



GUINEA-BISSAU

February 2022

SECOND REVIEW UNDER THE STAFF MONITORED PROGRAM-PRESS RELEASE; AND STAFF REPORT

In the context of the Second Review Under the 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 December 14, 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 February 8, 2022.

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.

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IMF Management Completes Second Review of the Staff-Monitored Program with Guinea Bissau

FOR IMMEDIATE RELEASE

- *IMF Management has approved the second review of Guinea Bissau's Staff-Monitored Program (SMP), which supports the government's program of reforms aimed at supporting macroeconomic stability and debt sustainability, strengthening social policies, and enhancing public governance.*
- *The authorities have made satisfactory progress toward establishing a strong track record of policy and reform implementation—a key requirement for a transition towards a possible [Extended Credit Facility](#) (ECF) arrangement in 2022.*
- *It will be important to maintain good performance for the third and last review of the SMP, and for international partners to provide Guinea Bissau with sufficient support through its transition.*

Washington, DC – February 14, 2022

The Management of the IMF approved on January 31, 2021 the completion of the second review of Guinea Bissau's SMP.¹ The SMP, which was [approved on July 19, 2021](#), supports the government's home-grown program of reforms aimed at stabilizing the economy, improving competitiveness, and strengthening governance.

Guinea Bissau's economic conditions are improving. After a modest GDP growth of 1.5 percent in 2020, growth is projected to accelerate to 3.8 percent in 2021 on the back of higher cashew nut production—Guinea-Bissau's main export product, public investment in critical externally financed infrastructure, the gradual lifting of COVID-19 containment measures, and a gradual improvement in business confidence.

The authorities have made satisfactory progress on their reform program at end-September 2021 despite difficult socio-economic conditions compounded by the COVID-19 pandemic. In a context of very constrained resources, they have managed to achieve good vaccination rates by regional standards.

The fiscal position is projected to improve in 2021 though with a small increase in the stock of public debt. The overall fiscal deficit is projected to fall to 5.4 percent of GDP from 10.0 percent of GDP in 2020. This significant adjustment reflects the unwinding of pandemic-related effects, greater revenue mobilization and expenditure controls adopted in the context of the 2021 budget and the SMP. Fiscal consolidation is expected to continue creating fiscal space and crowding-in donor support to protect priority spending in education, health, pandemic-related expenditures, and key infrastructure investments. The stock of public debt is projected to slightly increase in 2021 mainly because of domestic currency depreciation and the rephasing of the clearance of legacy arrears.

¹ 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.

The SDR allocation to the country was prudently used. The authorities decided to use the recent SDR 27.2 million allocation (about US\$38.4 million) to buttress debt sustainability by anticipating service of non-concessional loans from the regional development bank due up to 2022, and cover COVID-19 related expenditures, including vaccination and improvement in health services.

Timely implementation of governance and transparency reforms are key to the SMP success and for addressing long-standing socioeconomic challenges. This includes measures 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, notably those stemming from the water and electricity company. The amendment of the legal procurement framework to enable the collection and publication of beneficial ownership information and the modernization of the Asset Declaration Regime are also important ongoing reforms.

The IMF supports the implementation of these steps through the provision of capacity development in coordination with international partners. It also bolsters the authorities' efforts to mobilize external concessional financing.



GUINEA-BISSAU

SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM

February 8, 2022

EXECUTIVE SUMMARY

Context. After two years of protracted political turmoil and delays in reforms, the authorities put in place in 2021 an ambitious fiscal consolidation program to ensure debt sustainability while creating fiscal space to address vast developmental needs. In late July, Fund Management approved a 9-month Staff Monitored Program (SMP) to support the government's reform program aimed at stabilizing the economy, strengthening governance, and building a soundtrack-record of policy implementation towards an Extended Credit Facility (ECF) arrangement. The first review was concluded satisfactorily in October. A Rapid Credit Facility (RCF) disbursement of SDR 14.2 million (50 percent of quota) was approved in January to provide urgent financing to support critical spending in health and catalyze additional donor resources. The RCF disbursement, the SDR 27.2 million allocation (96 percent of quota) and reforms underpinned by the SMP are contributing to address fragility including the adverse impact of the pandemic, improve government spending transparency and mitigate debt vulnerabilities, and create conditions that would help restore donor confidence and catalyze much-needed concessional financing.

SMP review. The review focused on continued implementation of the SMP-supported policies and reforms to secure fiscal discipline, ensure debt sustainability, strengthen fiscal governance and transparency, and mitigate fiscal risks. Program performance at end-September 2021 was satisfactory. All but one end-September quantitative targets (QTs) were met. The authorities have taken steps to meet all end-year proposed targets and have cleared a small accumulation of external arrears. All but two structural benchmarks (SBs) were met. The SB for the full implementation of a digital tax payment solution to all large taxpayers and amending the procurement legal framework to enable the collection and publication of beneficial ownership information for public contracts were postponed to end-March 2022.

Staff views. Staff supports the authorities' request for completing the second review of the SMP based on the policies outlined in the attached Memorandum of Economic and Financial Policies (MEFP). The 2022 budget and tax reform package approved by parliament supports strong fiscal consolidation and the authorities are taking steps to meet all QTs and SBs. Program downside risks remain, including a more protracted pandemic that could trigger social tensions and political instability.

Approved By
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An IMF team consisting of Jose Gijon (Head), Pedro Juca Maciel, Leonardo Pio Perez, Harold Zavarce (all AFR), Koon Hui Tee (FAD), Patrick Gitton (Resident Representative) and Gaston Fonseca (local economist) held discussions by teleconferences with the authorities. The mission met with H.E. President Sissoco Embaló, Prime Minister Nabiam, Vice-Prime Minister Sambú, the Minister of Finance Fadia, BCEAO National Director Embalo, President of the Court of Auditors Baldé and High Commission for COVID-19. The team also met with officials from the Ministries of Finance, Economy, the National Direction of the BCEAO, the National Institute of Statistics, the Financial Intelligence Unit, other officials. In addition, the mission met representatives from various private and public sector enterprises, and development partners. The mission took place during November 30–December 14, 2021. Mr. Varela (Advisor to the Executive Director, OED) participated in the policy discussions. Fairiza Jaghori and Tomas Picca (all AFR) contributed to the preparation of this report.

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CONTEXT

1. **Despite the persistence of the pandemic, Guinea-Bissau is enjoying a period of relative political stability.**

- *COVID-19.* By end-December, there were 6,499 confirmed cases and 149 deaths.¹ The authorities have been taking actions to protect the population and limit the economic impact of the pandemic. Renewed measures to contain the third wave of infections initiated in August have had a positive impact (Figure 2).²
- *Vaccination.* In coordination with donors, Guinea-Bissau launched a national vaccination program in April 2021 using AstraZeneca vaccines. By end-December, about 260,000 people have been fully vaccinated, covering about 38 percent of the target population³ (70 percent of the population over 18 years old, or about 683,147 people). 882,970 doses have been delivered to date.⁴ The COVID-19 vaccination campaign aimed to reach 50 percent of the target population by end-March 2022.
- *Political situation.* Guinea-Bissau has enjoyed relative political stability since the appointment of the new government in early 2020. However, socio-political tensions could arise due to demands for higher public sector salaries, the adoption of new taxes, persistent weak governance and corruption, high levels of poverty and weak public service delivery.

2. **The authorities are implementing an ambitious reform agenda supported by the SMP.**

The agenda includes commitment to secure macroeconomic stability through ambitious fiscal consolidation, preserving debt sustainability, fighting corruption, and improving governance and transparency. They also aim at implementing an innovative wage bill control blockchain-based project⁵ and a digital solution to strengthen tax administration by allowing filling of tax returns and electronic payments through the banking system.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3. **The recovery from the pandemic is ongoing.** After a modest GDP growth of 1.5 percent in 2020,⁶ growth is projected to accelerate to 3¾ percent in 2021 on the back of higher cashew nut production—Guinea-Bissau’s main export product, public investment in critical externally financed

¹ COVID-19 as reported by the [WHO](#).

² See [IMF Country Report No. 21/172](#) for measures implemented (p.6) by the authorities and the regional central bank to fight the spread of COVID-19 and support the economy.

³ By end-December 57 percent of the target population has received at least one dose.

⁴ AstraZeneca, Johnson & Johnson, and Sinopharma were provided by the African Union, COVAX, Senegal, Portugal, Sweden, China and the United States.

⁵ Supported by the IMF, Ernst & Young, and partners (currently UNDP, and AfDB and the World Bank in the future).

⁶ The pandemic hampered a recovery from a severe terms-of-trade shock due to the collapse of international cashew nut prices.

infrastructure, the gradual lifting of COVID containment measures, and an improvement in business confidence associated with a more stable political situation. Cashew nut exports are expected to reach historical record levels, with spillover effects on the fiscal and external accounts, and economic activity (Text Table 1).⁷

Text Table 1. Guinea-Bissau: Revised Macroframework

	2019	2020		2021	
	Est.	Pre-shock ¹ proj.	After shock estimates	Pre-shock ¹ proj.	After shock proj.
Real GDP (percent change)	4.5	4.9	1.5	5.0	3.8
GDP deflator (percent change)	-3.5	2.1	-1.0	3.6	2.7
CPI inflation, average (percent)	0.3	1.5	1.5	1.8	3.0
Current account (percent of GDP) ²	-8.8	-4.5	-2.6	-4.6	-4.0
Overall fiscal balance, commitment basis incl. grants (percent of GDP)	-4.0	-5.1	-10.0	-5.1	-5.4
Total public and publicly guaranteed debt (percent of GDP)	65.9	71.5	78.9	71.1	79.8
<i>Memorandum items:</i>					
Nominal GDP (CFAF billion)	843	893	848	972	903
Cashew nut export prices (US\$ per ton)	1098	1140	1000	1180	1148
Cashew export volume (thousands of tons)	196	208	155	214	240

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.

4. The improved economic situation and progress in revenue mobilization had positive impact on the fiscal accounts, partially compensating pandemic-related spending pressures.

Revenue performance remained strong through end-September 2021, on the back of strengthening economic growth and revenue mobilization (Text Table 2). The domestic primary balance was better-than-expected, supported by higher revenue despite the increase in domestic primary expenditure partly due to COVID-related expenditures and the need to improve service delivery in health and education.

⁷ Cashew nut exports have contributed to the improvement of the external balance and have provided much needed extra income to at least 500,000 households of poor cashew farmers. Guinea-Bissau exports are expected to grow by 34.5 percent year on year.

Text Table 2. Guinea-Bissau: Fiscal Performance through end-September 2021
(Cumulative)

	Projections ¹		Estimates		Difference	
	CFAF billion	Percent of GDP	CFAF billion	Percent of GDP	CFAF billion	Percent of GDP
Revenue and grants	110.3	12.2	124.0	13.7	13.6	1.5
Revenue	76.7	8.5	94.0	10.4	17.3	1.9
Tax revenue	62.8	7.0	70.7	7.8	7.9	0.9
Nontax revenue	13.8	1.5	23.3	2.6	9.5	1.0
Grants	33.7	3.7	30.0	3.3	-3.7	-0.4
Budget support	1.0	0.1	0.0	0.0	-1.0	-0.1
Project grants	31.8	3.5	29.1	3.2	-2.7	-0.3
Capital grants from CCRT	0.9	0.1	0.9	0.1	0.0	0.0
Expenditure	156.5	17.3	166.2	18.4	9.7	1.1
Expense	100.8	11.2	113.6	12.6	12.8	1.4
Wages and salaries	42.9	4.8	41.9	4.6	-1.0	-0.1
Goods and services	17.4	1.9	22.5	2.5	5.1	0.6
Transfers	17.9	2.0	19.4	2.1	1.5	0.2
Other	12.5	1.4	18.1	2.0	5.6	0.6
Interest	10.2	1.1	11.9	1.3	1.6	0.2
Net acquisition of nonfinancial assets	55.6	6.2	52.6	5.8	-3.1	-0.3
Domestically financed	9.4	1.0	7.0	0.8	-2.4	-0.3
Foreign Financed	46.2	5.1	45.6	5.0	-0.6	-0.1
Overall balance, including grants (commitment)	-46.1	-5.1	-42.2	-4.7	3.9	0.4
Change in arrears	-10.6	-1.2	-9.8	-1.1	0.8	0.1
Overall balance, including grants (cash)	-56.7	-6.3	-52.0	-5.8	4.7	0.5
Financing	56.7	6.3	52.0	5.8	-4.7	-0.5
Net acquisition of financial assets (+ = build up) ²	8.3	0.9	-21.0	-2.3	-29.3	-3.2
Domestic financing	44.1	4.9	60.1	6.7	16.1	1.8
Foreign financing (net)	4.3	0.5	12.9	1.4	8.5	0.9
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance (commitment)	-23.4	-2.6	-14.8	-1.6	8.6	1.0
Domestically financed vaccination expenditure ³	2.0	0.2	n.a.	n.a.	n.a.	n.a.
Domestic primary balance (commitment, adjusted)	-25.4	-2.8	-14.8	-1.6	10.6	1.2
<i>Memorandum item:</i>						
Domestic primary expenditure	100.0	11.1	108.8	12.0	8.7	1.0

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

¹ Projections in end-September 2021 are consistent with full year 2021 SMP projections.

² The accumulation of assets observed in September corresponds to an increase in the deposits at the BCEAO due to the general SDR allocation.

³ See TMU paragraph 11.

5. The trade balance is expected to improve backed by the record high cashew nut campaign. The trade deficit is projected to decrease from 14.1 percent in 2020 to 13.1 percent of GDP in 2021. A significant recovery in the cashew nut export volume and prices is expected to generate a 47.2 percent increase in cashew nut export value, which helps finance higher food and oil imports.⁸ As a result, the current account deficit is projected to reach 4 percent of GDP. The August 2021 SDR allocation has contributed to closing the external financing gap and allowed the authorities to pre-pay debt service of BOAD⁹ non-concessional debt.

6. The fiscal position is projected to improve in 2021 though with a small increase in the stock of public debt. Tax revenue is projected to increase by about 39 percent in 2021, reaching 10.4 percent of GDP. This underpins a sizeable pace of fiscal consolidation, which nonetheless has

⁸ Logistic problems due to judicial dispute with a trade operator have delayed exports, but the authorities managed to resolve this issue in December.

⁹ The WAEMU regional development bank.

been slower than expected due to higher spending in COVID-19 related measures and social and priority sectors. The overall fiscal deficit (including grants on a commitment basis) is projected to fall to 5.4 percent of GDP from 10.0 percent of GDP in 2020. This significant adjustment has been feasible because it reflects the unwinding of pandemic-related effects, greater revenue mobilization and expenditure controls adopted in the context of the 2021 budget and the SMP. The January 2021 RCF disbursement contributed to cover 1.1 percent of GDP of the financing needs, the CCRT debt service relief an additional 0.1 percent of GDP and the last SDR allocation 2.4 percent of GDP (Annex IV). Other multilateral organizations and bilateral donors are expected to step in along with IMF support and reduce the need for non-concessional regional financing (Table 3b). The stock of public debt is projected to increase in 2021 by 0.9 percent of GDP mainly because of domestic currency depreciation and the rephasing of the legacy arrears clearance.¹⁰ The stock of debt is nonetheless projected to begin falling in 2022 and converge to the WAEMU 70 percent of GDP debt ceiling by 2026.

7. Pandemic-related measures implemented by BCEAO, the regional central bank, have continued to support credit. The liquidity of the banking system has been supported by the accommodative stance of the BCEAO and credit to the economy is expected to have accelerated in 2021.¹¹ The situation of the banking sector excluding one systemic undercapitalized bank is considered adequate based on the financial soundness indicators for end-September 2021 (Table 5), but the system continues to depend on the BCEAO liquidity support. The low capitalization and high non-performing loan (NPL) level of the undercapitalized bank represent an important vulnerability, despite the high level of provisions. This bank continues to seek strategic investors with the support of an external consultant.¹²

8. The near-term outlook projects a moderate recovery, but risks are tilted to the downside.

- *Outlook.*¹³ More dynamic consumption and a considerable recovery of cashew nut export volumes and prices should have supported a moderate economic recovery in 2021 and partially offset the effects of the persistence of the COVID-19 pandemic, resulting in an economic growth of about 3¾ percent. The authorities expect to mitigate further outbreaks with an effective rollout of vaccines. Average price inflation is expected to have accelerated to 3 percent in 2021, reflecting pressures on prices of imported goods, especially food and oil. In the medium term, growth will be supported by higher cashew nut export prices and volumes driven by a recovery

¹⁰ In comparison with the last review ([CR 2021/252](#)), the stock of debt in 2020 increased by 1.8 percentage points (p.p.) of GDP (Table 1). External debt stock increased by 1 p.p. due to the agreement recently reached with Angola on legacy arrears. With the agreement, interest payment arrears are accrued on the new debt stock. The domestic debt stock increased by 0.8 p.p. due to the proper accounting of arrears accrued in 2020, cleared in 2021.

¹¹ Credit to the economy grew by 33.3 percent in September 2021 (y-o-y) and 25.7 percent compared to December 2020.

¹² The systemic undercapitalized bank holds about 40 percent of deposits and has the largest number of branches throughout the country. So far, about 10 percent of the bank's total NPLs has been recovered.

¹³ The outlook is based on the effects of the pandemic moderating locally due to the effectiveness of containment measures and increased vaccination rates.

in global trade, and a more stable political situation, with structural reforms and stronger business environment expected to support private investment growth.

- *Outlook risks* (Annex I). Downside risks arise from political risks and weak capacity, but also volatile global food and oil prices, and weaker cashew nuts exports. Political risks are high given potential conflict related to public sector salaries, tensions associated with new taxes, weak governance and corruption, high levels of poverty and weak public service delivery. 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 a systemically important bank, could generate contingent liabilities adding to fiscal and public debt pressures. Should downside risks materialize and impact fiscal conditions, the authorities are committed to further rationalize non-priority expenditures and domestically financed investment. On the upside, a stronger performance of the cashew sector and a successful vaccination campaign would underpin a faster recovery than under the baseline. Greater political stability should crowd in private sector activity and donor support.

PROGRAM PERFORMANCE

9. Program performance under the SMP has been satisfactory. Six out of seven quantitative targets (QTs) were met (Table 6). Supported by improvement in revenue mobilization, the end-September domestic tax revenue exceeded the QT by more than 12.5 percent (Text Figure 1). This underpins the improvement in domestic primary balance, which outperformed the adjusted QT by CFAF 10.6 billion (1.2 percentage points of GDP). Social and priority spending also strengthened, exceeding the QT by 9.2 percent. The US\$0.5 million external payments arrears identified at end-June and a residual amount due to the African Development Bank at end-September were cleared in October and November, both due to small technical difficulties.¹⁴ In addition, expenditure control and enhancements in debt management are expected to avoid new external and domestic arrears, contracting non-concessional debt, and incurring non-regularized expenditures (DNTs).

10. Three out of four structural benchmarks (SBs) for end-September were met (Table 7) and actions are being taken to meet all SBs for the third review.

- **Expenditure control.** The Treasury Committee has continued its weekly meetings without interruption and an executive order was issued to end the hiring of employees without contract (SB, end-September 2021). The government included in the 2022 Budget Law a directive to enforce control by the financial controller over all public salaries including employment incentives and the National Assembly salaries and reconcile the personnel and the payroll records (SB end-December 2021) supported by the implementation of the blockchain project.¹⁵

¹⁴ The arrears with the Islamic Development Bank were cleared on October while the historical arrears to Libya, including the US\$0.34 million incurred during the SMP, were cleared in November. Residual amounts owed to the African Development Bank (less than US\$20,000) were paid in November.

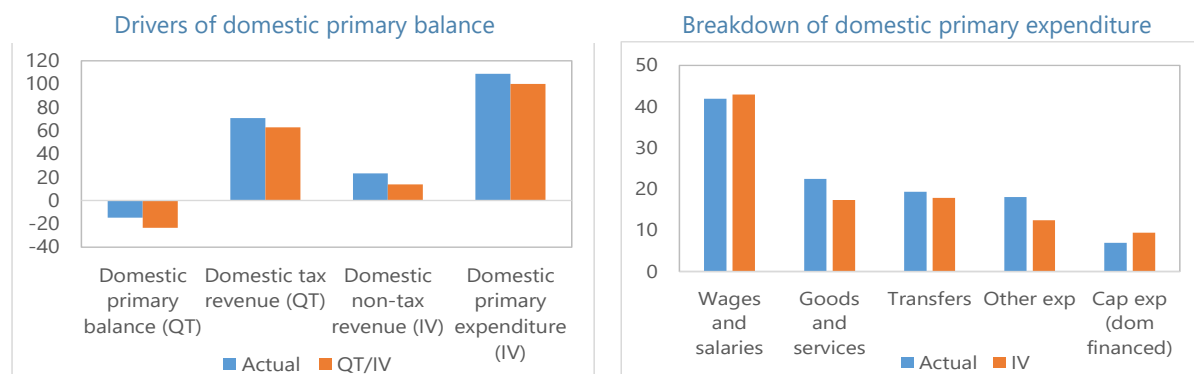
¹⁵ The government decided in a resolution of the Council of Ministers on July 27 that these measures must be implemented by all public entities whose wages are included in the budget.

In addition, a team has been appointed to spearhead the implementation of the Treasury Single Account (TSA) at the General Directorate of Treasury, a mandatory prior authorization by the Minister of Finance for opening public bank accounts is in place, and all public sector bank accounts have been identified (SB, end-September).

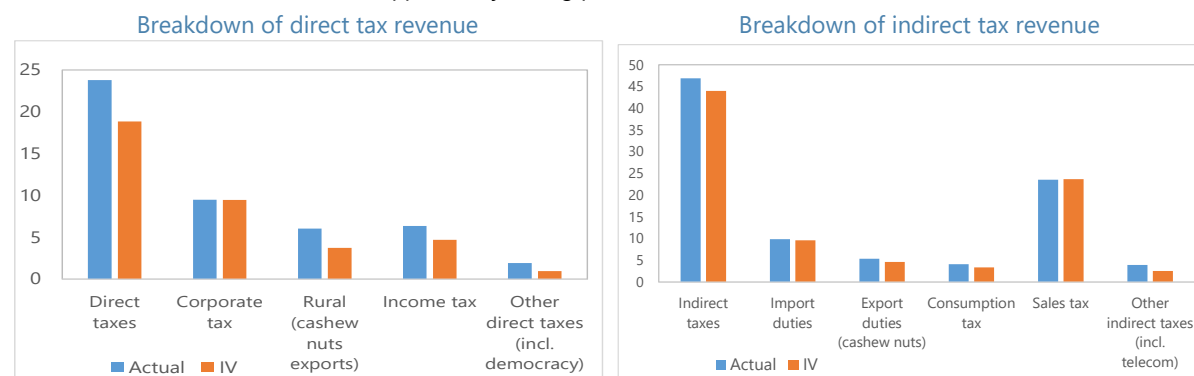
Text Figure 1. Actual vs. Quantitative Target (QT) /Indicative Value¹: End-September 2021
(Cumulative, CFAF billions)

Supported by robust domestic revenues, the domestic primary balance met the QT despite higher-than-expected domestic primary expenditure...

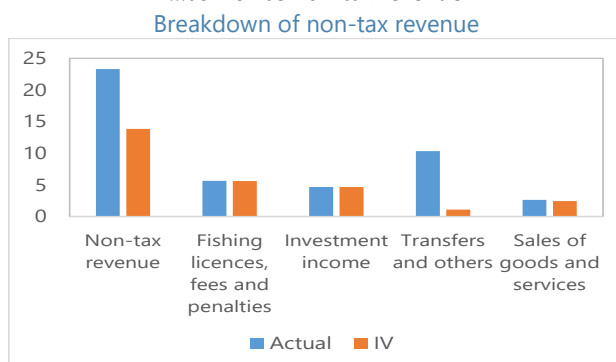
... goods & services, transfers and other expenditure were higher-than-expected



Total domestic revenue was supported by strong performance in both direct and indirect tax revenues...



...as well as non-tax revenue



Sources: Guinea-Bissau authorities and IMF staff calculations.

¹ Indicative value (IV) is staff projection consistent with QTs.

- Tax and customs frameworks and tax administration.** The Council of Ministers approved and submitted to the Parliament the revised general tax code, a tax penalty regime¹⁶ (SBs, end-July), a revised customs code¹⁷ (SB, end-September) and a new VAT law¹⁸ (SB, end-December). All laws were approved by parliament in mid-December. In addition, to strengthen tax administration, the Kontaktu system for electronic filing of tax returns and payments is operational for a small number of taxpayers (pilot phase), and progress has been made to extend the solution to all large taxpayers to achieve full implementation (Annex III). In this regard, staff supports the authorities' request to rephase full implementation of the system from end-December 2021 to end-March 2022 to ensure a smooth transition amid the pandemic and capacity constraints and allowing to train users, secure permanent internet access and deploy a communication campaign (MEFP ¶110 bullet 2). With ongoing IMF TA support, customs management is taking steps to address gaps in core functions and enhance revenue mobilization, including introduction of a modern clearance procedure, control of import values, fight against smuggling and abuse of exemptions.

POLICY ISSUES

Policy priorities include (i) overcoming the pandemic and supporting post-COVID economic recovery; (ii) continue implementing an ambitious yet realistic growth-enhancing fiscal consolidation program to ensure debt sustainability while addressing Guinea-Bissau's vast developmental needs; and (iii) enhancing fiscal governance and transparency.

A. Macroeconomic Policies

Addressing Fiscal Consolidation

11. After containing expenditure overrun and improving revenue mobilization, the overall fiscal balance in 2021 will be better than expected and the domestic primary balance target is within reach. Despite higher spending on COVID-related measures and in social and priority sectors, the domestic primary deficit is projected to reach the SMP target because of higher revenue mobilization, and a lower than projected wage bill due to the proper accounting of wage arrears accrued in 2019-20 but cleared in 2021.^{19,20} The authorities expect revenue performance in Q4 2021

¹⁶ The general tax code and tax penalty regime, will strengthen the tax framework, provide a common basis for the administration of all taxes regardless of tax types, and promote fairness and understanding

¹⁷ The customs code will change traders behavior and raise customs compliance.

¹⁸ The VAT law will improve the tax framework and broaden the tax base.

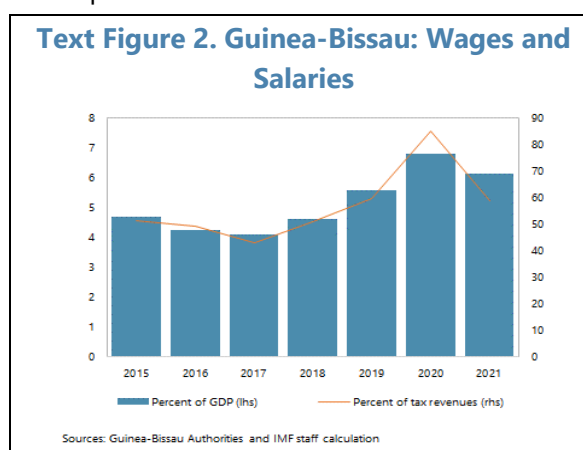
¹⁹ In the first review ([CR 2021/252](#)), the end-December 2021 wage expenditure projection included wage arrears of CFAF 3.2 billion incurred in 2020 (and a lesser extent in late 2019) but paid in 2021. To properly account for the wage expenditure on an accrual basis, the end-December 2021 projection excludes the payment of wage arrears incurred in 2019-2020. Consequently, the wage expenditure in 2019-2020 increased proportionately.

²⁰ The increase in pandemic-related priority spending (CFAF 3.8 billion or 0.4 percent of GDP) and non-pandemic expenditure (CFAF 5.9 billion or 0.6 percent of GDP) will be compensated by higher revenue mobilization (CFAF 6.7 billion or 0.7 percent of GDP) and lower domestically financed investment (CFAF 3.0 billion or 0.3 percent of GDP).

to have remained strong, as revenue collection from the two new taxes (i.e., democracy and telecommunication taxes) and fishing licenses have improved.²¹ For the full year, revenue is expected to be higher than the SMP target by 0.7 percentage points of GDP. In addition, the government has adopted expenditure containment measures to keep the end-December domestic primary deficit target of CFAF 18.9 billion within reach. The projected domestic primary deficit of CFAF 15.4 billion corresponds to a significant fiscal consolidation of 3.1 percent of GDP this year, bringing back the primary balance closer to its 2019 level.

12. In 2021, measures agreed with the authorities under the SMP contributed to improvement in revenue mobilization, rationalization of expenditures and avoidance of expensive non-concessional financing:

- Revenue measures.** Key measures already taken included new taxes on telecommunications and labor income along with other revenue-enhancing measures. Overall, the fiscal yield estimate for tax measures in 2021 amount to about 0.5 percent of GDP. The authorities are expected to mobilize additional revenues through the Kontaktu system by about CFAF 1.2 billion²² (Annex III). The full implementation of this project by end-March 2022 together with the new taxes and tax law will contribute to enhance revenue mobilization towards similar levels as Guinea-Bissau's peers over the medium term.
- Expenditure control and wage bill.** To meet the end-December domestic primary balance QT, the authorities have adopted a ministerial order for expenditure containment measures.²³ Staff supports the authorities' expenditure control efforts especially wage bill control measures including the deployment of the IMF-supported blockchain-based project to assist in the reconciliation of the personnel and payroll records (Annex III). All these measures should support the convergence to the WAEMU regional ceiling over the medium-term (Text Figure 2).²⁴
- State-Owned Enterprises.** The authorities are taking steps to strengthen the management of the largest SOE, the utility company *Electricidade e Aguas da Guinea-Bissau* (EAGB), including changing the top management, revamping management operations and enhancing financial management controls (MEFP ¶10, bullet 2). Additional steps will be needed to further strengthen



²¹ While tax collections underperformed in October due to disruption in the container shipping sector and ongoing disputes on the taxable volume of services in the telecom sector, the authorities have taken actions to rectify these issues to ensure the achievement of quantitative targets.

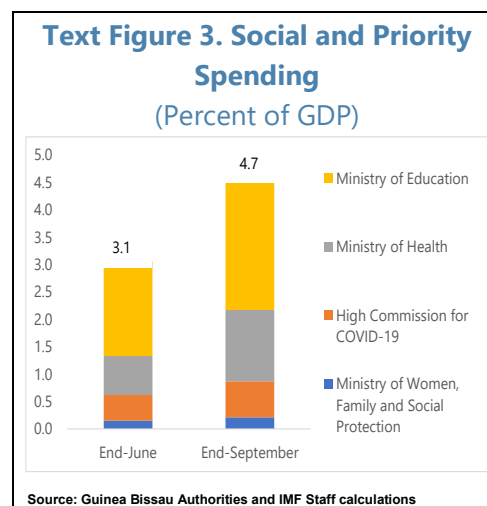
²² Kontaktu is a website launched this year for electronic tax return acquisition, which allows electronic tax returns filing and payments.

²³ See first review ([CR 2021/252](#), p. 11).

²⁴ The WAEMU regional ceiling for wages-to-tax revenues ratio is of 35 percent.

the operations of EAGB to ensure its financial viability and limit fiscal risks.²⁵ The IMF will also provide TA to enhance fiscal oversight of SOEs.

13. Social and priority spending. This spending in 2021 focused on vaccination efforts, health, education, and other social spending. The cost of the national COVID-19 vaccination campaign is projected at about CFAF 9 billion (1 percent of GDP) for 2021-2022. So far, the operational cost has been mostly borne by the government, but additional donor support is needed to fill a funding gap of about US\$4 million for 2022. Social and priority spending at end-September reached 4.7 percent of GDP, led by spending on education, followed by the health sector, including COVID-19 related expenditure, and the social sector (Text Figure 3).



14. Investment plans. The government is undertaking investment plans to strengthen health, education and road infrastructure to sustain the economic recovery. These include COVID-related investments in health care and investments supporting food security totaling 1.2 percent of GDP. Staff discussed measures to improve the quality of investment plans to bolster long-term economic growth; strengthen the public procurement process to increase investment efficiency; and mobilize external grants to finance specific investment projects. IMF TA is ongoing to provide support in cost-benefit analysis, strategic planning, and formulation and monitoring of public investment plans.

2022 Budget

15. The 2022 Budget was approved by the Cabinet in mid-November and the National Assembly in mid-December. The 2022 budget approved by the Parliament builds on the reform agenda under the SMP with overall and domestic primary deficit targets of respectively 4.2 percent of GDP and 1.2 percent of GDP (Table 1). In particular, current expenditure—excluding interest payments—as percent of GDP is projected to fall by 1.3 percentage points, while domestically financed capital expenditure will increase by 0.8 percentage points. Fiscal consolidation will be underpinned by improved revenue mobilization of 0.2 percentage points, which supports social and priority spending and capital expenditure in key infrastructure projects; and rationalization of non-priority expenditures.²⁶ The authorities will exercise strict control on budgetary execution, avoiding

²⁵ With the support of the World Bank, a Portuguese consortium has been tasked to improve the operational and financial management of the SOE, including the preparation and publication of all financial statements since fiscal year 2016 by March 2022. In addition, the consortium aims to implement measures to control costs and improve revenue collection to reduce the operational deficit of the company. In 2022, the *Tribunal de Contas* plans to audit the company and publish its assessment. EAGB has 0.7 percent of GDP in public guaranteed debt from a total debt estimated at 2.9 percent of GDP. For further discussion on governance of SOEs, see [IMF Technical Report for Guinea-Bissau “Enhancing Governance and the Anti-Corruption Framework: Next Steps”](#).

²⁶ The authorities have requested IMF TA support on wage bill policy, public investment management and SOE supervision. There is also ongoing IMF TA support on public debt management.

the accumulation of arrears and authorizing external borrowing consistent with debt sustainability. To strengthen debt management and improve the efficiency of future government spending, the government plans to review the debt management framework, wage bill policy, public investment management²⁷ and SOEs supervision with TA support from the World Bank and the IMF.

Financing and Debt

16. The IMF emergency financing, the CCRT debt relief, concessional loans of multilateral institutions and budget support from France have eased budget financing pressures in 2021.

The January 2021 RCF and the current SMP are helping catalyze additional donor support and alleviate financing pressures stemming from reliance on non-concessional lending from BOAD and Treasury issuances in the regional market. The reengagement strategy included joining the Debt Service Suspension Initiative (DSSI) and taking steps towards solving all legacy external arrears.²⁸ French budget support of €1.3 million was disbursed in October. The government plans to seek additional grants and highly concessional financing for specific investment projects.²⁹

17. The government is committed to auditing and starting the clearance of domestic arrears over the medium term. Domestic arrears of CFAF 10.2 billion accumulated in 2019–20 were recognized and paid in 2021. The authorities plan on start clearing the stock of domestic arrears accumulated between 1974 and 1999, amounting to CFAF 14.3 billion, in the coming years.³⁰ Furthermore, by end-2022, with external technical support, the government intends to determine the true amount of any outstanding arrears through further auditing and verifications,³¹ 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.

²⁷ Guinea-Bissau has a significant share of externally financed projects in its capital budget. This requires strong coordination within government entities as well as between the government and donors/lenders, which is currently limited in turn affecting the quality of information on investment projects. Against this backdrop, FAD conducted a technical mission in 2019 to provide hands-on training on the planning and execution of the capital budget, using relevant dimensions of the public investment management assessment (PIMA) framework.

²⁸ Debt sustainability prospects are expected to improve by transparency and compliance with the ceiling on contracted new debt associated with the IMF Debt Limits Policy (DLP). See footnote 9 of the DSA included in Country Report No. 21/172 on the reasons for debt not been suspended yet. Agreements were also signed with Libya, Taiwan Province of China and Angola for clearance of legacy arrears. Debts with Russia and Brazil have been renegotiated but are pending signature. Negotiations with Pakistan are protracted.

²⁹ Infrastructure projects related to roads and solar energy to be financed in the form of grants from the World Bank and the African Development Bank are in the pipeline for 2022.

³⁰ The current macro framework does not incorporate the clearance of longstanding domestic arrears. The authorities' plans for the clearance of those arrears will be discussed during the Third Review of the SMP.

³¹ 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 obligations.

18. The SDR allocation contributed to reduce financing costs and close the 2021 financing gap associated with the emergency response to the pandemic (Annex IV).³² The authorities used the recent SDR 27.2 million allocation (about US\$38.4 million) to pre-pay non-concessional debt to the regional development bank BOAD, due at end-2021 and in 2022.³³ Staff estimates the debt management operation could save up to CFAF 3.4 billion (0.4 percent of 2021 GDP) on interest payments up to 2026. The concessional terms of the on-lending operation provide an alternative to more costly financing such as contracting non-concessional debt and issuing Treasury bills in the WAEMU regional market. Staff recommended that any pandemic spending and its financing should be transparently recorded in the budget in accordance with the IMF's Fiscal Transparency Code.

19. The authorities' policies to support fiscal consolidation and preserve debt sustainability could still require additional financing of 2.1 percent of GDP in 2022-24. The authorities should seek to cover this financing gap by identifying concessional loans backed by a strong track record of policy implementation under the SMP. Staff estimates a financing gap of CFAF 7.4 billion each year, about 0.7 percent of GDP (Tables 2, 3a and 3b). Covering this gap with concessional loans will decrease the recourse to regional commercial bank financing, reducing the interest expenses by an average of 0.1 percent of GDP over 2022-26. The fiscal space associated with a lower interest burden could be used to support much-needed investment in public infrastructure and priority sectors.

20. The government is taking concrete actions to strengthen debt management. In the context of the implementation of the decrees approved in June³⁴ and to avoid coordination problems that led to delays in debt service payments, the Directorate Generals of Treasury and Debt are holding weekly coordination meetings. Biannual meetings of the recently created National Committee of Public Debt will start in 2022. This committee will also hold extraordinary meetings to discuss any new loan agreements. The authorities are seeking long-term technical assistance from international partners to improve their capacity for debt recording, monitoring and overall debt management. In addition, they will keep publishing annual reports on debt covering debt service, disbursements and agreements, as well as continue reporting to international debt statistics databases. Staff discussed ways to improve debt management with TA support.

21. Guinea-Bissau is at high risk of external and overall debt distress, but debt was assessed as sustainable in a forward-looking sense hinging on the authorities' commitment to sound policies supported by strong donor engagement. Guinea-Bissau's supportive regional

³² The end-August SDR 27.2 million allocation was transferred by the BCEAO, as a currency repo operation of CFAF 21.6 billion with 20-year maturity and a single bullet payment at end-period. With an interest rate fixed at 0.05 percent, this operation is equivalent to a loan with a grant element of 62 percent. At maturity, this operation could be renewed for 20-years at an interest rate linked to SDR interest rate.

³³ Out of the total amount of CFAF 21.6 billion, CFAF 14.8 billion (69 percent) was used to pre-pay BOAD principal due in September 2021–December 2022, and CFAF 2 billion (9 percent) to pre-pay BOAD interest due in the same period. The remaining amount, CFAF 4.8 billion (22 percent), was used to finance COVID-related expenditures.

³⁴ In June the Council of Ministers approved 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.

context³⁵ reduces medium-term rollover risks associated with domestic debt, and staff projects a gradual decline of the present value of public debt relative to GDP over the medium term, with the fiscal deficit and public debt meeting WAEMU convergence criteria in 2025-26.³⁶ The assessment continues to be contingent on the authorities' commitment to: (i) an ambitious fiscal adjustment strategy; (ii) prudent borrowing policies, including avoiding non-concessional project financing; (iii) enhanced debt management; 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. Short-term risks to debt sustainability have increased, reflecting revisions to the debt stock and debt service associated with the resolution of legacy arrears (domestic and external) and contingent liabilities associated with EAGB and the domestic undercapitalized systemic bank.

22. New external borrowing in 2021 relied on concessional loans. In line with the DLP, concessional loans from multilateral donors (Text Table 4), together with grants, are expected to have covered the financing needs related to social spending and infrastructure projects—a trend expected to remain in 2022 as the country relies on the catalytical effect of a successfully completed SMP. The authorities should enhance capacities allowing for the elaboration and update of annual borrowing plans in line with best practices. The authorities remain committed to debt transparency, including on the debt holder profile in line with new requirements under the Debt Limits Policy (Text Table 5). They are planning to request IMF TA to further improve the quality of debt data.³⁷

Text Table 4. Guinea-Bissau: External Borrowing in 2021

PPG external debt contracted or guaranteed	Volume of new debt in 2021 ¹ (US\$ million)	Present value of new debt in 2021 ¹ (US\$ million)
Sources of debt financing	43.0	27.9
Concessional debt ²	43.0	27.9
Multilateral debt	43.0	27.9
BADEA	43.0	27.9
Uses of debt financing	43.0	27.9
Infrastructure	43.0	27.9
<i>Memo items:</i>		
Indicative projections 2022		
BID - Education	17.2	TBD

Source: Guinea-Bissau authorities and IMF staff estimates.

1/ Contracting and guaranteeing of new debt excluding IMF. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.

2/ Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent.

³⁵ Guinea-Bissau benefits from financial support from regional institutions and larger regional/WAEMU currency union members with stronger debt carrying capacity; in the WAEMU, the regional sovereign treasury market is managed by UMOA-Titres.

³⁶ On April 27, 2020, the 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, and countries should converge to the fiscal regional fiscal rule by 2024. Given the size of the fiscal consolidation in Guinea-Bissau, convergence has been postponed to 2025.

³⁷ While the new Debt Limits Policy recommends converting the nominal limit on concessional project loans to a present value limit, due to capacity constraints on debt recording, monitoring and reporting in Guinea-Bissau, staff proposes to defer this change to a future request for an ECF arrangement.

Text Table 5. Guinea-Bissau: Decomposition of Public Debt and Debt Service by Creditor 2020-22¹

	Debt Stock (end of period)			Debt Service					
	2020			2020	2021	2022	2020	2021	2022
	(In US\$ million)	(Percent of total debt)	(Percent of GDP) ⁵	(In US\$ million)			(Percent of GDP)		
Total	1,241.1	100.0	78.9	136.7	222.2	92.0	9.3	13.6	5.3
External	404.4	32.6	25.7	9.1	12.9	12.2	0.6	0.8	0.7
Multilateral creditors ²	272.8	22.0	17.3	8.4	9.0	8.4	0.6	0.6	0.5
IMF	29.2	2.4	1.9						
World Bank	147.8	11.9	9.4						
AfDB	44.2	3.6	2.8						
Other Multilaterals	51.6	4.2	3.3						
<i>o/w: Islamic Development Bank</i>	22.4	1.8	1.4						
BADEA	10.0	0.8	0.6						
Bilateral Creditors	131.6	10.6	8.4	0.7	3.9	3.8	0.0	0.2	0.2
Paris Club	3.4	0.3	0.2	0.0	0.0	0.4	0.0	0.0	0.0
<i>o/w: Brazil</i>	1.9	0.2	0.1						
Russia	1.5	0.1	0.1						
Non-Paris Club	128.1	10.3	8.1	0.7	3.9	3.4	0.0	0.2	0.2
<i>o/w: Angola</i>	49.1	4.0	3.1						
Kuwait	28.9	2.3	1.8						
Domestic	836.8	67.4	53.2	127.6	209.2	79.8	8.7	12.8	4.6
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Regional T-bills	259.8	20.9	16.5	57.9	78.4	61.5	3.9	4.8	3.6
BOAD	284.6	22.9	18.1	23.8	49.3	1.0	1.6	3.0	0.1
BCEAO	175.6	14.1	11.2	1.3	1.3	1.3	0.1	0.1	0.1
Loans local commercial banks ³	81.2	6.5	5.2	37.6	61.8	0.0	2.5	3.8	0.0
Payment Arrears	35.5	2.9	2.3	7.1	18.4	16.1	0.5	1.1	0.9
Memo items:									
Collateralized debt ⁴	0.0	0.0	0.0						
Contingent liabilities	19.6	1.6	1.2						
Public guarantees	19.6	1.6	1.2						
Nominal GDP	1,474.7			1,474.7	1,633.1	1,726.5			

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/ Including public guarantees.

4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/ Calculated based on the amounts in CFA francs.

23. The authorities have agreed to the reclassification of the debt to BOAD as external at the time of a possible new IMF-supported program.³⁸ The authorities are expected to request an ECF arrangement in 2022; in the context of a future program, debt classification in the DSA and debt limits will follow a hybrid approach in which debt to BOAD (denominated in CFA francs) will be classified as external whereas the remaining debt sources will continue to follow a currency-based classification. Considering the importance of this creditor to the country (23 percent of total debt), this reclassification will improve the coverage of debt limits.

³⁸ The reclassification of BOAD's debt as external debt is consistent with the [Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries](#). BOAD's borrowing sources are mostly non-resident and its lending should be treated as external debt.

B. Other Structural and Governance Reforms in Progress

24. The authorities are committed to step up the implementation of the RCF's governance safeguards on COVID-19 spending.³⁹ COVID-related funds are managed using a dedicated account at the BCEAO and are subject to ex-post independent audits, including an additional audit carried out by the Audit Court with the support of a reputable third-party auditor. An audit of COVID-19 expenses by the Audit Court has started in October at the request of the High Commissioner for COVID-19, covering the period June 2020-August 2021 to be published in April 2022. The complementary audit will cover all COVID-19 expenses for 2021 and will be published by end-September of 2022. The Terms of Reference for a reputable third-party auditor were developed in consultation with the Fund and its public tender took place in early December. The entire crisis-related spending is an integral part of the State Budget and spending reports are being presented to the National Assembly. In addition, the government has published financial reports, and key information of all crisis-related contracts for the years 2020-21.⁴⁰ Staff advised the High Commissioner to create a dedicated space on their website for each type of publication to increase their visibility. Staff reiterated the need to update the publication of available information on procurement contracts and ex-post validation of delivery related to COVID-19 expenditures on the government's dedicated website. 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 entities awarded COVID-19 related and public procurement contracts as soon as the procurement legal framework has been amended⁴¹ with the support of IMF TA (SB end-March 2022, MEFP ¶15 and below).

25. The authorities are committed to further strengthen public financial management to urgently improve expenditure control (Table 7 and MEFP ¶12-13).

- Steps have been taken towards establishing a TSA and strengthen cash management. IMF TA continues supporting the improvement of the treasury and cash management function. The Ministry of Finance created a unit within the Directorate General of Treasury that will use the IMF tool.
- Technical work is moving forward to amend the procurement legal framework to enable the collection and publication of beneficial ownership information of entities awarded public

³⁹ See ["Guinea-Bissau Request for Disbursement Under the Rapid Credit Facility", IMF Country Report No. 21/29, Appendix I.](#)

⁴⁰ In their [webpage](#), the High Commission has published financial reports that cover the period June 2020 until June 2021 and some crisis-related procurement contracts on the [acquisition of vehicles](#) and [medical supplies dated July 2020](#). The authorities are working to overcome capacity constraints and coordination issues to publish all procurement contracts and ex-post validation of delivery reports.

⁴¹ The full information of procurement contracts will contain a reference to the companies' beneficial ownership.

contracts above certain threshold (SB, end-December 2021, reset end-March 2022⁴²).⁴³ IMF TA is supporting the review of the existing procurement framework. The authorities are committed to finalizing the amendments during the SMP period.

- An executive order was issued to end the hiring of employees without contract (SB, end-September 2021). An executive order was approved to enforce control by the financial controller over all public salaries and reconcile personnel and payroll records (SB end-December 2021) supported by the blockchain project. The Council of Ministers decided⁴⁴ that these measures must be implemented by all public entities whose wages are included in the budget.
- The government is preparing a ministerial order to enforce normal expenditure execution procedures by requiring certification of goods and services delivery before payment to providers. Spending units must adopt and implement the procedures as stated in the “Manual for procedures on public expenditures” developed with IMF TA support. A pilot in at least five selected line ministries will start at the beginning of 2022. IMF TA has been requested to support the implementation.
- The government is preparing a follow-up report on recommendations from previous Tribunal de Contas (TC) audit reports on EAGB to strengthen its management and transparency to be published by end-March 2022⁴⁵. The TC included EAGB in the 2022 plan of audits. IMF TA will support the enhancement of SOEs fiscal oversight.

26. To support revenue mobilization, the government will ensure information exchange between the Directorates General of Taxes (DGCI), Customs (DGA), and Treasury (DGTCP), and the National Institute of Social Security (INSS). This will bring transparency and accountability to the operations between public entities and increase tax revenue mobilization. The government has made further progress including (i) the DGTCP started providing the required information by filing the withholding tax returns; and (ii) MoUs signed between the DGCI, the DGA and the INSS, with the support of the Minister of Finance and the Minister of the Public Administration at end-December. IMF TA will be provided in these areas in February/March 2022 once the MoUs have been signed.

27. Furthermore, the government is committed to strengthen the legal framework to mitigate corruption risk via enhanced transparency and greater accountability. A proposed reform of the Asset Declaration Regime to be sent to Parliament will focus on upgrading the Law of

⁴² Capacity constraints and the complexities of the legal diagnosis precluded the completion by end-2021.

⁴³ To enable the collection of beneficial ownership (BO) information from bidders and the subsequent publication of BO information for all entities awarded procurement contracts, several provisions, which do not yet exist in the current procurement legal framework, will need to be included. Legal work is introducing: (i) a legally compliant definition of ‘beneficial owner’; (ii) the obligation to submit BO information; (iii) applicable sanctions for non-compliance; and (iv) public access to BO information. Also, the authorities decided that the issuance of a Decree would be sufficient to introduce the above provisions.

⁴⁴ July 27, 2021 resolution.

⁴⁵ The Minister of Finance published in mid-January the latest [TC audit report](#) on EAGB, including recommendations to the Ministry of Finance, Ministry of Energy and Industry, and the Company.

1999 with IMF TA (MEFP ¶16).⁴⁶ The reform will aim to (i) cover all politically exposed persons (PEPs), as defined by the Financial Action Task Force standards, and their family members and close associates; (ii) cover assets and interests owned, including those beneficially owned, domestically and abroad; (iii) ensure declarations are publicly available online; and (iv) allow the imposition of targeted, proportionate, and dissuasive sanctions that are consistently enforced for failure of submission and for submission of false declaration. In addition, the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) discussed its draft mutual evaluation report recommendations with the authorities in December and the final report will be discussed in February. The authorities shared with staff the preliminary National AML/CFT Risk Assessment. Its action plan, shared with the Ministry of Finance, will require institutional support for the authorities going forward.

28. The government will continue to make efforts to preserve the stability of the financial sector. The government is monitoring developments of the restructuring plan of the undercapitalized bank and has delivered a report including a viable disengagement strategy by 2024 (SB, end-December 2021), as agreed with the regional Banking Commission. Staff underscored the importance of an independent full audit of the bank's NPLs to provide an accurate diagnostic of the bank's situation. The authorities agreed to request the BCEAO to share with the IMF the results of the full NPLs audit performed by the Banking Commission (MEFP ¶22).

29. Safeguards assessment. The BCEAO has implemented all recommendations provided in the 2018 safeguards assessment. The assessment found that the BCEAO had broadly appropriate governance arrangements and a robust control environment. In line with the safeguards policy's four-year cycle for regional central banks, an update assessment of the BCEAO is due in 2022.

STAFF APPRAISAL

30. Despite the persistence of the pandemic, economy activity is expected to have improved in 2021, though with lingering downside risks and long-standing socioeconomic challenges. After the country was severely hit by the COVID-19 global pandemic, which followed a negative terms-of-trade shock in 2018-19, economic conditions are improving on the back of record high cashew nut exports, supportive economic policies, and higher business confidence associated with a more stable political environment. In 2021, growth is expected to have modestly accelerated with inflation remaining in line with the WAEMU convergence criteria, despite price pressures from imported goods. Downside risks include a more protracted pandemic that could trigger social tensions and political instability.

31. The authorities deserve credit for a strong SMP implementation. Supported by the RCF disbursement, the CCRT debt relief, and the special SDR allocation, the authorities have made progress on their reform program securing macroeconomic stability. The overall fiscal deficit including grants is expected to be contained to 5.4 percent of GDP in 2021, representing a substantial

⁴⁶ The law from 1999 falls short in some key areas that are fundamental good practices to achieve an effective declaration system.

fiscal adjustment in line with program objectives. Further fiscal consolidation is envisioned in the 2022 budget approved by Parliament in early December, to bring the fiscal deficit down to 4.2 percent of GDP, to secure key program objectives, and gradually converge to the WAEMU regional deficit criteria of 3 percent of GDP by 2025. For the second consecutive year, the budget was submitted by the authorities observing the legal time frame. Parliament also approved in mid-December a tax reform package including a revised general tax code, the tax penalty regime and customs code, together with a modernized statute of the VAT. These actions will create fiscal space and catalyze donor support to protect social spending in education, health, and pandemic-related expenditures and to undertake key infrastructure investments.

32. Staff welcomes the prudent use of the SDR allocation. The authorities decided to use the recent SDR 27.2 million allocation (about US\$38.4 million) to buttress debt sustainability by anticipating service to BOAD non-concessional loans due up to 2022, and cover COVID-related expenditures, including vaccination and improvement in health services. Staff commends the authorities' efforts to strengthen debt management, including holding weekly coordination meetings between directories of treasury and debt, and reviewing the debt management framework.

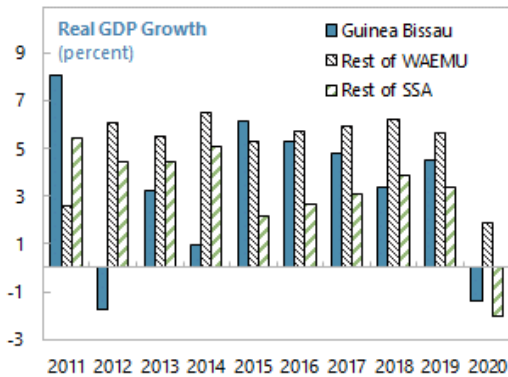
33. Staff recommends the authorities to closely monitor the restructuring of the undercapitalized systemic bank and implement measures to improve governance and operations of EAGB. The authorities are preparing a report on the bank situation, including a viable disengagement strategy by 2024 (SB, December 2021). The authorities should closely monitor EAGB's management and governance restructuring plan aimed at revamping management operations and enhancing financial management controls to ensure financial viability and limit fiscal and public debt sustainability risks.

34. Timely implementation of governance and transparency reforms are key to the SMP success. Staff commends the authorities for the implementation 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 supports the authorities' strong commitment to amend the procurement legal framework to enable the collection and publication of beneficial ownership information of entities awarded public procurement contracts and the reform of the Asset Declaration Regime to be concluded in the first quarter of 2022. Staff supports the rephrasing of the full implementation of the Kontaktu tax payment solution to all large tax taxpayers to end-March 2022 to ensure a smooth transition.

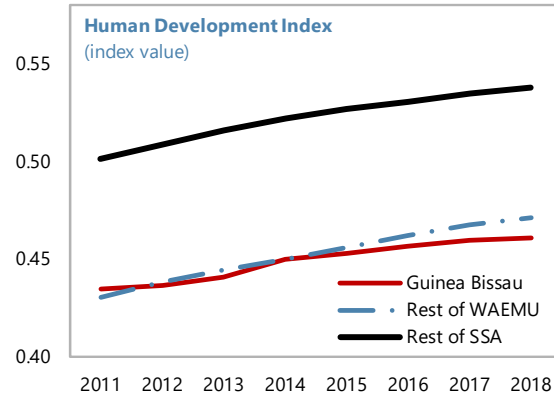
35. Staff supports the authorities' request for completion of the second review of the SMP given the satisfactory performance in achieving program objectives. Six out of seven QTs and three out of four SBs for end-September were met. Moreover, the authorities have already taken steps to ensure most of the SB for the third review of the SMP are met. To mitigate the potential risks from capacity constraints, the IMF is supporting the authorities' efforts in all policy areas covered by the SMP through tailored TA.

Figure 1. Guinea-Bissau: Growth and Living Standards

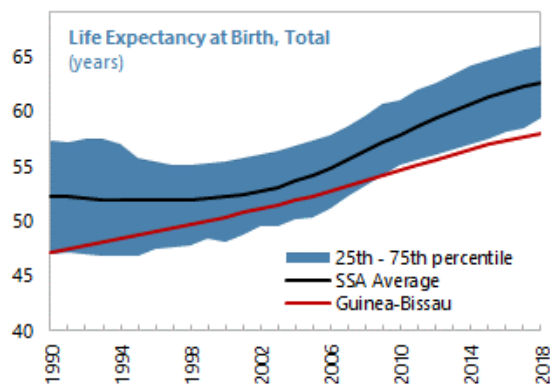
A volatile economic growth compared to its regional peers reflects a long history of political instability...



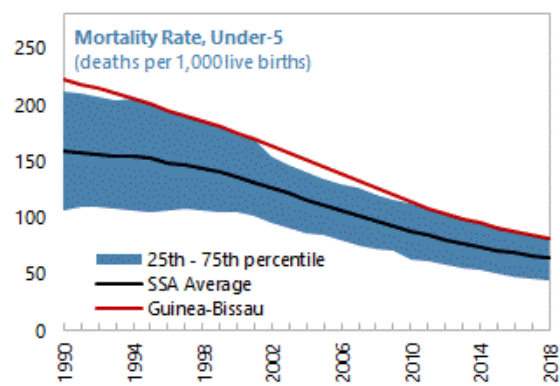
...and economic fragility, which weighs on the population's living standards.



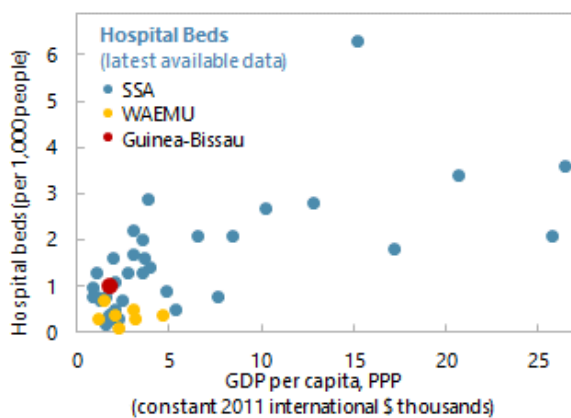
Weak health conditions are evidenced by a significantly lower life expectancy at birth...



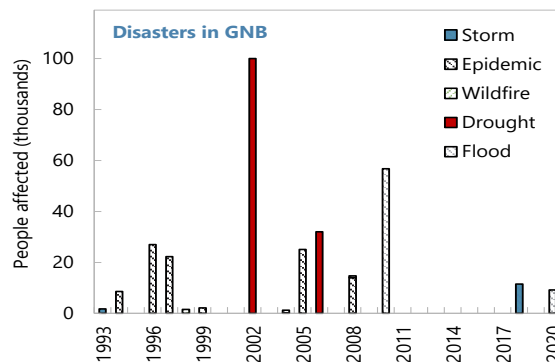
...as well as the higher child mortality rate, both compared to SSA peers.



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



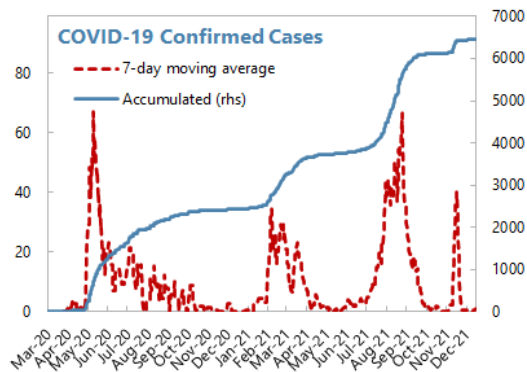
...considering the country's exposure to natural hazard events such as the current year's floods and the pandemic.



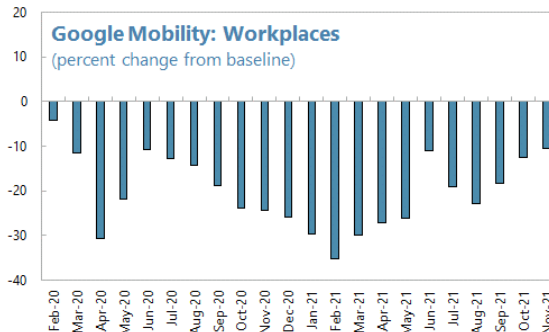
Sources: World Bank, Worldwide Development Indicators; EM-DAT, CRED database; Guinea-Bissau authorities; and IMF staff calculations.

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

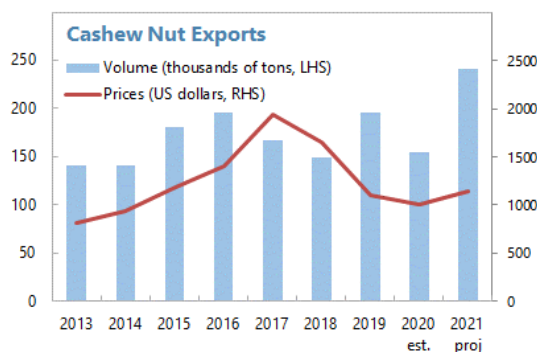
The first COVID-19 cases were reported in end-March 2020 and a third wave was controlled...



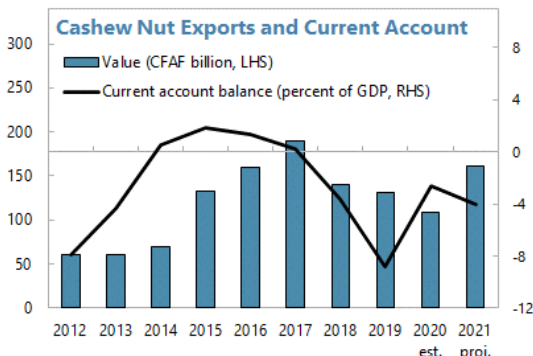
...by the reestablishment of containment measures and progress in the vaccination campaign.



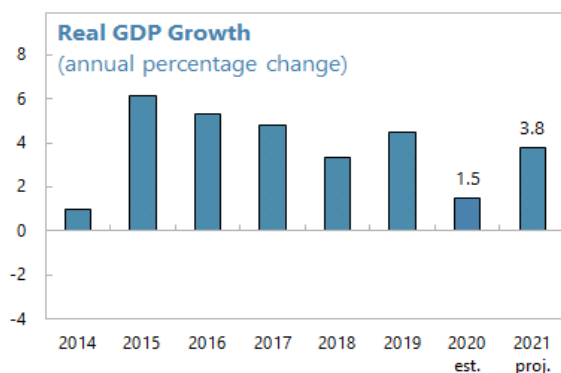
After the delays and weaker demand caused by the pandemic in 2020, cashew nut exports show a significant recovery in 2021...



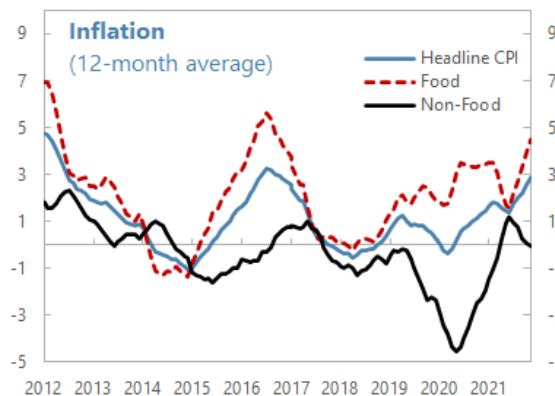
...supporting the current account, also affected by higher imports, and preserving the reversal of the 2018-19 terms-of-trade shock.



The economy is expected to modestly recover from the pandemic-related deceleration observed in 2020...



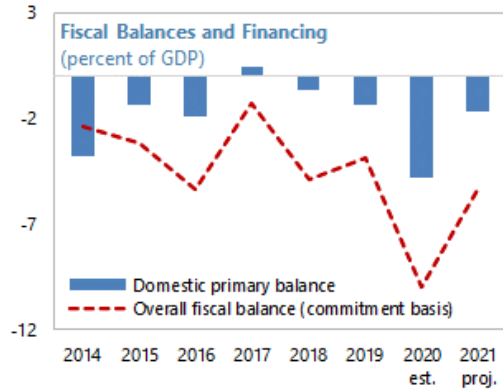
...but inflation accelerates due to the price of imported products, mainly food and oil.



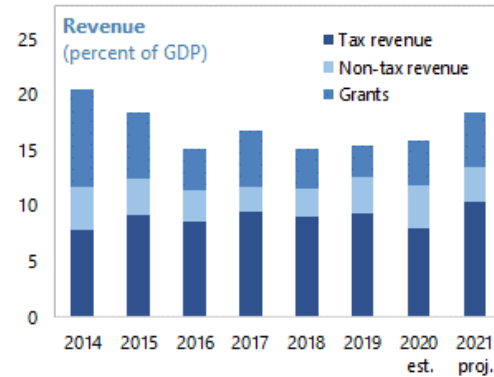
Sources: Google Mobility database, Our World in Data, Guinea-Bissau authorities and IMF staff calculations.

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

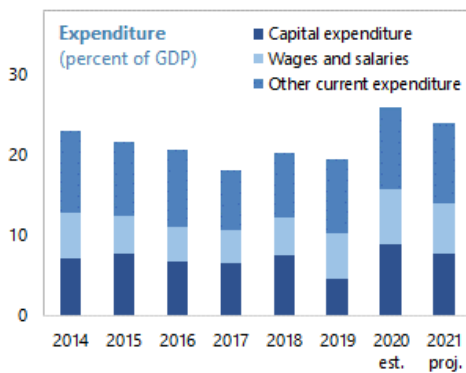
A significant fiscal consolidation is being implemented in 2021...



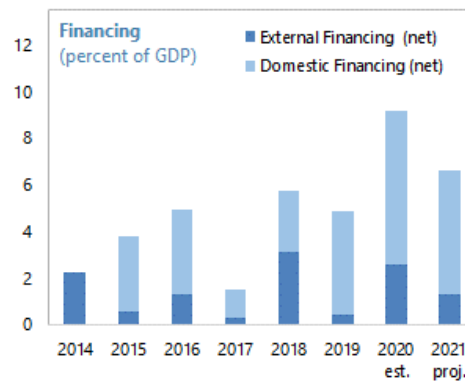
...supported by increased revenues and grants ...



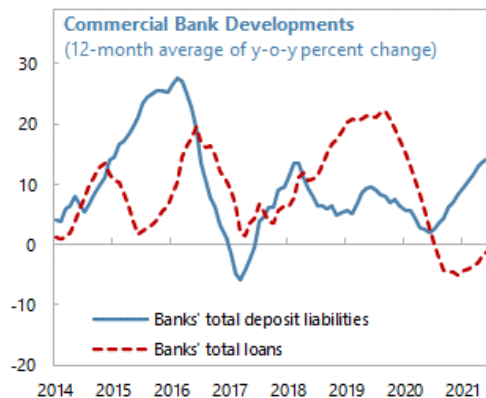
...and contained expenditures...



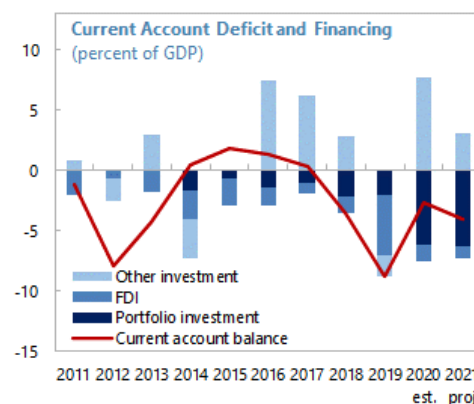
...resulting in reduced need for additional financing, both external and within the region.



With improved liquidity in the banking sector, credit is expected to start picking up.



The current account deficit is projected to remain financed by portfolio investment inflows (mainly 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)								
National accounts and prices								
Real GDP at market prices	4.5	1.5	3.8	4.0	5.0	5.0	5.0	5.0
Real GDP per capita	2.3	-0.7	1.5	1.7	2.8	2.8	2.9	2.9
GDP deflator	-3.5	-1.0	2.7	2.8	2.8	2.8	2.8	2.8
Consumer price index (annual average)	0.3	1.5	3.0	2.0	2.0	2.0	2.0	2.0
External sector								
Exports, f.o.b. (CFA francs)	-22.7	-15.6	34.8	2.2	3.6	4.5	3.2	3.4
Imports, f.o.b. (CFA francs)	20.5	-9.9	14.4	6.2	3.5	3.1	3.7	4.8
Terms of trade (deterioration = -)	-31.4	-3.7	-7.1	-3.4	5.1	3.6	1.8	1.8
Real effective exchange rate (depreciation = -)	-2.8	2.3	...	...	...	...	...	...
Exchange rate (CFAF per US\$; average)	585.9	574.8	...	...	...	...	...	...
Government finances								
Revenue excluding grants	9.2	-5.5	21.8	7.2	11.8	10.0	9.1	7.2
Expenditure	-2.6	33.8	-1.8	-1.7	9.9	4.7	5.2	7.5
Current expenditure	18.7	14.5	1.4	-3.3	6.0	6.9	6.9	6.6
Capital expenditure	-38.5	96.7	-7.8	1.5	17.6	0.9	2.1	9.3
Money and credit								
Domestic credit	13.8	-1.7	11.6	13.4	13.8	12.8	9.0	9.2
Credit to the government (net)	13.8	-19.7	19.0	10.5	7.4	6.4	-6.9	-6.7
Credit to the economy	13.8	5.9	9.2	14.4	16.0	14.7	13.5	13.0
Net domestic assets	12.0	-13.8	16.0	19.6	19.2	16.9	11.5	11.5
Broad money (M2)	0.3	9.1	7.9	6.0	5.4	5.3	5.1	5.6
(Percent of GDP, unless otherwise indicated)								
Investments and savings								
Gross investment	14.2	21.8	20.1	19.8	21.3	20.6	20.2	20.7
Of which: government investment	8.4	16.4	14.2	13.5	14.7	13.8	13.0	13.2
Gross domestic savings	0.9	7.4	7.5	6.7	8.8	8.9	8.9	9.7
Of which: government savings	1.8	2.5	4.1	5.6	6.8	6.4	6.3	6.5
Gross national savings	5.4	19.2	16.1	15.5	17.0	16.4	16.1	16.7
Government finances								
Revenue excluding grants	12.5	11.8	13.5	13.5	14.0	14.3	14.4	14.3
Domestic primary expenditure	14.0	16.5	15.2	14.7	14.8	14.2	13.8	13.8
Domestic primary balance	-1.4	-4.8	-1.7	-1.2	-0.8	0.0	0.6	0.5
Overall balance (commitment basis)								
Including grants	-4.0	-10.0	-5.4	-4.2	-4.1	-3.6	-3.0	-3.0
Excluding grants	-6.9	-14.1	-10.4	-8.4	-8.3	-7.4	-6.7	-6.7
External current account								
External current account	-8.8	-2.6	-4.0	-4.3	-4.3	-4.2	-4.0	-4.0
Excluding official current transfers	-10.0	-5.9	-7.0	-7.0	-6.9	-6.5	-6.3	-6.2
Stock of public and publicly guaranteed debt¹								
Stock of public and publicly guaranteed debt ¹	65.9	78.9	79.8	78.2	76.2	74.0	71.3	68.9
Of which: external debt	24.2	25.7	27.9	26.6	25.4	24.3	22.7	21.5
Memorandum items:								
Nominal GDP at market prices (CFAF billions)	843.5	847.6	903.1	965.5	1042.2	1124.9	1214.2	1310.7
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.

¹ Coverage expanded to include legacy arrears.

Table 2. Guinea-Bissau: Balance of Payments, 2019–26
(CFAF billions)

	2019	2020	2021	2022	2023	2024	2025	2026
		Prel.			Projections			
Current Account Balance	-74.4	-22.4	-36.2	-41.3	-44.8	-47.4	-49.0	-52.5
Goods and services	-123.3	-119.1	-118.3	-129.9	-135.2	-138.1	-144.6	-153.7
Goods	-50.6	-53.8	-36.3	-45.1	-46.7	-45.7	-48.3	-53.2
Exports, f.o.b	145.7	123.1	165.9	169.6	175.7	183.6	189.6	196.0
<i>Of which</i> : cashew nuts	130.7	109.2	160.7	164.1	169.7	177.2	182.6	188.5
Imports, f.o.b.	-196.4	-176.8	-202.2	-214.8	-222.4	-229.4	-237.8	-249.2
<i>Of which</i> : food products	-59.7	-58.7	-68.1	-74.2	-77.5	-81.9	-86.3	-91.0
petroleum products	-33.1	-30.9	-35.9	-40.9	-39.3	-39.1	-39.4	-40.2
Services	-72.6	-65.3	-82.0	-84.8	-88.5	-92.4	-96.4	-100.5
Credit	25.2	10.7	17.0	18.2	19.6	21.2	22.8	24.6
Debit	-97.8	-76.0	-99.0	-103.0	-108.1	-113.5	-119.2	-125.1
Incomes	15.8	14.5	4.3	7.8	6.4	6.8	8.3	9.8
Credit	24.5	22.5	16.9	21.9	25.0	26.4	28.2	29.5
<i>Of which</i> : EU fishing compensation	7.6	7.6	7.4	8.8	8.8	8.8	8.8	8.8
Other license fees	6.8	10.1	6.3	8.2	11.3	12.5	14.1	15.2
Debit	-8.8	-8.0	-12.6	-14.1	-18.6	-19.6	-19.9	-19.7
<i>Of which</i> : government interest	-3.7	-7.7	-10.6	-7.6	-12.1	-13.0	-13.2	-14.4
Current transfers (net)	33.1	82.2	77.7	80.9	84.0	83.9	87.4	91.4
Official	10.0	27.8	26.6	26.1	27.4	25.4	27.1	29.3
Private	23.1	54.3	51.1	54.7	56.6	58.5	60.3	62.1
<i>Of which</i> : remittances	21.7	51.8	48.3	51.8	53.6	55.3	57.0	58.8
Capital account	16.1	6.0	19.3	17.5	19.8	20.3	21.5	23.0
<i>Of which</i> : official transfers	14.5	5.2	17.1	14.3	16.5	16.9	18.1	19.5
Financial account	-74.7	0.7	-39.2	-27.6	-23.3	-24.3	-25.0	-27.6
FDI	-41.8	-11.9	-10.1	-13.6	-14.7	-15.8	-17.1	-18.5
Other investment	-33.0	12.6	-29.1	-14.0	-8.6	-8.4	-7.9	-9.2
Official medium- and long-term disbursements	-14.1	-51.3	-21.0	-19.5	-18.8	-19.2	-20.4	-20.4
Programs	0.0	-22.0	-0.1	0.0	0.0	0.0	0.0	0.0
Projects	-14.1	-29.3	-20.9	-19.5	-18.8	-19.2	-20.4	-20.4
Amortization	2.3	12.6	26.0	4.7	18.5	19.1	18.9	15.8
Treasury bills (regional financing)	-18.3	-48.7	-56.3	-28.8	-37.9	-36.3	-39.3	-38.8
Commercial bank net foreign assets	-28.1	72.2	-12.5	-7.5	-7.5	-7.5	0.0	0.0
Other net foreign assets	25.2	27.9	34.6	37.1	37.0	35.5	32.9	34.2
Errors and Omissions	-3.2	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	13.2	-20.3	22.3	3.8	-1.7	-2.9	-2.4	-1.8
Financing	-13.2	20.3	-22.3	-11.4	-5.8	-4.6	2.4	1.8
Net foreign assets excluding IMF (increase -)	-12.0	20.3	-33.2	-10.0	-2.9	-1.4	5.1	4.0
IMF purchases	0.0	0.0	11.2	0.0	0.0	0.0	0.0	0.0
IMF repurchases	-1.2	-2.0	-1.7	-1.6	-2.9	-3.2	-2.6	-2.2
Grant for debt relief under the IMF CCRT	0.0	2.0	1.4	0.2	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
Residual financing gap	0.0	0.0	0.0	7.5	7.5	7.5	0.0	0.0
<i>Memorandum items:</i>								
Cashew export quantity (thousands of tons)	196	155	240	240	245	250	255	260
Cashew export prices (US\$ per ton)	1,098	1,000	1,148	1,159	1,194	1,229	1,254	1,279
Import volume of goods (annual percentage change)	14.1	-5.2	-1.8	0.1	7.6	5.3	4.7	5.4
Oil prices (international, US\$ per barrel)	61.4	41.3	69.8	75.7	70.2	67.3	65.2	63.8
Scheduled debt service								
Percent of exports and service credits	2.1	3.9	3.9	3.7	4.8	4.7	5.2	4.7
Percent of total government revenue	3.5	5.3	5.9	5.3	6.4	6.0	6.3	5.5
Current account balance (percent of GDP)	-8.8	-2.6	-4.0	-4.3	-4.3	-4.2	-4.0	-4.0
Official transfers (percent of GDP)	2.9	3.9	4.8	4.2	4.2	3.8	3.7	3.7
WAEMU gross official reserves (billions of US\$)	17.6	21.8	...	...	...	...	...	...
(percent of broad money)	34.2	32.9	...	...	...	...	...	...

Sources: BCEAO; and IMF staff estimates and projections.

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

	2019	2020	2021		2022	2023	2024	2025	2026
		Prel.	SMP request	Proj.			Proj.		
Revenue and grants	130.1	134.7	162.0	166.7	170.9	189.7	202.6	220.1	236.2
Tax revenue	79.1	67.8	87.9	94.1	101.9	113.4	125.8	137.5	147.8
Nontax revenue	26.5	32.0	27.0	27.5	28.4	32.3	34.6	37.3	39.6
Grants	24.5	35.0	47.0	45.1	40.6	44.0	42.3	45.2	48.8
Budget support	1.9	0.0	3.7	1.0	4.8	4.4	0.0	0.0	0.0
Project grants	22.6	33.0	42.5	42.8	35.6	39.6	42.3	45.2	48.8
Capital grants from CCRT	0.0	2.0	0.9	1.4	0.2	0.0	0.0	0.0	0.0
Expenditure	163.7	219.1	206.1	215.2	211.4	232.3	243.4	256.0	275.2
Expense	125.2	143.4	134.4	145.4	140.6	149.1	159.3	170.2	181.4
Wages and salaries	47.5	57.0	56.6	55.2	59.5	59.2	62.7	66.8	70.7
Goods and services	18.7	25.4	24.4	27.8	26.2	27.4	29.5	32.0	34.4
Transfers	27.1	27.3	23.6	26.0	24.8	26.6	28.9	31.1	32.4
Non regularized spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	9.2	13.2	14.1	15.4	14.6	19.9	21.9	23.0	25.4
Other	22.7	20.5	15.8	21.0	15.5	16.0	16.3	17.3	18.5
Net acquisition of nonfinancial assets	38.5	75.7	71.7	69.8	70.8	83.3	84.0	85.8	93.8
Domestically financed	1.8	9.9	10.0	7.0	15.7	24.9	22.5	20.2	24.5
Foreign financed (including BOAD)	36.7	65.7	61.7	62.8	55.1	58.4	61.5	65.6	69.2
Overall balance, including grants (commitment)	-33.6	-84.3	-44.1	-48.5	-40.5	-42.7	-40.7	-36.0	-39.0
Overall balance, excluding grants (commitment)	-58.1	-119.3	-91.2	-93.6	-81.2	-86.6	-83.1	-81.2	-87.8
Change in arrears	0.0	6.3	-13.7	-10.9	-9.0	0.0	0.0	0.0	0.0
Domestic arrears ¹	-1.8	5.5	-12.3	-10.2	-9.0	0.0	0.0	0.0	0.0
Accumulation current year	10.4	9.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-12.1	-4.1	-12.3	-10.2	-9.0	0.0	0.0	0.0	0.0
Net external arrears	1.8	0.5	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0
Net BOAD interest arrears	0.0	0.2	-0.9	-0.2	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancy	-7.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-41.0	-77.8	-57.8	-59.4	-49.5	-42.7	-40.7	-36.0	-39.0
Financing ²	41.0	77.8	47.0	59.4	42.0	35.2	33.3	36.0	39.0
Net acquisition of financial assets (- = build up)	-2.4	-28.7	11.1	10.2	0.0	0.0	0.0	0.0	0.0
Bank deposits	3.0	-12.8	11.1	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	0.0
Local commercial banks	2.8	-11.1	11.1	11.1	0.0	0.0	0.0	0.0	0.0
Other ³	-5.4	-15.9	0.0	-0.9	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	0.0
Domestic financing	39.6	84.6	30.1	37.3	36.5	29.3	25.3	28.6	29.2
BCEAO credit	-1.2	-2.0	10.1	31.2	-1.6	-2.9	-3.2	-4.9	-4.4
(o/w) IMF	-1.2	-2.0	10.1	9.5	-1.6	-2.9	-3.2	-2.6	-2.2
Other domestic (net)	40.7	86.6	20.1	6.1	38.2	32.2	28.5	33.5	33.6
Local commercial banks	14.5	17.5	-33.3	-33.2	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	18.3	48.7	54.6	56.3	28.8	37.9	36.3	39.3	38.8
Regional financing (BOAD)	7.9	20.3	-1.3	-16.9	9.3	-5.7	-7.8	-5.8	-5.2
Foreign financing (net)	3.8	21.9	5.8	11.9	5.5	5.9	8.0	7.4	9.8
Disbursements	5.5	24.3	9.2	15.3	9.6	11.2	13.2	14.4	16.5
Projects	5.5	24.3	9.2	15.3	9.6	11.2	13.2	14.4	16.5
Programs	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Amortization	-1.6	-2.3	-3.4	-3.4	-4.1	-5.3	-5.3	-7.1	-6.8
Debt relief	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	10.8	0.0	7.5	7.5	7.5	0.0	0.0
<i>Memorandum item:</i>									
Domestic primary balance (commitment) ⁴	-12.2	-40.3	-15.4	-15.4	-11.5	-8.3	0.4	7.5	6.9

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

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

² Financing is on currency basis.

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

⁴ 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.	SMP request	Proj.	Proj.					
Revenue and grants	15.4	15.9	18.5	18.5	17.7	18.2	18.0	18.1	18.1	18.0
Tax revenue	9.4	8.0	10.1	10.4	10.6	10.9	11.2	11.3	11.3	11.3
Nontax revenue	3.1	3.8	3.1	3.0	2.9	3.1	3.1	3.1	3.1	3.0
Grants	2.9	4.1	5.4	5.0	4.2	4.2	3.8	3.7	3.7	3.7
Budget support	0.2	0.0	0.4	0.1	0.5	0.4	0.0	0.0	0.0	0.0
Project grants	2.7	3.9	4.9	4.7	3.7	3.8	3.8	3.7	3.7	3.7
Capital grants from CCRT	0.0	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	19.4	25.8	23.6	23.8	21.9	22.3	21.6	21.1	21.0	21.0
Expense	14.8	16.9	15.4	16.1	14.6	14.3	14.2	14.0	13.8	13.8
Wages and salaries	5.6	6.7	6.5	6.1	6.2	5.7	5.6	5.5	5.4	5.4
Goods and services	2.2	3.0	2.8	3.1	2.7	2.6	2.6	2.6	2.6	2.6
Transfers	3.2	3.2	2.7	2.9	2.6	2.6	2.6	2.6	2.5	2.5
Non-regularized spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	1.1	1.6	1.6	1.7	1.5	1.9	2.0	1.9	1.9	1.9
Other	2.7	2.4	1.8	2.3	1.6	1.5	1.4	1.4	1.4	1.4
Net acquisition of nonfinancial assets	4.6	8.9	8.2	7.7	7.3	8.0	7.5	7.1	7.2	7.2
Domestically financed	0.2	1.2	1.1	0.8	1.6	2.4	2.0	1.7	1.9	1.9
Foreign financed (including BOAD)	4.3	7.8	7.1	7.0	5.7	5.6	5.5	5.4	5.3	5.3
Overall balance, including grants (commitment)	-4.0	-10.0	-5.0	-5.4	-4.2	-4.1	-3.6	-3.0	-3.0	-3.0
Overall balance, excluding grants (commitment)	-6.9	-14.1	-10.4	-10.4	-8.4	-8.3	-7.4	-6.7	-6.7	-6.7
Change in arrears	0.0	0.7	-1.6	-1.2	-0.9	0.0	0.0	0.0	0.0	0.0
Domestic arrears ¹	-0.2	0.7	-1.4	-1.1	-0.9	0.0	0.0	0.0	0.0	0.0
Accumulation current year	1.2	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-1.4	-0.5	-1.4	-1.1	-0.9	0.0	0.0	0.0	0.0	0.0
Net external arrears	0.2	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net BOAD interest arrears	0.0	0.0	-0.1	0.0	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	0.0
Overall balance, including grants (cash)	-4.9	-9.2	-6.6	-6.6	-5.1	-4.1	-3.6	-3.0	-3.0	-3.0
Financing ²	4.9	9.2	5.4	6.6	4.3	3.4	3.0	3.0	3.0	3.0
Net acquisition of financial assets (- = build up)	-0.3	-3.4	1.3	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Bank deposits	0.4	-1.5	1.3	1.2	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	0.0
Local commercial banks	0.3	-1.3	1.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Other ³	-0.6	-1.9	0.0	-0.1	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	0.0
Domestic financing	4.7	10.0	3.4	4.1	3.8	2.8	2.3	2.4	2.2	2.2
BCEAO credit	-0.1	-0.2	1.2	3.4	-0.2	-0.3	-0.3	-0.4	-0.3	-0.3
(o/w) IMF	-0.1	-0.2	1.2	1.1	-0.2	-0.3	-0.3	-0.2	-0.2	-0.2
Other domestic (net)	4.8	10.2	2.3	0.7	4.0	3.1	2.5	2.8	2.6	2.6
Local commercial banks	1.7	2.1	-3.8	-3.7	0.0	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	2.2	5.7	6.2	6.2	3.0	3.6	3.2	3.2	3.0	3.0
Regional financing (BOAD)	0.9	2.4	-0.1	-1.9	1.0	-0.5	-0.7	-0.5	-0.4	-0.4
Foreign financing (net)	0.5	2.6	0.7	1.3	0.6	0.6	0.7	0.6	0.7	0.7
Disbursements	0.6	2.9	1.1	1.7	1.0	1.1	1.2	1.2	1.3	1.3
Projects	0.6	2.9	1.1	1.7	1.0	1.1	1.2	1.2	1.3	1.3
Programs	0.0	0.0	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	-0.4	-0.5	-0.5	-0.6	-0.5	-0.5
Debt relief	0.0	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	1.2	0.0	0.8	0.7	0.7	0.0	0.0	0.0
<i>Memorandum item:</i>										
Domestic primary balance (commitment) ⁴	-1.4	-4.8	-1.8	-1.7	-1.2	-0.8	0.0	0.6	0.5	0.5

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

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

² Financing is on currency basis.

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

⁴ Excludes grants, foreign and BOAD financed capital spending, and interest.

Table 4. Guinea-Bissau: Monetary Survey, 2019–23¹

	2019	2020	2021	2022	2023
			Projections		
	(CFAF billions)				
Net foreign assets	217.7	271.5	282.7	279.2	270.0
Central Bank of West African States (BCEAO)	182.6	164.2	187.8	191.9	190.2
Commercial banks	35.1	107.3	94.8	87.3	79.8
Net domestic assets	148.3	127.7	148.2	177.3	211.4
Credit to the government (net)	58.8	47.2	56.2	62.1	66.7
BCEAO	42.7	40.2	71.4	77.3	81.9
Commercial banks	16.2	7.0	-15.2	-15.2	-15.2
Credit to the economy	138.9	147.1	160.6	183.8	213.3
Other items (net)	-49.5	-66.6	-68.6	-68.6	-68.6
Money supply (M2)	366.0	399.2	430.9	456.5	481.4
Currency outside banks	235.3	246.5	266.1	281.9	297.2
Bank deposits	130.7	152.7	164.8	174.6	184.1
Base money (M0)	258.7	274.7	304.6	322.7	340.3
	(Change in percent of beginning-of-period broad money)				
Contribution to the growth of broad money (M2)					
Net foreign assets	-4.1	14.7	2.8	-0.8	-2.0
BCEAO	3.6	-5.0	5.9	0.9	-0.4
Commercial banks	-7.7	19.7	-3.1	-1.7	-1.6
Net domestic assets	4.3	-5.6	5.1	6.8	7.5
Credit to the central government	2.0	-3.2	2.2	1.4	1.0
Credit to the economy	4.6	2.3	3.4	5.4	6.5
Other items (net)	-2.2	-4.7	-0.5	0.0	0.0
<i>Memorandum items:</i>					
Broad money (M2, annual percentage change)	0.3	9.1	7.9	6.0	5.4
Base money (M0, annual percentage change)	4.2	6.2	10.9	6.0	5.4
Credit to the economy (annual percentage change)	13.8	5.9	9.2	14.4	16.0
Velocity (GDP/M2)	2.3	2.1	2.1	2.1	2.2
Money multiplier (M2/M0)	1.4	1.5	1.4	1.4	1.4

Sources: BCEAO; and IMF staff estimates and projections.

¹ End of period.

Table 5. Guinea-Bissau: Selected Financial Soundness Indicators, 2017–21

	2017	2018	2019	2020	2021 Jun	Excluding undercapitalized bank		
						2020 Dec	2021 Jun	2021 Sep
Capital Adequacy								
Capital to risk-weighted assets	2.2	-5.4	-2.0	-3.6	-3.6	25.6	21.7	21.4
Tier 1 capital to risk weighted assets	1.8	-5.5	-2.0	-3.6	-3.6	25.6	21.7	21.4
Provisions to risk-weighted assets	27.6	29.8	26.0	20.4	18.3	2.3	2.7	2.9
Capital to total assets	1.0	-2.0	-0.7	-1.3	-1.4	12.8	12.7	12.7
Asset Composition and Quality								
Total loans to total assets	40.1	50.5	46.7	40.4	47.3	36.5	44.7	46.3
Concentration: loans to 5 largest borrowers to capital	831.7	-316.1	-748.5	-379.3	-322.7	...	...	...
Sectoral distribution of loans								
Agriculture and fishing	0.9	0.5	0.5	0.8	1.4	...	...	...
Extractive industries	0.0	0.0	0.0	1.2	1.1	...	...	...
Manufacturing	0.4	0.7	0.7	15.7	14.8	...	...	...
Electricity, water and gas	1.1	0.7	0.7	10.5	10.7	...	...	...
Construction	1.7	1.7	1.7	7.7	8.1	...	...	...
Retail and wholesale trade, restaurants and hotels	29.7	29.4	29.4	25.2	24.1	...	...	...
Transportation and communication	1.1	1.1	1.1	7.1	7.4	...	...	...
Insurance, real state and business services	8.4	8.2	8.2	1.1	1.1	...	...	...
Other services	56.7	57.8	57.8	30.7	31.5	...	...	...
Gross NPLs to total loans	37.4	26.3	25.4	21.8	16.6	10.3	6.5	6.3
General provisions to gross NPLs	64.8	67.3	65.3	68.8	77.8	35.2	54.5	59.6
Net NPLs to total loans	17.4	10.5	10.6	8.0	4.2	2.1	3.4	2.8
Net NPLs to capital	694.6	-268.1	-680.0	-257.0	-145.7	16.7	12.0	10.2
Earnings and profitability								
Average cost of borrowed funds	1.6	1.7	0.8	1.2	...	...	...	...
Average interest rate on loans	10.2	8.7	10.2	9.7	...	...	...	...
Average interest margin ¹	8.5	7.0	9.4	8.5	...	...	...	...
After-tax return on average assets (ROA)	-0.4	0.8	4.2	0.8	...	1.8	1.2	...
After-tax return on average equity (ROE)	-10.8	17.2	79.6	9.9	...	13.8	9.4	...
Non-interest expenses to net banking income	79.3	71.3	74.8	70.0	...	...	...	...
Personnel expenses to net banking income	33.8	28.6	30.9	31.8	...	...	...	...
Liquidity								
Liquid assets to total assets	15.0	19.6	18.9	17.3	25.0	...	...	...
Liquid assets to total deposits	25.3	32.7	35.9	30.4	45.5	...	...	...
Total loans to total deposits	89.1	102.5	106.5	83.6	98.6	92.5	103.8	99.5
Total deposits to total liabilities	59.4	59.9	52.6	56.9	55.0	39.4	43.0	46.5
Source: BCEAO.								
¹ Excluding tax on banking operations.								

Table 6. Quantitative Targets Under the Staff-Monitored Program

(Cumulative from beginning of calendar year to end of month indicated, CFAF billion, unless otherwise indicated)

	2021									
	Jun				Sep				Dec	
	SMP Request	Adjusted Target	Actual	Status	SMP Request	Adjusted Target	Actual ⁹	Status	SMP Request	1st Review
Quantitative targets¹										
Total domestic tax revenue (floor)	38.2		41.8	met	62.8		70.7	met	87.9	93.5
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US\$ millions) ²	0.0		0.0	met	0.0		0.0	met	0.0	
New external payment arrears (US\$ millions, ceiling) ²	0.0		0.5	not met ⁸	0.0		0.5	not met ⁸	0.0	
New domestic arrears (ceiling)	0.0		0.0	met	0.0		0.0	met	0.0	
Social and priority spending (floor) ³	27.2		27.6	met	38.7		42.3	met	50.1	
Domestic primary balance (commitment basis, floor) ⁴	-16.4	-17.7	-17.8	not met	-23.4	-25.4	-14.8	met	-15.4	-18.9
Non regularized expenditures (DNTs, ceiling)	0.0		0.0	met	0.0		0.0	met	0.0	
<i>Memorandum items:</i>										
External budgetary assistance (US\$ millions) ⁵	1.8		0.0	...	1.8		0.0	...	6.9	6.8
Net domestic bank credit to the central government	23.4		11.0	...	53.6		11.2	...	42.2	15.8
Concessional project loans (US\$ millions) ⁶	9.9		14.0	...	14.9		26.7	...	19.9	19.6
Outstanding stock of government guarantees ⁷	10.1		12.5	...	23.1		11.9	...	23.1	10.3

¹ The quantitative targets are defined in the Technical Memorandum of Understanding.

² These apply on a continuous basis.

³ 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.

⁴ Excludes grants, foreign and BOAD financed capital spending, and interest. To account for domestically financed current expenditures associated to COVID vaccination implementation (TMU paragraph 11), the SMP targets for end-June and end-September (deficits of CFAF 16.4 billion and CFAF 23.4 billion) have been adjusted downwards by CFAF 1.3 billion and CFAF 2.0 billion respectively. The actual figures for end-June and end-September have been updated to exclude payment of wage arrears incurred in 2019-20 previously accounted in wage expenditures in 2021. For end-December, the target proposed in the SMP request and the First Review do not account for the adjustor.

⁵ Comprises budget support grants and program loans (for budget support) excluding RCF disbursements and CCRT debt relief.

⁶ Comprises project loans with grant elements exceeding or equal to 35 percent.

⁷ All guarantees are denominated in CFAF.

⁸ Arrears of US\$0.34 million to Libya and US\$0.11 million to the Islamic Development Bank (IDB) were accumulated for technical reasons. The transfer to Libya was initially rejected due to correspondent banking constraints. The payment to the IDB was delayed due to coordination problems. Residual amounts (less than US\$20,000) were due to the African Development Bank. All pending payments have been executed by end-November.

⁹ Based on preliminary data and estimates.

Table 7. Guinea-Bissau: Structural Benchmarks

Measures	Rationale	Date	Current Status
Public Financial Management			
To: (i) continue weekly Treasury Committee meetings without interruptions;	Expenditure control	Continuous	Met
(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	Met
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	Met
Amend the procurement legal 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	Not met. Reset for end-March 2022
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, and reconcile the personnel and the payroll records.	Wage bill control	End-December 2021	Met
Revenue Mobilization			
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	Met
(ii) the new VAT bill.	Strengthen tax framework	End-December 2021	Met
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	Met
(ii) full implementation.	Increase revenues	End-September 2021	Not met. Reset for end-March 2022
Approve by Council of Ministers, submit to parliament a reviewed customs code.	Strengthen custom framework	End-September 2021	Met
Financial Sector			
Prepare a report with the exit strategy from the undercapitalized systemic bank, including a full financial assessment.	Financial stability	End-December 2021	Met
Sources: Guinea-Bissau authorities and IMF staff			

Annex I. Risk Assessment Matrix¹

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
External Risks			
<p>Uncontrolled COVID-19 local outbreaks and subpar/volatile growth in affected countries. 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> <p>Global resurgence of the COVID-19 pandemic. 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>	<p style="text-align: center;">High</p> <p style="text-align: center;">Medium</p>	<p style="text-align: center;">High / ST</p> <ul style="list-style-type: none"> • 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. • The economy would be hardly hit by increased disruptions in the cashew trade and business in general. 	<ul style="list-style-type: none"> • Prioritize spending towards health sector and social protection. • Mobilize additional grants and concessional loans from development partners to cover more persistent external needs.
<p>Further adverse cashew nut price movements. A weaker than projected price recovery of the dominant export product would hamper economic recovery.</p> <p>Rising commodity prices amid bouts of volatility. Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.</p>	<p style="text-align: center;">Medium</p>	<p style="text-align: center;">High / ST</p> <ul style="list-style-type: none"> • Private sector incomes come under pressure, denting economic activity. • Government revenues further diminish, leaving less room for priority spending. • Balance of payments problems generated by the worsening of the current account. 	<ul style="list-style-type: none"> • Control public expenses to compensate for lower revenues. • Preserve social spending focused on the most vulnerable. • Step up diversification efforts.

¹ 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
Domestic Risks			
<p>Continued weaknesses in state-owned enterprises. The public electricity and water utility (EAGB), in particular, has been a long-standing problem.</p>	Medium	<p style="text-align: center;">Moderate / ST</p> <ul style="list-style-type: none"> • Limited and expensive electricity and water supply. • Contingent liabilities adding to fiscal pressures. 	<ul style="list-style-type: none"> • Implement credible strategy to improve management of public enterprises. • Improve governance, transparency and accountability.
<p>Banking instability, arising from high NPLs, and bank's undercapitalization.</p>	Medium	<p style="text-align: center;">High / MT</p> <ul style="list-style-type: none"> • Limited credit extension hampers investment and growth. • Potential contingent liabilities adding to fiscal pressures. 	<ul style="list-style-type: none"> • Enhance banking supervision and enforce prudential regulations. • Improve processes and procedures for collection of debts and collateral.
<p>Widespread social discontent and political instability. 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>	High	<p style="text-align: center;">High / ST, MT</p> <ul style="list-style-type: none"> • Delayed fiscal adjustment. • Limited financing inflows delay investment projects. • Supply disruptions and weaker confidence. 	<ul style="list-style-type: none"> • Enhance targeted social policies and strengthen social safety nets. • Avoid early withdrawal of fiscal and financial incentives supporting households and companies impacted by the pandemic. • Improve governance, transparency and accountability and fighting corruption.
<p>Higher frequency and severity of natural disasters related to climate change 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>	Medium	<p style="text-align: center;">High / ST, MT</p> <ul style="list-style-type: none"> • Harm cashew production worsening the livelihood of people in rural areas and exacerbating extreme poverty and inequalities. • Higher recovery spending, higher financing costs, and lower revenues. • Supply disruptions and weaker confidence. 	<ul style="list-style-type: none"> • Address infrastructure gaps and income/developmental disparities among regions, while instituting appropriate social safety nets. • Promote investment in climate resilient infrastructure.

Annex II. Adopted 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. ¹	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
Approve by the Council of Ministers decrees that create a National Committee of Debt Policy; establish the organization and functioning of the Direção Geral da Dívida Pública; and regulate the issuance of debt and debt management.	Jun-21
Launch system for tax returns filing and electronic payments through e-banking and mobile money	Jun-21
Establish priority expenses, in the framework of the 2021 budget execution by Ministerial order	Jul-21
Establish expenditure limits per budget line	Jul-21
Approve and send to Parliament a revised general tax code and a revised tax penalty regime by the Council of Ministers	Jul-21
Approve and send to Parliament a modernized statute of the Imposto Geral sobre Vendas (IGV or VAT) by the Council of Ministers	Jul-21
Source: Guinea-Bissau Authorities.	
¹ The information is available on the website of the High Commissioner: https://www.accovid-gw.org/relat%C3%B3rios	

Annex III. Leveraging on Digitalization to Fight Corruption, Enhance Revenue Mobilization and Strengthen Control of Wage Bill

A. Background

1. Digitalization provides an opportunity to fight corruption more efficiently by promoting transparency and accountability.¹ In this regard, several countries in Sub-Saharan Africa have adopted in recent years digital tax administration tools that reduce bureaucracy and help combat corruption by reducing the opportunities for bribes. In addition, the COVID-19 pandemic has reinforced the critical need for digitalization to strengthen tax administrations.

2. The blockchain solution has several distinctive features that make it a powerful tool to fight corruption. It provides an unprecedented level of security of the information and the integrity of the records the technology manages, guaranteeing the authenticity of this information. It reduces chances for the falsification of records and risks associated with concentrating the management of data at a single point.

3. Against this backdrop, the authorities have leveraged on IMF TA to improve tax administration and strengthen expenditure control via digitalization. These efforts include: (i) the Kontaktu system for electronic filing of tax returns and payments through e-banking and mobile money; and (ii) blockchain solution to support wage bill control. These projects would also help to improve fiscal transparency and fight corruption.

B. Kontaktu: Enhancing Revenue Mobilization Via Electronic Tax Returns Filing and Payment

4. Main objectives and key features. The authorities implemented the Minimum Viable Product (MVP) website for electronic tax returns filing and payment. The MVP, developed by the IMF,² was built as a generic tool for a range of taxes for low-income, low-capacity countries and can be implemented in other countries facing similar challenges. Key features include:

- The [Kontaktu](#) is a multi-language³ and open-source solution, with some machine-learning capabilities to ensure scalability to other countries and current and future taxes without new developments.
- It enables taxpayers to send electronic tax returns filing through the internet and pay their

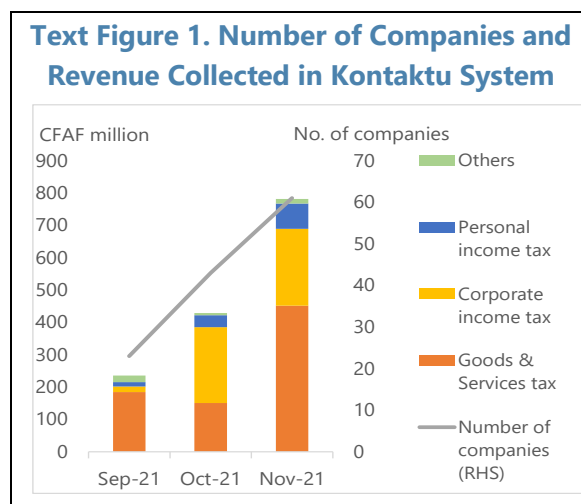
¹ IMF (2020), "[Regional Economic Outlook, Sub-Saharan Africa, Chapter 3](#)". April 2020. International Monetary Fund, Washington, DC.

² An IMF/FAD capacity development mission developed the MVP as a reference of a platform for electronic tax returns filing and payment. The source codes and manuals were delivered to the authorities, allowing them to: (i) adopt the solution, (ii) change parts of it, (iii) develop other modules, enhancing the MVP capabilities in future versions. The authorities decided to implement the MVP as it was conceived.

³ Available in English, Portuguese, French and Kriol (a local dialect). Kontatku means "contact", in Kriol.

- liabilities through e-banking or telecom services (mobile money).
- The MVP can be accessed through computers and smartphones, and includes managerial dashboards, allowing data cross-matching to enhance taxpayers compliance and transparency.
- Communication from tax administration to taxpayers through email and cellphones to reduce the need of face-to-face interactions amid the pandemic.
- An electronic tax laws database was made available for the first time in Guinea-Bissau.
- It can be hosted in the servers of tax administration premises or in commercial clouds.

5. Progress. As one of the key structural reforms for revenue mobilization, the Kontaktu system for electronic filling tax returns and payments is operational for a small number of taxpayers (pilot phase), with progress toward extending the solution to all large taxpayers (Text Figure 1). The full implementation of the system has been rephased from end-December 2021 to end-March 2022 to ensure a smooth transition amid the pandemic and capacity constraints and allowing to train users, secure permanent internet access and deploy a communication campaign.



C. Blockchain: Strengthening Control of Wage Bill Via Innovative Technology

6. Main objectives and key features. As one of the winners of the 2020 IMF global governance/anti-corruption challenge⁴, this project would (i) generate real time information on employment, salaries and incentive payments; (ii) maintain reliable and timely records; and (iii) improve transparency of information, reduce incentives for corruption, and make officials more accountable. It would complement the existing financial management information system and computerized payroll system. Key features include:

- Additional analytical tools which could be added to the blockchain solution include forensic models and predictive analytics. This enables continuous monitoring and reporting beyond the proposed solution, in areas such as personnel management, to identify corruption risks.
- Implementation of this project could be first extended to all ministries, beyond the Ministry of Finance, and then to other areas of the public sector (e.g., judicial system, land and corporate registries, procurement, public investment, customs, social security, and health). Successful implementation will show that leap frogging is possible in fragile states.

⁴ The IMF team agreed with the authorities to submit a proposal to enhance transparency of the wage bill management. The blockchain technology is provided by Ernst and Young (EY). This project is led by the authorities, with the support of the IMF in collaboration with EY and the UNDP. See <https://imfilab.brightidea.com/D394>.

Progress. The implementation is planned to start in January 2022 in the Ministry of Finance. Work is being finalized on the institutional and legal framework to allow donor support.

Annex IV. Treatment and Use of the Proposed SDR Allocation Increase

A. Background

1. Guinea-Bissau received an allocation of SDR 27.2 million (CFAF 21.6 billion), about 96 percent of quota. Existing SDR holdings were at SDR 59.6 million with outstanding purchases and loans at SDR 32.52 million as of end-December 2021. Guinea-Bissau quota stands at SDR 28.4 million. The last SDR allocation (SDR 12.4 million, in 2009) was used to pay for domestic arrears.

B. Accounting Treatment

2. Under the latest accounting guidelines, Net International Reserves (NIR) are expected to increase, as a result of the SDR allocation. The SDR allocation will have no impact on net foreign assets because there is an increase in both foreign assets and liabilities. However, as the SDR allocation is treated as a long-term foreign exchange liability, it would increase NIR since long-term liabilities are excluded from the NIR definition. The SDR position is shown on the BCEAO balance sheet. The regional central bank follows this convention.

C. Cost of Use of the SDR Holdings

3. The new SDR allocation was transferred by BCEAO through a currency repo operation. The operation of CFAF 21.6 billion has a 20-years maturity with a 0.05 percent fixed interest rate in CFAF and a single bullet payment at end-period.¹ At maturity, this operation could be renewed for 20-years at an interest rate linked to SDR interest rate.² This operation will be considered domestic debt in the Debt Sustainability Analysis.

D. Use of the Allocation

4. Staff supports allocating the on-lending to retire non-concessional debt and/or to finance critical spending covering the financing gap under the SMP while avoiding delaying the envisaged path of fiscal adjustment.

- Repayment of costly debt. BCEAO on-lending is concessional and provides an alternative source of funding, amid constraints to mobilize donor support in 2021, to more costly alternatives such as contracting debt with some regional development banks (project financing) and issuing short-term treasury bills in the regional market. The authorities pre-paid debt service to BOAD, both interest and principal due during September 2021–December 2022, at the amount of CFAF 16.8

¹ The decision was taken by the BCEAO Governors on August 20, 2021.

² The SDR interest rate is a weighted average of interest rates on 3-month debt in the money markets of the five SDR basket currencies (the US dollar, yen, Euro, pound sterling, and the Chinese RMB) and is adjusted weekly. The current SDR rate is very low by historical standards as the SDR interest rate has averaged 5.5 percent over the last 30 years.

billion. Staff estimates the debt management operation can save up to CFAF 3.4 billion on interest payments up to 2026.

- Emergency response and strengthen economic resilience. The authorities allocated the remaining resources, about CFAF 4.8 billion, to cover the 2021 fiscal financing gap³ and support the emergency response and the recovery from the pandemic, including a plan to vaccinate 1.4 million people by the end-first quarter of 2022. In coordination with donors, Guinea-Bissau has also prepared a vaccine rollout plan and launched the national vaccine program in April 2021 using the AstraZeneca vaccines. 882,970 doses have been delivered to date (AstraZeneca, Johnson & Johnson, and Sinopharma) provided by the African Union, COVAX, Senegal, Portugal, Sweden, China and the United States. COVID-19 vaccination campaign aims to reach 50 percent of the target population by end-March 2022. The operational cost of the vaccination campaign is borne by the government, except US\$1 million grant from GAVI.

5. Staff will recommend the authorities to follow best international practices in terms of governance and transparency on the use and accounting of the SDR allocation. These include: (i) any fiscal easing should be consistent with a credible and sustainable medium-term framework; (ii) resources should be used to finance high quality spending following the best governance principles; and (iii) any spending and its financing should be transparently recorded in the budget in accordance with the IMF's Fiscal Transparency Code.

³ The [SMP Staff Report \(CR No. 21/172\)](#) reports an estimated fiscal financing gap of CFAF11 billion.

Appendix I. Letter of Intent

Bissau, February 7, 2022

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

Madame Managing Director,

After the country was severely hit by a negative terms-of-trade shock in 2019 and the COVID-19 global pandemic, economic conditions in 2021 continue to improve due to higher cashew exports, externally financed public investment in critical infrastructure, renewed measures to contain the August's third wave of the pandemic and higher business confidence associated with a more stable political situation. COVID-19 vaccination campaign continues, and we aim to vaccinate 50 percent of the target population by end-March 2022.

The government of Guinea-Bissau is committed to the implementation of an ambitious reform program supported by the Staff Monitored Program (SMP) and encouraged by the support of the international community, including the Fund, through the Rapid Credit Facility (RCF) approved in January 2021 and the special allocation of SDR in August 2021. The implementation of these policies bolster the recovery from the pandemic including through enhancing fiscal transparency and governance. Revenue mobilization has been strengthened, and new domestic arrears and recurrence to non-concessional borrowing has been avoided.

Encouraged by the containment of the third wave of COVID and the ongoing recovery, we are focusing our efforts on effective policy implementation to create fiscal space to support priority expending and revamp public infrastructure while strengthening macroeconomic stability and securing debt sustainability. We are confident that these policies will create the basis to support inclusive growth and catalyze resources from international donors to back our national development plan.

We believe that the implementation of the governance commitments of the SMP will contribute to address state fragility, enhancing revenue mobilization and expenditure control capacities while increasing public finance transparency, accountability, and efficiency.

In November we prepared and submitted to Parliament the 2022 budget proposal in line with the SMP objectives and the Parliament approved it in early December. We are committed to narrow the domestic primary deficit through strong revenue mobilization on the back of the new taxes, stronger revenue administration, reinforced expenditure control, and prudent debt management. Our goal is to secure a fiscal consolidation path to converge to WAEMU regional criteria over the medium-term

and address debt vulnerabilities to build a strong track record to request an Extended Credit Facility (ECF) in 2022.

We have met six out of seven end-September quantitative targets and all but one structural benchmarks under the SMP. The zero ceiling on external payments arrears was not met by a small amount. The arrears to Libya and the Islamic Development Bank (IDB) incurred for technical reasons in June were cleared in October and November and a residual amount due to the African Development Bank in late September was cleared in November. We have met the three out of four structural benchmarks for end-September. In this respect, the full implementation of the Kontaktu tax payment solution to all large tax taxpayers as of end September was not met and will be postponed to end-March to ensure a smooth transition, allowing more time to train users and deploy a communication campaign.

Going forward, we aim to strengthen the policies and reforms adopted during the SMP by ensuring their effective implementation.

- **Fiscal policy.** We observed the legal time frame for budget submission to Parliament for a second consecutive year. The approved budget for 2022 is anchored in line with the SMP macroframework in terms of overall and domestic primary deficits by enhancing revenue mobilization, the rationalization of wages and salaries, spending in goods and services, and other expenditures, and re-allocating resources to support priority spending. We are committed to enforce tax collections, exercise strict control on budgetary execution avoiding accumulation of arrears and authorize external borrowing consistent with debt sustainability. To strengthen debt management and improve the efficiency of future government spending, we plan to review the debt management framework, Treasury Single Account, wage bill policy, public investment management and SOEs supervision with technical assistance from the World Bank and the IMF.

Governance reforms. We are committed to complete the implementation of the RCF's governance safeguards on COVID-19 spending. The objective of these governance and transparency measures is to ensure that budgetary allocations related to COVID-19 are spent appropriately and consistent with the commitments of the RCF disbursed in January. This entails the completion of an independent audit of COVID-19 spending by the audit court, supported by a third-party auditor. The related report will be published along with regular expenditure reports, procurement contracts including the names of the entities awarded public procurement contracts and related beneficial ownership information, as well as ex-post reports on validation of delivery of goods and services. To legally enable the collection and publication of this beneficial ownership information of entities awarded public procurement contracts, we are preparing the amendment of the procurement legal framework to be adopted by the government during the first quarter of 2022. We are also preparing a legal proposal to reform the asset declaration regime to fight corruption. IMF technical assistance is supporting the work in both areas.

The government used the proceeds of the US\$ 38.4 million SDR allocation to support COVID-related spending, including vaccination and improvement in health services, and buttress debt sustainability by repaying non-concessional debt due in end-2021 and 2022.

The policies and actions set out in the attached Memorandum of Economic and Financial Policies (MEFP) convey the understandings reached with IMF Staff during the November 30-December 13 review mission, which we consider necessary to reach the objectives of our program. On this basis, we request the completion of the second review of the SMP. We stand ready to undertake any further measures to achieve the program objectives if necessary, in close consultation the IMF staff. We will provide timely information 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 staff request.

In line with our commitment to transparency, 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 continues to be severely hit by the COVID-19 global pandemic.** The government is taking measures to respond to this severe shock by scaling up health-related spending and deploying containment and mitigation measures, along with a commitment to enhanced transparency of COVID-19 related expenditures. The state of calamity enacted in August together with vaccination efforts have prevented the spread of the third wave of infections. The fight against the pandemic has benefited from the disbursement under the Rapid Credit Facility (RCF) from the International Monetary Fund (IMF) in January 2021, which contributed towards catalyzing urgently needed resources from international partners to support the emergency response and the recovery from the pandemic. The recent special SDR allocation has also contributed to these efforts.
2. **Fully funding the national vaccination plan requires further donor support.** The number of people that have been infected has increased (as of end-December to 6,499 confirmed cases and 149 deaths). By end-December, about 260,000 people have been fully vaccinated, covering about 35 percent of the target population (70 percent of the population over 18 years old, or about 683,147 people). 882,970 doses have been delivered to date (AstraZeneca, Johnson & Johnson, and Sinopharma) provided by the African Union, COVAX, Senegal, Portugal, Sweden, China and the United States. COVID-19 vaccination campaign aims to reach 50 percent of the target population by end-March 2022. The operational cost of the vaccination campaign is borne by the government, except US\$1 million granted by GAVI. The funding gap for the vaccination campaign is US\$ 4.2 million for 2021-2022.
3. **The government remains committed to pursue reforms aimed at ensuring macroeconomic stability, strengthening social protection and enhancing governance.** The Staff Monitored Program (SMP) has supported the fiscal consolidation plan in the 2021 Budget and the formulation of the 2022 Budget. The SMP success also hinges on meeting strong governance commitments aimed at enhancing public finance transparency, accountability, and efficiency. In this regard, our performance aim to set the building blocks to ensure further fiscal consolidation towards WAEMU standards and address debt vulnerabilities underpinned by a strong track record to request an Extended Credit Facility (ECF).

Recent Macroeconomic Developments

4. **Despite the effects of the pandemic, growth is expected to improve in 2021.** Preliminary end-September data suggest an improvement of the economic situation. GDP growth is forecasted at about 3.8 percent on the back of higher cashew export prices and volumes, public investment in critical infrastructure externally financed, the gradual lifting of containment measures and an improvement in business confidence associated with a more stable political situation.

Average price inflation is projected to accelerate to 3 percent from 1.5 percent in 2020, reflecting price pressures from imported goods and transportation prices.

5. The cashew nut production is expected to reach its historical record level in 2021, with positive spillovers effects to the fiscal and external accounts and economic activity. Cashew nut exports have contributed to the improvement of the external balance and have provided much needed extra income to at least 500,000 households of poor cashew farmers. This is also partly due to the measures taken by the government in 2020 to provide financing to the cashew sector since the onset of the pandemic. The cashew nut export value is expected to grow by 47.2 percent year on year. As a result, we project a reduction in the current account deficit. In the fiscal sector, revenue performance was robust in the third quarter of 2021, in tandem with the economic recovery and enhancement in revenue mobilization. Despite to higher expenditure, in part related to COVID-related measures, the domestic primary balance improved.

6. Pandemic-related measures implemented by BCEAO, the regional central bank, have contributed to support credit. The liquidity of the banking system has been supported by the accommodative stance of the BCEAO and credit to the economy is projected to accelerate in 2021. The situation of the banking sector excluding one systemic undercapitalized bank is adequate based on the financial soundness indicators for September 2021, but the continued dependency on liquidity support from the BCEAO may be indicative of chronic liquidity constraints. The low capitalization and high NPL level of the undercapitalized bank represent an important vulnerability, despite the high level of provisions. This bank recovered part of its non-performing loans in late 2020 and is seeking strategic investors with the support of an external consultant.¹

7. The fiscal position is projected to improve in 2021 but the stock of public debt should increase slightly. Tax revenue is projected to increase in 2021. This underpins a sizeable pace of fiscal consolidation, albeit slower than expected, reflecting higher spending in COVID-19 related measures and social priority sectors. The overall fiscal deficit (including grants on a commitment basis) is projected to fall to 5.4 percent of GDP from 10.0 percent of GDP in 2020. The stock of public debt is projected to increase in 2021 by 0.8 percent of GDP because of the euro depreciation against the dollar and the rephasing of the legacy arrears clearance. The stock of debt is nonetheless projected to begin falling in 2022 and converge to the WAEMU 70 percent of GDP debt ceiling by 2026.

8. The external position is expected to improve. The trade deficit is projected to decrease from 14.1 percent in 2020 to 13.1 percent of GDP in 2021. A significant recovery in cashew nut export volumes and prices is expected to generate a 47.2 percent increase in cashew nut export value.² As a result, the current account deficit is projected to reach 4.3 percent of GDP. On the financing side, a recovery of capital inflows is expected after dropping in 2020. The August 2021 SDR allocation has contributed to closing the external financing gap and allowed the authorities to pre-pay non-

¹ The systemic undercapitalized bank holds about 40 percent of deposits and has the largest number of branches throughout the country. About 10 percent of the bank's total NPLs has been recovered.

² Logistic problems are delaying exports, but the authorities expect them to be managed within the year.

concessional BOAD debt service, the regional development bank.

Performance under the SMP

9. The recovery of the external economic environment has contributed to the improvement of fiscal performance, enabling the government to meet six end-September quantitative targets (Table 1). Revenue mobilization has improved with domestic tax revenue exceeding the QT by more than 12.5 percent. This underpins the improvement in domestic primary balance by CFAF 10.6 billion (1.2 percentage points of GDP) of the adjusted QT. Expenditure control and debt policy has avoided new domestic arrears and recurrence to non-concessional borrowing and non-regularized expenditures (DNTs). Also, the quantitative target of priority spending floor was met by more than 9.2 percent of the QT. We have incurred in US\$ 0.5 million external payments arrears and taken actions to resolve them (paragraph 17).

10. We met all but one Structural Benchmarks (SBs) for September and one for December (Table 2).

- **Expenditure control.** The Treasury Committee has continued its weekly meetings without interruption. In addition, a team has been appointed in charge to implement the TSA at the General Directorate of Treasury and Public Accounting (DGTCP), prior authorization from the Minister of Finance is compulsory for opening public bank accounts and all public bank accounts have been identified by end-September.
- **Strengthen tax and custom frameworks and tax administration.** The Council of Ministers has approved and submitted to Parliament the revised general tax code, the tax penalty regime together with the modernized statute of the VAT (SB end-December 2021) and the revised customs code (SB end-September 2021). These reforms, aimed to strengthen the tax framework, will provide a common basis for administration of all taxes regardless of tax types, promote fairness and understanding, improve the tax framework through a broadening of the sales tax base and change traders' behavior and raise customs compliance. In addition, to strengthen tax administration the Kontaktu system for filling tax returns and electronic payments is operational for a small number of taxpayers and progress has been made to achieve full implementation. In this regard, we rephased full implementation of the system from end-September 2021 to end-March 2022 to ensure full system implementation, training of users and deployment of a communication campaign. With ongoing TA advice, customs management is taking steps to address gaps in core functions and enhance revenue mobilization, including introduction of a modern clearance procedure, control of import values, fight against smuggling and abuse of exemptions.

A. Measures to Address Fiscal Consolidation

11. The government is committed to the following measures to mobilize domestic 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.³ Supported by IMF technical assistance (TA), the government has taken steps 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. In addition, IMF TA in Q1 2022 will support strengthening the collection of the telecom tax in 2022. However, tax collections underperformed in October due to disruption in the container shipping sector and ongoing disputes on the taxable volume of services in the telecom sector. We are taking actions to avoid compromising the achievement of end-December quantitative targets.
- **Expenditure control and wage bill.** We have adopted expenditures containment measures including (i) wage bill rationalization through suspension of new hires; (ii) suspension of all official missions; (iii) limiting tax expenditures by not granting fiscal and customs exemptions, in particular on fuel. This measure does not apply to embassies and international organizations; (iv) suspensions of new infrastructure projects with exception of priority sectors; and (v) limiting acquisitions of good and services to those associated to core functions. We have continued to implement expenditure control measures including deploying with IMF support blockchain technology to assist in reconciling the personnel and the payroll records. We have initiated discussions on a public administration reform and this project will help to assess the accurate size of our public service. The reinstatement of the Treasury Committee should also contribute to improve expenditure control. Furthermore, the government has taken steps towards strengthening the management of the largest State-Owned Enterprise (SOE), the electricity company *Electricidade e Aguas da Guinea-Bissau* (EAGB) by revamping management operations and enhancing financial management controls. Moreover, while the government is rationalizing overall expenditures, it is committed to safeguard priority spending on health, education and the social sector and not using irregular and improperly documented expenditure (DNTs) to emergency cases.

B. Other Structural and Governance Reforms in progress

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 has taken progressive steps are taken towards a TSA. IMF TA will support the improvement for the treasury and cash management function. We created a unit within DGTCP to implement the cash management function that will use the IMF cash management tool.
- The government will amend the procurement legal framework to enable the collection and

³ 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.

publication of beneficial ownership information of entities awarded procurement contracts above a certain threshold, to be defined based on IMF TA recommendations (SB, end-December 2021). IMF TA is supporting the amendment. We request the structural benchmark to be reset for end-March 2022.

- An executive order was issued to end the hiring of employees without contract (SB, end-September 2021). We expect to issue another executive order to enforce control by the financial controller over all public salaries including employment incentives and the National Assembly salaries and reconcile the personnel and the payroll records (SB end-December 2021) supported by the implementation of the blockchain project. The government decided in a resolution of the Council of Ministers on July 27 that these measures must be implemented by all public entities whose wages are included in the budget.

13. The government is also preparing two additional expenditure control measures. By issuing a ministerial order, we will enforce normal expenditure execution procedure by requiring that delivery of goods and services is certified before payment to providers. Spending units will adopt and implement the improved expenditure execution procedures as stated in the “Manual for procedures on public expenditures” which was developed with IMF TA support. The government will pilot this initiative in at least five selected line ministries in the beginning of 2022. IMF TA has been requested to support the implementation. The government will also publish a follow-up report on previous Tribunal de Contas audit reports’ recommendations on EAGB to strengthen the management and transparency of this SOE. The report will be published by end-December. In addition, IMF TA will support enhancing fiscal oversight of SOEs.

14. To support revenue mobilization the government will ensure that the information exchange between DGCI, DGA, Treasury and the National Institute of Social Security. This will foster transparency and accountability to operations between public entities and increase tax revenue mobilization. Partial progress has already been made in this area: (i) the Treasury will start to provide the required information filing the withholding tax return; (ii) MoUs will be signed between the DGCI and DGA as well with the National Institute of Social Security, with the support of the Minister of Finance and the Minister of the Public Administration by end-December. IMF TA will be provided in these areas in February/March 2022 once the MoUs have been signed.

15. 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. An audit of COVID-19 expenses by the Audit Court has started in October at the request of the High Commissioner for COVID-19, covering the period June 2020-August 2021. The Terms of Reference for a reputable third-party auditor were developed in consultation with the Fund for complementary audit covering all COVID-19 expenses for 2021 to be published by end-September of 2022. The public tender took place in early December. 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 entities awarded COVID-19 related and public procurement contracts as soon as the procurement legal framework has been amended to enable the collection and publication of beneficial ownership information.

16. Furthermore, the government is committed to strengthen the legal framework to mitigate corruption risk via enhancing transparency and accountability. We will propose a reform to upgrade the asset declaration regime with IMF TA support. The reform will aim to (i) cover all politically exposed persons (PEPs), as defined by the Financial Action Task Force standards and their family members and close associates; (ii) cover assets and interests owned, including those beneficially owned, domestically and abroad (iii) ensure declarations are publicly available online; and (iv) allow the imposition of targeted, proportionate, and dissuasive sanctions that are consistently enforced for failure of submission and for submission of false declaration. We expect to finalize the reform proposal by end-February 2022.

Measures to Mitigate Debt Vulnerabilities

17. The government is committed to clear part of outstanding domestic arrears and to avoid accumulating new ones. The government recognized and paid CFAF 10.2 billion of domestic arrears accumulated in 2020 and plans on start clearing the remaining stock of domestic arrears accumulated between 1974 and 1999 amounting to CFAF 14.3 billion in the coming years. Furthermore, by end-2022, with external technical support, the government intends to determine the true amount of any outstanding arrears through further auditing and verifications,⁴ 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.

18. 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 and Angola. In November, requests were sent to Russia, Brazil and Pakistan to attempt resolving remaining external arrears.⁵ 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. In the context of this review, arrears to Libya and the Islamic Development Bank (IDB) incurred in June for technical reasons and a residual amount due to the African Development Bank were fully cleared in October and November (Table 1). Recently implemented weekly coordination meetings between the directories of treasury and debt are expected to prevent the incurrence of such arrears for technical reasons.

⁴ 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.

⁵ 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. Negotiations with Pakistan are protracted.

19. 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 has been holding weekly coordination meetings between the Directorate Generals of Treasury and Debt and will hold biannual meetings of the National Committee of Public Debt after the approval of the decrees by the Council of Ministers.

20. 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.

21. The government dedicated the new SDR allocation to buttress debt sustainability by repaying non-concessional debt. In addition to supporting COVID-related spending, including vaccination and improvement in health services, the recent SDR 27.2 million allocation to Guinea-Bissau (about US\$ 38.4 million) was used to pre-pay non-concessional debt due in end-2021 and 2022

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. The government is monitoring developments of the restructuring plan of the bank and will prepare a report including a viable disengagement strategy by 2024 as agreed with the regional Banking Commission (SB, end-December 2021). In the context of the engagement with the IMF, the Fund has interest in having an assessment of the bank's NPLs. Therefore, the government will request the BCEAO to share the results of the NPL's audit with the IMF.

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

	2021									
	Jun				Sep				Dec	
	SMP Request	Adjusted Target	Actual	Status	SMP Request	Adjusted Target	Actual ⁹	Status	SMP Request	1st Review
Quantitative targets¹										
Total domestic tax revenue (floor)	38.2		41.8	met	62.8		70.7	met	87.9	93.5
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US\$ millions) ²	0.0		0.0	met	0.0		0.0	met	0.0	
New external payment arrears (US\$ millions, ceiling) ²	0.0		0.5	not met ⁸	0.0		0.5	not met ⁸	0.0	
New domestic arrears (ceiling)	0.0		0.0	met	0.0		0.0	met	0.0	
Social and priority spending (floor) ³	27.2		27.6	met	38.7		42.3	met	50.1	
Domestic primary balance (commitment basis, floor) ⁴	-16.4	-17.7	-17.8	not met	-23.4	-25.4	-14.8	met	-15.4	-18.9
Non regularized expenditures (DNTs, ceiling)	0.0		0.0	met	0.0		0.0	met	0.0	
<i>Memorandum items:</i>										
External budgetary assistance (US\$ millions) ⁵	1.8		0.0	...	1.8		0.0	...	6.9	6.8
Net domestic bank credit to the central government	23.4		11.0	...	53.6		11.2	...	42.2	15.8
Concessional project loans (US\$ millions) ⁶	9.9		14.0	...	14.9		26.7	...	19.9	19.6
Outstanding stock of government guarantees ⁷	10.1		12.5	...	23.1		11.9	...	23.1	10.3

¹ The quantitative targets are defined in the Technical Memorandum of Understanding.

² These apply on a continuous basis.

³ 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.

⁴ Excludes grants, foreign and BOAD financed capital spending, and interest. To account for domestically financed current expenditures associated to COVID vaccination implementation (TMU paragraph 11), the SMP targets for end-June and end-September (deficits of CFAF 16.4 billion and CFAF 23.4 billion) have been adjusted downwards by CFAF 1.3 billion and CFAF 2.0 billion respectively. The actual figures for end-June and end-September have been updated to exclude payment of wage arrears incurred in 2019-20 previously accounted in wage expenditures in 2021. For end-December, the target proposed in the SMP request and the First Review do not account for the adjustor.

⁵ Comprises budget support grants and program loans (for budget support) excluding RCF disbursements and CCRT debt relief.

⁶ Comprises project loans with grant elements exceeding or equal to 35 percent.

⁷ All guarantees are denominated in CFAF.

⁸ Arrears of US\$0.34 million to Libya and US\$0.11 million to the Islamic Development Bank (IDB) were accumulated for technical reasons. The transfer to Libya was initially rejected due to correspondent banking constraints. The payment to the IDB was delayed due to coordination problems. Residual amounts (less than US\$20,000) were due to the African Development Bank. All pending payments have been executed by end-November.

⁹ Based on preliminary data and estimates.

Table 2. Structural Benchmarks

Measures	Rationale	Date	Current Status
Public Financial Management			
To: (i) continue weekly Treasury Committee meetings without interruptions;	Expenditure control	Continuous	Met
(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	Met
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	Met
Amend the procurement legal 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	Not met. Reset for end-March 2022
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, and reconcile the personnel and the payroll records.	Wage bill control	End-December 2021	Met
Revenue Mobilization			
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	Met
(ii) the new VAT bill.	Strengthen tax framework	End-December 2021	Met
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	Met
(ii) full implementation.	Increase revenues	End-September 2021	Not met. Reset for end-March 2022
Approve by Council of Ministers, submit to parliament a reviewed customs code.	Strengthen custom framework	End-September 2021	Met
Financial Sector			
Prepare a report with the exit strategy from the undercapitalized systemic bank, including a full financial assessment.	Financial stability	End-December 2021	Met

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**¹. 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

A. 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.

B. 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 program purposes, a debt is considered to be contracted when all conditions for its entry into effect have been met, including approval by the Minister of Finance.² 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

¹ The source of the cross-exchange rates is International Financial Statistics.

² Contracting of credit lines (which can be drawn at any time and entered into effect) with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

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 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).

C. 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.

D. 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.

E. 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.

F. 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 CFAF 2.2 billion for the end-December 2021 domestic primary balance target of CFAF -18.9 billion which was set at the first review).*

G. 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

H. 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 ¹ /MF ²
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 ³ /MF
Balance of Payments data	Annually	30 days after approval	BCEAO ⁴ /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
¹ Directorate General for Forecasts			
² Ministry of Finance			
³ Central Statistics Office			
⁴ Central Bank of West African States			