

Guinea-Bissau

Recent macroeconomic and financial developments

Growth is estimated to have reached 3.8% in 2021, a recovery from a negative 1.4% in 2020, reflecting trade resumption and increased cashew nut production. The agriculture-based economy suffered from lockdowns and closure of borders in 2020, recovering in 2021. On the supply side, the primary sector accounted for 48% of GDP in 2021, contributing to growth. On the demand side, investment was the main contributor to growth, increasing 6.4% from 2020. Inflation is estimated to have picked up to 3.3% in 2021 from 1.5% in 2020, driven by higher pandemic-related food and fuel prices. The fiscal deficit is estimated to have narrowed to 5.6% of GDP in 2021 from 9.8% in 2020 on the back of higher tax revenue from the cashew trade and rationalized expenditure. The budget deficit was financed by grants and loans from international financial institutions and regional commercial banks. The current account deficit was estimated to have reached 3.3% of GDP in 2021, up from 2.6% in 2020. Although the debt-to-GDP ratio improved to 78.4% in 2021 from 79.3% in 2020, the IMF downgraded the risk of external debt distress from moderate in 2018 to high in 2021.

Poverty was estimated at 65% in 2020/21 and unemployment stood at 11.5%, but this figure masks huge informality. Some estimates put youth unemployment at 50% of the labor force. All five banks are foreign owned and relatively sound. The NPL ratio decreased to 6.3% in 2021 from 10.3% in 2020, when the capital to risk-weighted asset ratio decreased to 21.4% from 25.6%; both were within regulatory thresholds. As part of the SDR allocation, Guinea-Bissau received SDR 22.7 million (\$31.8 million).

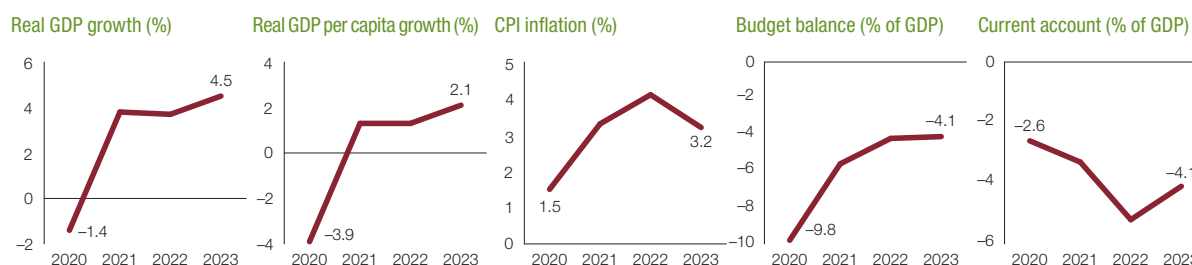
Outlook and risks

GDP growth in 2022 and 2023 is projected at 3.7% and 4.5%, driven by recovery in trade. Inflation is expected to soar to 4.1% in 2022 and to decrease to 3.2% in 2023, reflecting rising oil and food prices as a consequence of

the Russia–Ukraine conflict. The budget deficit is projected to narrow to 4.2% and 4.1% of GDP in 2022 and 2023 due to improved fiscal management. The country has improved debt sustainability, fiscal space for priority spending, and governance. The current account deficit is projected to be 5.2% of GDP in 2022 and 4.1% in 2023, attributed to higher import prices. Headwinds include risks from higher-than-expected oil prices and adverse weather. Political stability is crucial to attract investment and stimulate private engagement, but political tensions are still creating uncertainties, threatening reforms.

Climate change issues and policy options

Guinea-Bissau is 130 on the 2021 GCRI—ranked first as more exposed to extreme events—but data issues may muddy the picture. The climate change impact is widespread, and resources are being fast depleted, with fires destroying more than 120 ha of forest every year. Despite an overall decrease in rainfall, rain events are growing increasingly intense, often paired with strong winds, causing huge agricultural losses. In 2020, severe floods hit the rice-producing region in the south. The government has started to adopt climate-resilient measures, such as introducing drought-resistant crop varieties, diversifying agricultural production, and financing projects to adapt the energy transition to cleaner alternatives. The NDC identifies two primary sources of GHG emissions—change in the use of land and forests, and the energy sector—and aims to reduce GHG emissions by 30% by 2030. At the current pace of wood decline and given energy needs, emissions are expected to surge to 150,000 Gg of CO₂ equivalent by 2050, from roughly 10,000 Gg today. The main mitigation measures will target reforestation and electric power generation. Financing needs are estimated at \$694 million for 2021–30. Political and institutional instability has shifted the country off track to achieve the SDGs, while the lack of statistical resources makes it hard to follow progress specifically on SDG 13 on climate action.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.