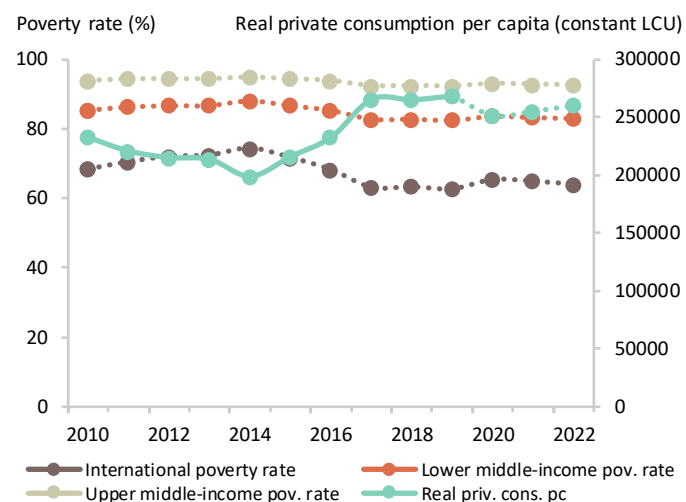
Estimates of poverty (using the \$1.90 international poverty line) indicate that

FIGURE 1 Guinea-Bissau / GDP growth, potential growth and Inflation



Sources: Ministry of Finance and World Bank.

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



Source: World Bank. Notes: see Table 2.

poverty declined from 63.3 percent to 62.8 percent between 2018 and 2019. However, during this period, the number of poor people increased by around 14,000 people due to faster population growth among the poor. Lower poverty rate was supported by good cashew production, despite lower cashew prices.

Outlook

Growth is projected to decline to -2.9 percent in 2020, below the potential rate of 3.5 percent, reflecting disruptions in economic activity caused by strict measures to contain the spread of the pandemic. The Government has closed air borders and imposed several social distancing measures, including closing schools and banning large public gatherings. These measures will have a negative impact on consumer spending and domestic investment. Growth would recover beginning 2021, supported by higher cashew production. Inflation would rise from 0.2 percent in 2019 to 2 percent in 2020, reflecting higher prices for imported food products. The current account deficit is expected to rise to 12.2 percent of GDP in 2020, reflecting a sharp decline in exports and higher prices of imported food products. The

deficit could decline to 4.2 percent of GDP in 2021 supported by an increase in cashew export volume and donor grants. WAEMU reserves will drop to about 4.5 months of imports in 2020 as member countries are hit by the COVID-19 crisis, increasing fiscal spending while also facing lower capital inflows.

The fiscal deficit is expected to increase to 8.2 percent of GDP in 2020, owing to lower tax revenues and higher COVID-19-related government expenditures. Lower domestic activity and imports are expected to reduce tax and customs revenues. Government spending will increase driven by health-related measures and support for hard-hit sectors. Capital spending is almost entirely financed by donors and is expected to slow down partly reflecting the prioritization of spending toward COVID-19.

The pandemic is expected to increase the poverty rate to 65 percent in 2020, reflecting lower farmer income and social vulnerabilities to the spread of the pandemic. This would push an additional 84,000 people into poverty. Poverty would gradually decline to about 64 percent in 2022, supported by increased cashew income and higher economic growth. However, the number of poor people is projected to remain largely unchanged.

Risks and challenges

The outlook is subject to substantial downside risks. Renewed political instability could cause fiscal slippages and exacerbate the already difficult business environment. A slump in international prices of cashew nuts or quantities exported would further restrict liquidity in the economy and aggravate the impact of the crisis on the private sector. The persistence of the COVID-19 crisis could adversely affect household incomes and increases their risk of falling into poverty. Guinea Bissau has very limited fiscal space to respond counter-cyclically to an economic downturn and needs to reprioritize expenditures toward critical public health services and mobilize donor grants to address adverse economic and social impacts.

TABLE 2 Guinea-Bissau / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.8	3.8	4.5	-2.9	3.0	4.0
Private Consumption	16.7	2.5	3.4	-4.0	4.0	4.5
Government Consumption	4.9	-1.4	4.3	9.1	5.0	5.4
Gross Fixed Capital Investment	-9.5	17.4	13.6	-2.9	5.7	8.5
Exports, Goods and Services	-17.8	13.0	8.1	-32.5	12.5	13.4
Imports, Goods and Services	18.6	-3.1	5.5	-16.2	10.5	10.9
Real GDP growth, at constant factor prices	3.8	2.9	4.5	-2.9	3.0	4.0
Agriculture	-0.3	0.7	3.5	-2.7	2.5	3.0
Industry	11.9	5.0	4.6	-2.4	2.8	3.2
Services	4.8	4.0	5.3	-3.2	3.4	5.0
Inflation (Consumer Price Index)	1.1	0.4	0.2	2.0	2.0	2.0
Current Account Balance (% of GDP)	0.3	-4.3	-5.0	-12.2	-4.2	-4.5
Fiscal Balance (% of GDP)	-1.1	-4.9	-5.2	-8.2	-5.2	-4.0
Debt (% of GDP)	58.1	60.2	67.6	79.8	79.0	77.8
Primary Balance (% of GDP)	-0.6	-3.9	-3.9	-7.9	-4.5	-2.5
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	63.2	63.3	62.8	65.4	64.9	64.0
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	82.8	82.8	82.5	83.6	83.3	83.0
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	92.3	92.3	92.2	92.9	92.7	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: 2011-2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2010) with pass-through = 0.87 based on private consumption per capita in constant LCU.