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Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Guinea Bissau

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Key messages

- The social and economic impact of the worldwide crisis generated by the COVID-19 pandemic is expected to be large in Guinea-Bissau, given the already high levels of vulnerability and poverty and the lack of public resources in the country.
- The three main channels through which the crisis impact may be aggravated are poor performance of the 2020 cashew campaign, reduced remittances and limited official aid and development assistance flows owing to political difficulties.
- The Central Bank of West African States has already taken measures to increase liquidity, support businesses and give room to the government to implement a macroeconomic fiscal stimulus package. The government is set to allocate $205,000 every month to support the health care system and it will invest $167,000 in hospital infrastructure.
- Donor financial support will be paramount to cope with the crisis. The EU, the World Bank and the Global Fund are currently considering providing funds to respond to the health crisis.

Introduction

The authorities in Guinea-Bissau reported the first two cases of COVID-19 on 24 March 2020. First restrictions to contain the virus were taken on 18 March. As of 9 April, 36 COVID-19 cases had been officially confirmed. No one has died of the virus yet.

High political instability, missing economic stimulus and insufficient tax revenue have put public finances under substantial pressure. In 2019, the fiscal deficit was 4.1% of GDP, leading to difficulties in paying salaries of public servants in recent months. With expenditure at 120% of revenue in 2019, the ability to absorb an economic shock related to COVID-19 is very limited. Even though only 3.5% of 2019 expenditure (or 0.5% of 2019 GDP) in 2019 was allocated to the health sector, hospitals are trying their best to be prepared for the pandemic. Reduced government revenues and poor economic performance in 2020 will likely cause fiscal stress.

Economic and social impacts

Trade and production impacts so far

Although Guinea-Bissau is relatively closed to trade, with a trade openness index of 45% GDP in 2019, its economy is highly dependent on the export of raw cashew nuts, which accounts for more than 90% of total goods exports. Cashew production generates revenue for over 50% of the population, with important spillovers to general economic activity. COVID-19 has weakened international demand for cashews substantially. The average export price has dropped from $1,300/ton in 2019 to $1,000/ton currently. Trade disruptions such as closures of borders or transformation plants in importing countries provide another layer of uncertainty to the sector. Tourism, transport and other services sectors are also taking a big hit from the crisis.

Finance

Guinea-Bissau has only limited integration into the international financial system, which reduces its exposure to foreign financial shocks. Additionally, the ECB-supported peg of the CFA franc to the euro reduces its exchange rate risk.

However, the country is highly dependent on remittances and official aid and development assistance (ODA). Remittances suffered during the last financial crisis, falling to 4.6% of GDP in 2012. In 2018, they went back to 8.8%, but current global employment losses are likely to reduce them significantly.

ODA dropped down to 8.1% in 2012. Since then, it has remained stable, at around 9–10% of GDP. Several factors may lead to further reductions, like the global recession, political instability in Guinea-Bissau and the general trend of less ODA.

Social impact

Guinea-Bissau is dependent on imports of basic foods such as rice and chicken. The country imports 2,800 tons of chicken yearly and produces only 180,000 tons of rice, while demand is for around 280,000 tons.

During the first days of imposed measures, prices rose for basic goods. The government announced measures against price speculation in transport, health supplies and consumption goods, but lower incomes owing to market closures and lower cashew prices are set to increase poverty and food insecurity.

Fiscal impacts

Government revenue is forecast to drop significantly. While temporary closures will diminish tax income substantially, revenue from cashew export duties is also missing, given the delayed and likely poor performing cashew campaign this year. Most of the missing revenue will have to be replaced with new debt (2019 debt stock at 55% of GDP). The 2020 deficit will likely be above 5% of GDP.

Monetary and financial policy

The Central Bank of West African States (BCEAO) announced on 21 March that it would increase the total weekly liquidity for the West African Economic and Monetary Union (WAEMU) banking system by FCFA 340 billion ($567 million, or 0.4% of WAEMU 2019 GDP). Moreover, it is currently auctioning FCFA 4.750 billion ($7.9 billion, 5.9% of WAEMU 2019 GDP) by month and loosening up its collateral policy to increase accepted assets in FCFA 1,050 billion ($1.8 billion, 2.2% of WAEMU 2019 GDP). Finally, BCEAO has taken measures to provide banknotes for ATM operations.

BCEAO has also enacted different measures to assist private businesses. It is supporting firms with repayment difficulties and refinancing bank credits to SMEs fulfilling certain conditions. Moreover, BCEAO is fostering electronic money issuance by private firms.

Fiscal policy

On 27 March, the Ministries of Finance and Health released a joint decree outlining financial support to the country's main hospitals. Monthly, an amount of FCFA 32.8 million ($55,000) will be made available to pay benefits to doctors and nurses, FCFA 30 million ($50,000) to purchase medicine and FCFA 60 million ($100,000) to supply meals to staff and patients. Additionally, FCFA 100 million ($167,000) will serve to improve hospital infrastructure. The government has also announced life insurance for people directly involved in the response to COVID-19.

Moreover, the West African Development Bank (BOAD), with financial support from BCEAO and the WAEMU, is offering a concessional loan of FCFA 15 billion ($25 million; 1.7% of 2019 GDP). Eligibility is conditional on a health care contingency plan or a business support plan. BOAD is also freezing repayment of principal amounts due between April and December 2020.

Other policy

Decree 07/2020 has restricted some rights of businesses and workers. The government may reallocate workers to perform tasks related to management of the health crisis, and rights to dismiss and strike are limited.

The decree has also restricted economic activity in most sectors. Markets are opened only to sell essential goods from 7am to 11am. International trade is limited to essential goods. Pharmacies should be open 24/7. Public transport is completely forbidden except for the delivery of essential goods. Restaurants can only carry out delivery, between 7am and 11am.

Donor support

The EU intends to make available €1.4 million to support a National Contingency Plan and to give additional funding to NGOs working in health care. Moreover, the World Bank is mobilising resources through REDISSE and Maternal and Child Health. The Global Fund foresees allocation of 5% of current subventions to reinforce the response. These resources will be released, under the oversight of WHO, and in accordance with priorities listed by the Health Emergencies Operations Centre. The purchase of supplies and equipment will be done preferably through the UN supply system.

The IMF and World Bank have asked G20 countries to suspend debt payments from IDA countries, including Guinea-Bissau, that request forbearance. Bilateral debt amounted to $114.7 million (7.7% of 2019 GDP) as of 31 December 2019 and debt payment due in 2020 is forecast to be $3.2 million (0.2% of 2019 GDP).

Information in this note is correct as of 6 April 2020. Carlos Alberto Coca Gamito is an ODI Fellow with the Ministry of Economy in Guinea-Bissau and Sebastian Schäber is an ODI Fellow with the Ministry of Finance in Guinea-Bissau; this note is written in a personal capacity. Comments welcome to: c.c.gamito.fs@odi.org.uk; s.schaber.fs@odi.org.uk