



# GUINEA-BISSAU

July 2021

## REQUEST FOR A NINE-MONTH STAFF MONITORED PROGRAM—PRESS RELEASE; AND STAFF REPORT

In the context of the Request for a Nine-Month Staff Monitored Program, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF following discussions that ended on May 12, 2021, with the officials of Guinea-Bissau on economic developments and policies underpinning the IMF arrangement under the Staff-Monitored Program. Based on information available at the time of these discussions, the Staff Report was completed on July 19, 2021.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
PO Box 92780 • Washington, D.C. 20090  
Telephone: (202) 623-7430 • Fax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) Web: <http://www.imf.org>  
Price: \$18.00 per printed copy

**International Monetary Fund**  
**Washington, D.C.**



## IMF Managing Director Approves a Staff Monitored Program for Guinea-Bissau

### FOR IMMEDIATE RELEASE

- The Staff-Monitored Program (SMP) will help to build a strong track record of policy and reform implementation, possibly paving the way for an IMF-supported program in early 2022.
- The nine-month SMP will support the government's home-grown program of reforms aimed at stabilizing the economy, improving competitiveness, and strengthening governance.

**Washington, DC – July 26, 2021:** On July 19, 2021 the Managing Director of the International Monetary Fund (IMF) approved a [Staff-Monitored Program](#) (SMP) for Guinea Bissau for the period July 2021 to April 2022.<sup>1</sup>

With the move to reengage with the IMF, Guinea-Bissau now has a window of opportunity for fundamental reforms to address major macro imbalances and lay the groundwork for inclusive growth. The authorities have laid out a home-grown program of reforms aimed at stabilizing the economy, removing distortions, improving competitiveness, and strengthening governance. The authorities have requested for an SMP to build a sound track record for an [Extended Credit Facility](#) in early 2022.

Guinea-Bissau has been significantly affected by the COVID-19 pandemic, which has disrupted economic activity and led to a deterioration in the external and fiscal position. The effects of these shocks have been persisting in 2021.

The authorities' immediate priority has been to limit the impact of the pandemic and preserve macroeconomic and financial stability. Health spending was increased and measures to protect the most vulnerable and support the agricultural sector are being implemented, requiring financial support from the international community, including a [Rapid Credit Facility](#) approved by the IMF Board on January 25, 2021 ([see Press Release No: 21/21](#))

Given Guinea-Bissau's limited fiscal space and debt vulnerabilities, the emergency assistance required to face the pandemic has been mostly in the form of grants and highly concessional loans. Starting in 2021, the authorities have put in place an ambitious fiscal consolidation program to ensure debt sustainability while addressing Guinea-Bissau's vast developmental needs. Participation of Guinea-Bissau in the debt service relief approved under the [Catastrophe Containment and Relief Trust](#) and the [G20 Debt Service Suspension Initiative](#) would provide additional resources to fight the pandemic and enhance debt sustainability prospects.

The authorities are also committed to pursuing their reform agenda and their engagement with the Fund through the SMP. They also remain committed to reinforcing fiscal governance and transparency to ensure that the emergency budgetary allocations provided by the RCF are spent appropriately. It is in this context that all COVID-19 related spending is being managed using a dedicated account at the BCEAO, and the authorities will publish bi-monthly reports on these expenditures, information on public procurement contracts, and undertake an ex-post independent audit of crisis-mitigation spending.

---

<sup>1</sup> An SMP is an informal agreement between country authorities and Fund staff to monitor the implementation of the authorities' economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board.

**Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2019–25**

	2019	2020	2021	2022	2023	2024	2025
		Prel.				Proj.	
	(Annual percent change, unless otherwise indicated)						
<b>National accounts and prices</b>							
Real GDP at market prices	4.5	-1.4	3.3	4.0	5.0	5.0	5.0
Real GDP per capita	2.3	-3.5	1.1	1.7	2.8	2.8	2.9
GDP deflator	-3.5	-0.9	2.7	2.8	2.8	2.8	2.8
Consumer price index (annual average)	0.3	1.5	1.9	2.0	2.0	2.0	2.0
<b>External sector</b>							
Exports, f.o.b. (CFA francs)	-22.7	-21.1	9.4	6.9	6.7	6.2	5.5
Imports, f.o.b. (CFA francs)	20.5	-8.3	5.5	-3.5	4.3	4.9	4.9
Terms of trade (deterioration = -)	-31.4	-3.7	-8.2	4.2	5.5	3.8	2.5
Real effective exchange rate (depreciation = -)	-2.8	2.3	...	...	...	...	...
Exchange rate (CFAF per US\$; average)	585.9	574.8	...	...	...	...	...
<b>Government finances</b>							
Revenue excluding grants	9.2	-5.5	15.2	11.6	10.2	9.1	9.1
Expenditure	-3.0	30.5	-3.2	5.3	7.4	3.7	5.5
Current expenditure	18.2	10.1	-2.1	5.3	5.4	5.6	7.7
Capital expenditure	-38.5	96.7	-5.2	5.3	11.1	0.4	1.6
<b>Money and credit</b>							
Domestic credit	13.8	-1.7	9.1	13.5	14.2	12.5	10.3
Credit to the government (net)	13.8	-19.7	-2.8	-3.5	-6.4	-7.5	-6.7
Credit to the economy	13.8	5.9	12.9	18.2	18.9	16.0	12.7
Net domestic assets	11.9	-13.8	7.6	20.9	20.6	17.1	13.6
Broad money (M2)	0.3	9.1	0.9	6.4	7.4	6.5	5.6
	(Percent of GDP, unless otherwise indicated)						
<b>Investments and savings</b>							
Gross investment	14.2	22.4	21.1	21.1	21.8	21.1	20.6
Of which: government investment	8.4	16.9	15.1	14.9	15.3	14.3	13.4
Gross domestic savings	0.9	5.9	5.9	8.7	10.2	10.1	10.0
Of which: government savings	1.8	3.4	5.2	5.9	6.6	6.2	6.0
Gross national savings	5.4	14.1	12.5	15.6	17.0	16.3	16.1
<b>Government finances</b>							
Revenue excluding grants	12.5	12.1	13.1	13.7	14.0	14.2	14.3
Domestic primary expenditure	13.9	16.2	14.9	14.9	14.7	14.0	13.7
Domestic primary balance	-1.4	-4.1	-1.8	-1.2	-0.7	0.1	0.6
Overall balance (commitment basis)							
Including grants	-3.9	-9.5	-5.0	-4.6	-4.2	-3.6	-3.0
Excluding grants	-6.8	-13.7	-10.4	-9.5	-9.1	-8.1	-7.4
<b>External current account</b>							
External current account	-8.8	-8.3	-8.5	-5.5	-4.8	-4.8	-4.5
Excluding official current transfers	-10.0	-9.7	-11.4	-8.6	-7.9	-7.5	-7.1
<b>Stock of public and publicly guaranteed debt<sup>1</sup></b>							
Stock of public and publicly guaranteed debt <sup>1</sup>	65.9	79.3	78.4	77.5	75.7	73.6	71.1
Of which: external debt	24.2	25.4	26.7	24.9	23.1	21.7	20.4
<b>Memorandum items:</b>							
Nominal GDP at market prices (CFAF billions)	843.5	824.1	874.2	934.7	1008.9	1089.0	1175.4
WAEMU gross official reserves (billions of US\$)	17.6	21.8	...	...	...	...	...
(percent of broad money)	34.2	32.9	...	...	...	...	...

Sources: Guinea-Bissau authorities; and IMF staff estimates and projections.

<sup>1</sup> Coverage expanded to include legacy arrears.



# GUINEA-BISSAU

July 19, 2021

## REQUEST FOR A NINE-MONTH STAFF MONITORED PROGRAM

### EXECUTIVE SUMMARY

**Context.** Guinea-Bissau is a fragile state with considerable needs to fight the COVID-19 pandemic and address developmental challenges. After an estimated 1.4 percent of GDP contraction in 2020, a modest recovery of about 3.3 percent is projected for 2021 on the back of higher cashew exports, the gradual lifting of COVID containment measures and a more stable political situation. The outlook is subject to considerable uncertainty. An RCF disbursement of SDR 14.2 million (50 percent of quota) was approved in January to provide urgent financing (35 percent of the external gap in 2021) to support critical spending in health and catalyze additional donor resources. The RCF followed two years of protracted political turmoil and delays in reforms, now undertaken by the new government. Public debt was assessed as sustainable in a forward-looking sense based on the authorities' commitment to sound policies supported by strong donor engagement and a Fund program. Debt service relief under the CCRT has provided some fiscal space and the country's participation in the DSSI should also help mobilize additional resources. After the 2021 budget approval within the statutory deadlines, significant and sustained reform efforts are required to meet the WAEMU 3 percent of GDP overall balance criteria by 2025 and bring public debt-to-GDP ratio within 70 percent by end-2026.

#### **Policies in the program:**

- **The program is anchored on securing debt sustainability.** To ensure debt is sustainable in a forward-looking sense, the authorities agreed to undertake an ambitious fiscal adjustment; rely on grants and concessional lending; prioritize undisbursed committed project loans pacing disbursements according to public investment returns and absorption capacity; and continue debt rescheduling/reprofiling negotiations bilateral and multilateral lenders. In addition, to mitigate contingent liabilities, the authorities will formulate a plan for disengaging from an undercapitalized bank by 2024 and strengthening the financial viability of the electricity utility company.
- **Debt sustainability needs to be combined with creating fiscal space for social and public investment spending.** This entails that the reduction in the overall fiscal balance (in large part unwinding the one-off implications of the pandemic) based on the 2021 budget be executed avoiding arrears accumulation and

expensive non-concessional borrowing. Stronger revenue mobilization and expenditure containment including in the wage bill are expected to create fiscal space to increase social spending in education, health, and pandemic-related expenditures and to undertake key infrastructure investments. The authorities are committed to bring the fiscal deficit and debt ratio within 3 percent and 70 percent of GDP, respectively, by 2025 and 2026 in line with the WAEMU convergence criteria.

- **The SMP will support a gradual implementation of reforms enhancing governance and anticorruption frameworks.** The 2021 reforms will focus on: strengthening cash management and expenditure control; advancing the implementation of the Treasury single account; improving the tax and custom frameworks and amending the legal procurement framework to enable the collection and publication of beneficial ownership information. In addition, the authorities will review the asset declaration regime with IMF technical assistance during the SMP. They also committed to finalize the implementation of the governance safeguards for COVID spending by the end of the third quarter of 2021.

**Modalities.** Staff agreed with the authorities on a nine-month SMP with quarterly reviews, from June 2021-March 2022. The first review based on end-June targets and benchmarks would be completed by end-September 2021; the second review based on end-September targets and benchmarks would be completed by end-December 2021; and the third review based on end-December 2021 targets and benchmarks would be completed by end-March 2022. Quantitative targets comprise: (i) a floor on total tax revenues; (ii) a zero ceiling on new non-concessional external debt; (iii) a zero ceiling on new domestic arrears and (iv) a zero ceiling on new external payments arrears of the central government; (v) a floor on priority spending; (vi) a floor on domestic primary balance; and (vii) a zero ceiling on non-regularized expenditures. There are 11 structural benchmarks focusing on public financial management (PFM), tax and custom framework reforms, governance and anticorruption efforts and financial stability.

**Risks.** The outlook is subject to significant downside risks. The baseline projections are predicated on the pandemic subsiding globally and its effects moderated locally after mid-2021. A deeper or more prolonged duration of the pandemic globally or domestically would severely impact the economic outlook. Were this to materialize, social tensions would increase and could trigger renewed political instability.

Approved By  
**Annalisa Fedelino**  
**(AFR) and Craig**  
**Beaumont (SPR)**

An IMF team consisting of Jose Gijon (Head), Elena Arjona Perez, Leonardo Pio Perez, Harold Zavarce (all AFR), Paul Elger (FAD), Patrick Gitton (Resident Representative) and Gaston Fonseca (local economist) held discussions by teleconferences with the Bissau Guinean authorities. The mission met with H.E. President Sissoko Embaló, Prime Minister Nabiam, Vice-Prime Minister Sambú, the Minister of Finance Fadia, BCEAO National Director Embalo, Minister of Economy Mandinga, Minister of Public Administration Balde, High Commissioner for COVID-19 Robalo and Mr. Djaló, President of the Commission for Economic Affairs of the National Assembly. The team also met with officials from the Ministries of Finance, Economy, Public Administration, the National Direction of the BCEAO, the National Institute of Statistics, the Financial Intelligence Unit, other officials, and representatives of development partners. The mission took place during April 28–May 12, 2021. Mr. Varela (Advisor to the Executive Director, OED) participated in policy discussions. Fairiza Jaghori and Tomas Picca (all AFR) contributed to the preparation of this report.

## CONTENTS

<b>CONTEXT</b>	<b>5</b>
<b>RECENT ECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS</b>	<b>7</b>
<b>PROGRAM OBJECTIVES</b>	<b>11</b>
<b>POLICY ISSUES</b>	<b>12</b>
A. Macroeconomic Policies	12
B. Structural Reforms to Enhance Governance and Transparency and Preserve Financial Stability	17
<b>PROGRAM MODALITIES, RISKS AND SAFEGUARDS ASSESSMENT</b>	<b>18</b>
<b>CAPACITY DEVELOPMENT</b>	<b>19</b>
<b>STAFF APPRAISAL</b>	<b>20</b>
<b>BOX</b>	
1. COVID Response Measures	6

**FIGURES**

1. Growth and Living Standards	21
2. COVID-19 Pandemic, Activity and Prices	22
3. Fiscal, External and Monetary Developments	23

**TABLES**

1. Selected Economic and Financial Indicators, 2019–26	24
2. Balance of Payments, 2018–26	25
3a. Consolidated Operations of the Central Government, 2019–26 (CFAF billions)	26
3b. Consolidated Operations of the Central Government, 2019–26 (Percent of GDP)	27
4. Monetary Survey, 2018–22	28
5. Selected Financial Soundness Indicators, 2014–20	29
6. Quantitative Performance Criteria (QPC) and Indicative Targets (IT) under the SMP 2021	30
7. Structural Benchmarks	31

**ANNEXES**

I. Risk Assessment Matrix	32
II. Transparency, Governance and Corruption Challenges	34
III. Recently Adopted Key Measures on Governance and Corruption	36
IV. Capacity Development Strategy	37

**APPENDICES**

I. Letter of Intent	38
Attachment I. Memorandum of Economic and Financial Policies	40
Attachment II. Technical Memorandum of Understanding	50

## CONTEXT

**1. Guinea-Bissau is a fragile state with long-standing challenges.** Poverty is high with about 67 percent of the population living below the poverty line of US\$1.90 per day and the country ranks 175 out of 189 countries on the UN Human Development Index (2020). The economy relies heavily on the production and exports of unprocessed cashew nuts, making most households highly vulnerable to cashew nut price shocks and climate change. High levels of corruption, a weak judicial system and transnational organized drug-related crime add up to the country's challenges and to a long history of political instability and fragility. A weak business environment has constrained private sector investment and economic diversification.

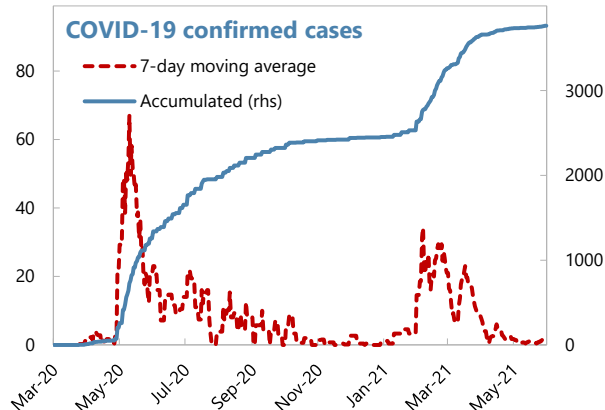
**2. The outbreak of the pandemic coincided with a period of political uncertainty that subsided in the second half of 2020 following the December 2019 presidential election.**

- *COVID-19.* The first COVID-19 cases were reported on March 24, 2020 and rapidly increased in the following weeks. By July 5, 2021 there were 3,88 cases and (69 deaths) out of a population of almost 2 million people. The state of calamity declared on January 23 maintains the mandatory use of masks and physical distancing. In coordination with donors, Guinea Bissau is preparing a plan for the vaccine rollout. About 144,000 doses (AstraZeneca/SII) were planned to be delivered by end-September but adequate conditions for reception, storage and distribution are still being prepared. While the first batch is mainly financed by COVAX, other sources of financing will be needed to expand the coverage of the population beyond the planned 20 percent in the first phase (Box 1). The authorities plan to vaccinate 1.4 million people by the end-first quarter of 2022.
- *Political situation.* Former Prime Minister and leader of the former opposition party (Madem-G15) Umaro Sissoco Embaló won the highly contested December 2019 Presidential elections. President Embaló appointed a new Prime Minister and government in late February 2020 to address the impact of the pandemic and reengage with the international donor community. In April the Economic Community of West African States (ECOWAS) officially recognized President Embaló's victory, which was also confirmed in September by the Supreme Court. It was the first peaceful transition of power in Guinea-Bissau's history and security conditions so far have remained calm.

**3. The authorities have requested a Staff-Monitored Program (SMP) in support of their ambitious reform agenda.** The agenda includes commitment to maintain macroeconomic stability based on an ambitious fiscal consolidation, preserving debt sustainability, securing recovery from the pandemic, fighting corruption, and improving governance and transparency. The previous Extended Credit Facility (ECF) arrangement expired on July 9, 2019, with the last two reviews held up by the fiscal deterioration and continued undercapitalization of a systemic bank in a context of high and protracted political uncertainty.



**Box 1. Guinea-Bissau: COVID Response Measures**



**COVID-19 Expenditures and support to sectors**

	2020		2021	
	CFAP billion	Percent of GDP	CFAP billion	Percent of GDP
<b>Current</b>	6.8	0.8	4.0	0.5
Health sector	4.7	0.6	3.0	0.3
Transfers to vulnerable families	0.7	0.1	0.5	0.1
Other current expenditures <sup>1</sup>	1.4	0.2	0.5	0.1
<b>Capital<sup>2</sup></b>	21.3	2.6	22.9	2.6
Equipment, infrastructure and foreign financed vaccine related costs	21.3	2.6	19.4	2.2
WB/FAO Food Emergency Security Project	0.0	0.0	3.5	0.4
<b>Total expenditures</b>	28.1	3.4	26.9	3.1
<b>Onlending to banks<sup>3</sup></b>	15.0	1.8	0.0	0.0
<b>Total Expenditure and Support to Sectors</b>	43.1	5.2	26.9	3.1

Sources: Authorities, World Bank and IMF staff calculations.

<sup>1</sup> Subsidies, training and living expenses for health personnel, and citizen security to enforce COVID-19 measures.

<sup>2</sup> Investments to strengthen the health sector (including equipment and improvement of infrastructure) and the agricultural sector. Also includes foreign financed vaccine related costs.

<sup>3</sup> Program to support the cashew nut sector.

**Health policies and restrictions to contain the pandemic**

- i. Schools closures (in March-October 2020, and again in January-February 2021);
- ii. borders remain open subject to sanitary inspections; all travelers are obliged to present a negative PCR test obtained no more than 72 hours before travelling; and
- iii. social gatherings, public meetings, discos and bars, gyms and cultural events are prohibited; restaurants can only operate on take-away mode; Carnival was cancelled.

**Fiscal**

- i. Increased compensation of hospital staff and upgrading of existing hospital capacity and equipment;
- ii. assistance to vulnerable families including measures to increase targeted number of families to benefit from food supply and other family support;
- iii. program to support the financing of the critical cashew nut campaign by onlending resources through the banking sector; and
- iv. a program to vaccinate the population from COVID-19, including through foreign-financed grants.

**Monetary and financial**

- i. Full allotment strategy by the BCEAO to allow banks to fully satisfy their liquidity needs at a lower and fixed rate;
- ii. special 3-month refinancing windows at a fixed rate for limited amounts of 3-month "Covid-19 T-Bills" to be issued by each WAEMU sovereign;
- iii. extension of the collateral framework to access central bank refinancing;
- iv. implementation of a framework for banks and microfinance institutions to accommodate demands from solvent customers with pandemic-related repayment difficulties to postpone debt service falling due;
- v. measures to promote the use of electronic payments;
- vi. extension by one year of the five-year period initiated in 2018 for the transition to Basle II/III bank prudential requirements.

## RECENT ECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS

### 4. The pandemic interrupted an expected recovery from a severe terms of trade shock.

Following a 44 percent decline in international cashew prices in 2018–19, output growth was projected to accelerate in 2020 to 4.9 percent supported by a strong cashew campaign and higher prices. But the COVID crisis and severe floods in September 2020 induced a significant deterioration in the fiscal and external balances. As a result, real GDP is estimated to have contracted by 1.4 percent in 2020 (Text Table 1).

**Text Table 1. Guinea-Bissau: Revised Macroframework**

	2019	2020		2021		2022	
	Est.	Pre-shock <sup>1</sup> proj.	After shock estimates	Pre-shock proj.	After shock proj.	Pre-shock proj.	After shock proj.
Real GDP (percent change)	4.5	4.9	-1.4	5.0	3.3	5.0	4.0
GDP deflator (percent change)	-3.5	2.1	-0.9	3.6	2.7	3.2	2.8
CPI inflation, average (percent)	0.3	1.5	1.5	1.8	1.9	2.0	2.0
Current account (percent of GDP) <sup>2</sup>	-8.8	-4.5	-8.3	-4.6	-8.5	-4.6	-5.5
Overall fiscal balance, cash basis incl. grants (percent of GDP)	-4.9	-5.4	-9.4	-5.3	-6.6	-5.2	-4.6
Total public debt (percent of GDP)	65.9	71.5	79.3	71.1	78.4	71.1	77.5
<i>Memorandum items:</i>							
Nominal GDP (CFAF billion)	843	893	824	972	874	1053	935
Cashew nut export prices (US\$ per ton)	1098	1140	1000	1180	1100	1221	1144
Cashew export volume (thousands of tons)	196	208	155	214	180	221	194

Sources: Guinea-Bissau authorities; and IMF staff estimates and projections.

1/ Projections as of January 2020.

2/ In 2019 the current account deficit includes the one-off import (3.5 percent of GDP) of a power-generation ship that is anchored off the coast of Bissau and supplies electricity to the city. For 2020 and 2021, the current account in the macroframework does not exclude additional financing in response to the pandemic as in Text Table 2.

- *Economic activity.* The containment and lockdown measures deeply weighed on employment, consumption and investment. The delayed cashew campaign severely affected the agriculture sector (70 percent of the labor force). Severe floodings in September also disrupted economic activity. Average price inflation accelerated to 1.5 percent from 0.3 percent in 2019, reflecting pressures on prices of goods affected by trade disruptions.
- *External sector.* The pandemic has given rise to urgent balance of payments (BOP) needs. In 2020, excluding the COVID-related additional financing, the overall BOP position deteriorated by 8.6 percentage points of GDP relative to the pre-shock projection (Text Table 2).<sup>1</sup> The trade deficit is estimated to have widened to 16.3 percent of GDP driven by a 15.5 percent decline in cashew nut exports. As a result, the current account deficit excluding COVID-related grants

<sup>1</sup> Comparing an estimated financing gap of 7.8 with a pre-shock excess of financing of 0.8 percent of GDP.

deteriorated to 8.8 percent of GDP (Text Table 2).<sup>2</sup> Furthermore, delays in investment projects reduced FDI and other capital inflows. The estimated financing gap of CFAF 64.1 billion (7.8 percent of GDP) was covered by net foreign assets, grants and loans from international financial institutions (IFIs) and additional financing from regional commercial banks.

	2020				2021	
	Pre-shock (proj. January 2020)		Estimates		Projections	
	CFAF billion	% of GDP	CFAF billion	% of GDP	CFAF billion	% of GDP
<b>Current Account Balance<sup>1</sup></b>	<b>-40.4</b>	<b>-4.5</b>	<b>-72.1</b>	<b>-8.8</b>	<b>-88.4</b>	<b>-10.1</b>
Trade balance	-104.1	-11.7	-134.5	-16.3	-140.2	-16.0
Exports of goods and services	171.4	19.2	125.3	15.2	144.8	16.6
of which: cashew nuts	138.8	15.5	110.4	13.4	120.6	13.8
Imports of goods and services	275.5	30.9	259.8	31.5	284.9	32.6
of which: food products	60.9	6.8	59.3	7.2	59.6	6.8
petroleum products	31.8	3.6	29.9	3.6	32.1	3.7
Incomes	17.5	2.0	8.6	1.0	7.7	0.9
Current transfers	46.2	5.2	53.8	6.5	44.1	5.0
of which: remittances	32.8	3.7	44.5	5.4	31.2	3.6
<b>Capital and financial accounts<sup>1</sup></b>	<b>47.4</b>	<b>5.3</b>	<b>8.0</b>	<b>1.0</b>	<b>57.0</b>	<b>6.5</b>
of which:						
Net foreign direct investments	13.4	1.5	7.0	0.8	20.1	2.3
Official net borrowing	62.9	7.0	58.6	7.1	59.2	6.8
MLT disbursements	28.3	3.2	22.7	2.8	19.2	2.2
MLT amortizations	-13.9	-1.6	-12.6	-1.5	-14.7	-1.7
Net regional financing <sup>2</sup>	48.5	5.4	48.5	5.9	54.6	6.2
<b>Financing gap (excess of financing -)</b>	<b>-7.0</b>	<b>-0.8</b>	<b>64.1</b>	<b>7.8</b>	<b>31.4</b>	<b>3.6</b>
<b>Additional financing sources</b>						
IMF (net)	-1.8	-0.2	0.0	0.0	10.7	1.2
Disbursements (RCF)	0.0	0.0	0.0	0.0	11.0	1.3
Repayments	-1.8	-0.2	-2.0	-0.2	-1.2	-0.1
Grant for debt relief under the CCRT <sup>3</sup>	...	...	2.0	0.2	0.9	0.1
World Bank	...	...	7.9	1.0	6.2	0.7
Grants	...	...	0.3	0.0	6.2	0.7
Loans	...	...	7.6	0.9	0.0	0.0
Other IFIs	...	...	35.6	4.3	18.2	2.1
BOAD	...	...	22.0	2.7	...	...
AfDB	...	...	...	...	8.2	0.9
IDB	...	...	6.1	0.7	...	...
Other grants	...	...	7.5	0.9	10.0	1.1
Additional regional financing	...	...	0.2	0.0	...	...
Net foreign assets excluding IMF (increase -)	-5.3	-0.6	20.3	2.5	-14.8	-1.7
<b>Residual financing gap</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>11.0</b>	<b>1.3</b>

Sources: BCEAO; and IMF staff projections.

1/ Exclude additional financing sources listed in the lower part of the table, thus differing from figures reported in Text Table 1 and Table 2.

2/ Treasury bills and bonds placed with regional commercial banks.

3/ Includes amounts approved by the Executive Board on April 13, October 2, 2020 and April 1, 2021.

<sup>2</sup> The balance of payments numbers reported here and in Text Table 2 exclude the additional financing obtained in response to the COVID-19 pandemic from current transfers (in the current account) and from the capital and financial accounts, thus differing from the figures reported in Text Table 1 and Table 2.

- Fiscal sector.* The fiscal deficit widened in 2020 reflecting the revised macroeconomic outlook, weaker tax compliance and the authorities' measures to deal with the pandemic (Box 1). In 2020, the overall balance on a commitment basis widened to 9.5 percent of GDP compared to 3.9 percent of GDP in 2019 (Table 3b). Excluding additional financing (Text Table 3) the overall budget cash deficit<sup>3</sup> widened to 10.6 percent of GDP as compared to 5.4 percent of GDP expected before the pandemic, partly reflecting temporary factors that are expected to unwind in 2021. Tax revenues dropped to 8.2 percent of GDP, compared to 9.7 percent projected in January 2020, driven by lower tax revenues from cashew nut exports (15 percent of tax revenues in 2019), duties and sales tax on imports (32 percent), and weaker tax compliance. Additional COVID-19-related current expenditures in healthcare, vulnerable families support and other current expenditures amounted to 0.8 percent of GDP. COVID-19-related capital expenditures were estimated at 2.6 percent of GDP. A program to support the financing of the critical cashew nut campaign by onlending resources through the banking sector further increased financing needs by 1.8 percent of GDP. Additional financing to address COVID spending needs has been provided by international donors, including the World Bank, the IMF's CCRT, the Islamic Development Bank, the West African Development Bank (BOAD), and Treasury issuances placed with WAEMU commercial banks. As a result in 2020, debt increased by an estimated 13.4 percentage points of GDP. The debt service burden also increased significantly.<sup>4</sup> Given the tight fiscal position, Guinea-Bissau incurred in US\$1.8 million external (mostly resolved in the first quarter of 2021) and CFAF 5.8 billion domestic debt service arrears. Guinea-Bissau is assessed at high risk of debt distress (Paragraph 17).
- Financial sector.* The economic downturn and heightened uncertainty weigh on the already fragile banking system. The liquidity of the banking system has been supported by the accommodative stance of the BCEAO. A systemically important bank remains undercapitalized despite a government recapitalization in December 2019. In 2020, the bank recovered part of the loans considered non-performing and resumed its restructuring plan by prospecting potential investors with the support of an external consultant specialized in mergers and acquisitions. The negative capital level of the banking system is caused by the undercapitalized systemic bank as the other local banks have adequate capital levels (Table 5). The government was also able to end a litigation with another local bank in December 2020 by settling cross liabilities with the bank's debtors, reducing the bank's NPLs. Credit to the economy increased modestly in 2020 after the strong growth observed in recent years, showing that the liquidity provided by the BCEAO avoided a credit crunch and allowed local banks to accumulate net foreign assets by acquiring sovereign bonds in the regional market. The political crisis and the COVID-19 have also led to a sharp decline in the pre-financing usually provided to farmers and exporters ahead of the cashew campaign.

<sup>3</sup> This number and Text Table 3 exclude the additional financing obtained in response to the COVID-19 pandemic, thus differing from the figures reported in Text Table 1, Tables 3a and 3b.

<sup>4</sup> The ratio of debt service to revenue excluding grants increased from 67.4 percent in 2019 to 75.9 percent in 2020

**Text Table 3. Guinea-Bissau: Projected Central Government Financing Requirements**

	2019		2020, pre-shock (proj. January 2020)*		2020, after shock Est.		2021 Proj.	
	CFAF billion	% of GDP	CFAF billion	% of GDP	CFAF billion	% of GDP	CFAF billion	% of GDP
<b>Revenues and grants<sup>1</sup></b>	<b>130.1</b>	<b>15.4</b>	<b>155.8</b>	<b>17.4</b>	<b>125.0</b>	<b>15.2</b>	<b>136.6</b>	<b>15.6</b>
Tax revenue	79.1	9.4	86.5	9.7	67.8	8.2	87.9	10.1
Nontax revenue	26.5	3.1	22.8	2.5	32.0	3.9	27.0	3.1
Grants	24.5	2.9	46.6	5.2	25.2	3.1	21.7	2.5
<b>Expenditure</b>	<b>163.2</b>	<b>19.3</b>	<b>201.7</b>	<b>22.6</b>	<b>212.9</b>	<b>25.8</b>	<b>206.1</b>	<b>23.6</b>
Current expenditures	124.7	14.8	123.8	13.9	137.2	16.7	134.4	15.4
of which: COVID19 related expenditures	...	...	...	...	6.8	0.8	4.0	0.5
Healthcare	...	...	...	...	4.7	0.6	3.0	0.3
Transfers to families	...	...	...	...	0.7	0.1	0.5	0.1
Other current expenditures	...	...	...	...	1.4	0.2	0.5	0.1
Net acquisition of nonfinancial assets	38.5	4.6	77.9	8.7	75.7	9.2	71.7	8.2
of which: COVID19 related expenditures including foreign financed vaccine related costs	...	...	...	...	21.3	2.6	19.4	2.2
of which WB/FAO Food Emergency Security Project	...	...	...	...	...	...	3.5	0.4
Arrears clearance <sup>2</sup>	-7.9	-0.9	-2.5	-0.3	0.4	0.0	-13.7	-1.6
<b>Overall balance (cash)<sup>1</sup></b>	<b>-41.0</b>	<b>-4.9</b>	<b>-48.5</b>	<b>-5.4</b>	<b>-87.6</b>	<b>-10.6</b>	<b>-83.1</b>	<b>-9.5</b>
<b>Financing<sup>1,3</sup></b>	<b>41.0</b>	<b>4.9</b>	<b>48.5</b>	<b>5.4</b>	<b>41.9</b>	<b>5.1</b>	<b>35.7</b>	<b>4.1</b>
Net acquisition of financial assets	-2.4	-0.3	-1.0	-0.1	-28.7	-3.5	11.1	1.3
COVID19 onlending to banks <sup>4</sup>	...	...	...	...	-15.0	-1.8	...	...
Domestic financing (net)	39.6	4.7	36.2	4.1	62.4	7.6	18.8	2.2
of which: Net regional commercial banks	18.3	2.2	48.5	5.4	48.5	5.9	54.6	6.2
Foreign financing (net)	3.8	0.5	13.2	1.5	8.2	1.0	5.8	0.7
<b>Financing gap (+ = shortfall)<sup>1</sup></b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>45.7</b>	<b>5.6</b>	<b>47.4</b>	<b>5.4</b>
<b>Additional financing</b>	...	...	...	...	<b>45.7</b>	<b>5.6</b>	<b>36.4</b>	<b>4.2</b>
Grants	...	...	...	...	9.8	1.2	25.3	2.9
WB/FAO Food Emergency Security Project	...	...	...	...	...	...	3.5	0.4
WB Fast Track Facility	...	...	...	...	...	...	2.7	0.3
WB ECOWAS	...	...	...	...	0.3	0.0	...	...
IMF (CCRT) <sup>5</sup>	...	...	...	...	2.0	0.2	0.9	0.1
AfDB	...	...	...	...	...	...	8.2	0.9
Other grants	...	...	...	...	7.5	0.9	10.0	1.1
External loans	...	...	...	...	13.7	1.7	0.0	0.0
IDB	...	...	...	...	6.1	0.7	...	...
World Bank	...	...	...	...	7.6	0.9	0.0	0.0
Regional Disease Surveillance Project	...	...	...	...	4.5	0.5	...	...
WB ECOWAS	...	...	...	...	3.1	0.4	...	...
Domestic financing	...	...	...	...	22.2	2.7	11.0	1.3
IMF (RCF) <sup>6</sup>	...	...	...	...	...	...	11.0	1.3
BOAD	...	...	...	...	22.0	2.7	...	...
Additional regional commercial banks	...	...	...	...	0.2	0.0	...	...
<b>Residual financing gap</b>	...	...	...	...	...	...	<b>11.0</b>	<b>1.3</b>

Sources: Ministry of Finance; and IMF staff calculations.

(\*) January 2020 projections used as pre-COVID projections in all published documents for Guinea-Bissau.

1/ Excludes additional financing sources listed in the lower part of the table, thus differing from figures in Table 3a and 3b.

2/ Includes float and statistical discrepancy.

3/ Financing is on currency basis.

4/ Program to support cashew nut sector.

5/ Includes amount approved by the Executive Board on April 13, 2020, October 5, 2020 and April 1, 2021.

6/ IMF financing classified as domestic because it is onlent by the regional central BCEAO.

**5. Growth is expected to recover modestly in 2021.** With the gradual lifting of COVID containment measures and higher cashew export prices and volumes driven by a recovery in global trade, GDP is projected to grow by 3.3 percent. Growth will also be supported by a more stable political situation, in which structural reforms and enhancements in the business environment are expected to help promote private investment. Inflation is expected to increase to 1.9 percent in 2021, from 1.5 percent in 2020, reflecting an increase in demand associated with the recovery.

**6. The adverse effects of the pandemic on the external sector are expected to persist in 2021.** The combined effect of a partial recovery in cashew nut exports and the heavy reliance on imports limit the scope for a rapid BOP adjustment. Guinea-Bissau needs to sustain essential imports of food<sup>5</sup> and medicines, and capital and intermediate goods for the health sector and key infrastructures, mainly roads severely affected by September 2020 flooding. Exports value are expected to grow by 9.4 percent contributing by about one percentage point of GDP to the current account. Net foreign assets of commercial banks are expected to remain stable in 2021, preserving the significant accumulation of 2020 fueled by the liquidity provision by the BCEAO. The provision of liquidity is expected to moderate in 2021, which is reflected in the projected stability of broad money. The recent RCF disbursement should finance about 35 percent of the resulting projected BOP gap of CFAF 31.4 billion (3.6 percent of GDP). Other multilateral organizations and bilateral donors are expected to step in with concessional financing, reducing the recourse to expensive regional financing.<sup>6</sup>

**7. The outlook is highly uncertain and risks are tilted to the downside (RAM, Annex I).** The outlook is based on the pandemic subsiding globally and its effects moderating locally after mid-2021 due to the effectiveness of containment measures and increasing access to vaccines. Failure to contain the disease would disrupt the cashew trade and business in general. Social tensions could erupt generating renewed political uncertainties. Guinea Bissau is also subject to severe climate change-related natural disasters. Financial stress in state-owned enterprises and banking fragilities, arising from high NPLs and undercapitalization of one systemically important bank, could generate contingent liabilities adding to fiscal pressures. On the external front, a weaker than projected recovery of international cashew nut prices would hamper economic growth and reduce government revenues. On the upside, a faster containment of the pandemic, both globally and locally, would accelerate normalization of trade and revenue collection in addition to lower health expenditures.

## PROGRAM OBJECTIVES

**8. The SMP will focus on securing debt sustainability, supporting credible fiscal consolidation and improving governance and transparency—without which sustainable development will not be possible.** Planned reforms are initial steps to buttress deeper engagement to help lift the country out of fragility by strengthening macroeconomic stability and enhancing governance.

- **Supporting fiscal discipline and ensuring debt sustainability.** The program will aim at ensuring that fiscal adjustment based on the 2021 budget is executed without arrears accumulation and avoiding expensive non-concessional borrowing. This will be achieved through (i) stronger revenue mobilization and expenditure containment including in the wage bill, generating fiscal space to protect social and priority spending and undertake key infrastructure

<sup>5</sup> The increased production of cashew over time has replaced rather than added to other agricultural production such as rice and groundnuts and thus increased food security vulnerabilities.

<sup>6</sup> For further details see Text Table 2.

investments to sustain the recovery, and (ii) assisting the authorities to seek additional grants and highly concessional financing. Staff understands the authorities also intend to explore debt reprofiling/restructuring from development partners in the context of downside risks from the COVID-19 pandemic (MEFP ¶18).

- **Implementing governance and transparency reforms, critical to strengthen expenditure control, mobilize revenue and fight corruption.** The SMP will support the implementation of conditionality to strengthen governance based on the recommendations of the recent IMF governance assessment report and ongoing technical assistance. The Fund will assist the authorities to develop a realistic PFM strategy aimed at strengthening fiscal discipline as well as government's transparency and accountability building on TA recommendations. Incremental capacity development implementation will support capacities in expenditure control, mitigating SOEs' risks, strengthening the tax and custom framework and reducing corruption risks. The program will help the authorities develop a strategy to prevent arrears accumulation and gradually clear the stock of audited and approved domestic arrears.

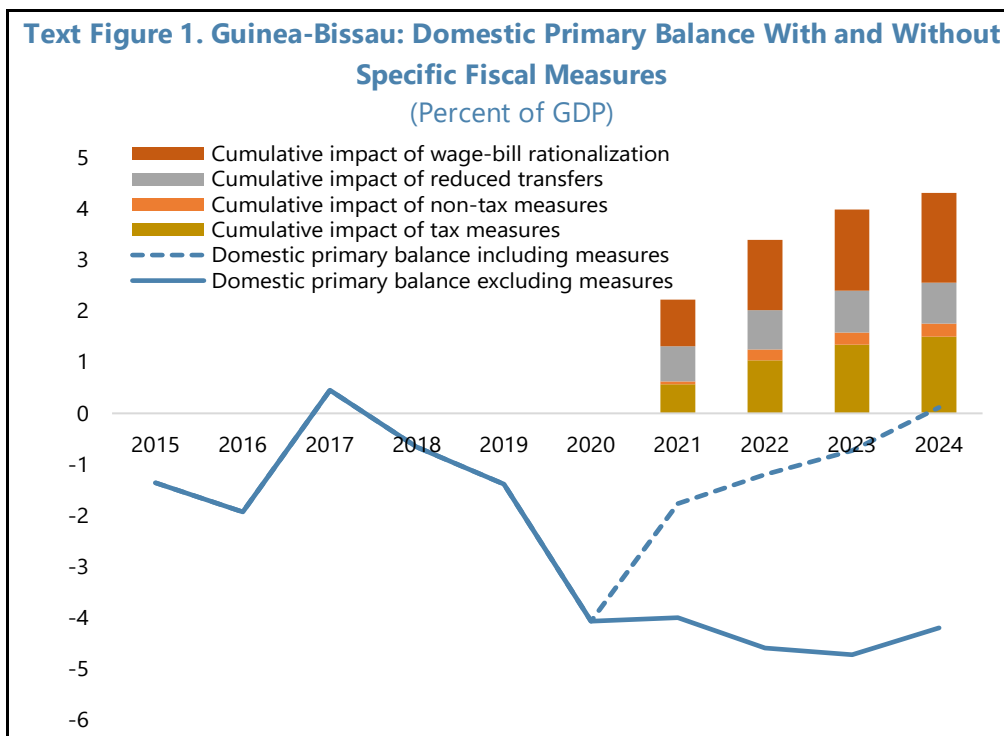
## POLICY ISSUES

*Policy priorities are supporting post-COVID economic recovery, initiating an ambitious but realistic fiscal consolidation program to ensure debt sustainability while addressing Guinea-Bissau's vast developmental needs, through stronger fiscal governance and transparency.*

### A. Macroeconomic Policies

#### Addressing Fiscal Consolidation

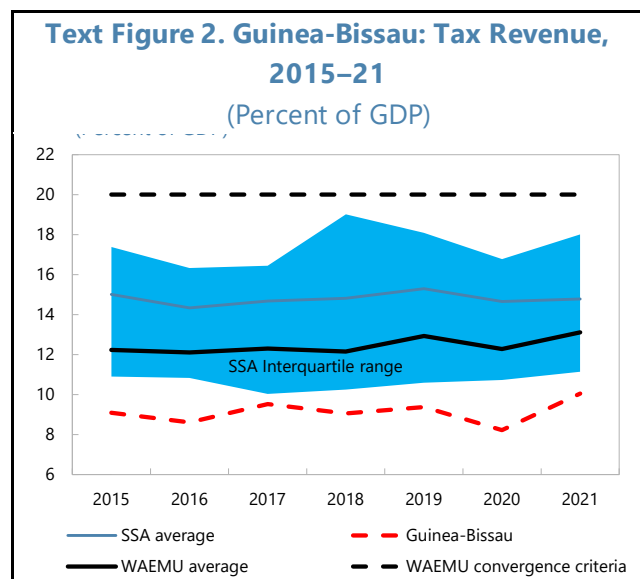
**9. Staff will back the authorities' fiscal consolidation program aiming to ensure medium-term sustainability supporting economic recovery.** Based on the 2021 budget and discussions with authorities, the overall fiscal deficit including grants on a commitment basis is forecasted to fall to 5 percent of GDP (from 9.6 percent of GDP), reducing the stock of public and publicly guaranteed debt to 79.3 percent of GDP (Table 1 and Table 3b). Such significant adjustment is nonetheless feasible as it reflects the unwinding of pandemic-related effects materialized in 2020 (such as the drop in revenue because of lower cashew prices); and it would bring back the primary balance to close to the level recorded in 2019 (Text Figure 1). Staff supports the authorities' commitment to bring the fiscal deficit and debt ratio within 3 percent and 70 percent of GDP, in line with the WAEMU convergence criteria, by 2025 and 2026 respectively. The fiscal consolidation effort will be supported by wage-bill rationalization, tax and non-tax measures and measures to reduce transfers to SOEs and other non-essential transfers. Should tax revenues disappoint, the authorities should undertake additional rationalization of non-grant financed expenditures.



**10. The following measures will contribute to mobilize domestic revenues, rationalize expenditures and avoid expensive non-concessional financing:**

**Revenue**

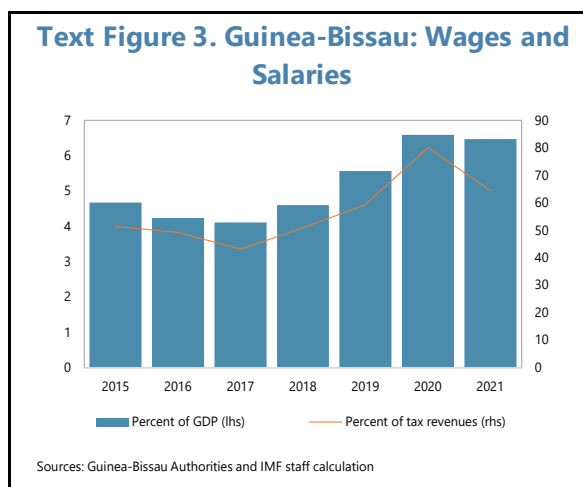
**11. Tax and non tax-measures:** Key measures already taken include a new tax on telecommunications along with other revenue enhancing measures (MEFP ¶11). Overall, fiscal yields estimates for tax and non-tax measures in 2021 amount to 0.6 percent of GDP. The mission recommended further measures to promote a more effective revenue mobilization, including through continued leveraging on digitalization for tax collection supported by FAD TA. The authorities are expected to mobilize revenues and reduce contact points between tax payers and tax administrators by launching a website for electronic tax returns in 2021 and allowing for electronic tax returns filing and payment. Staff advised the authorities to fully implement this and other projects to increase revenue mobilization towards similar levels of Guinea Bissau’s peers over the medium term (Text Figure 2).





## Expenditure

**12. Wage bill and expenditure control.** In Guinea-Bissau, the wage bill accounted for about 80 percent of tax revenues in 2020, which far exceeds those of peer countries and the WAEMU convergence criteria of 35 percent of wages-to-tax revenues ratio. In this context, wage rationalization will be critical to create fiscal space for priority spending (Text Figure 3). In this respect, the authorities have already initiated a freezing of public sector salaries, and rationalized incentives in 2020 (from 26 percent of wages and salaries in 2019 to 13 percent in 2020). Staff emphasized the need to strengthen the control of public salaries and incentives, and measures to reconcile the personnel and the payroll records, including the deployment of a blockchain technology-based project supported by the IMF, which is currently being implemented. These measures should support the convergence over the medium term towards the WAEMU convergence criteria. The authorities have also recently reestablished the Treasury Committee to improve expenditure control as requested by main partners. Improvements in expenditure control will be supported by structural benchmarks (see below).



**13. State Owned Enterprises.** The authorities have taken steps towards strengthening the management of the largest SOE, the electricity company EAGB including changing the top management and reviewing its operational strategy. Additional steps will be needed to further strengthen the operations of EAGB to ensure its financial viability and limit fiscal risks.<sup>7</sup> EAGB has non-publicly guaranteed debts estimated at 2.5 percent of GDP.

**14. Priority spending.** The authorities plan to vaccinate 1.4 million people out of a population of about 2 million people by the end of the first quarter of 2022. The vaccination campaign is planned to be foreign financed by grants and is currently estimated at a cost of around CFAF 9 billion (1 percent of GDP). The authorities are prepared to further support the health sector and vulnerable families through prioritizing expenditures if the health crisis worsens and/or the cashew sector does not recover. Staff emphasized the need to safeguard priority spending on health, education and the social sector.

**15. Investment plans.** In addition to foreign financed vaccine-related costs, the authorities are deploying COVID-19 related investments in health care and other investments supporting food security (1.6 percent of GDP) to sustain the recovery in 2021. The government is undertaking investment plans to strengthen health and education and transport infrastructure, which was severely affected by the September 2020 flooding. Staff also discussed measures to strengthen the public

<sup>7</sup> For further discussion on governance of SOEs, see [IMF Technical Report for Guinea Bissau "Enhancing Governance and the Anti-Corruption Framework: Next Steps"](#).

procurement process to increase investment efficiency; and mobilization of external grants to finance specific investment projects.

## Financing and Debt

**16. The authorities' reengagement strategy should contribute to close the 2021 residual financing gap (Text Table 3).** About 90 percent of the overall fiscal balance cash basis excluding COVID-related grants is expected to be financed with Treasury issuances placed with WAEMU commercial banks, the IMF emergency facility and CCRT third tranche of debt service relief and concessional loans of multilateral institutions including the World Bank. The recent RCF and the SMP should help catalyze additional donor support to cover the residual financing gap of 1.3 percent of GDP, and alleviate financing pressures stemming from reliance on non-concessional lending from BOAD and Treasury issuances. In addition to joining the Debt Service Suspension Initiative (DSSI), the authorities have also taken steps towards solving all legacy external arrears.<sup>8</sup> Staff discussed plans for seeking additional grants and highly concessional financing and the government will seek to mobilize external grants to finance specific investment projects. Expected COVID-related grants include project financing from World Bank and African Development Bank and budget support from France and African Development Bank. The authorities also intend to explore options for possible debt reprofiling/restructuring from development partners in the context of downside risks from the COVID-19 pandemic.

**17. Guinea-Bissau is at a high risk of external and overall debt distress.** Debt indicators have significantly worsened in the last couple of years, driven by higher than expected fiscal deficits, increased borrowing for investment projects, and the additional financing required to address the impact of the COVID-19 pandemic. The share of external debt remains relatively small (32 percent of total debt, or 25.4 percent of GDP at end-2020). However, the external risk rating has been downgraded to high considering the vulnerabilities from overall debt and downside risks to the baseline scenario. Overall risk of debt distress is high as the present value (PV) of public debt relative to GDP remains well above its indicative benchmark throughout the projection period (see the Debt Sustainability Analysis).

**18. Guinea-Bissau's debt is assessed as sustainable in a forward-looking sense based on the authorities' commitment to sound policies supported by strong donor engagement and an SMP.** Guinea-Bissau's supportive regional context<sup>9</sup> reduces medium-term rollover risks associated with domestic debt, and staff projects a gradual decline of the PV of public debt relative to GDP over the medium term, with the fiscal deficit within 3 percent of GDP and debt at about

---

<sup>8</sup> Agreements were signed with Taiwan Province of China in 2017 and with Libya in 2018. For Brazil and Russia, the debts have been negotiated but the agreements are still pending signature. Negotiations with Angola and Pakistan are ongoing.

<sup>9</sup> Guinea-Bissau benefits from financial support from regional institutions and larger regional/CU members with stronger debt carrying capacity; in the WAEMU, the regional sovereign treasury market is managed by UMOA-Titres.

70 percent of GDP in line with WAEMU convergence criteria.<sup>10</sup> The assessment is contingent on the authorities' commitment to (i) an ambitious fiscal adjustment strategy; (ii) prudent borrowing policies, including avoiding of non-concessional project financing; (iii) enhanced debt management (see below); and (iv) cautious management of the existing loan pipeline and application of assessment procedures based on best international practices to ensure criticality of investment projects. The baseline debt dynamics could further improve with full donor re-engagement leading to a significant scaling up of grants by multilateral institutions and a rescheduling of selected debt obligations to extend maturities and reduce interest rates.<sup>11</sup> The authorities' request to join the DSSI in December 2020 and its extension through end-2021 is expected to enhance debt sustainability prospects.<sup>12</sup> The debt outlook remains vulnerable to a weaker economic recovery and a lack of authorities' adherence to macroeconomic stability and prudent fiscal policies.

**19. Strengthening debt and investment management will ensure debt sustainability and promote more effective and growth friendly investments.** The government will seek long-term technical assistance from international partners to improve its capacity for debt recording, monitoring and overall debt management. In addition, it will start publishing annual reports on debt covering debt service, disbursements and agreements<sup>13</sup>, as well as continue reporting to international debt statistics databases.

**20. Furthermore, the government will carefully plan new investments and contract future debt only on highly concessional terms.** To ensure that the risk of debt distress remains manageable, the government will carefully rank investments based on cost-benefit analysis, including social considerations, and its impact on macroeconomic stability. Moreover, the authorities will work in consultation with the IMF regarding the evaluation of the financial terms of new proposed loans. The Government will also start quarterly meetings with all Project Implementation Units (PIUs) to take stock of the rate of project implementation and discuss challenges ahead. To enhance coordination, the government will prepare, quarterly reports on Public Investment Plan (PIP) execution. In the medium term, the government will design a three-year PIP, fully integrated with the medium-term expenditure framework.

---

<sup>10</sup> On April 27, 2020, the West-Africa Economic and Monetary Union (WAEMU) heads of state declared a temporary suspension of the WAEMU Growth and Stability Pact setting six convergence criteria, including the 3 percent of GDP fiscal deficit rule, to help member-countries cope with the fallout of the Covid-19 pandemic. This temporary suspension will allow member countries to raise their overall fiscal deficit temporarily and use the additional external support provided by donors in response to the Covid-19 crisis. The Heads of State' Declaration sets a clear expectation that fiscal consolidation will resume once the crisis is over.

<sup>11</sup> Rescheduling agreements were reached with Exim Bank India in November 2020 and with BOAD in March 2021.

<sup>12</sup> Debt sustainability prospects are expected to be enhanced by the commitments associated with the DSSI. In this context, the authorities will (i) commit spending of any freed resources on COVID-related health or economic relief and monitoring of such, (ii) disclose public sector debt as per to GFSM 2014 to the IMF/WBG, and (iii) fully comply with the limits on non-concessional debt agreed under the IMF Debt Limit Policy (DLP) or the WBG Sustainable Development Financing Policy, but not more.

<sup>13</sup> The first report covering 2019-2020 was published in June 2021 in the Ministry of Finance webpage (<https://mef.gw/publicacoes/outras/39-boletim-da-divida-publica/file>).

## B. Structural Reforms to Enhance Governance and Transparency and Preserve Financial Stability

**21. The authorities have taken initial steps to strengthen fiscal governance and transparency in procurement in the context of the COVID-19 response.**<sup>14</sup> Related funds are managed using a dedicated account at the BCEAO and will be subject to an ex-post independent audit by a reputable third-party auditor who will work jointly with the audit court (originally planned to start in the first semester of 2021). However, the audit process has not yet started, and the Terms of Reference have yet to be developed. The entire crisis-related spending is an integral part of the State Budget, so that reports on such spending are being published in the budget execution report presented to the National Assembly. The authorities published, through the High Commissioner for COVID-19, key information of all crisis-related contracts in the year 2020, but the full text of contracts and ex-post validation of delivery reports remain to be published.<sup>15</sup> The authorities have yet to implement RCF commitments to disclose the beneficial ownership information of companies awarded COVID-19 related contracts (MEFP ¶16). The authorities are committed to implement pending RCF commitments by the end of the third quarter of 2021.

**22. The SMP will prioritize policies to strengthen fiscal consolidation, enhance fiscal governance and help to build a track record towards a potential ECF arrangement.** Given Guinea-Bissau's fragility and limited capacity, structural reforms will help address transparency, governance and corruption challenges (Annex II) and support measures recently adopted by the authorities (Annex III). The Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) met with country authorities in January 2021 and the recommendations of the mutual evaluation report, which will inform further areas of strengthening the AML/CFT implementation action plan. Furthermore, the authorities committed to implement 11 structural benchmarks (see below and Table 7) and review the asset declaration regime (MEFP ¶17). The mission discussed associated TA support.

**23. Further strengthening public financial management is needed to improve expenditure control.** To strengthen cash management and improve the expenditure control the program focus on the the following structural benchmarks (MEFP ¶12)<sup>16</sup>:

- The recently re-established Treasury Committee should continue its weekly meetings and clear prioritization criteria of payments should be set by expenditure category.
- Progressive steps are taken towards a Treasury Single Account (TSA). Under the SMP, the government will appoint a team in charge of implementing the TSA, prior authorization will be needed from the Minister of Finance for any opening of a public bank account, and all public

<sup>14</sup> See ["Guinea-Bissau Request for Disbursement Under the Rapid Credit Facility", IMF Country Report No. 21/29, Annex I.](#)

<sup>15</sup> Available at <https://accovid.com/index.php/category/noticias-nacionais-da-covid-19/outros-relatorios-de-atividades/>

<sup>16</sup> For additional measures the government is committed to adopt, see MEFP ¶13.

bank accounts will be identified.

- The government will amend the legal procurement framework to enable the collection and publication of beneficial ownership information above a certain threshold, to be defined based on IMF TA.
- An executive order is issued to end the hiring of employees without contract, enforce control by the financial controller over all public salaries including employment incentives and the National Assembly salaries, and reconciling the personnel and the payroll records.

In addition, debt management has been strengthened by the approval by the Council of Ministers of the decrees related to (i) the creation of a National Committee of Debt Policy; (ii) the organization and functioning of the Direção Geral da Dívida Pública; and (iii) the issuance of debt and debt management. This measure was recommended by Staff during the SMP negotiation mission.

**24. Strengthening the tax and customs framework and system will promote more effective revenue mobilization.** Structural benchmarks (MEFP ¶14) include<sup>17</sup>:

- Submitting to parliament: (i) a revised general tax code and a revised tax penalty regime which will provide a common basis for administration of all taxes regardless of tax types and promote fairness and understanding; and (ii) a modernized statute of the VAT to improve the tax framework through a broadening of the sales tax base.
- Finalizing the review of the customs code and submit it to parliament, which includes the application of deterrent penalties to change traders' behavior and raise compliance.
- Implementing the Kontaktu system for tax returns filing and electronic payments through e-banking and mobile money.<sup>18</sup>

**25. The government will continue to make efforts to preserve the stability of the financial sector.** It will refrain from allocating additional public resources to a large bank of which it became one of the major shareholders after a recapitalization agreement in 2019. The authorities will prepare a viable strategy to disengage from the bank by 2024 as agreed with the regional Banking Commission (MEFP ¶20). The full operationalization of a WAEMU-wide bank resolution framework expected in 2021-2022 would provide critical tools for improving the stability of the financial sector in Guinea-Bissau.

## PROGRAM MODALITIES, RISKS AND SAFEGUARDS ASSESSMENT

**26. Staff supports the authorities' request of a nine-month SMP covering the period June 2021 – March 2022.** Program performance under the SMP will be monitored through quarterly reviews of quantitative targets and structural benchmarks (MEFP Tables 1 and 2). The program has seven quantitative targets and 11 structural benchmarks. The Technical Memorandum of

<sup>17</sup> For additional measures the government is committed to implement, see MEFP ¶15 and ¶20.

<sup>18</sup> As an initial step, the Kontaktu webpage has been launched.

Understanding (TMU) contains definitions of the quantitative targets and of one memorandum item. It also specifies data requirements to monitor the program that the government will need to provide to Fund staff on a timely manner. The first test date will be June 30, 2021 and the review is expected to be completed by end-September 2021. The second test date will be September 30, 2021 and the review is expected to be completed by end-2021. The third test date will be December 31, 2021 and the completion of the third review by end-March 2022 could be combined with the request for an ECF arrangement conditional on a successful track record, as planned by the authorities. The country's substantial development gaps and fragility generate protracted BOP needs requiring support from a medium-term economic program to promote a sustainable macroeconomic position and inclusive growth, helping to catalyze additional donor support. Moreover, risks to the baseline are tilted to the downside owing to uncertainties related to the pandemic and high vulnerability to terms-of-trade shocks, including lower cashew and higher energy prices.

## 27. Program implementation risks are tilted to the downside.

- **Downside risks** arise from political risks and weak capacity, but also volatile global prices for imported rice and exported cashew nuts. Political risks are elevated given potential public labor conflict related to salaries, tensions associated with new taxes, governance and corruption vulnerabilities, high levels of poverty and weak public service delivery. In addition, the public sector limited capacities, including potential coordination failures across ministries and institutions, may hinder reform implementation. Should downside risks materialize worsening fiscal conditions, authorities are committed to further rationalize expenditures, in particular domestically financed investment and non-priority spending.
- **Upside risks** are related to a faster recovery than in the baseline underpinned by a stronger performance of the cashew sector, containment of the pandemic, accelerating trade normalization and faster dividends than expected from political stability crowding in private sector activity and donor grants.

28. **Safeguards assessment.** The BCEAO has only one recommendation outstanding from the 2018 safeguards assessment. The outstanding recommendation relates to the strengthening of the risk management function, which is in process. The assessment found that overall the central bank has maintained a strong control culture.

## CAPACITY DEVELOPMENT

29. **The authorities are committed to leverage policy implementation and reforms with technical assistance.** Since 2020, increased political stability has opened a window of opportunity for enhancing traction. Progress in the adoption of TA recommendations was noticeable in revenue and customs administration, tax policy and PFM (Annex III). Capacity development will support policy formulation, program implementation and improved governance during the SMP (Annex IV). Increased coordination within the Fund and with other TA providers is expected to improve the effectiveness of CD initiatives.

## STAFF APPRAISAL

**30. COVID-19 continues to have a severe impact on Guinea-Bissau, a fragile state with long-standing economic challenges.** In addition to the effects of the containment and lockdown measures on domestic activity, border closures and limited circulation delayed the launch of the 2020 cashew campaign, severely impacting the agriculture sector. After the economy contracted by 1.4 percent in 2020, a modest recovery by about 3.3 percent is projected for 2021, still short of the pre-COVID forecast of 5 percent growth. This partial rebound is expected to be driven by a recovery of cashew exports, increased consumption due to the gradual lifting of containment measures as well as a more stable political situation.

**31. Macroeconomic stability and debt sustainability crucially hinge on fiscal consolidation and prudent debt management.** The authorities envisage a substantial fiscal adjustment in 2021—partly reflecting the unwinding of unfavorable developments in 2020—executed avoiding arrears accumulation and expensive non-concessional borrowing, pledging grants and concessional lending, and continuing negotiations for a possible rescheduling of debt obligations with creditors to extend maturities and reduce interest rates. Stronger revenue mobilization and expenditure containment including in the wage bill are expected to create fiscal space to protect social spending in education, health, and pandemic-related expenditures and to undertake key infrastructure investments. Over the medium term, staff supports the authorities' commitment to bring the fiscal deficit and debt ratio within 3 percent and 70 percent of GDP by 2025 and 2026 respectively, in line with the WAEMU convergence criteria. For financial stability, staff strongly recommends the preparation of a viable strategy to disengage from the bank by 2024 as agreed with the regional Banking Commission.

**32. The timely implementation of governance and transparency enhancing reforms will be key for the SMP success.** Staff urges the authorities to implement in a timely manner the planned PFM strategy to enhance fiscal governance, transparency and accountability including measures to strengthen expenditure control, tax and custom frameworks, the fight against corruption and mitigation of SOEs' risks. Staff welcome the authorities' commitment to amend the legal procurement framework to enable the collection and publication of beneficial ownership information and review the asset declaration regime with IMF technical assistance during the SMP.

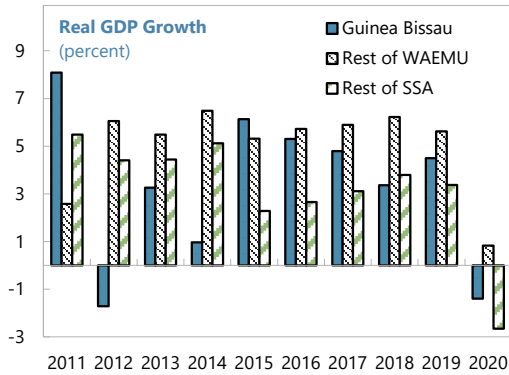
**33. Reform implementation risks are significant.** Guinea-Bissau is a fragile country and the program implementation will face political risks and weak state capacity. Moreover, the economy is exposed to volatile global prices for imported rice and exported cashew nuts. There are tensions associated with new taxes, governance and corruption vulnerabilities, significant levels of poverty, weak public service delivery and wage containment. In addition, the public sector constrained capacities may hinder reform implementation. At the same time, the potential pay-off from reform and careful policy management is significant.

**34. Staff supports the authorities' request for a nine-month SMP.** Steadfast and successful implementation of the SMP is key to establishing a reliable track record of performance. To mitigate the potential risks from capacity constraints, the IMF will support the authorities' efforts in all policy areas covered by the SMP through tailored technical assistance.

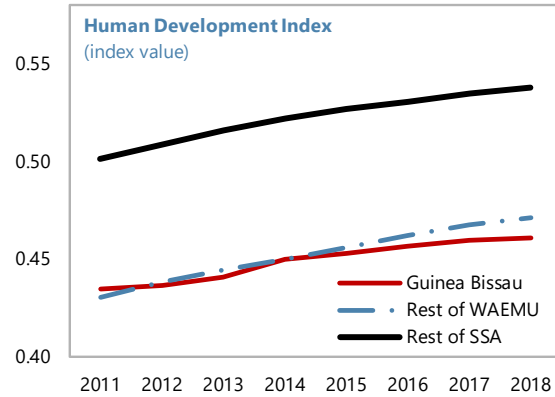


**Figure 1. Guinea-Bissau: Growth and Living Standards**

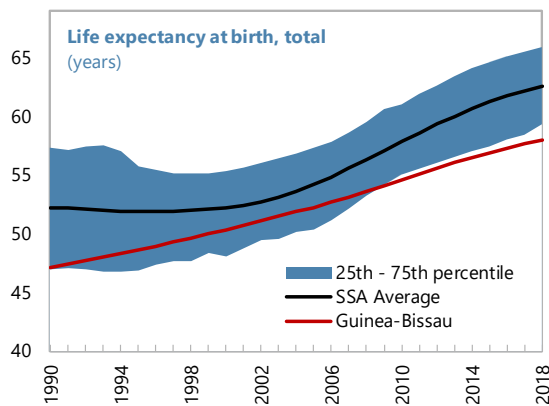
*A volatile economic growth compared to its regional peers reflects a long history of political instability...*



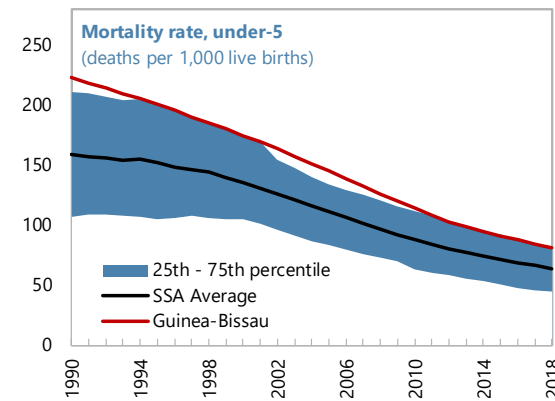
*...and economic fragility, which weighs on the population's living standards.*



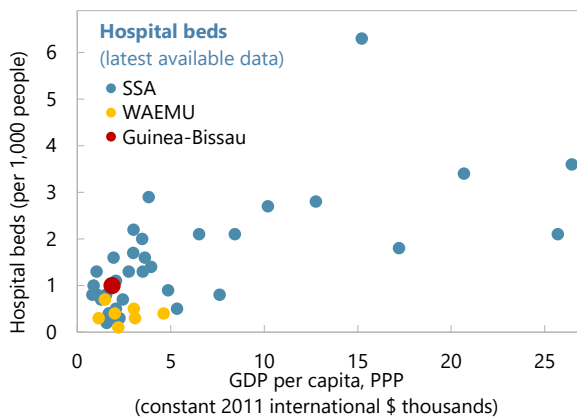
*Weak health conditions are evidenced by a significantly lower life expectancy at birth...*



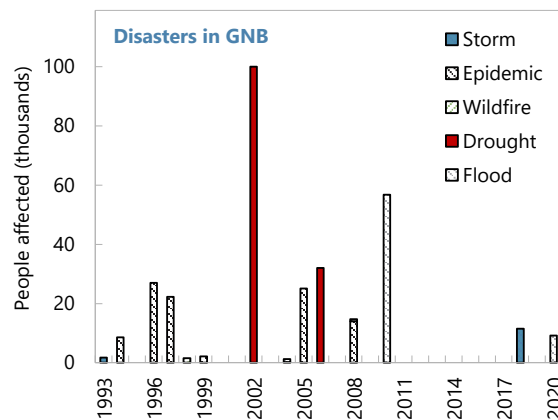
*...as well as the higher child mortality rate, both compared to SSA peers.*



*The health system has limited resources, including medical equipment, which is critical...*



*...considering the country's exposure to natural hazard events such as last year's floods and the pandemic.*

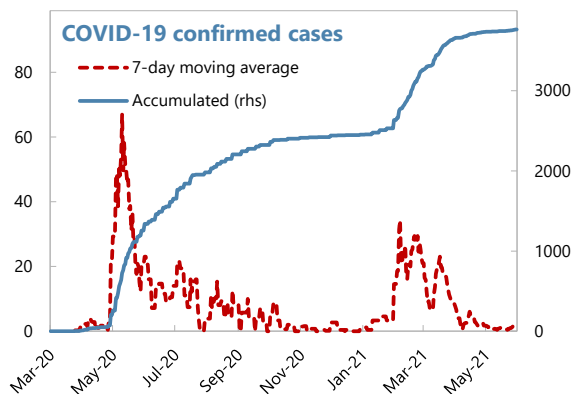


Sources: World Bank, Worldwide Development Indicators; EM-DAT, CRED database; Guinea-Bissau authorities; and IMF staff calculations.

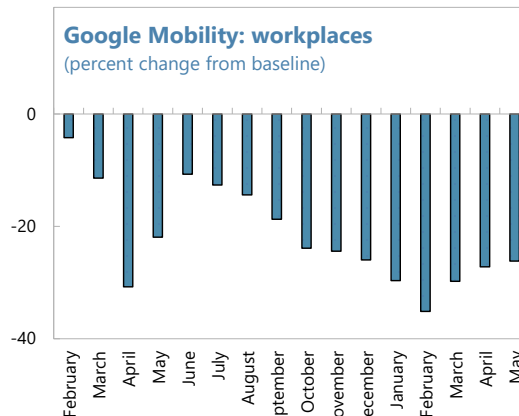


**Figure 2. Guinea-Bissau: COVID-19 Pandemic, Activity and Prices**

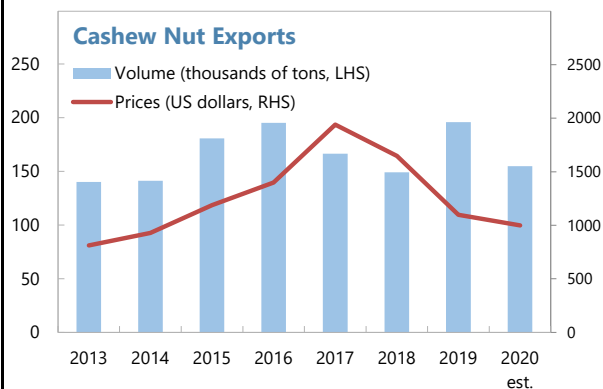
The first COVID-19 were reported in end-March 2020 and rapidly increased in the following weeks...



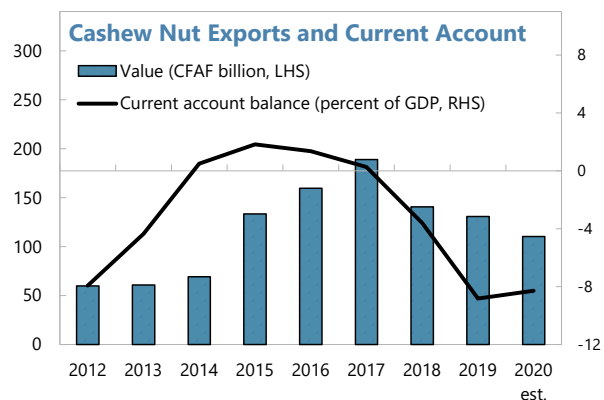
...when containment and lockdown measures were imposed by the State of Emergency (March) and the State of Calamity (September).



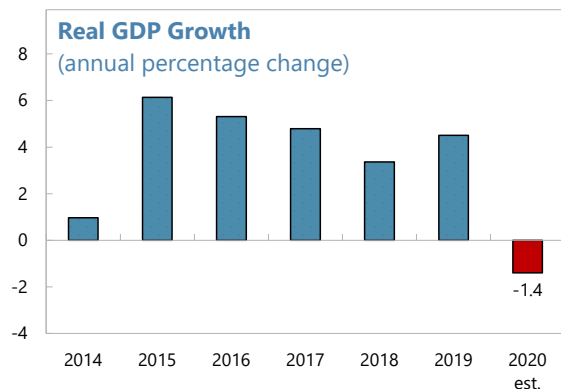
Cashew exports were affected by the delayed cashew campaign (volume) and weaker demand from trade partners (prices)...



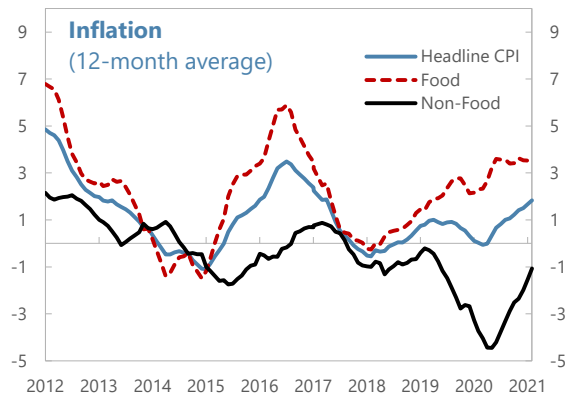
...which added to the terms-of-trade shock of recent years and further widened the current account deficit.



The effect of recent severe floods added to the pandemic, resulting on a GDP contraction estimated at 1.4 percent...



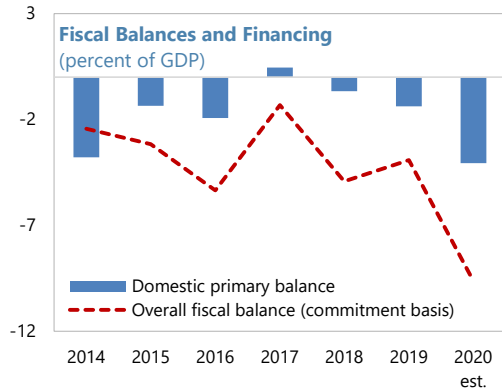
...and a pickup in inflation, as food prices also reflected disruptions in international trade.



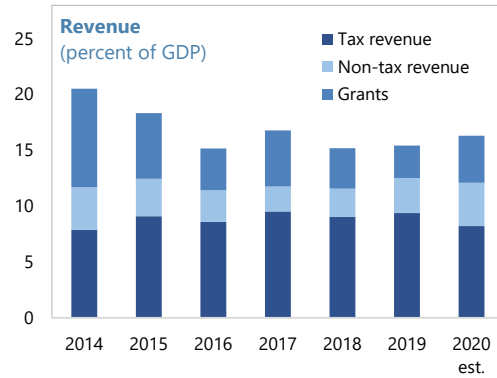
Sources: Google Mobility database, Our World in Data, Guinea-Bissau authorities and IMF staff calculations.

**Figure 3. Guinea-Bissau: Fiscal, External and Monetary Developments**

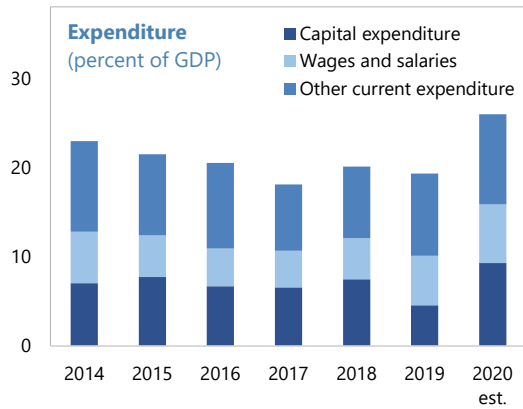
*Fiscal balances further deteriorated in 2020...*



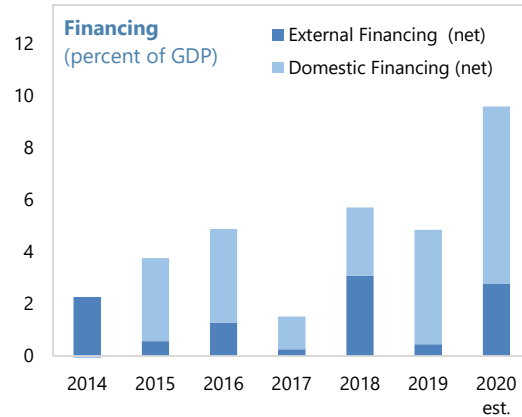
*...as weak revenues compensated by increased grants...*



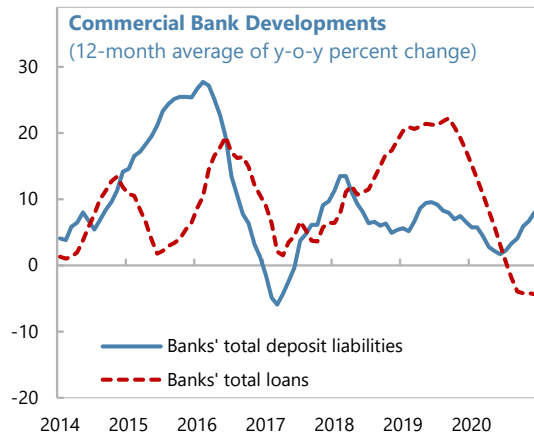
*...were not enough to cover increased expenditures, ...*



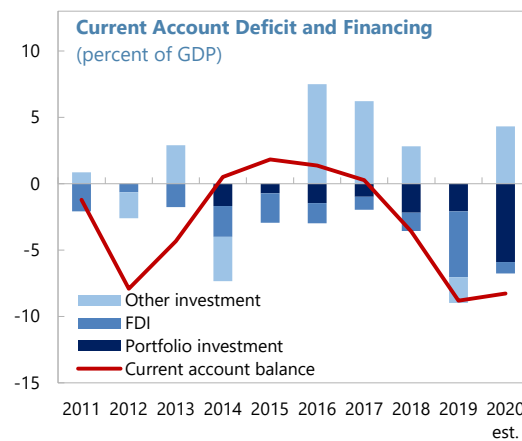
*...resulting in some need for additional financing, both external and within the region.*



*Increased regional financing partially crowded out domestic bank loans.*



*The financing of the current account deficit shifted from investment inflows to portfolio investment (Treasury securities).*



Sources: Guinea-Bissau authorities; BCEAO; and IMF staff calculations.

**Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2019–26**

	2019	2020	2021	2022	2023	2024	2025	2026
		Prel.			Proj.			
(Annual percent change, unless otherwise indicated)								
<b>National accounts and prices</b>								
Real GDP at market prices	4.5	-1.4	3.3	4.0	5.0	5.0	5.0	5.0
Real GDP per capita	2.3	-3.5	1.1	1.7	2.8	2.8	2.9	2.9
GDP deflator	-3.5	-0.9	2.7	2.8	2.8	2.8	2.8	2.8
Consumer price index (annual average)	0.3	1.5	1.9	2.0	2.0	2.0	2.0	2.0
<b>External sector</b>								
Exports, f.o.b. (CFA francs)	-22.7	-21.1	9.4	6.9	6.7	6.2	5.5	4.7
Imports, f.o.b. (CFA francs)	20.5	-8.3	5.5	-3.5	4.3	4.9	4.9	5.6
Terms of trade (deterioration = -)	-31.4	-3.7	-8.2	4.2	5.5	3.8	2.5	2.4
Real effective exchange rate (depreciation = -)	-2.8	2.3	...	...	...	...	...	...
Exchange rate (CFAF per US\$; average)	585.9	574.8	...	...	...	...	...	...
<b>Government finances</b>								
Revenue excluding grants	9.2	-5.5	15.2	11.6	10.2	9.1	9.1	7.5
Expenditure	-3.0	30.5	-3.2	5.3	7.4	3.7	5.5	7.7
Current expenditure	18.2	10.1	-2.1	5.3	5.4	5.6	7.7	6.6
Capital expenditure	-38.5	96.7	-5.2	5.3	11.1	0.4	1.6	10.0
<b>Money and credit</b>								
Domestic credit	13.8	-1.7	9.1	13.5	14.2	12.5	10.3	8.1
Credit to the government (net)	13.8	-19.7	-2.8	-3.5	-6.4	-7.5	-6.7	-6.0
Credit to the economy	13.8	5.9	12.9	18.2	18.9	16.0	12.7	9.7
Net domestic assets	11.9	-13.8	7.6	20.9	20.6	17.1	13.6	10.3
Broad money (M2)	0.3	9.1	0.9	6.4	7.4	6.5	5.6	5.2
(Percent of GDP, unless otherwise indicated)								
<b>Investments and savings</b>								
Gross investment	14.2	22.4	21.1	21.1	21.8	21.1	20.6	21.2
Of which: government investment	8.4	16.9	15.1	14.9	15.3	14.3	13.4	13.7
Gross domestic savings	0.9	5.9	5.9	8.7	10.2	10.1	10.0	10.9
Of which: government savings	1.8	3.4	5.2	5.9	6.6	6.2	6.0	6.2
Gross national savings	5.4	14.1	12.5	15.6	17.0	16.3	16.1	16.8
<b>Government finances</b>								
Revenue excluding grants	12.5	12.1	13.1	13.7	14.0	14.2	14.3	14.2
Domestic primary expenditure	13.9	16.2	14.9	14.9	14.7	14.0	13.7	13.7
Domestic primary balance	-1.4	-4.1	-1.8	-1.2	-0.7	0.1	0.6	0.5
Overall balance (commitment basis)								
Including grants	-3.9	-9.5	-5.0	-4.6	-4.2	-3.6	-3.0	-3.0
Excluding grants	-6.8	-13.7	-10.4	-9.5	-9.1	-8.1	-7.4	-7.4
<b>External current account</b>								
External current account	-8.8	-8.3	-8.5	-5.5	-4.8	-4.8	-4.5	-4.4
Excluding official current transfers	-10.0	-9.7	-11.4	-8.6	-7.9	-7.5	-7.1	-7.0
<b>Stock of public and publicly guaranteed debt<sup>1</sup></b>								
Stock of public and publicly guaranteed debt <sup>1</sup>	65.9	79.3	78.4	77.5	75.7	73.6	71.1	68.8
Of which: external debt	24.2	25.4	26.7	24.9	23.1	21.7	20.4	19.4
<b>Memorandum items:</b>								
Nominal GDP at market prices (CFAF billions)	843.5	824.1	874.2	934.7	1008.9	1089.0	1175.4	1268.8
WAEMU gross official reserves (billions of US\$)	17.6	21.8	...	...	...	...	...	...
(percent of broad money)	34.2	32.9	...	...	...	...	...	...

Sources: Guinea-Bissau authorities; and IMF staff estimates and projections.

<sup>1</sup> Coverage expanded to include legacy arrears.

**Table 2. Guinea-Bissau: Balance of Payments, 2018–26**  
(CFAF billions)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Prel.	Projections					
Current Account Balance	-30.1	-74.4	-68.2	-74.6	-51.5	-48.7	-52.3	-52.8	-55.4
Goods and services	-43.7	-123.3	-134.5	-140.2	-127.2	-129.4	-133.3	-138.3	-146.1
Goods	25.7	-50.6	-65.0	-64.1	-48.7	-47.5	-48.0	-49.4	-53.6
Exports, f.o.b.	188.6	145.7	115.0	125.8	134.5	143.6	152.6	161.0	168.6
Of which : cashew nuts	140.6	130.7	110.4	120.6	129.0	137.6	146.1	154.0	161.1
Imports, f.o.b.	-162.9	-196.4	-180.0	-189.9	-183.3	-191.1	-200.6	-210.4	-222.2
Of which : food products	-54.7	-59.7	-59.3	-59.6	-61.7	-64.6	-68.7	-72.5	-76.6
petroleum products	-33.5	-33.1	-29.9	-32.1	-31.8	-31.3	-31.4	-32.0	-33.1
Services	-69.4	-72.6	-69.5	-76.0	-78.5	-81.8	-85.3	-88.9	-92.5
Credit	26.7	25.2	10.3	19.0	20.3	21.9	23.6	25.5	27.5
Debit	-96.1	-97.8	-79.8	-95.0	-98.8	-103.7	-108.9	-114.4	-120.1
Incomes	-28.4	15.8	8.6	7.7	10.7	12.2	13.7	15.1	16.7
Credit	30.8	24.5	21.6	22.8	27.4	30.0	31.8	33.9	35.7
Of which: EU fishing compensation	0.0	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
Other license fees	4.2	6.8	10.1	8.1	10.3	11.4	12.6	14.1	15.3
Debit	-59.2	-8.8	-13.0	-15.1	-16.7	-17.8	-18.0	-18.7	-19.0
Of which : government interest	-2.1	-3.7	-8.8	-9.9	-11.5	-12.5	-12.6	-13.2	-14.5
Current transfers (net)	42.1	33.1	57.7	57.8	65.0	68.4	67.2	70.3	74.0
Official	10.2	10.0	11.6	24.9	29.1	31.4	29.1	31.1	33.5
Private	31.9	23.1	46.1	32.9	35.9	37.0	38.2	39.3	40.5
Of which : remittances	30.2	21.7	44.5	31.2	34.1	35.2	36.3	37.4	38.5
Capital account	23.4	16.1	22.6	23.4	19.5	21.4	22.7	24.1	25.9
Of which : official transfers	22.1	14.5	21.4	21.2	16.3	18.1	19.4	20.7	22.3
Financial account	-6.3	-75.8	-19.2	-44.3	-36.8	-32.5	-32.7	-31.5	-28.6
FDI	-11.6	-41.8	-7.0	-20.1	-15.6	-16.8	-18.2	-19.6	-21.2
Other investment	5.3	-34.0	-12.2	-24.2	-21.2	-15.7	-14.5	-11.9	-7.4
Official medium- and long-term disbursements	-45.8	-14.1	-58.5	-19.2	-18.5	-18.5	-18.5	-18.5	-18.4
Programs	0.0	0.0	-22.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects	-45.8	-14.1	-36.5	-19.2	-18.5	-18.5	-18.5	-18.5	-18.4
Amortization	2.5	2.3	12.6	14.7	15.2	18.2	18.8	18.4	15.5
Treasury bills (regional financing)	-17.9	-18.3	-48.7	-54.6	-41.7	-44.8	-42.6	-40.1	-39.7
Commercial bank net foreign assets	13.3	-28.1	72.2	0.0	-7.5	-7.5	-7.5	-7.5	0.0
Other net foreign assets	53.3	24.1	10.2	35.0	31.4	36.9	35.4	35.8	35.2
Errors and Omissions	-4.0	-4.2	6.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.4	13.3	-20.3	-6.9	4.7	5.1	3.0	2.9	-0.9
Financing	4.4	-13.3	20.3	-4.1	-4.7	-5.1	-3.0	-2.9	0.9
Net foreign assets excluding IMF (increase -)	3.1	-12.1	20.3	-14.8	-3.1	-2.3	0.1	-0.3	3.0
IMF purchases	2.4	0.0	0.0	11.0	0.0	0.0	0.0	0.0	0.0
IMF repurchases	-1.1	-1.2	-2.0	-1.2	-1.6	-2.8	-3.1	-2.6	-2.2
Grant for debt relief under the IMF CCRT	0.0	0.0	2.0	0.9	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	11.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>									
Cashew export quantity (thousands of tons)	149	196	155	180	194	202	208	214	219
Cashew export prices (US\$ per ton)	1,648	1,098	1,000	1,100	1,144	1,190	1,237	1,274	1,313
Import volume of goods (annual percentage change)	-4.6	14.1	-3.1	-4.3	0.2	7.4	5.7	5.0	5.4
Oil prices (international, US\$ per barrel)	68.3	61.4	41.3	64.7	63.0	59.8	57.7	56.4	55.7
Scheduled debt service									
Percent of exports and service credits	1.7	2.1	4.2	4.5	4.3	5.4	5.2	5.5	5.1
Percent of total government revenue	3.8	3.5	5.3	5.7	5.1	6.3	6.0	6.1	5.5
Current account balance (percent of GDP)	-3.6	-8.8	-8.3	-8.5	-5.5	-4.8	-4.8	-4.5	-4.4
Official transfers (percent of GDP)	3.9	2.9	4.0	5.3	4.9	4.9	4.4	4.4	4.4
WAEMU gross official reserves (billions of US\$)	14.9	17.6	21.8	...	...	...	...	...	...
(percent of broad money)	31.1	34.2	32.9	...	...	...	...	...	...

Sources: BCEAO; and IMF staff estimates and projections.

**Table 3a. Guinea-Bissau: Consolidated Operations of the Central Government, 2019–26**  
(CFAF billions)

	2019	2020	2021	2022	2023	2024	2025	2026
		Prel.				Proj.		
Revenue and grants	130.1	134.7	162.0	173.6	190.9	202.6	219.8	236.6
Tax revenue	79.1	67.8	87.9	98.3	109.3	119.6	130.6	140.9
Nontax revenue	26.5	32.0	27.0	29.9	32.1	34.5	37.5	39.9
Grants	24.5	35.0	47.0	45.4	49.5	48.4	51.8	55.9
Budget support	1.9	0.0	3.7	4.6	4.2	0.0	0.0	0.0
Project grants	22.6	33.0	42.5	40.8	45.3	48.4	51.8	55.9
Capital grants from CCRT	0.0	2.0	0.9	0.0	0.0	0.0	0.0	0.0
Expenditure	163.2	212.9	206.1	217.1	233.1	241.8	255.2	274.9
Expense	124.7	137.2	134.4	141.6	149.2	157.6	169.7	180.8
Wages and salaries	46.9	54.3	56.6	56.2	58.5	61.3	65.4	69.1
Goods and services	18.7	21.2	24.4	26.1	27.2	28.5	31.1	33.2
Transfers	27.1	27.3	23.6	24.5	25.8	28.2	30.5	31.8
Non regularized spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	9.2	13.9	14.1	18.4	20.6	22.1	23.7	26.3
Other	22.7	20.5	15.8	16.4	17.0	17.6	19.0	20.4
Net acquisition of nonfinancial assets	38.5	75.7	71.7	75.5	83.9	84.3	85.6	94.1
Domestically financed	1.8	9.9	10.0	16.2	20.1	17.3	15.3	19.8
Foreign financed (including BOAD)	36.7	65.7	61.7	59.3	63.8	66.9	70.3	74.3
Overall balance, including grants (commitment)	-33.1	-78.2	-44.1	-43.5	-42.2	-39.3	-35.4	-38.3
Overall balance, excluding grants (commitment)	-57.6	-113.1	-91.2	-88.8	-91.8	-87.7	-87.2	-94.1
Change in arrears	-0.5	0.6	-13.7	0.0	0.0	0.0	0.0	0.0
Domestic arrears <sup>1</sup>	-2.3	-0.8	-12.3	0.0	0.0	0.0	0.0	0.0
Accumulation current year	9.8	3.3	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-12.1	-4.1	-12.3	0.0	0.0	0.0	0.0	0.0
Net external arrears	1.8	0.5	-0.5	0.0	0.0	0.0	0.0	0.0
Net BOAD interest arrears	0.0	0.9	-0.9	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancy	-7.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-41.0	-77.8	-57.8	-43.5	-42.2	-39.3	-35.4	-38.3
Financing <sup>2</sup>	41.0	77.8	47.0	43.5	42.2	39.3	35.4	38.3
Net acquisition of financial assets (- = build up)	-2.4	-28.7	11.1	0.0	0.0	0.0	0.0	0.0
Bank deposits	3.0	-12.8	11.1	0.0	0.0	0.0	0.0	0.0
BCEAO	0.2	-1.8	0.0	0.0	0.0	0.0	0.0	0.0
Local commercial banks	2.8	-11.1	11.1	0.0	0.0	0.0	0.0	0.0
Other <sup>3</sup>	-5.4	-15.9	0.0	0.0	0.0	0.0	0.0	0.0
of which: Bank recapitalization	-3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	39.6	84.6	30.1	38.0	36.2	31.3	27.9	28.6
BCEAO credit	-1.2	-2.0	10.1	-1.6	-2.8	-3.1	-4.8	-4.4
(o/w) IMF	-1.2	-2.0	10.1	-1.6	-2.8	-3.1	-2.6	-2.2
Other domestic (net)	40.7	86.6	20.1	39.6	39.1	34.4	32.7	33.0
Local commercial banks	14.5	17.5	-33.3	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	18.3	48.7	54.6	41.7	44.8	42.6	40.1	39.7
Regional financing (BOAD)	7.9	20.3	-1.3	-2.1	-5.7	-8.2	-7.3	-6.7
Foreign financing (net)	3.8	21.9	5.8	5.5	6.0	7.9	7.5	9.6
Disbursements	5.5	24.3	9.2	9.3	11.0	12.9	14.0	16.0
Projects	5.5	24.3	9.2	9.3	11.0	12.9	14.0	16.0
Programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.6	-2.3	-3.4	-3.9	-5.0	-5.0	-6.6	-6.4
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	10.8	0.0	0.0	0.0	0.0	0.0
<i>Memorandum item:</i>								
Domestic primary balance (commitment) <sup>4</sup>	-11.7	-33.5	-15.4	-11.2	-7.3	1.3	6.9	6.4

Sources: Guinea-Bissau authorities; and IMF staff estimates and projections.

<sup>1</sup> Recorded as arrears when payments were not made for more than 30 days for wages and more than 90 days for other expenditures.

<sup>2</sup> Financing is on currency basis.

<sup>3</sup> WARCIP project from 2018 onwards; in 2019 equity investment and bank recapitalization; in 2020 on-lending support to banks.

<sup>4</sup> Excludes grants, foreign and BOAD financed capital spending, and interest.

**Table 3b. Guinea-Bissau: Consolidated Operations of the Central Government, 2019–26**  
(Percent of GDP)

	2019	2020		2021	2022	2023	2024	2025	2026
		Prel.	Proj.						
Revenue and grants	15.4	16.4	18.5	18.6	18.9	18.6	18.7	18.7	18.7
Tax revenue	9.4	8.2	10.1	10.5	10.8	11.0	11.1	11.1	11.1
Nontax revenue	3.1	3.9	3.1	3.2	3.2	3.2	3.2	3.2	3.1
Grants	2.9	4.2	5.4	4.9	4.9	4.4	4.4	4.4	4.4
Budget support	0.2	0.0	0.4	0.5	0.4	0.0	0.0	0.0	0.0
Project grants	2.7	4.0	4.9	4.4	4.5	4.4	4.4	4.4	4.4
Capital grants from CCRT	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	19.3	25.8	23.6	23.2	23.1	22.2	21.7	21.7	21.7
Expense	14.8	16.7	15.4	15.1	14.8	14.5	14.4	14.4	14.2
Wages and salaries	5.6	6.6	6.5	6.0	5.8	5.6	5.6	5.6	5.4
Goods and services	2.2	2.6	2.8	2.8	2.7	2.6	2.6	2.6	2.6
Transfers	3.2	3.3	2.7	2.6	2.6	2.6	2.6	2.6	2.5
Non-regularized spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	1.1	1.7	1.6	2.0	2.0	2.0	2.0	2.0	2.1
Other	2.7	2.5	1.8	1.8	1.7	1.6	1.6	1.6	1.6
Net acquisition of nonfinancial assets	4.6	9.2	8.2	8.1	8.3	7.7	7.3	7.4	7.4
Domestically financed	0.2	1.2	1.1	1.7	2.0	1.6	1.3	1.6	1.6
Foreign financed (including BOAD)	4.3	8.0	7.1	6.3	6.3	6.1	6.0	5.9	5.9
Overall balance, including grants (commitment)	-3.9	-9.5	-5.0	-4.6	-4.2	-3.6	-3.0	-3.0	-3.0
Overall balance, excluding grants (commitment)	-6.8	-13.7	-10.4	-9.5	-9.1	-8.1	-7.4	-7.4	-7.4
Change in arrears	-0.1	0.1	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears <sup>1</sup>	-0.3	-0.1	-1.4	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation current year	1.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-1.4	-0.5	-1.4	0.0	0.0	0.0	0.0	0.0	0.0
Net external arrears	0.2	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net BOAD interest arrears	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancy	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-4.9	-9.4	-6.6	-4.6	-4.2	-3.6	-3.0	-3.0	-3.0
Financing <sup>2</sup>	4.9	9.4	5.4	4.6	4.2	3.6	3.0	3.0	3.0
Net acquisition of financial assets (- = build up)	-0.3	-3.5	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Bank deposits	0.4	-1.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local commercial banks	0.3	-1.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Other <sup>3</sup>	-0.6	-1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Bank recapitalization	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	4.7	10.3	3.4	4.1	3.6	2.9	2.4	2.3	2.3
BCEAO credit	-0.1	-0.2	1.2	-0.2	-0.3	-0.3	-0.4	-0.3	
(o/w) IMF	-0.1	-0.2	1.2	-0.2	-0.3	-0.3	-0.2	-0.2	
Other domestic (net)	4.8	10.5	2.3	4.2	3.9	3.2	2.8	2.6	
Local commercial banks	1.7	2.1	-3.8	0.0	0.0	0.0	0.0	0.0	
Regional commercial banks	2.2	5.9	6.2	4.5	4.4	3.9	3.4	3.1	
Regional financing (BOAD)	0.9	2.5	-0.1	-0.2	-0.6	-0.8	-0.6	-0.5	
Foreign financing (net)	0.5	2.7	0.7	0.6	0.6	0.7	0.6	0.8	
Disbursements	0.6	2.9	1.1	1.0	1.1	1.2	1.2	1.3	
Projects	0.6	2.9	1.1	1.0	1.1	1.2	1.2	1.3	
Programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Amortization	-0.2	-0.3	-0.4	-0.4	-0.5	-0.5	-0.6	-0.5	
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual financing gap	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum item:</i>									
Domestic primary balance (commitment) <sup>4</sup>	-1.4	-4.1	-1.8	-1.2	-0.7	0.1	0.6	0.5	0.5

Sources: Guinea-Bissau authorities; and IMF staff estimates and projections.

<sup>1</sup> Recorded as arrears when payments were not made for more than 30 days for wages and more than 90 days for other expenditures.

<sup>2</sup> Financing is on currency basis.

<sup>3</sup> WARCIP project from 2018 onwards; in 2019 equity investment and bank recapitalization; in 2020 on-lending support to banks.

<sup>4</sup> Excludes grants, foreign and BOAD financed capital spending, and interest.

Table 4. Guinea-Bissau: Monetary Survey, 2018–22<sup>1</sup>

	2018	2019	2020	2021	2022
			Prel.	Projections	
			(CFAF billions)		
Net foreign assets	232.6	217.7	271.5	265.5	262.7
Central Bank of West African States (BCEAO)	169.3	182.6	164.2	158.1	162.9
Commercial banks	63.3	35.1	107.3	107.3	99.8
Net domestic assets	132.5	148.3	127.7	137.4	166.1
Credit to the government (net)	51.7	58.8	47.2	45.9	44.3
BCEAO	43.9	42.7	40.2	61.1	59.5
Commercial banks	7.9	16.2	7.0	-15.2	-15.2
Other	0.0	0.0	0.0	0.0	0.0
Credit to the economy	122.0	138.9	147.1	166.2	196.4
Other items (net)	-41.3	-49.5	-66.6	-74.6	-74.6
Money supply (M2)	365.0	366.0	399.2	402.9	428.7
Currency outside banks	234.9	235.3	246.5	248.8	264.7
Bank deposits	130.1	130.7	152.7	154.1	164.0
Base money (M0)	248.2	258.7	274.7	284.8	303.1
			(Change in percent of beginning-of-period broad money)		
Contribution to the growth of broad money (M2)					
Net foreign assets	1.5	-4.1	14.7	-1.5	-0.7
BCEAO	-2.2	3.6	-5.0	-1.5	1.2
Commercial banks	3.8	-7.7	19.7	0.0	-1.9
Net domestic assets	2.6	4.3	-5.6	2.4	7.1
Credit to the central government	-3.6	2.0	-3.2	-0.3	-0.4
Credit to the economy	4.4	4.6	2.3	4.8	7.5
Other items (net)	1.8	-2.2	-4.7	-2.0	0.0
<i>Memorandum items:</i>					
Broad money (M2, annual percentage change)	4.2	0.3	9.1	0.9	6.4
Base money (M0, annual percentage change)	1.8	4.2	6.2	3.7	6.4
Credit to the economy (annual percentage change)	14.6	13.8	5.9	12.9	18.2
Velocity (GDP/M2)	2.3	2.3	2.1	2.2	2.2
Money multiplier (M2/M0)	1.5	1.4	1.5	1.4	1.4
Sources: BCEAO; and IMF staff estimates and projections.					
<sup>1</sup> End of period.					

**Table 5. Guinea-Bissau: Selected Financial Soundness Indicators, 2014–20<sup>1</sup>**

(Percent)

	2014	2015	2016	2017	2018	2019	2020 June
<b>Capital Adequacy</b>							
Capital to risk-weighted assets <sup>2</sup>	25.8	28.9	20.3	2.2	-5.4	-2.0	-2.6
Tier 1 capital to risk weighted assets	18.0	13.3	20.3	1.8	-5.5	-2.0	-2.6
Provisions to risk-weighted assets	25.4	7.1	5.7	27.6	29.8	26.0	22.1
Capital to total assets	11.5	8.8	9.1	1.0	-2.0	-0.7	-0.8
<b>Asset Composition and Quality</b>							
Total loans to total assets	45.4	53.6	46.4	40.1	50.5	46.7	41.6
Concentration: loans to 5 largest borrowers to capital	110.6	106.8	87.5	831.7	-316.1	-748.5	-603.0
Sectoral distribution of loans							
Agriculture and fishing	0.0	0.3	0.3	0.9	0.5	0.5	0.5
Extractive industries	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Manufacturing	44.0	4.3	1.1	0.4	0.7	0.7	11.4
Electricity, water and gas	0.2	10.2	0.0	1.1	0.7	0.7	2.3
Construction	0.7	3.3	2.1	1.7	1.7	1.7	8.5
Retail and wholesale trade, restaurants and hotels	14.2	53.0	46.4	29.7	29.4	29.4	24.0
Transportation and communication	0.0	0.1	0.1	1.1	1.1	1.1	5.7
Insurance, real state and business services	0.0	3.0	1.9	8.4	8.2	8.2	1.2
Other services	40.8	25.8	48.0	56.7	57.8	57.8	46.4
Gross NPLs to total loans	43.4	8.4	11.5	37.4	26.3	25.4	20.3
General provisions to gross NPLs	46.2	46.7	45.0	64.8	67.3	65.3	65.7
Net NPLs to total loans	29.2	4.7	6.7	17.4	10.5	10.6	8.0
Net NPLs to capital	115.1	28.2	34.1	694.6	-268.1	-680.0	-437.2
<b>Earnings and profitability</b>							
Average cost of borrowed funds	1.2	1.2	1.6	1.6	1.7	0.8	...
Average interest rate on loans	9.4	10.9	11.4	10.2	8.7	10.2	...
Average interest margin <sup>3</sup>	8.2	9.7	9.8	8.5	7.0	9.4	...
After-tax return on average assets (ROA)	-1.4	6.4	-0.3	-0.4	0.8	4.2	...
After-tax return on average equity (ROE)	-13.6	46.3	-2.9	-10.8	17.2	79.6	...
Non-interest expenses to net banking income	68.3	88.4	65.6	79.3	71.3	74.8	...
Personnel expenses to net banking income	28.1	30.1	28.4	33.8	28.6	30.9	...
<b>Liquidity</b>							
Liquid assets to total assets	18.6	16.6	13.8	15.0	19.6	18.9	21.6
Liquid assets to total deposits	27.2	27.8	26.0	25.3	32.7	35.9	42.8
Total loans to total deposits	82.8	93.6	92.0	89.1	102.5	106.5	94.8
Total deposits to total liabilities	68.6	59.6	53.2	59.4	59.9	52.6	50.6

Source: BCEAO.

<sup>1</sup> FSI indicators for 2015 and 2016 have not been updated by the BCEAO to reflect the null-and-void declaration of the bailout.<sup>2</sup> Capital to risk-weighted assets excluding bank with negative equity: 36.2 percent in Dec 2018, 33.4 percent in Dec 2019 and 31.5 percent in June 2020.<sup>3</sup> Excluding tax on banking operations.



**Table 6. Guinea-Bissau: Quantitative Targets Under the Staff-Monitored Program**  
(Cumulative from beginning of calendar year to end of month indicated, CFAF billion)

	2020	2021			
		Mar. <sup>1</sup>	Jun.	Sep.	Dec.
		Est.	Proposed Targets		
<b>Quantitative targets<sup>1</sup></b>					
Total domestic tax revenue (floor)	67.8	15.9	38.2	62.8	87.9
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US\$ millions) <sup>2,3</sup>	0.0	0.0	0.0	0.0	0.0
New external payment arrears (US\$ millions, ceiling) <sup>2</sup>	1.8	0.0	0.0	0.0	0.0
New domestic arrears (ceiling)	5.8	0.0	0.0	0.0	0.0
Social and priority spending (floor) <sup>4</sup>	64.2	15.8	27.2	38.7	50.1
Domestic primary balance (commitment basis, floor) <sup>5</sup>	-33.5	-15.0	-16.4	-23.4	-15.4
Non regularized expenditures (DNTs, ceiling)	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>					
External budgetary assistance (US\$ millions) <sup>6</sup>	0.0	0.0	1.8	1.8	6.9
Net domestic bank credit to the central government	57.7	12.4	23.4	53.6	42.2
Concessional project loans (US\$ millions) <sup>7</sup>	49.6	5.0	9.9	14.9	19.9
Outstanding stock of government guarantees <sup>8</sup>	10.6	10.1	10.1	23.1	23.1
<p><sup>1</sup> The quantitative targets are defined in the Technical Memorandum of Understanding.</p> <p><sup>2</sup> These apply on a continuous basis.</p> <p><sup>3</sup> Contracted or guaranteed by the central government.</p> <p><sup>4</sup> Defined as spending by the Ministries of Health, Education and the Ministry of Women, Family and Social Cohesion, and the High Commissioner for COVID-19.</p> <p><sup>5</sup> Excludes grants, foreign and BOAD financed capital spending, and interest.</p> <p><sup>6</sup> Comprises budget support grants and program loans (for budget support) excluding RCF disbursements and CCRT debt relief.</p> <p><sup>7</sup> Comprises project loans with grant elements exceeding or equal to 35 percent.</p> <p><sup>8</sup> All guarantees are denominated in CFAF.</p>					

**Table 7. Guinea-Bissau: Structural Benchmarks**

Measures	Rationale	Date
<b>Public Financial Management</b>		
To: (i) continue weekly Treasury Committee meetings without interruptions;	Expenditure control	Continuous
(ii) issue a ministerial order defining a clear criteria for prioritization of cash payments by expenditure category to avoid arrears (restos a pagar) after their due date.	Expenditure control	End-July 2021
Appoint a team in charge of the project of implementing the TSA at the General Directorate of Treasury and Public Accounting (DGTCP) through a DGTCP mission letter. Make compulsory the prior authorization of the Minister of Finance for any opening of a public bank account through a Ministry of Finance decision. Identify all public bank accounts by requesting separately the information from the banks, the sectoral ministries and other public entities.	Expenditure control	End-September 2021
Amend the legal procurement framework to enable the collection and publication of beneficial ownership information for contracts that fall above a certain threshold to be defined.	Expenditure control/Anti-corruption	End-December 2021
Issue an executive order to end hiring of irregular employees and enforce control by the financial controller over all public salaries, including employment incentives and the National Assembly salaries, which should be incorporated in the payroll records.	Wage bill control	End-December 2021
<b>Revenue Mobilization</b>		
Approve by Council of Ministers, submit to parliament:		
(i) the revised general tax code and the revised tax penalty regime; and	Strengthen tax framework	End-July 2021
(ii) the new VAT bill.	Strengthen tax framework	End-December 2021
Implementation of the Kontaktu system for tax returns filing and electronic payments through e-banking and mobile money:		
(i) pilot phase for a small number of large taxpayers followed by	Increase revenues	End-July 2021
(ii) full implementation.	Increase revenues	End-September 2021
Approve by Council of Ministers, submit to parliament a reviewed customs code.	Strengthen custom framework	End-September 2021
<b>Financial Sector</b>		
Prepare a report with the exit strategy from the undercapitalized systemic bank, including a full financial assessment.	Financial stability	End-December 2021
Sources: Guinea-Bissau authorities and IMF staff		

## Annex I. Risk Assessment Matrix<sup>1</sup>

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
<b>External Risks</b>			
<p><b>Uncontrolled Covid-19 local outbreaks and subpar/volatile growth in affected countries.</b> Outbreaks in slow-to-vaccinate countries force new lockdowns. For many Emerging Markets and Low-Income Countries, policy response to cushion the economic impact is constrained by lack of policy space, with some market access countries facing additional financial tightening as a reassessment of growth prospects triggers capital outflows, depreciations, and debt defaults.</p>	<b>High</b>	<b>High / ST</b>	<ul style="list-style-type: none"> <li>• Prioritize spending towards health sector and social protection.</li> <li>• Mobilize additional grants and concessional loans from development partners to cover more persistent external needs.</li> </ul>
<p><b>Global resurgence of the Covid-19 pandemic.</b> Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.</p>	<b>Medium</b>	<ul style="list-style-type: none"> <li>• Outbreaks would have particularly large adverse impact in Guinea-Bissau as the weak health system would not be able to avoid a high human toll of the pandemic.</li> <li>• The economy would be hardly hit by increased disruptions in the cashew trade and business in general.</li> </ul>	
<p><b>Further adverse cashew nut price movements.</b> A weaker than projected price recovery of the dominant export product would hamper economic recovery.</p>	<b>Medium</b>	<b>High / ST</b>	<ul style="list-style-type: none"> <li>• Control public expenses to compensate for lower revenues.</li> <li>• Preserve social spending focused on the most vulnerable.</li> <li>• Step up diversification efforts.</li> </ul>

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
<b>Domestic Risks</b>			
<p><b>Continued weaknesses in state-owned enterprises.</b> The public electricity and water utility (EAGB), in particular, has been a long-standing problem.</p>	<b>Medium</b>	<p style="text-align: center;"><b>Moderate / ST</b></p> <ul style="list-style-type: none"> <li>Limited and expensive electricity and water supply.</li> <li>Contingent liabilities adding to fiscal pressures.</li> </ul>	<ul style="list-style-type: none"> <li>Implement credible strategy to improve management of public enterprises.</li> <li>Improve governance, transparency and accountability.</li> </ul>
<p><b>Banking instability,</b> arising from high NPLs, and bank's undercapitalization.</p>	<b>Medium</b>	<p style="text-align: center;"><b>High / MT</b></p> <ul style="list-style-type: none"> <li>Limited credit extension hampers investment and growth.</li> <li>Potential contingent liabilities adding to fiscal pressures.</li> </ul>	<ul style="list-style-type: none"> <li>Enhance banking supervision and enforce prudential regulations.</li> <li>Improve processes and procedures for collection of debts and collateral.</li> </ul>
<p><b>Widespread social discontent and political instability.</b> Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities).</p>	<b>Medium</b>	<p style="text-align: center;"><b>High / ST, MT</b></p> <ul style="list-style-type: none"> <li>Delayed fiscal adjustment.</li> <li>Limited financing inflows delay investment projects.</li> <li>Supply disruptions and weaker confidence.</li> </ul>	<ul style="list-style-type: none"> <li>Enhance targeted social policies and strengthen social safety nets</li> <li>Avoid early withdrawal of fiscal and financial incentives supporting households and companies impacted by the pandemic.</li> <li>Improve governance, transparency and accountability and fighting corruption.</li> </ul>
<p><b>Higher frequency and severity of natural disasters related to climate change</b> cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies. A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.</p>	<b>Medium</b>	<p style="text-align: center;"><b>High / ST, MT</b></p> <ul style="list-style-type: none"> <li>Harm cashew production worsening the livelihood of people in rural areas and exacerbating extreme poverty and inequalities.</li> <li>Higher recovery spending, higher financing costs, and lower revenues.</li> <li>Supply disruptions and weaker confidence.</li> </ul>	<ul style="list-style-type: none"> <li>Address infrastructure gaps and income/developmental disparities among regions, while instituting appropriate social safety nets.</li> <li>Promote investment in climate resilient infrastructure.</li> </ul>

## Annex II. Transparency, Governance and Corruption Challenges 1

- 1. Public Financial Management (PFM).** The PFM systems do not ensure adequate prioritization, control, accountability, and efficiency in expenditure management. The annual budget is often not approved by the National Assembly on an annual basis and is used in a limited way to guide expenditures. Spending decisions are made by the newly re-established Treasury Committee. However, internal controls are not adequate to ensure that payments are only made after certification that goods and services have been delivered, that payments are always made directly to beneficiaries and that contractual provisions are followed. The government has also historically had limited oversight of financial information on state-owned enterprises. Moreover, government cash resources are scattered in several bank accounts. Strengthened expenditure control and progressively establishing a treasury single account at the Central Bank is critical.
- 2. Wage Bill and Public Administration.** Even though the legal framework stipulates hiring based on merit through a public tender process, it has not been consistently applied. The government does not conduct a regular reconciliation between the personnel records and the payroll file resulting in ghost workers. The lack of wage bill controls leads to overpayments and excessive absenteeism in the public administration. Of concern is the extensive use and absence of controls on the payment of incentives (about 26 percent of total wages and salaries in 2019) and the lack of adequate control of the salaries paid to members and employees of the National Assembly. Critical measures include enforcing control by the financial controller over all public salaries, ending the hiring of irregular employees, and reconciling the personnel and the payroll records.
- 3. Tax Policy.** The tax system in Guinea-Bissau is characterized by antiquated and inconsistent legislation, a large compliance burden, and is subject to administrative discretion. The system features widespread availability of tax exemptions along with numerous fees and charges collected by different entities. This causes a nontransparent and costly approach for revenue mobilization, promotes tax evasion, as well as harming growth through the burden on business activity. Key reforms include a new General Tax code and Tax Penalty Regime, which will provide a common basis for administration of all taxes regardless of tax types and promote fairness and understanding.
- 4. Tax and Customs Administration.** Due the complexity of the tax system, discretionary administration has become the norm at the Directorate-General for Taxes and Duties (DGCI) and the Directorate-General for Customs (DGA). Political interference in hiring decisions combined with political instability have led to high turnover rates and unqualified staff. Inadequate exchange of information among public entities harms transparency and revenue mobilization. Outdated information technology systems hamper tax compliance, creates high operational costs, and increase the difficulty of effective verification of taxpayers and oversight of employees. Increasing the digitization of revenue collection will increase enforcement among taxpayers and lower the risk of administrative discretion.

---

<sup>1</sup> This annex builds on the [IMF Technical Report for Guinea-Bissau “Enhancing Governance and the Anti-Corruption Framework: Next Steps”](#).

**5. Anti-Corruption and Anti-Money Laundering.** Guinea-Bissau faces corruption risks not only from the misuse of public resources, but also from drug-traffickers. Credible follow-up by prosecutors and courts in the investigation of acts of corruption is lacking. The resources and independence of the criminal justice system needs to be strengthened. The asset declaration regime is not operational, and both legislative and institutional frameworks should be reformed and reinforced by publication of the declarations. The country needs to develop anti-corruption measures, notably, on conflicts of interest. Implementing anti-money laundering measures for domestic politically exposed persons would support anti-corruption efforts.

**6. Rule of Law and Market Regulation.** Market participants generally are distrustful of the court system. Laws are not publicly disseminated with any regularity, nor are they explained to the ones affected. Court decisions are not easily accessible. The legal system features prohibitive court fees and common delays in proceedings. Costly and paper-based registration of property leads to many reported property rights conflicts. The complexity of the regulatory environment creates incentives for corruption of public officials, hindering private business. Key limitations include a multitude of charged and fees—often not transparent nor consistently applied—on business transactions.

## Annex III. Recently Adopted Key Measures on Governance and Corruption

Measures taken	Date
Adopt a firm customs policy against cases of characterized undervaluation and apply progressive sanctions.	Continuous since 2020
Publish the diagnostic report on enhancing governance and anti-corruption framework.	Jun-20
Create a commission to eliminate unjustified wage incentives to public servants.	Jul-20
Publish select information of some COVID-related procurement contracts. <sup>1</sup>	Continuous since Aug-20
Repeal the 2015 Budget Law amendments to the IGV and the Investment Code (Código de Investimento).	Sep-20
Approve by parliament, and promulgation by the President of the 2020 Budget.	Sep-20
Reformulate and resume customs control of the land flow of imports.	Oct-20
Issue a ministerial order allowing the IGV (VAT) electronic tax return.	Oct-20
Approve by parliament, and promulgation by the President of the 2021 budget.	Dec-20/Jan-21
Strengthen the general custom clearance procedure.	Continuous since Jan-21
Reestablish Treasury Committee by Ministerial order.	Feb-21
Source: Guinea-Bissau Authorities.	
<sup>1</sup> The information is available on the website of the High Commissioner: <a href="https://accovid.com/index.php/category/noticias-nacionais-da-covid-19/outros-relatorios-de-atividades/">https://accovid.com/index.php/category/noticias-nacionais-da-covid-19/outros-relatorios-de-atividades/</a> .	

## Annex IV. Capacity Development Strategy

- 1. The COVID-19 pandemic has underscored the need for continued CD assistance on ongoing workstreams to improve fiscal governance and debt sustainability.** The specific objectives address weaknesses in core functions and meet the authorities' demands for assistance.
- 2. In FY2021, increased political stability opens a window of opportunity for sustained buy-in.** While remote missions need to be maintained during the pandemic, medium-term CD will be delivered by long-term resident advisors fluent in Portuguese and by hands-on training, to better address capacity constraints. To ensure effectiveness of CD initiatives, coordination within the Fund and with outside partners will remain a priority.

### Key Overall CD Priorities Going Forward

Priorities	Objectives	Challenges
Revenue Administration and Tax policy	Strengthen RA management and governance arrangements. Implement the 2018 tax reform plan.	Ongoing capacity constraints (fragile institutions, high staff turnover, lack of basic equipment, weak institutional and policy coordination); political instability and pervasive rent seeking.
Public Financial Management	Strengthen spending governance, execution and control. Implement a Treasury Single Account. Strengthen surveillance of State-owned Enterprises (SOEs). Improve public investment management.	
Debt Management	Improve the monitoring and reporting of domestic and external debt. Support the preparation of annual borrowing plans with fiscal projections and debt sustainability objectives.	
Financial Crisis Management	Enforce compliance with prudential norms. Support the implementation of resolution frameworks.	Coordination with the BCEAO and the regional Banking Commission.

### Main Risks and Mitigation

Political instability, fragile institutions, and low absorption capacity have been the key challenges to effective implementation of TA recommendations. To mitigate these risks, efforts are needed to insulate economic institutions from political interference. Coordinating Fund TA with assistance provided by other development partners is important to minimize duplication and cost.

### Authorities' Views

The authorities recognize the need to build institutional capacity and advance structural reforms in the country. In this sense they concurred with the CD priorities listed above, which are aligned with their reform agenda, and expressed satisfaction with the technical assistance that has been provided by the IMF. They are aware of the challenges represented by low absorption capacity and the high staff turnover and argued that better coordination between development partners would help mitigate them by appointing long-term advisors



## Appendix I. Letter of Intent

Bissau, July 12, 2021

Madame Kristalina Georgieva  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
U.S.A.

Madame Managing Director,

Following a peaceful transition of power after holding transparent and fair elections—with the support of the international community—this government took office in end-February 2020. The country has been severely hit by the COVID-19 global pandemic, adding to the impact of the 2019 terms-of-trade shock. The resulting shock looms large over our structurally fragile economy, which features high dependence on raw cashew nut exports along with significant social developmental needs. Notwithstanding these very severe challenges, our commitment and determination is to address the crisis while aiming to break with the past of recurrent political instability and move our country towards a path of sustainable and inclusive growth.

After more than one year in office we are encouraged by the support of the international community, including the Fund under the Rapid Credit Facility (RCF) approved on January 25, 2021, to our efforts to recover from the pandemic while continuing to implement fiscal and governance reforms. The emergency measures adopted in 2020 to protect lives and livelihoods and strengthen macroeconomic stability contributed to shielding the most vulnerable and brought renewed hope in reforms, catalyzing the support of international donors to our national development plan.

We are facing a pivotal point in our history to break with a past of fragility and move the country onto a virtuous cycle of development over the medium term. We are resolutely committed to maintaining macroeconomic stability and debt sustainability and implementing needed reforms to promote better governance to improve public sector efficiency, which will contribute to more opportunities for private sector development and job creation to accelerate growth and reduce poverty, in line with our National Development Plan 2020–2023.

The attached Memorandum of Economic and Financial Policies (MEFP) lays out the fiscal consolidation policies and reforms the government plans to adopt in 2021, in line with our RCF commitments and supported by governance and transparency reforms based on recent technical assistance by the Fund. We are committed to complete the implementation of the RCF's governance safeguards on COVID spending by end-third quarter of 2021. The government of Guinea-Bissau is

convinced that the policies and measures contained in this MEFP will constitute the stepping stone the country needs to address balance of payments, fiscal and debt vulnerabilities while facing the challenge to ignite growth in the recovery phase from the pandemic. In support of our economic program, the government of Guinea-Bissau requests a nine-month Staff Monitored Program (SMP). We are determined to succeed in its implementation and build a track record to request by the beginning of 2022 a three-year Extended Credit Facility (ECF) arrangement. The latter would continue to back our ambitious fiscal consolidation program providing medium-term financial support, signaling our continued determination to implement sound policies, catalyzing additional financing and technical assistance from our development partners, and boosting investor and business confidence. Progress in the implementation of our program will be assessed through quarterly reviews of quantitative targets and agreed structural benchmarks as described in the attached Memorandum.

We believe that the policies set forth in the attached MEFP are adequate to meet the objectives of the program, but we stand ready to undertake any further measures as may become appropriate in the current uncertain circumstances. The government will consult the IMF staff, on its own initiative or at IMF's request, before adopting any such measures, and in advance of any revisions to the policies contained in the MEFP. The government agrees to fully cooperate with the IMF to achieve policy objectives, commits to comply with the provisions of the IMF's Articles of Agreement, and does not intend to introduce or intensify exchange and trade restrictions or other measures or policies that would compound Guinea-Bissau's balance of payments challenges. We will also provide timely information necessary for monitoring economic developments and the implementation of policies defined in the program, as agreed under the attached Technical Memorandum of Understanding (TMU), or upon request.

We authorize the IMF to publish this Letter of Intent, together with the attached MEFP and the TMU, as well as the Staff Monitored Program Report.

Yours sincerely,

/s/

João Alage Mamadú FADIA

Minister of Finance  
Guinea-Bissau

Attached: - Memorandum of Economic and Financial Policies.  
- Technical Memorandum of Understanding.

## Attachment I. Memorandum of Economic and Financial Policies

### Context

1. **Following a peaceful transition of power in the beginning of 2020, our country was severely hit by the COVID-19 global pandemic, adding to the impact of the 2019 terms-of-trade shock.** The government immediately took measures to respond to this very severe shock, scaling up health-related spending and deploying containment and mitigation measures, along with a commitment to enhanced transparency regarding COVID-19 related expenditures. The government benefited from a disbursement under the Rapid Credit Facility (RCF) from the International Monetary Fund (IMF) which contributed towards catalyzing urgently needed resources from international partners to support the emergency response and the recovery from the pandemic.
2. **We are seeking international donor support for vaccination.** In coordination with donors, Guinea-Bissau has continued to strengthen the health sector, protect the most vulnerable, and is preparing a plan for the vaccine rollout. About 144,000 doses (AstraZeneca/SII) planned to be delivered by end-September, but adequate conditions for reception, storage and distribution are still being prepared. While the first batch is being financed by COVAX, covering 20 percent of the population, other sources of financing will be needed to expand coverage. We plan to vaccinate 1.4 million people by the end-first quarter of 2022.
3. **The government is committed to pursue reforms aimed at ensuring macroeconomic stability, strengthening social protection and enhancing governance.** The Staff Monitored Program (SMP) is an important step, backing the ambitious, yet feasible, fiscal consolidation in the 2021 budget. Furthermore, our performance during the program will build a strong track record to request an Extended Credit Facility (ECF) to back our ambitious medium-term plans to ensure further fiscal consolidation towards WAEMU standards and address debt vulnerabilities.

### A. Recent Economic Developments

4. **The pandemic interrupted the expected recovery of the economy from a severe terms-of-trade shock.** After the 2019 terms-of-trade shock, this crisis looms large over our structurally fragile economy, highly dependent on raw cashew nut exports. COVID-19 continues to have a severe impact. Despite our determined efforts, the number of people that have been infected has increased (as of July 5 there were 3,881 confirmed cases and 69 deaths). In addition to the effects of the containment and lockdown measures on domestic activity, border closures and limited movement delayed the launch of the 2020 cashew campaign, hindering the agriculture sector. Severe flooding in September also disrupted economic activity. We estimate that economic activity contracted by 1.4 percent in 2020, compared to 4.5 percent growth in 2019. Average price inflation accelerated to 1.5 percent from 0.3 percent in 2019, reflecting price pressures on goods affected by disruptions to international trade partially offset by weaker demand.

**5. The pandemic gave rise to urgent fiscal and balance of payments (BOP) needs in 2020.**

The trade deficit is estimated to have widened to 16.3 percent of GDP driven by a 15.5 percent decline in cashew nut exports, a result of the delayed cashew campaign and lower demand from key trading partners, which contributed to a current account deficit of 8.3 percent of GDP. Furthermore, delays in investment projects reduced foreign direct investment (FDI) and other capital inflows. On the fiscal side, the overall budget deficit on a commitment basis widened to 9.5 percent of GDP. Tax revenues dropped to 8.2 percent of GDP, compared to 9.4 percent of GDP in 2019, because of lower tax revenues from cashew nut exports (15 percent of tax revenues in 2019), duties and sales tax on imports (32 percent), and weaker tax compliance. The latter has been impacted by lockdown measures, as tax payments still rely on human interaction, and high turnover in tax administration management. Additional COVID-19-related current expenditures in healthcare, vulnerable families support and other current expenditures are estimated at 0.8 percent of GDP. COVID-19 capital expenditures are estimated at 2.6 percent of GDP. A program to support the financing of the critical cashew nut campaign by onlending resources through the banking sector has further increased financing needs by 1.8 percent of GDP.

**6. The economic downturn and heightened uncertainty are expected to weigh on an already fragile banking system.** The liquidity of the banking system has been supported by the accommodative stance of the BCEAO, however, the low capitalization of one bank and its high NPL level represent an important vulnerability despite the high level of provisions. In December 2020, the BCEAO encouraged WAEMU banks to refrain from distributing dividends with a view to strengthening their capital buffers in anticipation of the impact of the crisis on assets quality. A systemically important bank remains undercapitalized despite a government recapitalization in December 2019. In 2020, this bank recovered part of the loans considered non-performing and reconducted its restructuring plan by prospecting potential investors with the support of an external consultant specialized in mergers and acquisitions. The government was able to end a litigation with another local bank in December 2020 by settling cross liabilities with the bank's debtors, reducing the bank's NPLs. Credit to the economy dropped in 2020 after the strong growth observed in recent years. The political crisis and the COVID-19 pandemic also led to a sharp decline in the pre-financing usually provided to producers and exporters ahead of the cashew campaign.

**7. We expect growth to improve in 2021.** With COVID measures expected to remain during the first half of the year and a recovery in global trade, the economy is beginning to recover this year with a GDP growth forecasted at about 3.3 percent on the back of higher cashew export prices and volumes. As a result, export value is expected to grow by 9.4 percent year on year resulting in a broadly stable current account. Additionally, growth will be supported by higher public investment in critical infrastructure externally financed, the gradual lifting of containment measures and a more stable political situation.

**8. The adverse effect of the pandemic and September 2020 flooding on the fiscal and external sector are expected to persist in 2021.** Our fiscal consolidation efforts (2.3 percent of GDP reduction in the domestic primary balance) and the gradual improvement of external conditions are expected to lead to lower but still significant external and fiscal deficits on a commitment basis,

estimated at 8.5 and 5 percent of GDP, respectively. Total public debt increased to 79.3 percent of GDP in 2020 and is expected to fall to 78.4 percent of GDP in 2021. The resulting external financing gap to be covered by international donor support reflects the need to sustain imports for essential consumption such as food and medicines, and for capital and intermediate goods to strengthen health sector capacities and infrastructure, mainly roads, severely affected by last year's flooding as our country is becoming more prone to extreme weather events linked to climate change. The combined effect of a partial recovery in cashew nut export prices and volumes and the heavy reliance on imports for basic needs and investment limit the scope for a rapid BOP adjustment. We project the RCF disbursement in the beginning of 2021 to contribute to cover 1.3 percent of GDP towards covering financing needs. Furthermore, the CCRT third tranche of debt service relief will contribute an additional 0.1 percent of GDP. Other multilateral organizations and bilateral donors are expected to step-in along with IMF support. These would reduce the need for non-concessional regional financing.

## B. Policies for 2021

### Overall Strategy

**9. The government's economic program for 2021 aims at supporting fiscal discipline and preserving debt sustainability.** The government aims to execute the fiscal adjustment based on 2021 budget without arrears accumulation and avoiding expensive non-concessional borrowing. This will be achieved through (i) stronger revenue mobilization and expenditure containment, including in the wage bill, generating fiscal space to protect social spending and undertake key infrastructure investments to sustain the recovery; and (ii) seeking additional grants and highly concessional financing from development partners in the context of the COVID-19 pandemic. The government also intends to submit to Parliament in 2021 the 2022 budget with a spending envelope that reflects available resources without recourse to non-concessional financing. Over the medium term, the government is committed to bringing the fiscal deficit and debt ratio within 3 percent of GDP by 2025 and 70 percent of GDP respectively by 2026, in line with the WAEMU convergence criteria.

**10. In addition, the government aims to strengthen expenditure control, revenue mobilization and fight against corruption, focusing on governance and transparency reforms.** We published the 2019 IMF Report on Governance and Anti-corruption<sup>1</sup> and implemented several of its recommendations. Our program will aim to improve governance by sequencing the Fund's supported arrangement with multilateral and bilateral technical assistance. We expect to improve gradually state capacities to control expenditures, moderate SOE's risks, enforce the tax and custom framework and mitigate corruption risks. We will develop a strategy to prevent arrears accumulation and clear the stock of audited and approved domestic expenditure arrears.

### *Measures to Address Fiscal Consolidation*

**11. The government is committed to the following measures to mobilize domestic**

<sup>1</sup> The [report](#) can be found at the Ministry of Finance's website.

**revenues, rationalize expenditures and avoid expensive non-concessional financing:**

- **Tax and non tax-measures.** Key measures already taken include a new tax on telecommunications and a new tax on labor income along with measures to enhance tax compliance including the adoption of new decrees and ministerial orders to strengthen internal control procedures of the customs and tax directorate.<sup>2</sup> Measures to improve non-tax revenues include increases in the cost of fishing licenses. The government will take important steps to mobilize revenues and reduce contact points between tax payers and tax administrators by launching with IMF TA support a website for electronic tax returns in 2021 and allowing for electronic tax returns filing and payment.
- **Wage bill and expenditure control.** The government has initiated a freezing of public sector salaries and new hires in order to begin converging over the medium-term to the WAEMU convergence criteria of total salaires not exceeding 35 percent of tax revenues. In addition, we have rationalized incentives in 2020 (from 26 percent of wages and salaries in 2019 to 13 percent in 2020). Wage rationalization is critical to create fiscal space for priority spending. We are also working with IMF support towards using blockchain technology to assist in reconciling the personnel and the payroll records. In this regard, we have also initiated discussions on a public administration reform and this project will help to assess the accurate size of our public service. The government has recently reestablished the Treasury Committee to improve expenditure control. Furthermore, the government has taken steps towards strengthening the management of the largest SOE, the electricity company *Electricidade e Aguas da Guinea-Bissau* (EAGB). Moreover, while rationalizing overall expenditures the government is committed to safeguard priority spending on health, education and the social sector. The government is committed not to use irregular and improperly documented expenditure (DNTs) to emergency cases.
- **Investment plans.** The budget included COVID-19 related investments in health care and other investments supporting food security (1.6 percent of GDP) to sustain the recovery. The government is undertaking investment plans to strengthen health and education and transport infrastructure, which was severely affected by the 2020 flooding. The government will seek to mobilize external grants to finance specific investment projects.

**Measures to Enhance Expenditure Control**

**12. The government is committed to further strengthen public financial management to urgently improve expenditure control (Structural Benchmarks, SBs, listed in Table 2).** To strengthen cash management and improve expenditure control the government is committed to ensuring that:

- The recently re-established Treasury Committee continues its weekly meetings (SB, continuous) and clear prioritization criteria of payments is set by expenditure category (SB,

<sup>2</sup> The telecommunication tax covers the following services: call traffic; instant messaging services; voice or text messaging services; advertising and information services; mobile data services; and internet access and connection services. The newly introduced "democracy tax" has labor income as tax base.

end-July 2021).

- Progressive steps are taken towards a Treasury Single Account (TSA). Under the SMP, the government will appoint a team in charge of implementing the TSA, prior authorization will be needed from the Minister of Finance for any opening of a public bank account, and all public bank accounts will be identified (SB, end-September 2021).
- The government will amend the legal procurement framework to enable the collection and publication of beneficial ownership information above a certain threshold, to be defined based on IMF TA, (SB, end-December 2021). An executive order is issued to end the hiring of employees without contract (SB, end-September 2021), enforce control by the financial controller over all public salaries including employment incentives and the National Assembly salaries, and reconciling the personnel and the payroll records (SB end-December 2021) .

In addition, debt management has been strengthened in June by the approval by the Council of Ministers of the decrees related to (i) the creation of a National Committee of Debt Policy; (ii) the organization and functioning of the *Direção Geral da Dívida Pública*; and (iii) the issuance of debt and debt management.

**13. Moreover, in addition to these engagements, the government will adopt two additional expenditure control measures.** It will enforce normal expenditure execution procedure by requiring that goods and services are certified before payment to providers via a ministerial order mandating spending units to adopt and implement the improved expenditure execution procedures as stated in the “Manual for procedures on public expenditures” and the government will be piloting this in at least five selected line ministries. The government will also publish a follow-up report on previous Tribunal de Contas audit reports’ recommendations on *Electricidade e Aguas da Guineá-Bissau* (EAGB) to strengthen the management and transparency of this state-owned enterprise.

### ***Measures to Strengthen Revenue Mobilization***

**14. The government is also committed to strengthen the tax and customs framework and system to promote more effective revenue mobilization (SBs listed in Table 2).** Measures we are committed to take include:

- Submitting to parliament: (i) a revised general tax code and a revised tax penalty regime which will provide a common basis for administration of all taxes regardless of tax types and promote fairness and understanding (SB, end-July 2021); and (ii) a modernized statute of the VAT to improve the tax framework through a broadening of the sales tax base (SB, end-December 2021).
- Finalizing the review of the customs code and submit it to parliament, which includes the application of deterrent penalties to change traders’ behavior and raise compliance (SB, end-August 2021).
- Implementing the Kontaktu system for tax returns filing and electronic payments through e-banking and mobile money. An initial pilot phase for a small number of large tax payers (SB,



end-July 2021) will be followed by full implementation (SB, end-September 2021). As an initial step, the Kontaktu webpage has been launched.

**15. Furthermore, the government will also implement two additional measures to support revenue mobilization.** It will ensure that the information exchange between DGCI, DGA, Treasury and the National Institute of Social Security to bring transparency and accountability to operations between public entities and increase tax revenue mobilization by end-August 2021. The government will also create a small unit within the Ministry of Finance (Gabinete de Política Fiscal) with an initial focus on directing the development of legislative proposals for tax reform by end-July 2021.

#### ***Measures to Strengthen Governance of Emergency Spending and Mitigate Corruption Risks***

**16. The government is committed to implement strong governance safeguards for COVID spending.** We manage COVID-19 related funds using a dedicated account at the BCEAO. The allocation of funds will be subject to an ex-post independent audit by a reputable third-party auditor who will work jointly with the audit court, planned to start in July 2021. The Terms of Reference have been developed in consultation with the Fund. The entire crisis-related spending is an integral part of the State Budget, so that reports on such spending are being published in the budget execution report presented to the National Assembly. In addition, the government has published, through the High Commissioner for COVID-19, key information of all crisis-related contracts for the year 2020. Furthermore, the government will publish the full text of contracts and ex-post validation of delivery and start to disclose the beneficial ownership information of companies awarded COVID-19 related contracts as soon as the legal procurement framework has been amended to enable the collection and publication of beneficial ownership information by the end of the third quarter of 2021.

**17. Furthermore, the government is committed to strengthen the legal framework to mitigate corruption risk via enhancing transparency and promoting accountability.** In this purpose we will propose to reform the asset declaration regime with the support of IMF technical assistance and considering the Inter Governmental Action Group against Money Laundering in West Africa (GIABA) evaluation. The reform will aim to (1) cover all politically exposed persons (PEPs), as defined by the Financial Action Task Force standards and their family members and close associates; (2) cover assets and interests owned, including those beneficially owned, domestically and abroad (3) ensure declarations are publicly available online; and (4) allow the imposition of targeted, proportionate, and dissuasive sanctions that are consistently enforced for failure of submission and for submission of false declaration.

#### ***Measures to Mitigate Debt Vulnerabilities***

**18. The government commits to clear part of outstanding domestic expenditure arrears and to avoid accumulating new domestic arrears.** It will pay about a third (CFAF 4.7 billion) of the remaining stock of domestic arrears accumulated between 1974 and 1999 amounting to CFAF 14.1



billion<sup>3</sup>. Furthermore, by end-2021, with external technical support, the government intends to determine the true amount of any outstanding arrears through further auditing and verifications,<sup>4</sup> verify full tax compliance of all creditors, and determine net government arrears after correcting for any tax obligations. This will allow the government to decide on a strategy towards clearing all outstanding domestic arrears over the medium term.

**19. The government remains committed to solving all legacy external arrears and to avoid further accumulation.** Agreement or settlement have been reached with Libya, Taiwan Province of China, Russia and Brazil, and progress are made towards resolving remaining external arrears.<sup>5</sup> In addition, the government has joined the Debt Service Suspension Initiative (DSSI) and intend to explore debt reprofiling/restructuring with development partners in the context of downside risks from the COVID-19 pandemic.

**20. The government will strengthen debt management.** It will seek long-term technical assistance from international partners to improve its capacity for debt recording, monitoring and overall debt management. In addition, it will start publishing annual reports on debt (both external and domestic) covering debt service, disbursements and agreements, as well as continue reporting to international debt statistics databases. To strengthen debt management and project prioritization, the government will hold bi-weekly meetings of the National Committee of Public Debt after the approval of the decrees by the Council of Ministers (para. 12 bullet 4).

**21. The government will carefully plan new investments and contract future debt only on highly concessional terms.** To ensure that the risk of debt stress remains manageable, the government will carefully rank investments based on cost-benefit analysis, including social considerations, and its impact on macroeconomic stability. Furthermore, the government will work in consultation with the IMF regarding the evaluation of the financial terms of new proposed loans. To avoid high interest payments in a situation of scarce government resources and weak debt management capacity, the government is also committed not to rely on non-concessional loans. The Government will start quarterly meetings with all Project Implementation Units (PIUs) to take stock of the rate of project implementation and discuss challenges ahead. To further enhance coordination, the government will prepare, quarterly reports on Public Investment Plan (PIP) execution. In the medium term, the government will design a three-year PIP, fully integrated with the medium-term expenditure framework.

<sup>3</sup> There are three types of domestic arrears (i) accumulated between 1974 and 1999 which have been audited and partially recognized, (ii) accumulated between 2000 and 2007 which have been audited but for some of which validity remains doubtful, and (iii) accumulated between 2008 and 2012, including government backed guarantees, which have not been audited yet.

<sup>4</sup> In this process, the government also intends to assess the level of outstanding membership fees to international institutions and define a strategy regarding membership cancellation, rescheduling and/or settling of obligation.

<sup>5</sup> For Russia and Brazil, the debts have already been negotiated, but the agreements are still pending to be signed. This is being handled at the level of the Paris Club Secretariat.

***Measures to Strengthen the Financial Sector***

**22. The government will continue to make efforts to preserve the stability of the financial sector.** It will refrain from allocating additional public resources to a large bank where it has a participation. Authorities will prepare a viable disengagement strategy by 2024 as agreed with the regional Banking Commission (SB, end-December 2021).

**Program Monitoring**

**23. The government intends to take all the necessary measures agreed in the context of the SMP.** The nine-month program will be subject to quarterly reviews and quarterly quantitative targets and structural benchmarks, as set out in Tables 1 and 2 of this Memorandum and in the attached Technical Memorandum of Understanding (TMU). In the SMP three reviews are scheduled, the first will be based on quantitative targets (QTs) at end-June 2021 and the review is expected to be completed by end-September 2021; the second review will be based on QTs at end-September 2021 and is expected to be completed by end-December 2021; and the third review will be based on QTs at end-December 2021 and is expected to be completed by end-March 2022. To facilitate program monitoring, we are committed to providing detailed statistical information as specified in the TMU, which also defines the scope and frequency of data to be reported for program monitoring purposes.

**Table 1. Quantitative Targets (QTs) Under the Staff-Monitored Program**  
(Cumulative from beginning of calendar year to end of month indicated, CFAF billion)

	2020	2021			
		Mar. <sup>1</sup>	Jun.	Sep.	Dec.
		Est.	Proposed Targets		
<b>Quantitative targets<sup>1</sup></b>					
Total domestic tax revenue (floor)	67.8	15.9	38.2	62.8	87.9
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US\$ millions) <sup>2,3</sup>	0.0	0.0	0.0	0.0	0.0
New external payment arrears (US\$ millions, ceiling) <sup>2</sup>	1.8	0.0	0.0	0.0	0.0
New domestic arrears (ceiling)	5.8	0.0	0.0	0.0	0.0
Social and priority spending (floor) <sup>4</sup>	64.2	15.8	27.2	38.7	50.1
Domestic primary balance (commitment basis, floor) <sup>5</sup>	-33.5	-15.0	-16.4	-23.4	-15.4
Non regularized expenditures (DNTs, ceiling)	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>					
External budgetary assistance (US\$ millions) <sup>6</sup>	0.0	0.0	1.8	1.8	6.9
Net domestic bank credit to the central government	57.7	12.4	23.4	53.6	42.2
Concessional project loans (US\$ millions) <sup>7</sup>	49.6	5.0	9.9	14.9	19.9
Outstanding stock of government guarantees <sup>8</sup>	10.6	10.1	10.1	23.1	23.1

<sup>1</sup> The quantitative targets are defined in the Technical Memorandum of Understanding.

<sup>2</sup> These apply on a continuous basis.

<sup>3</sup> Contracted or guaranteed by the central government.

<sup>4</sup> Defined as spending by the Ministries of Health, Education and the Ministry of Women, Family and Social Cohesion, and the High Commissioner for COVID-19.

<sup>5</sup> Excludes grants, foreign and BOAD financed capital spending, and interest.

<sup>6</sup> Comprises budget support grants and program loans (for budget support) excluding RCF disbursements and CCRT debt relief.

<sup>7</sup> Comprises project loans with grant elements exceeding or equal to 35 percent.

<sup>8</sup> All guarantees are denominated in CFAF.

Table 2. Structural Benchmarks

Measures	Rationale	Date
<b>Public Financial Management</b>		
To: (i) continue weekly Treasury Committee meetings without interruptions;	Expenditure control	Continuous
(ii) issue a ministerial order defining a clear criteria for prioritization of cash payments by expenditure category to avoid arrears (restos a pagar) after their due date.	Expenditure control	End-July 2021
Appoint a team in charge of the project of implementing the TSA at the General Directorate of Treasury and Public Accounting (DGTCP) through a DGTCP mission letter. Make compulsory the prior authorization of the Minister of Finance for any opening of a public bank account through a Ministry of Finance decision. Identify all public bank accounts by requesting separately the information from the banks, the sectoral ministries and other public entities.	Expenditure control	End-September 2021
Amend the legal procurement framework to enable the collection and publication of beneficial ownership information for contracts that fall above a certain threshold to be defined.	Expenditure control/Anti-corruption	End-December 2021
Issue an executive order to end hiring of irregular employees and enforce control by the financial controller over all public salaries, including employment incentives and the National Assembly salaries, which should be incorporated in the payroll records.	Wage bill control	End-December 2021
<b>Revenue Mobilization</b>		
Approve by Council of Ministers, submit to parliament:		
(i) the revised general tax code and the revised tax penalty regime; and	Strengthen tax framework	End-July 2021
(ii) the new VAT bill.	Strengthen tax framework	End-December 2021
Implementation of the Kontaktu system for tax returns filing and electronic payments through e-banking and mobile money.		
(i) pilot phase for a small number of large taxpayers followed by	Increase revenues	End-July 2021
(ii) full implementation.	Increase revenues	End-September 2021
Approve by Council of Ministers, submit to parliament a reviewed customs code.	Strengthen custom framework	End-September 2021
<b>Financial Sector</b>		
Prepare a report with the exit strategy from the undercapitalized systemic bank, including a full financial assessment.	Financial stability	End-December 2021
Sources: Guinea-Bissau authorities and IMF staff		

## Attachment II. Technical Memorandum of Understanding

### Introduction

- 1. This memorandum sets out the understandings between the Bissau-Guinean authorities and the International Monetary Fund (IMF),** regarding the definitions of the quantitative targets (QTs) and structural benchmarks (SBs) supported by the Staff Monitoring Program (SMP) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).
- 2. Program exchange rates<sup>1</sup>.** For the purpose of the program, foreign currency denominated values for 2021 will be converted into local currency (CFAF) using a program exchange rate of CFAF 538.36/US\$ and cross rates as of end-December 2020.

### Quantitative Targets

#### Floor on Total Domestic Tax Revenue

- 3. Definition.** Tax revenue is defined to include direct and indirect taxes as presented in the central government financial operations table.

#### New Non-Concessional External Debt Contracted or Guaranteed by the Central Government

- 4. Definition.** Those are defined as all forms of new non-CFAF denominated debt contracted or guaranteed by the central government. For this purpose, new non-concessional external debt will exclude normal trade credit for imports and debt denominated in CFAF but will include domestically held foreign exchange (non-CFAF) debts. This QT applies not only to debt as defined in the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Decision No. 15688-(14/107), adopted December 5, 2014, point 8, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this QT are disbursements from the IMF and those debts subject to rescheduling or for which verbal agreement has been reached. This QT will apply on a continuous basis.
- 5. Reporting requirement.** The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.
- 6. Definition of Central Government.** Central government is defined for the purposes of this

---

<sup>1</sup> The source of the cross-exchange rates is International Financial Statistics.

memorandum to comprise the central administration of the Republic of Guinea-Bissau and does not include any local administration, the central bank nor any other public or government-owned entity with autonomous legal personality not included in the government flow-of-funds table (TOFE).

## New External Payment Arrears of the Central Government

**7. Definition.** For the purposes of this quantitative target, external payment arrears, based on the currency test, are debt service payments that have not been paid on due dates (taking into account the contractual grace periods, if any) and that have remained unpaid 30 days after the due dates. Arrears not to be considered arrears for the quantitative target, or “non-program” arrears, are defined as: (i) arrears accumulated on the service of legacy HIPC external debt for which there is a pre-existing request for rescheduling or restructuring; and/or (ii) the amounts subject to litigation. For the purposes of this QT, central government is as defined in paragraph 6 above. This QT will apply on a continuous basis effective on the date of approval of the SMP.

## New Domestic Arrears of Central Government

**8. Definition.** Domestic arrears are defined as CFAF-denominated accounts payable (*resto-a-pagar*) accumulated during the year, and still unpaid by one month after the quarter for wages and salaries (including pensions), and three months for goods, services and transfers. Domestic arrears also include CFAF-denominated debt service payments that have not been paid on due dates (taking into account the contractual grace periods, if any) and that have remained unpaid 30 days after the due dates. For the purposes of this QT, central government is as defined in paragraph 6 above.

## Social and Priority Spending

**9. Definition.** Social and Priority spending is defined to include spending in the Ministries of Health, Education and the Ministry of Women, Family and Social Cohesion, and the High Commissioner for COVID-19.

## Domestic Primary Balance (Commitment Basis)

**10. The domestic primary fiscal deficit on a commitment basis** is calculated as the difference between government revenue and domestic primary expenditure on commitment basis. Government revenue includes all tax and nontax receipts and excludes external grants. Domestic primary expenditure consists of current expenditure plus domestically financed capital expenditure, excluding all interest payments and capital expenditure financed by project loans or grants. Government commitments include all expenditure for which commitment vouchers have been approved by the Ministry of Finance; automatic expenditure (such as wages and salaries, pensions, utilities, and other expenditure for which payment is centralized); and expenditure by means of offsetting operations.

**11. Adjustment clause.** The floor in the domestic primary balance will be adjusted downwards by the excess in the CFAF value of any programmed domestically financed current expenditures related to COVID-19 vaccination implementation (programmed at zero in 2021).

### Non-Regularized Expenditure (DNTs)

**12. Definition.** Any treasury outlay not properly accounted for by the National Budget Directorate and/or not included in the budget.

**13. Reporting requirement.** The government will report any non-regularized expenditures on a continuous basis within one week of realization.

## Memorandum Items

### Net Domestic Bank Credit to the Central Government (NCG)

**14. Definition.** NCG refers to the net banking system's claim on the central government as calculated by the Treasury Department. It is defined as the sum of the following:

- a. the net position of the Government with the national BCEAO, including: treasury bills and bonds excluding on-lent IMF credit); less central Government deposits (excluding project-related deposits) at the BCEAO;
- b. the net position of the Government with commercial banks, including: (a) treasury bills; (b) treasury bearer bonds; and (c) loan and advances of commercial banks to the central Government; less central Government deposits (excluding project-related deposits) in commercial banks; and
- c. any other CFAF-denominated commercial credit, including net disbursement of project loans by the regional development bank, BOAD (excluding concessional loans with a grant element of at least 35 percent).

Any domestic loan guarantees issued by the government will be included in the net position of the government as defined above. For the purposes of this QT, central government is as defined in paragraph 6 above.

**15. Data source.** The data source for the above will be the monetary survey and the net position of the government (Position Nette du Tresor, PNT) table, as amended to include net project borrowing from BOAD, submitted monthly to the IMF staff by the Ministry of Finance.

## Program Monitoring

**16. Program performance under the SMP will be monitored through quarterly reviews of quantitative targets and structural benchmarks.** The first test date will be June 30, 2021 and the

review is expected to be completed by end-September 2021. The second test date will be September 30, 2021, and the review is expected to be completed by end 2021. The third test date will be December 31, 2021, and the review is expected to be completed by end-March 2022.



**Table 1. Guinea-Bissau: Summary of Reporting Requirements**

Information	Frequency	Reporting Deadline	Responsible
<i>Fiscal Sector</i>			
Central Government budget and outrun	Monthly	30 days after the end of the month	DGPS <sup>1</sup> /MF <sup>2</sup>
Grants	Monthly	30 days after the end of the month	DGPS/MF
Budgetary grants	Monthly	30 days after the end of the month	DGPS/MF
Project grants	Monthly	30 days after the end of the month	DGPS/MF
Change in the stock of domestic arrears	Monthly	30 days after the end of the month	DGPS/MF
Unpaid claims	Monthly	30 days after the end of the month	DGPS/MF
Interest arrears	Monthly	30 days after the end of the month	DGPS/MF
Proceeds from bonds issued in the regional WAEMU market	Monthly	30 days after the end of the month	DGPS/MF
Social and priority spending	Quarterly	30 days after the end of the quarter	DGPS/MF
Non-regularized expenditure	As occurring		DGPS/MF
<i>Real and External Sector</i>			
Updates on annual National Accounts by sector	Annually	30 days after approval	CSO <sup>3</sup> /MF
Balance of Payments data	Annually	30 days after approval	BCEAO <sup>4</sup> /MF
Balance of Payments data	Quarterly	45 days after the end of the quarter	BCEAO/MF
Details of exports breakdown	Quarterly	45 days after the end of the quarter	BCEAO/MF
Details of imports breakdown	Quarterly	45 days after the end of the quarter	CSO/MF
CPI Monthly	Monthly	45 days after the end of the month	CSO/MF
<i>Debt sector</i>			
External and domestic debt and guaranteed debt by creditor	Monthly	30 days after the end of the month	Debt Directorate
Disbursements	Monthly	30 days after the end of the month	Debt Directorate
Amortization Monthly	Monthly	30 days after the end of the month	Debt Directorate
Interest payments	Monthly	30 days after the end of the month	Debt Directorate
Stock of external debt	Monthly	30 days after the end of the month	Debt Directorate
Stock of domestic debt	Monthly	30 days after the end of the month	Debt Directorate
Arrears on interest and principal	Monthly	30 days after the end of the month	Debt Directorate
Exceptional domestic financing	Monthly	30 days after the end of the month	Debt Directorate
Copies of any new loan agreements	As occurring		Debt Directorate
<i>Monetary/Financial sector</i>			
Detailed balance sheet of the central bank (national BCEAO)	Monthly	45 days after the end of the month	BCEAO/MF
Detailed bank-by-bank balance sheets	Monthly	45 days after the end of the month	BCEAO/MF
Detailed consolidated balance sheet of commercial banks	Monthly	45 days after the end of the month	BCEAO/MF
The monetary survey	Monthly	45 days after the end of the month	BCEAO/MF
Detailed net position of central government (PNG/PNT)	Monthly	45 days after the end of the month	BCEAO/MF
Financial soundness indicators	Monthly	45 days after the end of the month	BCEAO/MF
Interest rates	Monthly	45 days after the end of the month	BCEAO/MF
Deposit rates on all types of deposits at commercial banks	Monthly	45 days after the end of the month	BCEAO/MF
Short- and long-term lending rates of commercial banks	Monthly	45 days after the end of the month	BCEAO/MF
<sup>1</sup> Directorate General for Forecasts			
<sup>2</sup> Ministry of Finance			
<sup>3</sup> Central Statistics Office			
<sup>4</sup> Central Bank of West African States			



# GUINEA-BISSAU

## REQUEST FOR A NINE-MONTH STAFF MONITORED PROGRAM—DEBT SUSTAINABILITY ANALYSIS

July 19, 2021

Approved By  
**Annalisa Fedelino and Craig  
Beaumont (IMF) and Abebe  
Adujna and Marcello  
Estevão (IDA)**

Prepared jointly by the Staffs of the International Monetary Fund and the International Development Association <sup>1, 2</sup>

Guinea-Bissau: Joint Bank-Fund Staff Debt Sustainability Analysis	
<b>Risk of external debt distress</b>	<i>High</i>
<b>Overall risk of debt distress</b>	<i>High</i>
<b>Granularity in the risk rating</b>	<i>Sustainable</i>
<b>Application of judgment</b>	<i>Yes. The external rating has been downgraded from "Moderate" to "High" to reflect vulnerabilities from high overall public debt and substantial downside risks to the baseline scenario.</i>

*Guinea-Bissau's risks of external and overall debt distress remain high, in line with the February 2021 DSA. Real GDP contracted by an estimated 1.4 percent in 2020 as the global economic slowdown weighed on cashew nut exports and foreign direct investment, and COVID-19 lockdown measures hindered domestic non-cashew activity and retail trade. Together with higher health and social spending, this opened exceptionally large balance of payments and fiscal gaps which were addressed mainly by increased recourse to non-concessional domestic borrowing. As a result, the ratio of public debt to GDP increased by 13.4 percentage points in 2020.*

*The macroeconomic outlook underpinning the DSA assumes a gradual economic recovery in 2021-22 and sustained growth in the medium-term supported by the anticipated rebound of international cashew markets, favorable terms of trade, a more stable socio-political environment, significant governance and structural reforms as well as fiscal consolidation efforts creating fiscal space for higher social spending and steady growth-enhancing public investment.*

<sup>1</sup> The previous DSA was dated February 1, 2021 (IMF Country Report No. 21/29) and accompanied the Guinea-Bissau's Rapid Credit Facility (RCF) request.

<sup>2</sup> The DSA compares the evolution of debt-burden indicators against thresholds and benchmarks pre-determined by the country's debt-carrying capacity. This capacity is classified as weak for Guinea-Bissau (Para.14).

*The present value (PV) of public and publicly guaranteed (PPG) debt relative to GDP exhibits a prolonged and substantial breach of its indicative benchmark. However, considering that (i) the country benefits from WAEMU currency union safeguards that provide for financial and technical support from the regional debt market institutions and larger regional members with strong debt carrying capacity; (ii) the PV of public debt shows a consistent downward trend from 2021 onwards under the baseline scenario, and (iii) the external DSA indicators for extra-regional debt are consistent with sustainability (in the sense of remaining below the thresholds over the medium-term), public debt is assessed as sustainable on a forward-looking basis.*

*This conclusion is contingent on the authorities' strong commitment to an ambitious, yet feasible, fiscal adjustment aiming to bring the fiscal deficit within the 3 percent of GDP WAEMU convergence criterion by 2025, supported by a Fund's Staff Monitored Program (SMP) possibly followed by an Extended Credit Facility (ECF) in the first half of 2022, together with multilateral grants and concessional financing. The downward trend of the baseline debt indicators would further improve with full multilateral donor re-engagement and a reprofiling of debt obligations to highly concessional terms.*

*The debt outlook remains highly vulnerable to a weaker economic recovery, adverse terms-of-trade and export shocks as well as the materialization of contingent liabilities (as coverage of public debt is limited). A relapse into socio-political turmoil in this fragile country could undermine the authorities' long-term adherence to macroeconomic stability and prudent fiscal policies. If realized, all these downside risks could lead to higher external and public debt indicators and put into question debt sustainability.*

## BACKGROUND

### A. Public Debt Coverage

**1. The perimeter of public debt is limited to the central government, the central bank and government-guaranteed debt, and excludes state-owned enterprises (SOEs)** due to data limitations (Text Table 1). In general, SOEs are not likely to represent a major contingent public liability. A notable exception is the electricity and water utility (EAGB) that has non-publicly guaranteed debts estimated at 2.5 percent of GDP. An accurate assessment might become possible with EAGB's reform plan advancing with WB support.<sup>3</sup>

**2. The DSA is conducted on a currency basis.** In line with past Guinea-Bissau's DSAs and practice for

<sup>3</sup> Government clearance of EAGB debt amounted to CFAF 6.6 billion in 2017, CFAF 2.5 billion in 2018 and CFAF 5.9 billion in 2019. In 2020 that amount was estimated at CFAF 3.6 billion. Also, in 2020, the government guaranteed a CFAF 5.8 billion loan to EAGB as part of an 8-years debt service restructuring agreement with a local commercial bank. EAGB has been strictly complying with the debt amortization schedule. This guarantee is included in the DSA. EAGB is with WB support implementing a Management Improvement Plan and a financial restructuring plan. It is expected that both will yield by end-2021 a more accurate assessment of the utility's stock of debt upon which consider the extension of DSA debt coverage.

most WAEMU countries<sup>4</sup>, debt in domestic currency is treated as domestic debt for the purpose of this DSA. This includes debt issued in CFAF in the regional market. The stock of such treasury securities (held by both local and regional banks) at end-2020 was CFAF 140.1 billion, equivalent to 31.5 percent of domestic debt or 17 percent of GDP. Debt in CFAF to the West African Bank for Development (BOAD) is also treated as domestic debt (18.6 percent of GDP at end-2020).

Subsectors of the public sector	Sub-sectors covered
Central government	X
State and local government	
Other elements in the general government	
o/w: Social security fund	
o/w: Extra budgetary funds (EBFs)	
Guarantees (to other entities in the public and private sector, including to SOEs)	X
Central bank (borrowed on behalf of the government)	X
Non-guaranteed SOE debt	

## B. Debt Developments

**3. Guinea-Bissau's public debt burden rose in 2020 to 79.3 percent of GDP.** The ratio of public debt to GDP increased by an estimated 13.4 percentage points with respect to 2019 with the need to borrow, mainly from domestic sources, to address the sharp deterioration of the government deficit (on commitment basis from 3.9 percent of GDP in 2019 to 9.5 percent in 2020), along with negative real GDP growth (estimated at -1.4 percent in 2020).

	2018	2019	2020	2021	2018	2019	2020	2021
	Act.	Act.	Prel.	Proj.	Act.	Act.	Prel.	Proj.
	<i>(Billions of CFAF)</i>				<i>(Percent of GDP)</i>			
<b>Central Government Debt</b>	<b>494.6</b>	<b>555.6</b>	<b>653.4</b>	<b>685.2</b>	<b>59.2</b>	<b>65.9</b>	<b>79.3</b>	<b>78.4</b>
<b>External</b>	<b>182.5</b>	<b>204.2</b>	<b>209.2</b>	<b>233.2</b>	<b>21.8</b>	<b>24.2</b>	<b>25.4</b>	<b>26.7</b>
Multilateral	115.7	135.8	147.0	172.9	13.8	16.1	17.8	19.8
IMF	19.3	18.5	15.8	36.2	2.3	2.2	1.9	4.1
IDA	48.5	69.1	79.6	83.6	5.8	8.2	9.7	9.6
AfDB	19.7	23.8	23.8	25.1	2.4	2.8	2.9	2.9
Others (IDB, BADEA, IFAD, etc.)	28.2	24.3	27.8	27.9	3.4	2.9	3.4	3.2
Bilateral	66.8	68.4	62.2	60.4	8.0	8.1	7.5	6.9
Paris Club	2.0	2.0	1.9	1.6	0.2	0.2	0.2	0.2
Non-Paris Club <sup>1</sup>	64.8	66.3	60.3	58.8	7.8	7.9	7.3	6.7
of which Legacy Arrears <sup>2</sup>	22.4	22.8	20.8	20.3	2.7	2.7	2.5	2.3
<b>Domestic</b>	<b>312.1</b>	<b>351.4</b>	<b>444.3</b>	<b>452.0</b>	<b>37.3</b>	<b>41.7</b>	<b>53.9</b>	<b>51.7</b>
BOAD	122.5	132.7	153.4	152.1	14.6	15.7	18.6	17.4
Local Banking System	114.6	128.1	145.6	112.3	13.7	15.2	17.7	12.8
BCEAO	94.6	94.6	94.6	94.6	11.3	11.2	11.5	10.8
Loans local commercial banks	15.5	20.9	33.3	-	1.9	2.5	4.0	-
Treasury Securities held by local banks	4.5	12.5	17.7	17.7	0.5	1.5	2.1	2.0
Treasury Securities held by regional banks	55.4	73.7	122.4	177.0	6.6	8.7	14.9	20.3
Payment Arrears	15.4	13.1	12.3	-	1.8	1.5	1.5	-
Guarantees	4.2	3.9	10.6	10.6	0.5	0.5	1.3	1.2

Sources: Guinea-Bissau's authorities and IMF Staff estimates and projections.

<sup>1</sup> Non-Paris Club: Angola, Exim Bank of India, Kuwait, Libya, Pakistan, Saudi Fund, Exim Bank of Taiwan P.C.

<sup>2</sup> Legacy Arrears are due to Brazil and Russia as well as Angola and Pakistan.

<sup>4</sup> Debt in CFAF to BOAD was treated as domestic debt for Benin, Cote d'Ivoire, Senegal and Togo, and as external debt for Burkina Faso, Mali and Niger in the published DSA, as of end-June 2021. Data constraints on WAEMU's secondary market trading make a full residency-based coverage challenging.

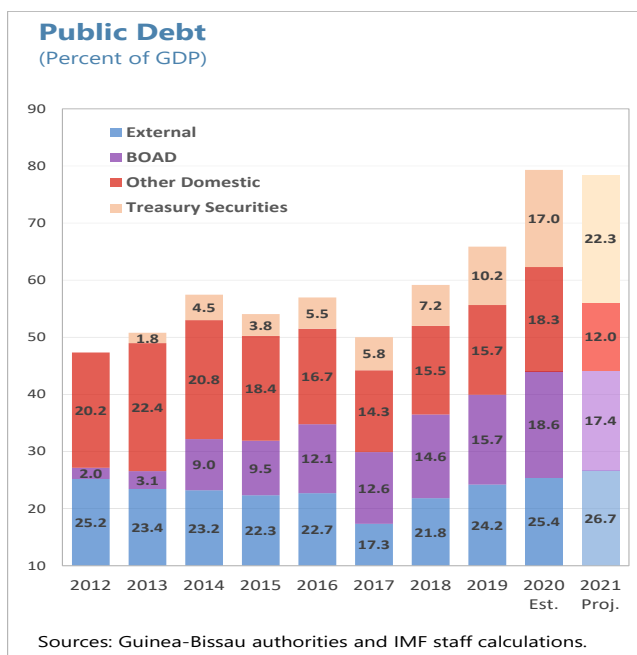
**4. Non-concessional domestic borrowing increased significantly on the back of unprecedented financing needs fueled by the impact of the COVID-19 crisis** (Text Table 2).

Central government domestic currency debt amounted to 53.9 percent of GDP at end-2020, up from 41.7 percent at end-2019. The largest source of net borrowing was Treasury securities, the stock of which rose by 6.8 percentage points of GDP, with the bulk purchased by commercial banks from elsewhere in the WAEMU region. Debt to BOAD rose by 2.9 percentage points of GDP in 2020 due to two COVID-related program loans.

**5. External concessional borrowing increased slightly to preserve investments despite the shock.**

The stock of external debt increased by 1.2 percentage points to 25.4 percent of GDP at end-2020, with all new borrowing on concessional terms. The main source of external concessional borrowing since 2017 is the World Bank through large regional telecommunications and energy projects as well as national projects to support rural transportation.<sup>5</sup> Altogether, multilaterals held 70 percent of Guinea-Bissau's external debt at end-2020. The remaining external debt was bilateral, mainly to non-Paris Club creditors and includes legacy arrears (2.5 percent of GDP) that the authorities are seeking to resolve.<sup>6</sup>

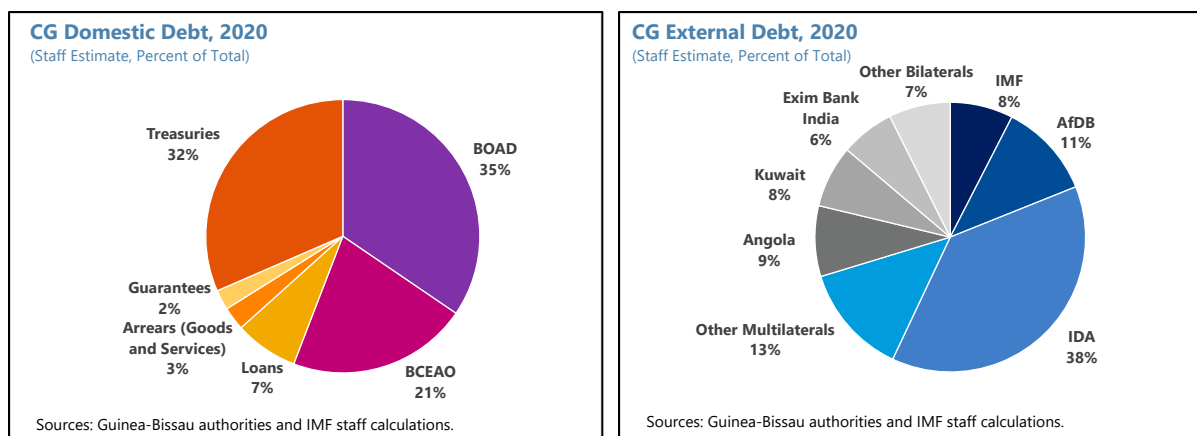
**6. A large pipeline of contracted project loans remains undisbursed.** The stock of contracted but undisbursed debt amounted to CFAF 175 billion (21 percent of GDP) at end-2020, about half of which stems from concessional loans contracted with the World Bank<sup>7</sup> and a quarter from non-concessional BOAD loans. The existence of such a large portfolio reflects weaknesses along the public investment management cycle, from initial identification to integration into annual and medium-term budget frameworks. Even if loan documents assumed rapid implementation, capacity constraints, lack of budgetary allocation for government co-financing and disbursements held due to debt service arrears have entailed implementation delays.



<sup>5</sup> World Bank national operations also include projects to support food security, improve health service delivery, enhance the quality of education, and boost social safety nets. These operations are all grants.

<sup>6</sup> Guinea-Bissau has external arrears, totaling US\$38.55 million at end-2020 to Angola, Brazil, Russia, and Pakistan for longstanding debts that were not covered in the HIPC process and that are eligible for debt relief. The government has actively sought debt rescheduling agreements with all debtors. In 2017, Guinea-Bissau secured extensive debt relief on arrears of US\$43.2 million to Taiwan P.C. In 2018, a debt rescheduling agreement was reached with Libya for arrears of US\$6.9 million with limited net debt relief. The restructuring of debt to Brazil (US\$1.9 million) is awaiting the approval of the Brazilian Senate. A settlement has been negotiated with Russia (US\$1.5 million) but the agreement is still pending signature. Negotiations continue with Angola (for US\$32.9 million arrears) and Pakistan (US\$2.2 million). This DSA includes some conservative repayment assumptions that will be revised once rescheduling agreements are reached.

<sup>7</sup> Annual net financial flows from the World Bank are expected to be large in 2021–41 at an average of US\$16 million (or 0.5 percent of GDP).



**7. Debt service has increased despite renewed efforts to reprofile debt.** The ratio of debt service to revenue excluding grants increased from 67.4 percent in 2019 to 75.9 percent in 2020. To help alleviate the debt service burden, BOAD provided in 2020 a program loan equivalent to 7 percent of revenues and the IMF granted debt service relief through the Catastrophe Containment and Relief Trust (CCRT) amounting to 2 percent of revenues. Given the tight fiscal position brought about by the pandemic, the authorities sought further debt reprofiling.<sup>8</sup> The authorities also requested by end-2020 and again in 2021 to join the Debt Service Suspension Initiative (DSSI), which is expected to enhance debt sustainability prospects through the commitment to limit non-concessional borrowing to levels agreed under IMF programs and the World Bank's non-concessional borrowing policies and to disclose all public sector financial commitments involving debt.<sup>9</sup> Despite these efforts, Guinea-Bissau accumulated debt service arrears in 2020, which were mostly resolved in the first quarter of 2021.<sup>10</sup>

## C. Macroeconomic Forecasts

**8. The baseline scenario underpinning this DSA assumes a gradual economic recovery from the pandemic in 2021–22** (Text Table 3). GDP is estimated to have contracted by 1.4 percent in 2020 as the global economic slowdown weighed on cashew nuts exports and foreign direct investment while COVID-19 containment measures hindered domestic non-cashew activity and retail trade. A gradual economic recovery is forecasted in 2021–22, with GDP growth expected to reach 3.3 percent in 2021 assuming a phasing out of containment measures and the recovery of the international cashew market. Growth converges to the 5 percent potential by 2023 supported by favorable terms of trade, greater socio-political stability, governance and structural reforms as well as enhancements in the business environment, which

<sup>8</sup> The authorities eventually reached debt reprofiling agreements with Exim Bank of India in November 2020 for US\$25 million and with BOAD in March 2021 for US\$7.3 million.

<sup>9</sup> The impact of the DSSI on 2021 debt service projections has not been included in this DSA baseline scenario because the authorities declined to suspend the small debt service involved (0.7 percent of revenues) and some creditors did not respond.

<sup>10</sup> In 2018 external arrears amounted to US\$0.33 million. In 2019 Guinea-Bissau accumulated US\$2.3 million external and US\$5 million debt service arrears to BOAD on the back of increased deficit and political instability. In 2020 US\$1.8 million external and US\$3 million debt service arrears to BOAD were reported.

jointly are expected to foster private activity. Average price inflation is projected to accelerate to 1.9 percent in 2021 from 1.5 percent in 2020 reflecting an increase in demand. The non-interest current account deficit is projected to widen slightly to 7.4 percent of GDP in 2021 reflecting a stable trade balance and lower private transfers.

**9. A significant fiscal adjustment during 2021–25 will support macro-stability while protecting social expenditure during the recovery from the crisis.** Consistent with the authorities’

commitment to consolidate and improve medium-term debt sustainability, an annual average of 1.1 percentage points of GDP adjustment in the domestic primary balance (commitment basis)<sup>11</sup> is projected over three years (in large part unwinding the one-off implications of the pandemic). About a third of this fiscal consolidation would come from revenue raising measures, including new taxes on telecommunications along with measures to enhance tax administration and compliance. Measures containing the growth of current spending, including continuing efforts to rationalize the public wage bill, will also support the fiscal consolidation. The authorities are committed to a spending floor to safeguard priority spending of the ministries of health (including the High Commissioner for COVID-19), education and other social sectors amounting to 5.7 percent of GDP.

**10. Public debt is expected to decline in 2021 with lower net domestic borrowing.** The authorities will continue to seek financing through treasury issuances. As a result, the stock of securities (held by local and regional commercial banks) is projected to further grow by 5.3 percentage points of GDP. On the other hand, the stock of other domestic debt sources is expected to fall in 2021. Debt with BOAD is projected to decrease by 1.2 percentage points of GDP with lower project disbursements. Debt to the regional central bank (BCEAO), loans from local commercial banks and domestic payment arrears are projected to jointly drop by 6.2 percentage points of GDP. By contrast, the stock of external debt is projected to rise by 1.3 percentage points of GDP driven by additional emergency assistance, including the IMF’s Rapid Credit Facility disbursed in January.

**11. Government medium-term investment-related borrowing is projected to prioritize concessional financing.** Given the large pipeline of contracted yet undisbursed investment project loans, bringing down public debt would require spreading disbursements over the next nine years and downsizing some projects. Contracting of new loans is expected to be constrained during this period. Gross annual project disbursements from loans and grants are assumed to finance 80 percent of capital expenditure, which is expected to average 7.8 percent of GDP given the low absorption capacity. In the medium term, in line with the government’s policy to prioritize low cost funding, project financing is

**Text Table 3. Guinea-Bissau: Key Macroeconomic Projections**

(in percent of GDP, unless otherwise indicated)

	2019	2020 Prel.	2021 Proj.	Medium Term (first 5 years)	Long Term <sup>1</sup>
Real GDP growth (percent)					
Previous DSA	4.5	-2.4	3.0	4.8	5.0
Current DSA	4.5	-1.4	3.3	4.8	5.0
Primary fiscal balance					
Previous DSA	-2.8	-7.5	-2.6	-1.1	-0.9
Current DSA	-2.8	-7.8	-3.4	-1.7	-0.8
Non-interest current account balance					
Previous DSA <sup>2</sup>	-8.4	-9.5	-5.6	-3.7	-3.0
Current DSA	-8.4	-7.2	-7.4	-3.6	-3.1
External debt					
Previous DSA	25.3	27.1	27.9	23.0	16.2
Current DSA	24.2	25.4	26.7	21.9	14.1
Domestic debt					
Previous DSA	41.7	51.2	50.5	49.1	42.4
Current DSA	41.7	53.9	51.7	51.4	42.6

Source: Bissau-Guinean authorities and staff estimates.

<sup>1</sup> Covers the period 2027–41 for current DSA, 2026–40 for the previous DSA (CR 21/29 of February 1, 2021).

<sup>2</sup> Corrected to exclude interest payments to BOAD and regional bonds.

<sup>11</sup> The domestic primary balance is calculated by removing grants and foreign and BOAD financed capital spending from the primary balance.



expected to be provided mainly by multilateral external creditors on grant or concessional terms. Borrowing from BOAD, which is almost entirely non-concessional, is projected to decline significantly. The baseline assumes strengthened investment planning and execution to ensure value for money and better alignment with the budget process. Non-investment related financing needs are assumed to be filled in the medium term mostly by Treasury securities with longer maturities, with interest rates projected at 5.8 percent for 3-year bonds and 6.3 percent for 5-years bond, in line with the trend of improving financing conditions shown by auction results since 2017.

**12. The macroeconomic outlook is highly uncertain, and risks are tilted to the downside.** It is contingent on the pandemic subsiding globally and its effects moderated locally after mid-2021 due to containment measures and increasing access to vaccines. Failure to contain the disease would disrupt the cashew trade and business in general. Social tensions could erupt generating renewed political uncertainties. Financial stress in SOEs and banking fragilities, arising from high non-performing loans and undercapitalization of one systemically important bank, could generate contingent liabilities adding to fiscal pressures. On the external front, a weaker than projected recovery of international cashew nut prices would hamper economic growth and government revenues. On the upside, a faster containment of the pandemic would accelerate normalization of trade and revenue collection in addition to lower health expenditures.

**13. The macroeconomic scenario is broadly realistic.** The non-interest current account deficit in 2021-26 is projected to contribute to external debt accumulation, in line with the past five years dynamics. This driver of debt is expected to be offset by sustained growth, increased reliance on already committed grants (captured in the residual) and more favorable price developments (Figure 3). It is assumed that multilateral donors will prioritize grants disbursements considering the structural fragility of the country, its large development needs, and limited access to alternative sources as well as progress in fiscal consolidation and governance. The dynamics of total public debt are dominated by developments of the primary fiscal balance and real GDP growth. Both factors are expected to have a greater debt-containment effect than in the past, due to increased authorities' commitment to fiscal and governance reforms, as well as a stable political environment more conducive to growth. The projected 3-year adjustment in the primary deficit is larger than observed in historical data from LICs with Fund-supported programs (Figure 4). This is explained by the comparison with 2020, an exceptional year with excessive fiscal needs generated by the pandemic, so that 77 percent of the adjustment is already projected for 2021. Such significant adjustment is nonetheless feasible as it reflects the unwinding of pandemic-related effects materialized in 2020 (such as the drop in revenue due to lower cashew prices); and it would bring back the domestic primary balance to close to the level recorded in 2019. Actual fiscal results are however highly volatile in Guinea-Bissau<sup>12</sup>. Real GDP growth is projected to rise to 4 percent in 2022 consistent with a small fiscal multiplier (Figure 4), as presumed by a high import content of government spending and evidenced by essentially zero correlation between real GDP growth and changes in the fiscal primary balance since 2010.

<sup>12</sup> Past debt forecast errors are mostly explained by unexpected changes in the primary deficit driven by aleatory cashew campaigns, the impact of political instability on reform implementation and large investments. The country structural fragility accounts for the large difference in unexpected debt changes with respect to other low-income countries (LICs).



## D. Country Classification and Determination of Stress Test Scenarios

**14. Guinea-Bissau is assessed to have weak debt carrying capacity, unchanged from the February 2021 DSA.** The Composite Indicator (CI) score for Guinea-Bissau is 2.54, based on data on macroeconomic indicators from the April 2021 WEO and from the 2019 Country Policy and Institutional Assessment (CPIA) of the World Bank, thus pointing to a weak debt-carrying capacity.

**15. The magnitude of the combined contingent liability shock has been increased** (Text Table 4). This DSA runs a stress test with a contingent liability shock of 6.5 percent of GDP instead of the default value of 2 percent. The shock mostly captures the potential liabilities related to the possible recapitalization needs of a systemic bank that does not meet the WAEMU’s minimum capital requirements. The shock also reflects the potential fiscal costs of operational losses of the electricity utility (EAGB), contingent liabilities linked with increased public guarantees and the possibility of the domestic arrears being larger than what is already included in the debt stock (1.5 percent of GDP at end-2020). The current estimate builds on an audit that stills needs to be validated by the authorities.

**Text Table 4. Guinea-Bissau: Combined Contingent Liabilities Shock**

1 The country's coverage of public debt		The central government, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	6.5	Increased from 2 to 6.5 to reflect potential liabilities
4	PPP	35 percent of PPP stock	0.0	linked to public guarantees, bank recapitalisation
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	needs, EAGB debt and domestic arrears.
Total (2+3+4+5) (in percent of GDP)			11.5	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

## DEBT SUSTAINABILITY

### A. External Debt Sustainability Analysis

**16. Guinea-Bissau’s risk of external debt distress remains high, in line with the February 2021 DSA.** The share of external debt remains relatively small at 25.4 percent of GDP at end-2020, and all external debt indicators remain below the relevant indicative thresholds throughout the projection period (2021–41) under the baseline scenario. Under the most extreme shock scenario (a temporary adverse export shock<sup>13</sup>), two debt burden indicators, the PV of debt-to-export ratio and the debt-service-to-exports ratio breach their indicative thresholds for three and two years respectively, implying a mechanical ‘moderate’ rating. However, Guinea-Bissau faces substantial additional vulnerabilities that are not captured by this mechanical rating and which justify a ‘high’ external risk rating. These include large downside risks to

<sup>13</sup> This stress test assesses the impact of nominal export growth set to its historical average (7.5 percent) minus 0.5 standard deviation (SD) instead of 0.3 SD (in the previous DSA) and 1 SD (default parameter, which amounts to 32.7 percent in Guinea-Bissau). This customization is consistent with the LIC DSF guidance note and justified by the country’s history of large export fluctuations as well as the singularity of exports growth in 2019 (a terms-of-trade shock-induced 24.8 percent contraction) in 2020 (a pandemic-induced 25.3 percent contraction) and in 2021 (23.2 percent export growth projection). In this scenario, a 9 percent annual drop in exports both in 2022 and in 2023 (as opposed to 8.9 percent average export growth projected in the baseline) is enough to hinder the evolution of the debt burden indicators.

the macro baseline (Para. 12); high public debt, a large share of which is held by non-residents but denominated in CFAF, and hence not captured in the external DSA conducted on a currency basis; the structural vulnerabilities in the political domain; and the fact that the external DSA excludes private debt.

**17. A tailored adverse commodity price stress test was designed to reflect Guinea-Bissau's vulnerability to cashew price fluctuations.** It shows the debt sustainability prospects after a hypothetical 15 percent fall in cashew export prices in the first year of projection (Figure 1). Cashew prices amid the global slowdown in 2020 fell by 33 percent.

## B. Public Debt Sustainability Analysis

**18. Guinea-Bissau's overall risk of debt distress is assessed as high.** The PV of total public debt-to-GDP ratio is above its indicative benchmark (35 percent) through 2041, a substantial and prolonged breach. Moreover, the medium-term increase in debt service up to 79 percent of revenues and grants in 2026 from 56.2 percent in 2020 despite the projected increase in revenues calls for efforts, as intended by the authorities, to seek debt reprofiling and take advantage of lower interest rates for new borrowing whenever market conditions allow.

**19. Public debt sustainability is vulnerable to a commodity price shock.** For this shock, the PV of debt-to-GDP ratio reaches 85 percent in 2027 and the debt service-to-revenue ratio rises to 104 percent in 2026.

## CONCLUSIONS

**20. Without significant and sustained fiscal adjustment and external support, Guinea-Bissau's debt is set to remain elevated, constraining development prospects.** In 2020, the pandemic led to a sharp decline in exports and foreign direct investment and weighed heavily on domestic economic activity. Addressing the crisis required a strong response from the authorities to increase health, social spending and sustain the recovery. All of the above have resulted in unprecedented external and fiscal financing needs in 2020 mainly addressed by increased recourse to non-concessional domestic borrowing. The growing cost of debt service and the large wage bill constrain the fiscal space and the implementation of much needed social and infrastructure spending to progress in the achievement of the 2030 sustainable development goals (SDGs). Significant fiscal governance reforms as well as fiscal consolidation efforts are expected to help increase social spending and growth-enhancing public investment.

**21. Public debt is considered sustainable on a forward-looking sense based on the support provided by the regional institutions with strong capacity to manage debt.** Guinea-Bissau's external debt burden indicators for *extra-regional debt* are consistent with sustainability (in the sense of staying over the medium term below the thresholds for a country assessed to have a low debt-carrying capacity), but the PV of total public debt-to-GDP shows large and prolonged breaches of its indicative benchmark. Nonetheless, the country benefits from financial and technical support from the regional institutions and

debt markets and larger regional currency union members with stronger debt carrying capacity.<sup>14</sup> The supportive WAEMU context bolsters the country's capacity to carry domestic/regional debt beyond what is captured by the standard composite indicator. Taking this into consideration underpins the conclusion that Guinea-Bissau's public debt is sustainable on a forward-looking basis contingent on the authorities commitments in the context of an engagement with the Fund and other development partners, together with the assumption (see below) that policies are in place that would put debt on a robust downward trajectory.

**22. Under staff's baseline scenario, Guinea-Bissau's public debt is brought back to a sustainable path, with overall public debt falling to 70 percent of GDP, the regional convergence criteria, by 2026.** If the policy agenda is successfully executed, and barring a more protracted pandemic, total public debt would decline steadily from 79.3 percent of GDP estimated at end-2020 to 68.8 percent of GDP by 2026.

**23. Achieving the baseline projection will require significant policy actions underpinned by a Fund program and strong multilateral donor engagement.** Key policy actions include (i) vigorous fiscal consolidation efforts including revenue enhancement measures, containing current spending below nominal GDP growth, and continued implementation of growth-enhancing reforms; (ii) prudent borrowing policies, including avoidance of non-concessional project financing, in line with the DSSI commitments; (iii) enhanced debt management, with more rigorous compilation and monitoring of debts, upgraded procedures and publication of regular debt reports to improve transparency<sup>15</sup>; and (iv) improved management of the existing loan pipeline and application of recognized assessment procedures to ensure criticality of investment projects. The baseline debt dynamics could further improve with full donor re-engagement leading to (i) a significant scaling up of grants by multilateral institutions; and (ii) a reprofiling of selected debt obligations to extend maturities and reduce interest rates.

**24. There are significant downside risks to the baseline scenario,** as strong and sustained political commitment is needed to deliver the envisaged medium-term fiscal adjustment embedded in the DSA. The debt outlook remains highly vulnerable to a weaker economic recovery, adverse terms-of-trade and export shocks as well as the materialization of contingent liabilities (as coverage of public debt is limited) and a relapse into socio-political turmoil. If realized, all these downside risks could lead to higher external and public debt burden indicators and increased risk of accumulation of arrears.

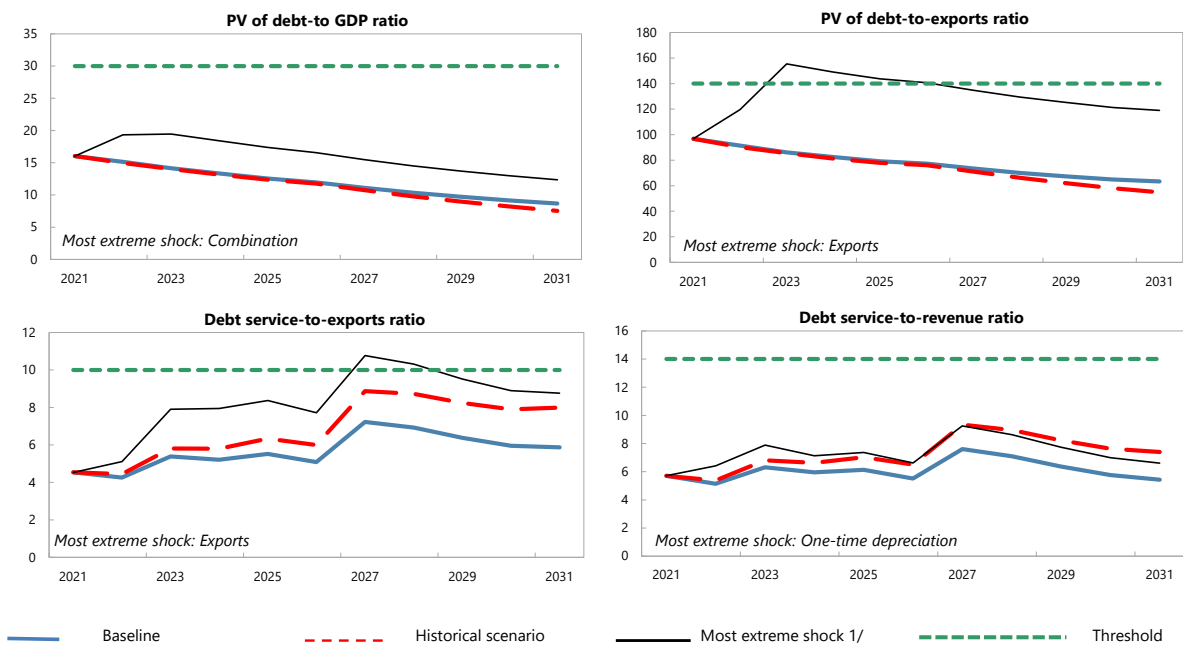
<sup>14</sup> WAEMU currency union regional institutions manage both the debt issued by Guinea-Bissau in the regional sovereign treasury securities market (UMOA-titres) as well as the debt held by the central bank (BCEAO). These two components account for 52 percent of Guinea-Bissau's domestic debt at end-2020. Moreover, Guinea-Bissau's borrowing through WAEMU sovereign securities market is expected to account for an insignificant share of available regional financing to the 8 countries in this currency union.

<sup>15</sup> The authorities are expected to fully deploy the new Debt Management and Financial Analysis system (DEMFAS) in 2021 to upgrade their current limited debt monitoring and reporting capacity and publish a comprehensive debt report every year. It is expected that debt management would be strengthened by the approval by the Council of Ministers of decrees related to the creation of a National Committee of Debt Policy; the organization and functioning of the Debt Directorate; and the issuance of debt and debt management. The authorities will also undertake a Debt Management Performance Assessment (DEMPA) with assistance from the WB in 2021. Guinea-Bissau recently has and will continue to receive substantial technical assistance from the IMF and the WB to improve its reporting to the International Debt Statistics (IDS) and the Quarterly External Debt Statistics (QEDS).

## AUTHORITIES' VIEWS

**25. The authorities broadly concur with staff's views on debt sustainability and the recommendations.** They agree that debt sustainability depends crucially on sound macroeconomic policies including a strong and sustained fiscal consolidation. They emphasized (i) their commitment to a sustained fiscal consolidation path and to limit non-concessional borrowing and (ii) that the pace of public investment would be determined by careful consideration of the project's critical contribution to growth, and alignment with the budget process, with improved coordination among the different agencies involved through a Debt Committee. The authorities recognize the risks to the debt outlook and have requested a Staff-Monitored Program (SMP) to build a strong track record of policy implementation to pave the way to an arrangement under the Extended Credit Facility (ECF) as soon as conditions allow.

**Figure 1. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2021–31<sup>1,2</sup>**



Customization of Default Settings		
	Size	Interactions
<b>Standardized Tests</b>	Yes	
<b>Tailored Stress</b>		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	Yes	No
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
<b>Shares of marginal debt</b>		
External PPG MLT debt	100%	
<b>Terms of marginal debt</b>		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	34	30
Avg. grace period	6	10

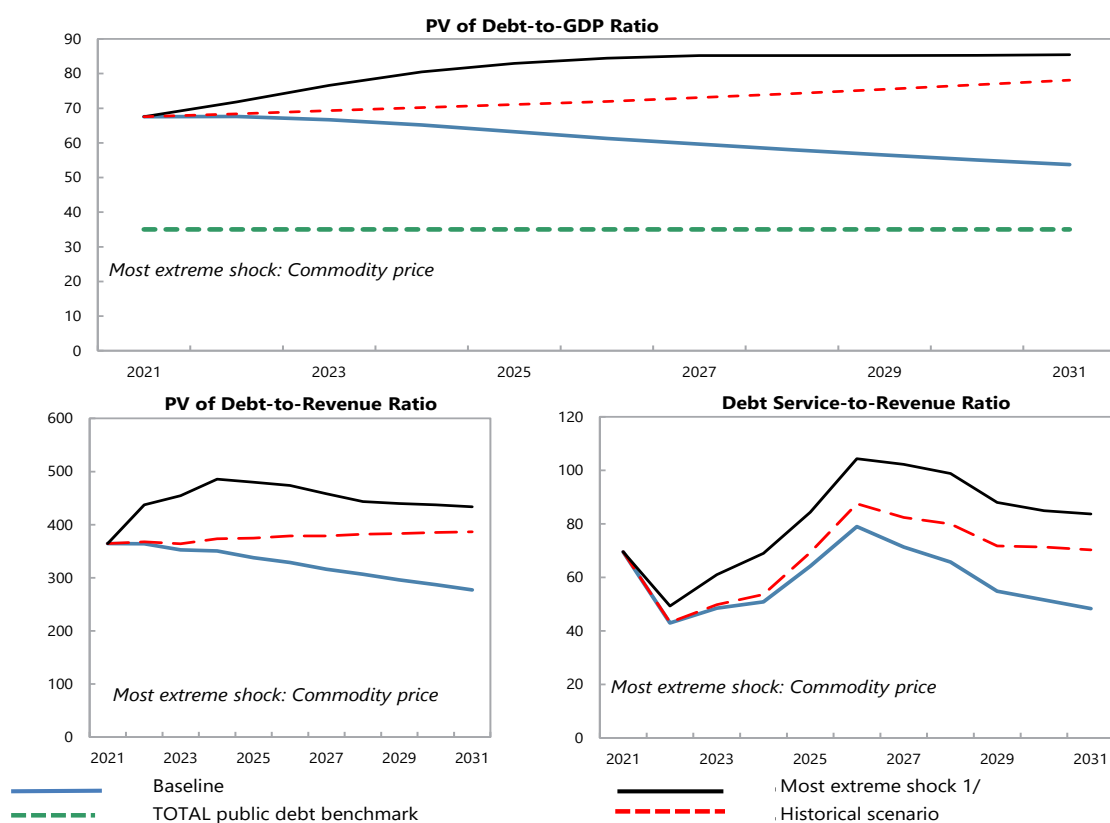
\* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

**Figure 2. Guinea-Bissau: Indicators of Public Debt Under Alternative Scenarios, 2021–31**



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
<b>Shares of marginal debt</b>		
External PPG medium and long-term	11%	11%
Domestic medium and long-term	69%	69%
Domestic short-term	21%	21%
<b>Terms of marginal debt</b>		
<b>External MLT debt</b>		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
Avg. maturity (incl. grace period)	34	30
Avg. grace period	6	10
<b>Domestic MLT debt</b>		
Avg. real interest rate on new borrowing	3.2%	3.2%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
<b>Domestic short-term debt</b>		
Avg. real interest rate	2.7%	2.7%

\* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

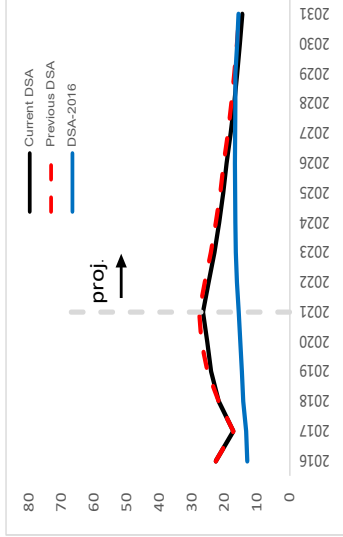
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

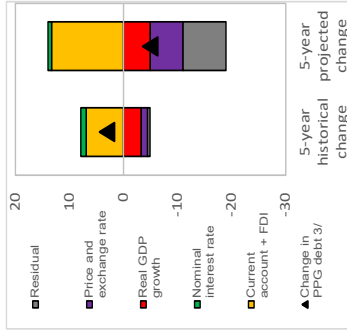
Figure 3. Guinea-Bissau: Drivers of Debt Dynamics - Baseline Scenario

External Debt

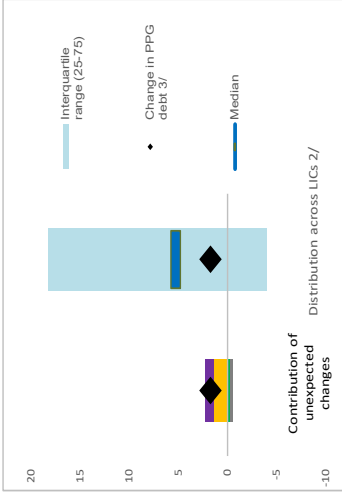
Gross Nominal PPG External Debt (in percent of GDP; DSA vintages)



Debt-creating flows (percent of GDP)

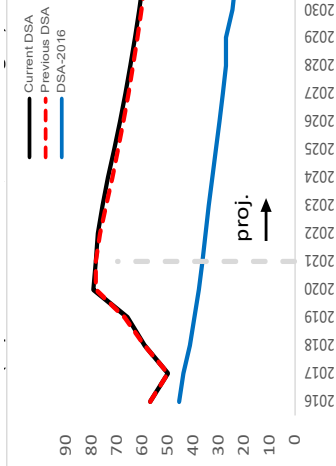


Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)

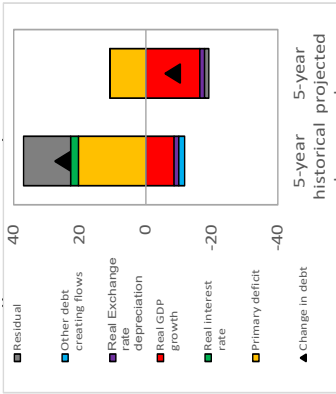


Public Debt

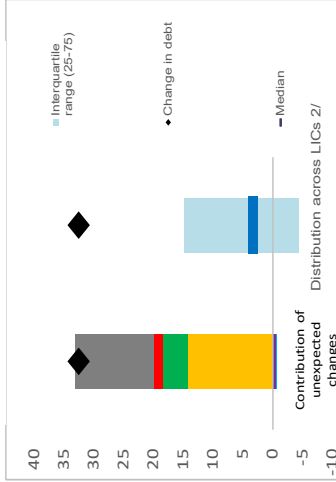
Gross Nominal Public Debt (in percent of GDP; DSA vintages)



Debt-creating flows (percent of GDP)



Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)

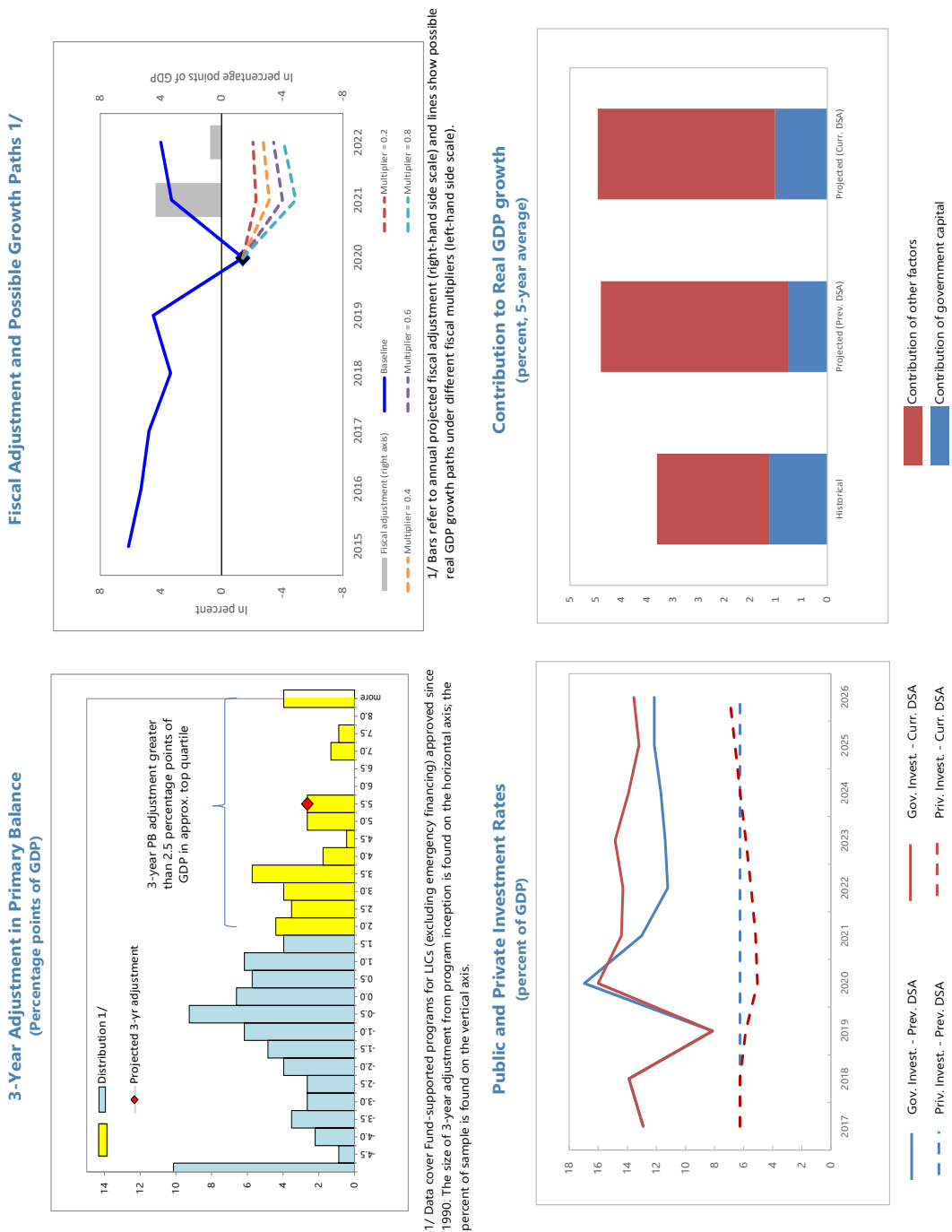


1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

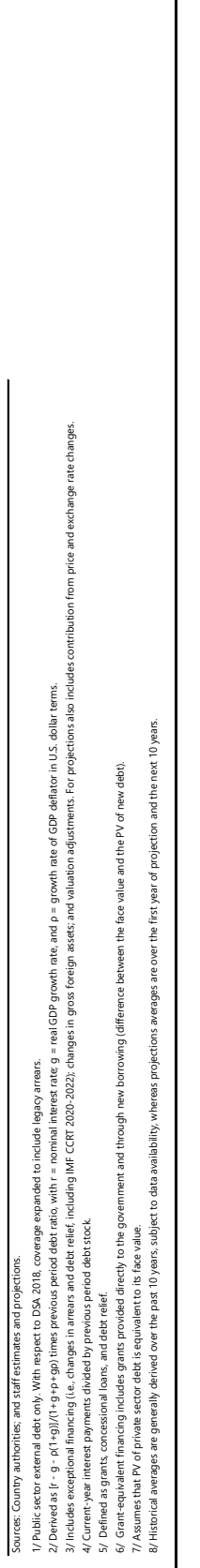
**Figure 4. Guinea-Bissau: Realism tools**





**Table 1. Guinea-Bissau: External Debt Sustainability Framework, Baseline Scenario, 2018–41**  
(In percent of GDP, unless otherwise indicated)

	Actual				Projections										Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Historical	Projections
<b>External debt (nominal) 1/</b>	21.8	24.2	25.4	26.7	24.9	23.1	21.7	20.4	19.4	14.6	11.9	11.9	11.9	11.9	23.0	19.8
<i>of which: public and publicly guaranteed (PPG)</i>	21.8	24.2	25.4	26.7	24.9	23.1	21.7	20.4	19.4	14.6	11.9	11.9	11.9	23.0	19.8	
Change in external debt	4.5	2.4	1.2	1.3	-1.8	-1.8	-1.4	-1.3	-1.0	-0.7	-0.2	-0.2	-0.2	-0.1	1.3	
Identified net debt-creating flows	1.8	4.6	6.6	4.6	1.8	0.9	1.0	0.8	0.7	0.9	0.5	0.5	0.5	-0.1	1.3	
Non-interest current account deficit	3.3	8.4	7.2	7.4	4.3	3.6	3.6	3.4	3.2	3.2	2.6	2.6	2.6	2.7	3.8	
Deficit in balance of goods and services	5.2	14.6	16.5	16.0	13.6	12.8	12.2	11.8	11.5	11.1	8.9	8.9	8.9	8.2	12.2	
Exports	2.58	2.03	1.52	1.66	1.66	1.64	1.62	1.59	1.55	1.37	1.00	1.00	1.00	1.00	1.00	
Imports	3.10	3.49	3.15	3.26	3.02	2.92	2.84	2.76	2.70	2.48	1.89	1.89	1.89	1.89	1.89	
Net current transfers (negative = inflow)	-5.0	-3.9	-7.0	-6.6	-7.0	-6.8	-6.2	-6.0	-5.8	-5.3	-4.1	-4.1	-4.1	-4.1	-4.1	
of which: official	-1.2	-1.2	-1.4	-2.9	-3.1	-3.1	-2.7	-2.6	-2.6	-2.7	-2.4	-2.4	-2.4	-2.4	-2.4	
Other current account flows (negative = net inflow)	3.1	-2.3	-2.1	-2.0	-2.4	-2.4	-2.4	-2.4	-2.5	-2.5	-2.3	-2.3	-2.3	-2.3	-2.3	
Net FDI (negative = inflow)	-1.4	-5.0	-0.8	-2.3	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	
Endogenous debt dynamics 2/	-0.2	1.2	0.3	-0.5	-0.9	-1.0	-1.0	-0.9	-0.8	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	
Contribution from nominal interest rate	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Contribution from real GDP growth	-0.6	-1.0	0.3	-0.7	-1.0	-1.1	-1.1	-1.0	-0.9	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	
Contribution from price and exchange rate changes	0.1	2.0	-0.2	2.7	-2.2	-3.5	-2.7	-2.4	-2.1	-1.6	-0.7	-0.7	-0.7	-0.7	-0.7	
Residual 3/	0.0	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<i>of which: exceptional financing</i>	0.0	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Sustainability indicators</b>																
PV of PPG external debt-to-GDP ratio	...	...	15.7	16.0	15.1	14.1	13.3	12.6	12.0	11.3	10.6	10.0	9.4	8.7	7.2	
PV of PPG external debt-to-exports ratio	...	...	103.3	96.8	91.4	86.2	82.4	79.2	77.3	74.3	71.3	68.3	65.3	62.3	50.0	
PPG debt service-to-exports ratio	2.1	2.4	4.6	4.5	4.3	5.4	5.2	5.5	5.5	5.1	5.1	5.1	5.1	5.1	4.6	
PPG debt service-to-revenue ratio	4.7	3.9	5.7	5.7	5.1	6.3	6.0	6.1	5.5	5.4	5.4	5.4	5.4	5.4	2.9	
Gross external financing needs (Million of U.S. dollars)	37.7	56.4	101.2	94.8	58.9	54.5	59.6	59.1	58.2	58.2	58.2	58.2	58.2	58.2	109.6	
<b>Key macroeconomic assumptions</b>																
Real GDP growth (in percent)	3.4	4.5	-1.4	3.3	4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.8	
GDP deflator (in US dollar terms) (change in percent)	-0.9	-8.5	1.0	9.4	5.2	4.2	3.7	3.4	3.3	2.9	2.9	2.9	2.9	2.9	1.2	
Effective interest rate (percent) 4/	1.5	0.7	0.7	1.0	0.5	0.5	0.5	0.5	0.6	0.8	1.0	1.0	1.0	1.0	0.8	
Growth of exports of G&S (US dollar terms, in percent)	3.5	-24.8	-25.3	23.2	9.4	8.4	7.4	6.5	5.6	4.8	3.6	3.6	3.6	3.6	7.3	
Growth of imports of G&S (US dollar terms, in percent)	4.5	7.6	-10.0	16.9	1.3	6.0	5.9	5.6	5.9	5.8	5.8	5.8	5.8	5.8	6.6	
Grant element of new public sector borrowing (in percent)	...	...	...	38.6	54.3	54.4	54.0	54.2	54.2	48.7	45.8	45.8	45.8	45.8	50.6	
Government revenues (excluding grants, in percent of GDP)	11.6	12.5	12.1	13.1	13.7	14.0	14.2	14.3	14.2	14.2	14.8	14.8	14.8	14.8	14.2	
Aid flows (in Million of US dollars) 5/	104.5	51.1	103.0	102.5	102.6	115.5	117.2	128.4	141.0	197.4	402.2	402.2	402.2	402.2	10.9	
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	68	54	55	51	51	51	51	51	51	51	51	5.3	
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	75.5	92.2	91.7	90.3	90.2	89.8	89.8	89.9	89.9	89.9	89.9	89.0	
Nominal GDP (Million of US dollars)	1,506	1,440	1,434	1,621	1,773	1,940	2,113	2,295	2,489	3,657	7,897	7,897	7,897	7,897	...	
Nominal dollar GDP growth	2.5	-4.4	-0.4	13.0	9.4	9.4	8.9	8.6	8.4	8.0	8.0	8.0	8.0	8.0	4.7	
<b>Memorandum items:</b>																
PV of external debt 7/	...	...	15.7	16.0	15.1	14.1	13.3	12.6	12.0	11.3	10.6	10.0	9.4	8.7	7.2	
In percent of exports	...	...	103.3	96.8	91.4	86.2	82.4	79.2	77.3	74.3	71.3	68.3	65.3	62.3	50.0	
Total external debt service-to-exports ratio	2.1	2.4	4.6	4.5	4.3	5.4	5.2	5.5	5.5	5.1	5.1	5.1	5.1	5.1	4.6	
PV of PPG external debt (in Million of US dollars)	...	...	225.1	259.8	268.4	274.3	281.8	288.3	297.5	317.5	317.5	317.5	317.5	317.5	568.7	
(PV-PPG-1)/GDP-1 (in percent)	...	...	2.4	0.5	0.3	0.4	0.3	0.4	0.3	0.4	0.2	0.2	0.2	0.2	0.5	
Non-interest current account deficit that stabilizes debt ratio	-1.1	6.0	6.0	6.1	6.0	5.4	5.1	4.7	4.2	3.9	2.8	2.8	2.8	2.8	2.8	



Definition of external/domestic debt	Current-year-based
Is there a material difference between the two criteria?	Yes

Sources: Country authorities; and staff estimates and projections.  
 1/ Public sector external debt only. With respect to DSA 2018, coverage expanded to include legacy arrears.  
 2/ Derived as  $(r - g - p(1-g)) / (1 - g - p(1-g))$  times previous period debt ratio, with  $r =$  nominal interest rate,  $g =$  real GDP growth rate, and  $p =$  growth rate of GDP deflator (in U.S. dollar terms).  
 3/ Includes exceptional financing (i.e., changes in arrears and debt relief, including IMF CCT 2020-2022); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.  
 4/ Current-year interest payments divided by previous period debt stock.  
 5/ Defined as grants, concessional loans, and debt relief.  
 6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).  
 7/ Assumes that PV of private sector debt is equivalent to its face value.  
 8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

**Table 2. Guinea-Bissau: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018–41**  
(In percent of GDP, unless otherwise indicated)

	Actual										Projections										Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections									
<b>Public sector debt 1/</b>	59.2	65.9	79.3	78.4	77.5	75.7	73.6	71.1	68.8	59.7	49.5	56.7	68.1									
of which: external debt	21.8	24.2	25.4	26.7	24.9	23.1	21.7	20.4	19.4	14.6	11.9	23.0	19.8									
Change in public sector debt	9.1	6.7	13.4	-0.9	-0.9	-1.8	-2.1	-2.5	-2.3	-1.6	-0.7	0.3	-1.7									
Identified debt-creating flows	6.7	4.1	9.6	0.4	-0.9	-1.8	-2.1	-2.5	-2.3	-1.6	-0.7	0.3	-1.7									
Primary deficit	4.3	2.8	7.8	3.4	2.7	2.1	1.6	1.0	0.9	0.7	0.9	3.0	1.4									
Revenue and grants	15.2	15.4	16.4	18.5	18.6	18.9	18.6	18.7	18.7	19.4	20.4	15.5	18.9									
of which: grants	3.6	2.9	4.2	5.4	4.9	4.9	4.4	4.4	4.4	4.6	4.5	4.5	4.5									
Primary (noninterest) expenditure	19.5	18.2	24.2	22.0	21.3	21.1	20.2	19.7	19.6	20.1	21.3	18.5	20.3									
<b>Automatic debt dynamics</b>	2.6	0.9	1.0	-3.1	-3.5	-3.9	-3.7	-3.5	-3.2	-2.3	-1.6	-0.4	0.0									
Contribution from interest rate/growth differential	0.6	-0.7	2.6	-2.9	-3.1	-3.6	-3.4	-3.3	-3.0	-1.9	-1.3	-0.4	0.0									
of which: contribution from average real interest rate	2.2	1.8	1.7	-0.4	-0.1	0.1	0.2	0.2	0.4	1.0	1.1	-0.4	0.0									
of which: contribution from real GDP growth	-1.6	-2.5	0.9	-2.5	-3.0	-3.7	-3.6	-3.5	-3.4	-2.9	-2.4	-0.4	0.0									
Contribution from real exchange rate depreciation	2.1	1.7	-1.6	...	...	...	...	...	...	...	...	-0.4	0.0									
<b>Other identified debt-creating flows</b>	-0.2	0.4	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	0.0									
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	0.0									
Recognition of contingent liabilities (e.g. bank recapitalization)	-0.2	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	0.0									
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	0.0									
Other debt creating or reducing flow (please specify)	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	0.0									
<b>Residual</b>	2.5	2.6	3.8	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	-0.3									
<b>Sustainability indicators</b>																						
<b>PV of public debt-to-GDP ratio 2/</b>	...	...	68.6	67.5	67.6	66.7	65.2	63.2	61.3	53.8	44.8	56.7	68.1									
<b>Debt service-to-revenue and grants ratio 3/</b>	...	...	419.7	364.6	364.1	352.4	337.9	328.7	277.2	219.3	171.3	230.0	198.0									
Gross financing need 4/	9.4	11.6	17.8	16.3	10.7	11.3	11.0	13.0	15.7	10.1	8.5	11.9	19.8									
<b>Key macroeconomic and fiscal assumptions</b>																						
Real GDP growth (in percent)	3.4	4.5	-1.4	3.3	4.0	5.0	5.0	5.0	5.0	5.0	5.0	3.3	4.8									
Average nominal interest rate on external debt (in percent)	1.4	0.7	0.7	0.9	0.5	0.5	0.5	0.5	0.6	0.8	1.0	0.8	0.7									
Average real interest rate on domestic debt (in percent)	7.4	5.7	4.2	0.3	1.0	1.1	1.1	1.2	1.3	2.1	2.8	-0.9	1.3									
Real exchange rate depreciation (in percent, + indicates depreciation)	12.4	8.0	-6.7	...	...	...	...	...	...	...	...	0.4	...									
Inflation rate (GDP deflator, in percent)	-5.2	-3.5	-0.9	2.7	2.8	2.8	2.8	2.8	2.8	2.9	2.9	2.7	2.8									
Growth of real primary spending (deflated by GDP deflator, in percent)	14.1	-2.0	30.5	-6.1	0.6	-4.1	0.6	2.5	4.5	5.8	5.4	9.2	3.1									
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-4.9	-3.9	-5.6	4.4	3.5	3.9	3.7	3.5	3.2	2.3	1.6	-4.8	3.2									
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-4.8	3.2									

Sources: Country authorities; and staff estimates and projections.

- 1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Currency-based. Includes external legacy arrears.
- 2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
- 3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
- 4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
- 5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-): a primary surplus, which would stabilize the debt ratio only in the year in question.
- 6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

**Table 3. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–31**  
(In percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>PV of debt-to-GDP ratio</b>											
<b>Baseline</b>	16	15	14	13	13	12	11	10	10	9	9
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021–2031 2/	16	15	14	13	12	12	11	10	9	8	8
<b>B. Bound Tests</b>											
B1. Real GDP growth	16	16	16	15	14	14	13	12	11	10	10
B2. Primary balance	16	15	14	14	13	12	12	11	10	10	9
B3. Exports	16	17	18	17	16	16	15	14	13	12	12
B4. Other flows 3/	16	17	18	17	17	16	15	14	13	12	12
B5. Depreciation	16	19	15	14	13	12	11	11	10	9	9
B6. Combination of B1–B5	16	19	19	18	17	17	15	15	14	13	12
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	16	16	15	14	13	13	12	12	11	10	10
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	16	15	15	14	13	12	11	10	9	8	7
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	30	30	30	30	30	30	30	30	30	30	30
<b>PV of debt-to-exports ratio</b>											
<b>Baseline</b>	97	91	86	82	79	77	73	70	67	65	63
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021–2031 2/	97	90	86	81	78	76	71	66	62	58	55
<b>B. Bound Tests</b>											
B1. Real GDP growth	97	91	86	82	79	77	73	70	67	65	63
B2. Primary balance	97	92	88	84	81	80	77	74	71	69	68
B3. Exports	97	120	<b>155</b>	<b>149</b>	<b>144</b>	<b>141</b>	135	129	125	121	119
B4. Other flows 3/	97	105	113	108	104	102	98	94	91	88	87
B5. Depreciation	97	91	72	68	66	64	60	57	54	52	51
B6. Combination of B1–B5	97	118	103	120	115	113	108	103	100	97	95
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	97	95	91	87	84	83	81	78	75	73	73
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	97	92	89	85	80	77	71	65	60	55	51
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	140	140	140	140	140	140	140	140	140	140	140
<b>Debt service-to-exports ratio</b>											
<b>Baseline</b>	5	4	5	5	6	5	7	7	6	6	6
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021–2031 2/	5	4	6	6	6	6	9	9	8	8	8
<b>B. Bound Tests</b>											
B1. Real GDP growth	5	4	5	5	6	5	7	7	6	6	6
B2. Primary balance	5	4	5	5	6	5	7	7	6	6	6
B3. Exports	5	5	8	8	8	8	<b>11</b>	<b>10</b>	10	9	9
B4. Other flows 3/	5	4	6	6	6	5	8	7	7	6	6
B5. Depreciation	5	4	5	5	5	5	7	7	6	6	6
B6. Combination of B1–B5	5	5	7	7	7	6	9	9	8	7	7
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	5	4	5	5	6	5	7	7	6	6	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	5	4	5	5	6	5	8	7	7	6	6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	10	10	10	10	10	10	10	10	10	10	10
<b>Debt service-to-revenue ratio</b>											
<b>Baseline</b>	6	5	6	6	6	6	8	7	6	6	5
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021–2031 2/	6	5	7	7	7	7	9	9	8	8	7
<b>B. Bound Tests</b>											
B1. Real GDP growth	6	5	7	7	7	6	9	8	7	7	6
B2. Primary balance	6	5	6	6	6	6	8	7	6	6	5
B3. Exports	6	5	7	6	7	6	8	8	7	6	6
B4. Other flows 3/	6	5	7	6	7	6	8	7	7	6	6
B5. Depreciation	6	6	8	7	7	7	9	9	8	7	7
B6. Combination of B1–B5	6	6	8	7	7	7	9	8	8	7	6
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	6	5	6	6	6	6	8	7	6	6	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	6	6	8	7	7	6	8	7	7	6	6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

**Table 4. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public Debt, 2021–31**  
(In percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>PV of Debt-to-GDP Ratio</b>											
<b>Baseline</b>	<b>68</b>	<b>68</b>	<b>67</b>	<b>65</b>	<b>63</b>	<b>61</b>	<b>60</b>	<b>58</b>	<b>56</b>	<b>55</b>	<b>54</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021-2031 2/	<b>68</b>	<b>68</b>	<b>69</b>	<b>70</b>	<b>71</b>	<b>72</b>	<b>73</b>	<b>74</b>	<b>75</b>	<b>77</b>	<b>78</b>
<b>B. Bound Tests</b>											
B1. Real GDP growth	<b>68</b>	<b>73</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>78</b>
B2. Primary balance	<b>68</b>	<b>70</b>	<b>72</b>	<b>70</b>	<b>68</b>	<b>66</b>	<b>64</b>	<b>62</b>	<b>61</b>	<b>59</b>	<b>58</b>
B3. Exports	<b>68</b>	<b>69</b>	<b>70</b>	<b>69</b>	<b>67</b>	<b>65</b>	<b>63</b>	<b>61</b>	<b>59</b>	<b>58</b>	<b>56</b>
B4. Other flows 3/	<b>68</b>	<b>70</b>	<b>71</b>	<b>69</b>	<b>67</b>	<b>65</b>	<b>63</b>	<b>62</b>	<b>60</b>	<b>58</b>	<b>57</b>
B5. Depreciation	<b>68</b>	<b>68</b>	<b>66</b>	<b>63</b>	<b>61</b>	<b>58</b>	<b>56</b>	<b>54</b>	<b>52</b>	<b>50</b>	<b>48</b>
B6. Combination of B1-B5	<b>68</b>	<b>68</b>	<b>69</b>	<b>67</b>	<b>65</b>	<b>63</b>	<b>62</b>	<b>60</b>	<b>59</b>	<b>57</b>	<b>56</b>
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	<b>68</b>	<b>78</b>	<b>77</b>	<b>75</b>	<b>73</b>	<b>71</b>	<b>69</b>	<b>67</b>	<b>65</b>	<b>63</b>	<b>62</b>
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	<b>68</b>	<b>72</b>	<b>77</b>	<b>81</b>	<b>83</b>	<b>84</b>	<b>85</b>	<b>85</b>	<b>85</b>	<b>85</b>	<b>85</b>
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>TOTAL public debt benchmark</b>	35	35	35	35	35	35	35	35	35	35	35
<b>PV of Debt-to-Revenue Ratio</b>											
<b>Baseline</b>	<b>365</b>	<b>364</b>	<b>352</b>	<b>350</b>	<b>338</b>	<b>329</b>	<b>316</b>	<b>307</b>	<b>296</b>	<b>287</b>	<b>277</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021-2031 2/	365	368	364	374	375	379	379	382	383	385	387
<b>B. Bound Tests</b>											
B1. Real GDP growth	365	385	403	412	408	407	402	400	395	393	389
B2. Primary balance	365	376	379	376	363	353	340	329	318	308	297
B3. Exports	365	371	372	369	356	346	333	323	311	302	291
B4. Other flows 3/	365	376	375	373	359	349	336	326	314	304	294
B5. Depreciation	365	374	354	347	331	317	302	289	275	263	250
B6. Combination of B1-B5	365	366	365	360	348	339	327	318	307	298	288
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	365	423	408	405	391	380	365	354	341	330	318
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	365	437	455	486	480	474	458	444	440	437	434
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Debt Service-to-Revenue Ratio</b>											
<b>Baseline</b>	<b>70</b>	<b>43</b>	<b>49</b>	<b>51</b>	<b>64</b>	<b>79</b>	<b>71</b>	<b>66</b>	<b>55</b>	<b>52</b>	<b>48</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2021-2031 2/	70	43	50	54	69	88	82	80	72	71	70
<b>B. Bound Tests</b>											
B1. Real GDP growth	70	45	55	59	75	93	88	86	75	73	71
B2. Primary balance	70	43	52	56	67	84	81	74	59	55	54
B3. Exports	70	43	49	51	64	79	72	66	55	52	49
B4. Other flows 3/	70	43	49	51	65	79	72	66	55	52	49
B5. Depreciation	70	41	48	49	62	76	68	63	53	50	47
B6. Combination of B1-B5	70	42	49	53	66	80	74	69	57	54	51
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	70	43	63	57	68	98	96	78	62	61	62
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	70	49	61	69	84	104	102	99	88	85	84
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.