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GUINEA-BISSAU

February 2023

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY-PRESS RELEASE; AND STAFF REPORT

In the context of the Request for a Three-Year Arrangement Under the Extended Credit Facility, 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 November 22, 2022. Based on information available at the time of these discussions, the Staff Report was completed on January 12, 2023.
- A **Debt Sustainability Analysis.**

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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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves US$38.4 million Extended Credit Facility (ECF) Arrangement for Guinea-Bissau

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved a new thirty-six-month arrangement under the Extended Credit Facility (ECF) for Guinea Bissau, in an amount of SDR 28.4 million (about US$ 38.4 million). The Executive Board's decision will enable an immediate disbursement equivalent to SDR 2.37 million (about US$ 3.2 million).
- The objectives of Guinea-Bissau's new Fund-supported program are securing debt sustainability while supporting the economic recovery, improving governance and reducing the risk of corruption, and creating fiscal space to sustain inclusive growth.
- The ECF arrangement is essential to improve donor and private sector confidence and catalyze much-needed concessional financing from the international community.

Washington, DC. The Executive Board of the International Monetary Fund (IMF) approved today a thirty-six-month Extended Credit Facility arrangement for Guinea-Bissau in the amount of SDR 28.4 million (about US$ 38.4 million, or 100 percent of quota).

The IMF Executive Board decision enables an immediate disbursement of SDR 2.37 million (about US$3.2 million). Disbursements of the remaining amount will be phased over the duration of the program, subject to two initial quarterly reviews—to ensure close monitoring of reforms, followed by five biannual reviews.

The ECF-supported program aims to anchor macroeconomic stability, putting the budget back on track and ensuring medium-term debt sustainability, while continuing progress on structural reforms initiated under the 2021-22 Staff Monitored Program (SMP). It will provide a framework to assist the authorities in designing and implementing effective policies to better address development challenges such as enhanced education and health systems, promote inclusive growth, and reduce poverty. Fiscal policy will aim to reduce the deficit and debt in line with the West Africa Economic and Monetary Union convergence criteria over the medium term through revenue mobilization, expenditure rationalization, mitigation of fiscal risks and prudent borrowing. Further action to enhance governance including to advance Anti Money Laundering/Combating the Financing of Terrorism/ effectiveness will improve the management of fiscal resources and public investment, increase transparency and accountability, and counter corruption.

The program will also help catalyze much needed donor financing, particularly in the form of grants and concessional loans, and support the reduction of debt vulnerabilities.

Guinea-Bissau's program of economic policies and reforms implemented under the 2021-22 Staff Monitored Program helped maintain macroeconomic and public debt sustainability, as well as strengthen public financial management (PFM) and governance in the public sector. Real GDP growth is estimated to have slowed down to about 3½ percent in 2022. It has been negatively affected by lower-than-expected cashew exports, which slowed mainly due to logistical constraints. The surge in commodity prices associated with Russia's war in Ukraine has added renewed pressures on inflation, especially in food and fuel. Growth has been supported by higher agricultural production, private sector investment and relative political stability, which partially offset the impact of higher cost-of-living and negative external shocks.

Following the Executive Board discussion on Guinea-Bissau, Mr. Li, Deputy Managing Director and Acting Chair, issued the following statement:

“Guinea-Bissau demonstrated strong commitment to reform implementation in a challenging environment through its satisfactory completion of a nine-month Staff Monitored Program. Looking ahead, while the economy is expected to rebound, the outlook is subject to significant downside risks related to domestic weaknesses, long-standing fragility, volatility in cashew exports, and spillovers from Russia’s war in Ukraine that could further impact food and energy prices. The new Extended Credit Facility (ECF) arrangement supports economic recovery and policies to create fiscal space for social and priority spending, reduce debt vulnerabilities, and improve governance and transparency.

“The program objectives include growth-supportive fiscal consolidation with reforms to improve domestic revenue mobilization, strengthen public finance management and wage bill control, mitigate fiscal risks, and safeguard social and priority spending. The authorities are expected to make significant progress in meeting the regional fiscal convergence criteria and strengthening debt management by the end of the program period.

“Strengthening financial stability and intermediation, and addressing risks in the financial system are also important. In this regard, tackling the high level of non-performing loans and ensuring a timely and orderly disengagement from the undercapitalized bank would be key.

“Implementing reforms to strengthen governance and anti-corruption frameworks will be pivotal to the program’s success. The authorities have implemented transparency commitments related to COVID-19 emergency spending—including the publication of the third-party audit and the beneficial ownership information. The authorities will also accelerate the implementation of beneficial ownership disclosure, modernize the asset declaration regime and improve the AML/CFT framework. Pursuing economic diversification is also key to strengthening resilience and achieving sustainable growth.

“The authorities are committed to the reform agenda to ensure fiscal sustainability, strengthen governance and management of public resources, mitigate fiscal risks, and rely on highly concessional financing. The authorities’ engagement with the IMF through the ECF arrangement will catalyze development partners’ support for resilient and inclusive growth. Making use of IMF capacity development would also support the implementation of reforms.”

Guinea-Bissau: Selected Economic and Financial Indicators, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
			Est.			Proj.			
			(Annual percent change, unless otherwise indicated)						
National accounts and prices									
Real GDP at market prices	4.5	1.5	6.4	3.5	4.5	5.0	5.0	5.0	5.0
Real GDP per capita	2.3	-0.7	4.1	1.2	2.3	2.8	2.9	2.9	2.9
GDP deflator	-3.5	-1.0	2.7	7.2	4.1	2.8	2.8	2.8	2.8
Consumer price index (annual average)	0.3	1.5	3.3	7.8	5.0	3.0	2.0	2.0	2.0
External sector									
Exports, f.o.b. (CFA francs)	-22.7	-15.6	35.2	-10.7	34.2	4.4	3.6	3.5	4.2
Imports, f.o.b. (CFA francs)	20.5	-9.9	9.7	12.8	12.6	4.7	4.3	3.7	4.5
Export volume	13.5	-13.8	25.5	-22.2	19.2	2.9	2.5	2.5	2.4
Import volume	12.8	-5.8	-5.9	-14.5	10.3	5.6	5.7	4.8	4.6
Terms of trade (deterioration = -)	-31.8	-3.9	-6.6	-9.8	2.7	2.6	2.6	2.2	2.0
Real effective exchange rate (depreciation = -)	-2.8	2.3	1.4	…	…	…	…	…	…
Exchange rate (CFAF per US$; average)	585.9	574.8	554.2	…	…	…	…	…	…
Government finances									
Revenue excluding grants	9.2	-5.5	22.7	4.6	14.1	10.8	10.5	9.6	9.8
Domestic revenue (excluding grants and one-offs)	9.2	-5.5	22.7	4.6	14.1	10.8	10.5	9.6	9.8
Expenditure	-2.6	33.8	7.8	-3.3	2.7	5.7	8.4	7.3	9.6
Current expenditure	18.7	14.5	3.5	5.4	-4.4	4.3	6.5	7.9	8.6
Capital expenditure	-38.5	96.7	16.1	-17.9	18.2	8.3	11.6	6.3	11.2
Money and credit									
Domestic credit	13.8	-1.7	18.5	3.4	11.2	12.9	11.1	6.7	5.9
Credit to the government (net)	13.8	-19.7	53.4	-5.1	6.4	5.7	3.2	-7.9	-9.2
Credit to the economy	13.8	5.9	7.3	7.3	13.2	15.6	13.8	11.3	9.9
Net domestic assets	12.0	-13.8	21.0	5.1	16.5	18.0	14.9	8.7	7.6
Broad money (M2)	0.3	9.1	21.2	6.1	6.0	7.0	6.9	6.0	6.2
			(Percent of GDP, unless otherwise indicated)						
Investments and savings									
Gross investment	16.2	17.5	18.1	18.5	17.8	19.7	20.6	21.2	22.1
Of which: government investment	3.0	5.8	6.2	4.6	5.0	5.0	5.2	5.1	5.3
Gross domestic savings	2.4	3.2	7.4	4.3	4.8	7.2	8.3	9.4	10.6
Of which: government savings	-3.5	-7.6	-5.4	-4.3	-2.4	-1.6	-1.2	-1.3	-1.2
Gross national savings	7.6	15.0	17.3	12.6	13.1	15.2	16.3	17.0	18.1
Government finances									
Revenue excluding grants	12.1	11.4	12.8	12.1	12.7	13.0	13.3	13.5	13.7
Domestic primary expenditure	13.5	16.0	14.7	14.9	12.9	12.4	12.6	12.8	12.9
Domestic primary balance	-1.4	-4.6	-1.9	-2.8	-0.2	0.6	0.7	0.7	0.9
Overall balance (commitment basis)									
Including grants	-3.9	-9.6	-5.6	-5.5	-3.9	-3.2	-3.0	-3.0	-3.0
Excluding grants	-6.7	-13.6	-11.9	-9.5	-7.7	-6.9	-6.7	-6.4	-6.5
External current account	-8.5	-2.6	-0.8	-5.9	-4.7	-4.5	-4.3	-4.2	-4.0
Excluding official current transfers	-9.7	-5.7	-3.4	-8.0	-7.1	-6.9	-6.6	-6.2	-6.1
Stock of public and publicly guaranteed debt[1]	65.8	78.2	78.9	81.0	78.2	75.4	72.7	70.1	68.0
Of which: external debt	37.3	41.1	40.0	41.2	38.4	36.1	34.1	31.6	29.4
Memorandum items:									
Nominal GDP at market prices (CFAF billions)	870.9	875.2	956.3	1061.1	1154.3	1245.9	1344.8	1451.6	1566.9
WAEMU gross official reserves (billions of US$)	17.5	21.8	24.5	…	…	…	…	…	…
(percent of broad money)	34.1	33.2	30.2	…	…	…	…	…	…

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

[1] Coverage expanded to include legacy arrears.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

January 12, 2023

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. Guinea-Bissau is a fragile state with significant development challenges, including limited fiscal space, debt vulnerabilities and poor governance. After years of political turmoil and delayed reforms, in 2021 the authorities started the implementation of an ambitious fiscal consolidation program to ensure debt sustainability while creating fiscal space to address developmental needs. A Rapid Credit Facility (RCF) disbursement of SDR 14.2 million (50 percent of quota) was approved in January 2021 to provide urgent financing to support critical spending in health. A nine-month SMP with three quarterly reviews, approved in July 2021 ended with satisfactory performance building track record of policy implementation towards an Extended Credit Facility (ECF) arrangement. The August 2021 SDR 27.2 million allocation and the reforms underpinned by the SMP have helped address the adverse impact of the pandemic, while improving the transparency of government spending, and mitigating debt vulnerabilities.

Policy challenges. Staying on track with a credible fiscal consolidation path is needed to create a fiscal space and catalyze financing from development partners, freeing up resources to meet significant economic and social development needs while ensuring debt sustainability. Sustained and inclusive growth requires not only macroeconomic stability but strengthening governance as well as revenue mobilization to enable priority and infrastructure spending. High levels of non-performing loans, a large undercapitalized bank, and financial weakness in the public utility company need to be addressed to bolster financial intermediation and mitigate fiscal risks.

Governance and structural reform. The authorities are committed to fighting corruption and improving AML/CFT effectiveness, governance and transparency by completing the implementation of the RCF's governance safeguards on COVID-19 spending and the recommendations of the 2020 Governance Diagnostic report. The authorities also intend to improve beneficial ownership transparency and accelerate the reforms of the asset declaration regime.

Program discussions. The proposed ECF arrangement would support the economic recovery and policies to reduce public debt and financing vulnerabilities and create room for social and priority spending and infrastructure. Support for the authorities' reform agenda focuses on strengthening governance institutions and the management of public resources, mitigating fiscal risks from the SOE sector, fostering a stronger business environment, and addressing protracted BOP needs.

Approved By

Montfort Mlachila (AFR) and Eugenio Cerutti (SPR)

An IMF team consisting of Jose Gijon (Head), Marijn Bolhuis, Pedro Juca Maciel, Yugo Koshima, Harold Zavarce (all AFR), Koon Hui Tee (FAD), Patrick Gitton (Resident Representative) and Gaston Fonseca (local economist) held discussions with the authorities in Bissau. The mission met with H.E. President Sissoco Embaló, Prime Minister Nabiam, President of the Audit Court Baldé, President Cassama and Members of the Permanent Commission of the National Popular Assembly, Vice-Prime Minister Sambú, the Minister of Finance Té, Minister of Economy Casimiro, Minister of Public Administration Dale, BCEAO National Director Cassama. The team also met with officials from the Ministries of Finance, Economy, Fisheries, the National Direction of the BCEAO, the Financial Intelligence Unit, and other officials. In addition, the mission met with trade unions, civil society organizations, representatives from private and public sector enterprises, and key bilateral and international partners. The mission took place during November 8–22, 2022. Montfort Mlachila (AFR Reviewer) and Romao Varela (Advisor to the Executive Director, OED) participated in the policy discussions. Fairoza Jaghori and Tomas Picca (both AFR) contributed to the preparation of this report.

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CONTEXT

1. **Guinea-Bissau is a fragile state with long-standing challenges (Annex I).[1]** Poverty is high and the country ranks low in human development. The economy relies heavily on the exports of unprocessed cashew nuts, making most households highly vulnerable to cashew nut price shocks and climate change. Growth has been low and volatile and food insecurity is significant.[2] High levels of corruption, a weak judicial system and the illicit drug trade add to the country's challenges and to a long history of political instability and fragility. A weak business environment has constrained private sector investment and economic diversification.

2. **Guinea-Bissau has experienced a period of relative political stability, including during the pandemic.**

- *COVID-19*. By December 2022, there were 8,931 confirmed cases and 176 deaths. The authorities contained infections and limited the economic impact of the pandemic.[3] About 58 percent of the adult population has been vaccinated.
- *Political situation*. The political environment has been stable since the new government was appointed in 2020. A putsch attempt took place in February 2022 which authorities attributed to drug traffickers and corrupt officials. ECOWAS redeployed a stabilization force to the country. The President dissolved the parliament in mid-May 2022. Next legislative and presidential elections are scheduled for June-2023 and December-2024.

3. **The authorities requested an Extended Credit Facility (ECF) arrangement to support an ambitious reform agenda.** Currently, there is strong commitment at the highest political level to the policies and reforms under the program. This commitment is supported by the major political parties represented in the multi-party Permanent Commission of the National Popular Assembly, which is chaired by the main opposition party. The agenda includes a commitment to maintain macroeconomic stability based on an ambitious fiscal consolidation, preserving debt sustainability, securing the recovery from the pandemic, fighting corruption, and improving AML/CFT effectiveness, governance, and transparency.

RECENT ECONOMIC DEVELOPMENTS

4. **Growth is expected to moderate to 3.5 percent, while average inflation is expected to increase to 7.8 percent in 2022 (Text Table 1).** Growth accelerated from 1.5 percent in 2020 to 6.4 percent in 2021 due to record high exports of cashew nuts, a high level of public investments, and the gradual lifting of COVID-19 containment measures. In 2022, growth has been negatively

[1] The Country Engagement Strategy, summary of which is included in Annex I, is prepared on a basis of the IMF Strategy for Fragile and Conflict-Affected States.

[2] See IMF Country Report No. 22/196 for diagnosis on rising food insecurity (Box 1, p. 5).

[3] 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.

affected by lower-than-expected cashew exports, which slowed mainly due to logistical constraints. The surge in commodity prices associated with the war in Ukraine has added renewed pressures on inflation, especially in food and fuel. Growth in 2022 will be supported by higher agricultural production, private sector investment and relative political stability, which partially offset the impact of higher cost-of-living and negative external shocks.

Text Table 1. Guinea-Bissau: Macro Performance 2019–22

	2019	2020		2021		2022	
	Prel.	Pre-shock[1] proj.	After shock estimates	Pre-shock[1] proj.	After shock proj.	Pre-shock[2] proj.	After shock proj.
Real GDP (percent change)	4.5	4.9	1.5	5.0	6.4	4.0	3.5
GDP deflator (percent change)	-3.5	2.1	-1.0	3.6	2.7	2.8	7.2
CPI inflation, average (percent)	0.3	1.5	1.5	1.8	3.3	2.0	7.8
Current account (percent of GDP)[3]	-8.5	-4.5	-2.6	-4.6	-0.8	-4.3	-5.9
Overall fiscal balance, commitment basis incl. grants (percent of GDP)	-3.9	-5.1	-9.6	-5.1	-5.6	-4.2	-5.5
Total public and publicly guaranteed debt (percent of GDP)	65.8	71.5	78.2	71.1	78.9	78.2	81.0
Memorandum items:							
Nominal GDP (CFAF billion)[4]	871	893	875	972	956	966	1061
Cashew nut export prices (US$ per ton)	1098	1140	1000	1180	1154	1158.8	1210
Cashew export volume (thousands of tons)	196	208	155	214	234	240.0	191

Sources: Guinea-Bissau authorities; and IMF staff estimates and projections.
1/ Projections as of January 2020, before COVID-19 shock.
2/ Projections as of January 2021, before Ukraine war shock.
3/ 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/ Revised figures based on the release of the national account estimates for 2018.

5. **The overall fiscal deficit in the first half of 2022 was higher than projected due to an increase in spending pressures.** The overall fiscal deficit on a commitment basis fell to 5.7 percent of GDP in 2021 from 9.6 percent in 2020. In the first half of 2022, the deficit was higher than projected by 0.4 percent of GDP because of an expenditure overrun. Wage spending exceeded its forecast by 0.3 percent of GDP due to the irregular hiring of workers. Other current expenditures were higher by 0.3 percent of GDP, reflecting spending on the upcoming election (Text Table 2). By contrast, tax revenue was 0.2 percent of GDP higher than projected, percent because of higher inflation and economic activity.

Text Table 2. Guinea-Bissau: Fiscal Performance at End-June 2022
(Percent of GDP cumulative)

	Forecast	Estimates	Difference
Revenue and grants	7.1	7.2	0.1
Revenue	5.4	5.5	0.1
Of which: Tax revenue	4.3	4.5	0.2
Grants	1.7	1.7	0.0
Expenditure	10.6	11.0	0.5
Expense	6.9	7.6	0.7
Wages and salaries	2.8	3.1	0.3
Goods and services	1.2	1.3	0.1
Transfers	1.2	1.2	0.0
Other	0.9	1.2	0.3
Interest	0.8	0.8	0.0
Net acquisition of nonfinancial assets	3.7	3.4	-0.3
Overall balance, including grants (commitment)	**-3.5**	**-3.8**	**-0.4**
Domestic primary balance (commitment)	**-1.8**	**-2.1**	**-0.4**

Sources: Guinea-Bissau authorities and IMF staff estimations

6. The external position is expected to deteriorate. The current account deficit improved to 0.8 percent of GDP in 2021 from 2.7 percent of GDP in 2020 because of record high cashew exports. The August 2021 SDR allocation enabled the authorities to repay debt service of the BOAD, the regional development bank, due in 2021 and 2022 in line with the staff recommendations.[4] In 2022, the current account deficit is projected to worsen to 5.9 percent of GDP because of lower cashew nuts exports and higher import prices.

7. The stock of public debt is projected to increase slightly in 2022. The public debt burden increased by 2.0 percent of GDP with an increase corresponding to the SDR allocation on-lent by the BCEAO. External debt remained broadly stable in 2021 with the pre-payment of debt to BOAD due in 2022 compensating higher foreign financing.[5] In 2022, the stock of public debt increased to 81 percent of GDP due to the higher financing needs, new government guarantees on EAGB and recognition of legacy arrears.

8. Pandemic-related measures implemented by the BCEAO, the regional central bank, have supported credit. The accommodative stance of the BCEAO improved the liquidity of the banking system and credit to the economy grew by 7.3 percent in 2021. Except for one large undercapitalized bank, the banking sector has adequate capital levels, meeting the regional prudential criteria (Table 5). While gross NPLs to total loans declined in 2022, they remain high, but banks are well provisioned. The financial vulnerabilities stemming from the sovereign debt and exchange rate exposures in the banking sector are low.[6]

OUTLOOK AND RISKS

9. The near-term outlook projects a moderate recovery and sustained growth over the medium term, but risks are tilted to the downside.

- *Near-term.* In 2023, the growth is expected to recover to 4.5 percent, assuming the cashew nut export volume reaches to 2021 levels and high private sector investment continues, including in the energy sector. Average inflation is expected to peak as global prices normalize but should remain at 5 percent because of persistence of inflation in key items such as rice.
- *Medium term.* Despite global headwinds, Guinea-Bissau is expected to tap its economic potential and reach 5 percent growth per year through greater dynamism in agriculture, mining, tourism, and fisheries and the continuation of authorities' efforts in strengthening fiscal management. Greater political stability and donor support catalyzed by IMF engagement as well as enhancements in business environment, greater access to finance and governance reforms

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[4] More details in IMF Country Report No. 22/42, Annex IV, pp. 38-39

[5] From IMF RCF and the World Bank. More details in the DSA.

[6] In 2021, the domestic banking sector held 9 percent of its total assets in central and local government debt while their exposure to SOEs was only 2 percent.

boosting private investment should also support growth (Text Table 3) [7]. Inflation is expected to gradually converge to about 2 percent as the security crisis in Europe subsides. The current account deficit is expected to improve because of sustained fiscal consolidation and more favorable terms-of-trade. Higher, revenue mobilization, wage bill control, and increased concessional financing should make the overall fiscal deficit converge to the 3 percent by 2025.

- *Outlook risks* (Annex II). Downside risks arise from domestic political risks and weak state capacity, disappointing cashew nut exports, and the war in Ukraine which could further impact food and oil prices and donor support. In addition, Guinea-Bissau is highly vulnerable to climate change and climate shocks are an important source of risks and volatility of agricultural production.[8] The growth outlook will also depend on the authorities' commitments to policy implementation. Lack of political support may constrain revenue mobilization and expenditure containment measures. Worsening of debt risks would further constrain access to financing. Financial stress in SOEs (Annex III) and banking fragilities could also generate contingent liabilities.[9] Should downside risks materialize, the authorities should further rationalize non-priority expenditures, domestically financed investment and seek for additional IFIs' support. On the upside, a stronger performance of the cashew sector and a successful implementation of reforms would underpin a faster recovery.

Text Table 3. Guinea-Bissau: Economic Performance and Medium-Term

	2022		2023		2024		2025		2026		2027	
	Pre-shock[1] proj.	After shock proj.	Pre-shock[1] proj.	After shock proj.	Pre-shock[1] proj.	After shock proj.	Pre-shock[1] proj.	After shock proj.	Pre-shock[1] proj.	After shock proj.	Pre-shock[1] proj.	After shock proj.
Real GDP (percent change)	4.0	3.5	5.0	4.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
GDP deflator (percent change)	2.8	7.2	2.8	4.1	2.8	2.8	2.8	2.8	2.8	2.8	2.9	2.8
CPI inflation, average (percent)	2.0	7.8	2.0	5.0	2.0	3.0	2.0	2.0	2.0	2.0	2.9	2.0
Current account (percent of GDP)	-4.3	-5.9	-4.3	-4.7	-4.2	-4.5	-4.0	-4.3	-4.0	-4.2	-4.0	-4.0
Overall fiscal balance, commitment basis incl. grants (percent of GDP)	-4.2	-5.5	-4.1	-3.9	-3.6	-3.2	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Total public and publicly guaranteed debt (percent of GDP)	78.2	81.0	76.2	78.2	74.0	75.4	71.3	72.7	68.9	70.1	66.8	68.0
Memorandum items:												
Nominal GDP (CFAF billion)[2]	966	1061	1042	1154	1125	1246	1214	1345	1311	1452	1416	1567
Cashew nut export prices (US$ per ton)	1158.8	1210	1194	1222	1229	1247	1254	1271	1279	1297	1305	1323
Cashew export volume (thousands of tons)	240.0	191	245	235	250	239	255	244	260	249	265	254

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

1/ Projections as of January 2021, before Ukraine war shock.

2/ Revised figures based on the release of the national account estimates for 2018.

[7] The 2022 Article IV staff report estimates the potential growth of GNB to be around 4.5 percent. The medium-term growth of five percent assumes political stability and modest recovery of private sector consumption and investment to fill output gaps gradually by 2027. Governance reforms are estimated to yield an additional ¾ percentage point in annual *transitional* growth conditional on Guinea-Bissau reaching the average level of SSA countries in terms of the corruption index. In the long-term horizon 2032-47, potential growth is estimated conservatively to converge to about 4 percent.

[8] As a short-term policy responses to food insecurity and climate shocks, the WFP implements a feeding program for 150,000 school children combined with a support to smallholder farmers associations to supply fresh food to schools. See Box 1 and 2022 Article IV Consultation and Third Review of the SMP (Annex IX)

[9] A possible delay in restructuring of the undercapitalized bank may have limited impact on the growth as the lending capacity has been constrained by high NPLs and negative capital. In contrast, a possible disruption of power supply in case of materialization of SOE fiscal risks may have substantial impact on the growth, domestic revenue mobilization, and political stability.

PROGRAM OBJECTIVES

10. The ECF arrangement will focus on supporting a credible fiscal consolidation and improving governance and transparency through the implementation of a parsimonious structural agenda. Financing under the ECF arrangement will meet protracted BOP needs triggered by worsened current account deficits and reliance on portfolio investments, until sustained fiscal consolidation and better terms of trade improve external positions. During the program period, remaining financing needs are expected to be met by issuance of Treasury securities in regional markets, which will be reduced from 6.3 percent of GDP in 2021 to 2.3 percent of GDP by 2024. Planned reforms build on implementation of past recommendations (Annex IV) and the SMP achievements (Annex V).

- **Supporting fiscal consolidation and ensuring debt sustainability.** The program will aim at ensuring that the fiscal consolidation over 2023-2025 is executed without arrears accumulation and expensive non-concessional borrowing. This will be achieved through (i) stronger revenue mobilization and expenditure containment including in the wage bill, generating fiscal space to protect social spending and undertake key infrastructure investments to sustain growth and make progress towards durable poverty reduction; (ii) strengthening SOE oversight, especially of the public utility company, and mitigating fiscal risks; and (iii) assisting the authorities to seek additional grants and concessional financing.
- **Implementing governance, AML/CFT effectiveness, and transparency reforms that will strengthen expenditure control, mobilize revenues, and fight corruption.** Implementation of reforms focuses on deepening governance reforms aimed at efficient management of fiscal resources and public investment, enhancing fiscal transparency and countering corruption.

POLICY ISSUES

Policy priorities are supporting an ambitious fiscal consolidation program to ensure debt sustainability while addressing Guinea-Bissau's vast developmental needs through spending efficiency, enhancing revenue mobilization, and strengthening fiscal governance and transparency.

A. Macroeconomic Policies

Addressing Fiscal Consolidation

11. Despite better-than-expected revenue mobilization, a significant wage overrun has undermined the authorities' fiscal goals for 2022. The overall fiscal deficit is projected to be higher by 1.3 percentage points of GDP compared to the 2022 Article IV report, because of higher wage spending due to the irregular hiring of workers and higher other current expenditures. The latter was due to unexpected spending for the preparation of the upcoming parliamentary elections as well as higher spending in security and defense, and social and diplomatic services. The authorities have taken corrective actions to contain the wage bill in the second half of 2022 (Box

I)and are also rationalizing all non-priority spending in the last three months of 2022. While budget support has been higher than expected—France and Portugal have each provided CFAF 3.3 billion in 2022—lower tax revenue has also impacted fiscal goals.

Box 1. Guinea-Bissau: Wage Bill Overrun in 2022

A large number of public sector workers were irregularly hired in the social priority sectors and justice administration. Despite the issuance of an executive order in end-December 2021 to end the irregular hiring of workers, such practice continued in the education, health and justice administration. The irregular hiring of workers resulted in higher wage spending of CFAF 7.4 billion or 0.7 percent of GDP in 2022. The authorities intend to clear the wage arrears due to the irregular hiring of workers by end-2022.

The authorities have taken corrective actions. They include: (i) the dismissal of the irregular workers (except for those regularized in the education sector and justice administration); (ii) total freezing of promotion, hiring and salary increases; (iii) capping salary expenses for key ministries; (iv) full inventory of health and education facilities to assess the personnel needs and identify ghost workers; (v) a new decree stipulating that all contracts should be carried out by submitting the vacancies authorized by the Ministry of Labor and the Ministry of Finance; and (vi) elimination of two-thirds of advisor positions at the Presidency, Prime Minister's Office, the Presidency of the Parliament, and the Presidencies of the Constitutional and Audit Courts.

In addition to the continuation of the 2022 corrective actions, the authorities will implement in 2023 additional measures in health and education to secure the appropriate allocation of resources. They will update the inventory of existing health and schooling facilities, and check the number of health and educations workers assigned to each facility. They will also conduct a new census of public administration within the framework of the World Bank project on capacity building in the public sector. Moreover, recent IMF wage bill management TA mission provided recommendations to improve wage bill spending efficiency and suggested reforms for effective management of the wage bill over the medium-term (SBs, Table 9).

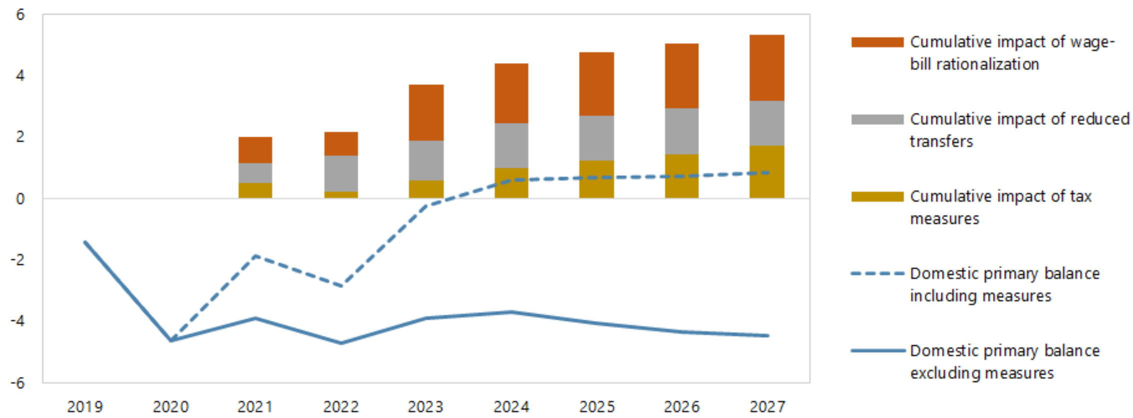
Guinea Bissau: Irregular Workers in Social Priority Sectors and Justice Administration

	No. of workers	Occupation	When did they start work?	Are they still working?	Impact on Budget 2022 (CFAF billions)
Health	1,147	Healthcare workers	Feb-21	Stopped in end-Aug 2022	1.3
Education	2,849	Primary/ secondary level teachers	Jan-22	Yes (Regularized)	5.0
	2,006	Primary/ secondary level teachers (seasonal)	Jan-22	Stopped in end-Jul 2022	0.4
	611	Tertiary teachers (seasonal)	Nov-21	Stopped in end-Jul 2022	0.2
Justice Administration	13	MP delegates	Feb-21	Yes (Regularized)	0.1
	25	Judges	Jan-21		0.2
	153	Justice officials	Oct-21		0.3
Total	**6,804**				**7.4**
Percent of GDP (2022)					**0.7**

Sources: Guinea-Bissau authorities and IMF staff estimations

12. **The authorities' fiscal consolidation strategy aims at ensuring medium-term fiscal sustainability while supporting economic recovery.** The stock of public and publicly guaranteed debt is projected to increase to 81 percent of GDP in 2022. Staff will recommend containing the domestic primary deficit below the 2021 outturn and implementing measures to bring the fiscal deficit and debt ratio within 3 percent and 70 percent of GDP by 2025 and 2027 respectively, in line with the WAEMU convergence criteria. The fiscal consolidation effort will be supported by wage bill rationalization, revenue mobilization and measures to reduce non-essential transfers (Text Figure 1).

Text Figure 1. Guinea-Bissau: Domestic Primary Balance with and without Specific Fiscal Measures
(Percent of GDP)



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

13. A balanced and durable growth-supportive fiscal consolidation will be supported by following measures:

- **Enhancing revenue mobilization.** Measures cover both revenue administration and tax policy reforms, including broadening of tax bases, simplifying the tax system, and strengthening tax administration and compliance (MEFP ¶12). These measures should increase revenue by about 1 percentage point of GDP by 2025. In 2022, the authorities promulgated a tax package to simplify and enhance transparency of the tax system—including revised tax code, tax penalty regime, and a new VAT law, and have fully implemented the electronic filing of tax returns.[10] These new measures will require IMF-supported technical assistance and capacity development[11] for the reforms to the general exemptions regime and in tax administration (Annex V). In 2023, tax revenue will be bolstered by the implementation of the VAT which is expected to generate about 2.6 percent of GDP by 2027. The authorities have also requested IMF support to strengthen tax administration, modernize the income tax regime, draft a new legislation for the general exemption regime, and prepare a new legal framework and fiscal regime for exploitation of natural resources.

- **Strengthening PFM and expenditure control.** Wage bill rationalization will be critical to create fiscal space for priority spending. Domestic primary expenditure is projected to decline by about 2.3 percentage points of GDP by 2025, of which 1.3 percentage points come from wage bill management measures. Recent FAD wage bill management TA provided reform options for wage bill management while protecting social priority spending. The estimated fiscal saving of wage bill and expenditure control would be about 1.9 percent of GDP by 2027. The authorities will undertake additional rationalization measures in 2023, including a new census of public

[10] A revised custom code is pending Parliament approval.

[11] The Capacity Development Strategy for Guinea-Bissau is included in Annex VII.

administration[12] and redistribution of staff workload in the Ministry of Education -the ministry with the largest number of civil servants. A prior action and SBs will enhance wage bill control (Table 8-9 and ¶19).

- **Improving SOE oversight and mitigating fiscal risks.** The financial situation of the state-owned utility company (EAGB) is the largest source of fiscal risks (Annex III). The authorities are taking several measures to improve its financial situation and mitigate fiscal risks with the support of the World Bank (MEFP ¶13).[13] Customer management and revenue collection will be improved with the instalation of 35,000 post and pre-paid electricity meters. EAGB also plans to progress in the connection to the Gambia River Basin Development Organization (OMVG) regional project, which will bring hydropower from neighboring Guineas and should lower the average generation costs and diversify Guinea-Bissau's sources of power generation.
- **Safeguarding social and priority spending and public investment.** The program will safeguard social and priority spending and public investment over the medium term. Initiatives include addressing food insecurity, reducing poverty and enhancing climate resilence. A floor on social and priority spending is proposed as quantitative target (Table 6) and this spending is projected to increase by 0.7 percentage points of GDP during 2022-27 compared to pre-COVID-19 period (2010-19). Moreover, the authorities will undertake measures to strenghten public investment management (SB, Table 9) to enhance investment in priority sectors and infrastructure to sustain economic growth. Capital expenditure increased to an average of about 9 percent of GDP per annum during 2020-21, as the authorities ramped up the provision of healthcare-related services. In 2022-27, capital expenditure is projected to be 7.4 percent of GDP per annum on average, 1.5 percentage points higher than the pre-COVID-19 period (2010-19). Domestically financed capital investment is projected to increase significantly, underpinned by fiscal space created.

Financing and Debt

14. Together with fiscal consolidation, reducing financing costs and preserving debt sustainability entail additional financing needs of 1.9 percent of GDP over the next three years. Staff estimates a financing gap of CFAF 8.1 billion each year—around 0.6 percent of GDP to be covered by the ECF arrangement. Fiscal consolidation efforts and mitigating debt vulnerabilities will be aided by catalyzing financing from donors, contracting only new highly concessional loans, and rationalizing the disbursements of contracted non-concessional project loans. This strategy will alleviate financing pressures stemming from reliance on non-concessional lending from BOAD, local commercial banks, and treasury issuances in the regional market. In addition, the authorities plan to clear during the program period all audited and recognized domestic arrears and are addressing the legacy external arrears. Guinea-Bissau has legacy external arrears, totaling US$5.7 million at end-2022, to Brazil, Russia, and Pakistan. The authorities reached an agreement with Russia (US$1.5 million) and

[12] The new census will be conducted within the framework of the World Bank project on capacity building in the public sector.

[13] See Annex II and 2022 Article IV Consultation and Third Review of the SMP (Annex IX).

are negotiating with Pakistan (US$2.2 million). Negotiations with Brazil (US$1.9 million) are pending final approval from the Brazilian parliament.

15. Guinea-Bissau is at a high risk of external and overall debt distress but debt is assessed sustainable (see DSA). The external debt reached 40 percent of GDP at end-2021. The risk of external debt distress is high because the indicators based on the debt-service ratios breach their indicative thresholds under the baseline. The overall risk of debt distress is also high because the PV of public debt relative to GDP remains well above its indicative benchmark throughout the projection period. Debt is assessed as sustainable based on the authorities' commitment to sound policies supported by strong donor engagement. Guinea-Bissau's supportive regional membership of the WAEMU reduces medium-term rollover risks associated with domestic debt, and staff projects a gradual decline of the PV of public debt relative to GDP over the medium term. The debt outlook remains vulnerable to a weaker economic recovery, a further tightening of global financial conditions, and authorities' failure to adhere to prudent fiscal policies. Debt sustainability prospects are expected to improve through better transparency and compliance with a QPC of the zero ceiling on new non-concessional borrowing (with exception for certain projects financed from the BOAD's Development and Cohesion Fund).[14] IMF TA support for debt management will be provided to develop this capacity.

Strengthening Financial Stability

16. Addressing NPLs and a successful disengagement strategy from a large, undercapitalized bank would support financial stability and intermediation. Since 2012, NPLs have decreased but remain high, because of a large undercapitalized bank. This bank plays an important role in the provision of credit to the private sector, through financing the cashew campaign and bringing financial services to rural areas. The government approved an offer of a strategic investor to buy its stake and capitalize the institution to comply with WAEMU regulatory standards. The authorities settled arrears owed by the govenrment to borrowers from the bank and is monitoring the due diligence process, which will be submitted to the WAEMU Regional Banking Comission. If the operation does not materialize, the authorities will implement an additional SB in line the 2022 Article IV recommendations by end-December 2023 (MEFP ¶24). The recommendations include (i) providing the financial information requested by the IMF including an assessment of the bank's financial position and a full independent audit of all loan portfolio including NPLs from a third-party auditing firm to be performed by end-December 2023 (LOI, ¶10); (ii) preparing a report with a reconsidered viable new government plan for disengaging from the undercapitalized bank by 2024; and (iii) implementing the recommendations of the Banking Commission.

[14] In line with the IMF's Debt Limits Policy (DLP) for countries at high risk of external debt distress and with no significant access to international financial markets, the performance criterion on non-concessional borrowing has been set at zero. Given the authorities' lack of technical capacity to monitor a PV limit due to staffing constraints, limited hiring potential, and high turnover, new concessional borrowing is monitored as a memorandum item.

B. Structural Reforms

17. The ECF arrangement prioritizes implementing and completing reforms initiated and discussed under the SMP to strengthen fiscal consolidation and governance. SBs (Table 9) are built around a limited set of priorities presented by the CES (Annex I). Given Guinea-Bissau's fragility and weak institutional capacity, the proposed SBs are parsimonious, carefully prioritized and sequenced, and anchored in capacity development support (Annex VI).

18. The PFM reforms will strengthen wage bill controls and cash management (MEFP ¶18)**.** The authorities will conduct quarterly reconciliation between the personnel and payroll records and deploy the IMF-supported blockchain project[15] in order to safeguard the integirty of payroll data and employment contracts and flag any irregular hiring. To strengthen the cash management, the authorities have prepared an action plan for the TSA implementation and coordination with revenue generating entities (Annex V).

19. The authorities are committed to strengthening audits and public procurement, building on the SMP achievements (MEFP ¶19-20)**.** To complement the audit of spending of the High Commissioner for COVID-19 published in June 2022[16], the authorities have published the report of independent third-party audit of all COVID-19 related spending[17], which was carried out with support of the internal auditor (the Inspector-General for Finance). Subsequently, the Audit Court will undertake external audits of all COVID-19 related spending. The Audit Court also plans to complete by end-2023 an audit of the irregular hiring process in 2021-22, which has been requested by the MoF. The authorities have continued to publish all crisis-related contracts including beneficial ownership information.[18] They will issue the guidelines for implementation of the 2022 decree on beneficial ownership, which expands beneficial ownership disclosure to all public contracts.

20. The authorities will step up efforts to improve the AML/CFT effectiveness and the anti-corruption framework. Addressing the priority recommendations in the 2022 Mutual Evaluation Report (MER) is needed to avoid a negative impact on correspondent banking relationships. These efforts will be complemented by (i) preparing the national AML/CFT policy and action plan, (ii) requiring all legal persons resigtering at the Registry to submit a beneficial owner identification form similar to the one submitted as part of the tender process, and (iii) preparing an action plan to strengthen risk-based AML/CFT supervision (Annex V). As a short-term priority for the anti-corruption reforms, the authorities will resubmit the law reforming the asset declaration regime as soon as new Parliament is operational. A broader range of measures will also be needed to improve the rule of law and market regulations as recommended by the 2020 Governance Diagnostic report (MEFP ¶26-27).

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[15] See Box 3 in IMF Country Report No. 22/196

[16] Available at the government website.

[17] Available at the Inspector General of Finance website.

[18] Available at High Commissioner for Covid-19 and Directorate for Public Procurement.

PROGRAM MODALITIES

21. The authorities request a three-year ECF arrangement with the access of SDR 28.4 million (100 percent quota). The program would address near-term BOP needs to support the recovery from the pandemic and surge in food and fuel prices while aiming to reduce protracted BOP vulnerabilities through fiscal consolidation, prudent borrowing and structural reforms to secure debt sustainabilty (Table 2b). All disbursements will be on-lent to the government (budget support). Phasing would be a third of the access per year (Table 10).

22. Program performance will be monitored via two quarterly reviews followed by five biannual reviews.[19]

- **Quantitative Performance Criteria/Indicative Targets (QPCs/ITs).** Staff proposes adding to the QTs in the SMP a ceiling on the wage bill expenditures as a QPC (Table 6 and Appendix I ¶4).[20]
- **Prior actions** (Table 8) include (i) the approval by the Council of Ministers of the 2023 budget in line with program paramenters and (ii) additional measures to enforce the executive order to end irregular hiring of employees by (a) requesting to the Audit Court to initiate an audit on the irregular hiring of employees, and (b) the publication of the thrid-party complementary audit of COVID spending.
- **Structural benchmarks** (SBs, Table 9). Key areas include implementation of PFM reforms[21] and strengthening the tax framework by reforming the exemption regime and stamp duties; revising the income tax law and enhancing transparency and efficiency in the tax regime for the management of natural resources. In addition, the structural reforms will include improving the anti-corruption framework by resubmitting parliament the law reforming the Asset Declaration Regime; facilitating the implementation of the 2022 decree regarding beneficial ownership (BO) information of entities awarded public contracts; and improving tranparency in charges and fees (including courts and registry fees).

23. The program is fully financed in the first twelve months and there are good prospects that the program will be adequately financed throughout its duration. The re-engagement of the country with the IMF since 2021 has led to higher budget support grants with bilateral donors in 2021 and 2022. In 2023, the catalytic role of the ECF-supported program will generate budget support grants, with at least CFAF 3.8 billion included in the budget. Moreover, once a sound program performance starts to provide sufficient assurances, staff expected other donors will

[19] The first two reviews and disbursements will be on a quarterly basis because higher political and economic uncertainty during the period leading to the legislative election calls for more closer monitoring.

[20] Staff will consider proposing conversion of QPC on the wage bill into an IT after the first year of program performance in consultation with departments.

[21] Reforms initiated during the SMP including further steps to implement a TSA, improve cash management, control the wage bill, and strengthening SOE's risk management. The SBs on wage bill management would be further refined based on the findings of the IMF wage bill management TA mission in September 2022.

engage with highly concessional project loans, additional budget support and project grants during the program period. The IMF support over the program period would amount to 12 percent of the total grants and project loans to address external financing needs (Text Table 4).

Text Table 4. Guinea-Bissau: Grants and Loans from Multilateral Partners and Donors
(In CFAF billion)

	2020	2021	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Grants	**33.0**	**58.5**	**42.2**	**43.9**	**46.7**	**49.6**
Budget Support	0.0	1.0	6.6	3.8	3.8	3.8
Project Grants	33.0	57.5	35.6	40.1	42.8	45.8
Project Loans	**36.5**	**24.0**	**20.7**	**21.1**	**23.9**	**25.6**
IDA	18.6	14.9	12.1	8.0	8.0	10.6
BOAD	8.6	5.4	5.9	7.5	6.0	6.0
AfDB	2.5	3.6	1.7	2.0	1.4	1.5
Others	6.7	0.2	1.0	3.6	8.5	7.6
IMF disbursements	**0.0**	**11.2**	**0.0**	**8.1**	**8.1**	**8.1**

Source: IMF staff projections

24. **Guinea-Bissau's capacity to repay is adequate but subject to significant risks (Table 7).** Under the baseline, outstanding obligations to the Fund based on existing and prospective drawings would peak in 2025 at 3.0 percent of GDP, above the median of past UCT-quality arrangements for LICs, or 16.3 percent of gross official reserves, while debt service would peak at 2.3 percent of revenues (excluding grants) or 2.1 percent of exports in 2030 (Figure 1). In the medium-term, debt servicing capacity may become strained as financing terms become less generous. Capacity to repay the Fund is subject to significant downside risks (Annex I and ¶9 bullet 3). Risks are mitigated by the authorities' strong track record of servicing their debt obligations to the Fund, policy measures envisaged in the program, and membership of the currency union. Guinea Bissau should continue to pursue highly concessional financing and fiscal adjustments to ensure adequate capacity to repay.

25. **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. An update assessment of the BCEAO is planned for 2023.

STAFF APPRAISAL

26. **Guinea-Bissau has preserved economic and political stability, despite extremely challenging domestic and external environments.** In recent years, Guinea-Bissau has coped with significant shocks and political stability was challenged by a coup attempt in February 2022.

However, the moderate recovery in 2022 has been sustained by higher agricultural production and higher private sector investment, which has benefited from a relatively stable political environment.

27. Staff commends the authorities for their strong commitment to implement reform policies, demonstrated through the successful completion of the SMP and the adoption of corrective actions to curb the recent budget overrun. In 2022, the wage bill and other expenditure overruns as well as transitory measures to mitigate cost-of-living pressures to the most vulnerable increased spending pressures. However, the authorities have taken strong corrective actions to end irregular hirings including enhancing oversight by requesting an audit by the Audit Court and eliminating more than two-thirds of advisor positions at the Presidency, the Prime Minister's Office, the Presidency of the Parliament, and the Presidencies of the Constitutional and Audit Courts.

28. Despite upcoming parliamentary elections, there is the broad ownership of the Fund-supported reform agenda accross all main political parties. The broad political support to the ECF-supported program should build national consensus on critical reforms to secure fiscal consolidation, ensure debt sustainability, and improve governance and transparency. This will reduce the reform implementation risks regardless of the election results.

29. The proposed 2023 budget is consistent with the objectives and parameters of ECF-supported program. The program targets will be supported by measures for wage bill containment, revenue mobilization, and expenditure control. With these measures, the 2023 budget should narrow the domestic primary deficit to an almost balanced position. The 2023 budget also limits new infrastructure projects to those financed with concessional borrowing.

30. There has been progress in orderly restructuring of the undercapitalized bank. The government has accepted an offer from a strategic investor to buy the government stake and recapitalize the bank. If this operation does not materialize, the authorities should prepare a viable alternative plan to complete the divestment by 2024 based on IMF recommendations. The undercapitalized bank should achieve the recapitalization or otherwise be liquidated or resolved by the end of the ECF-supported program period (December 2025).

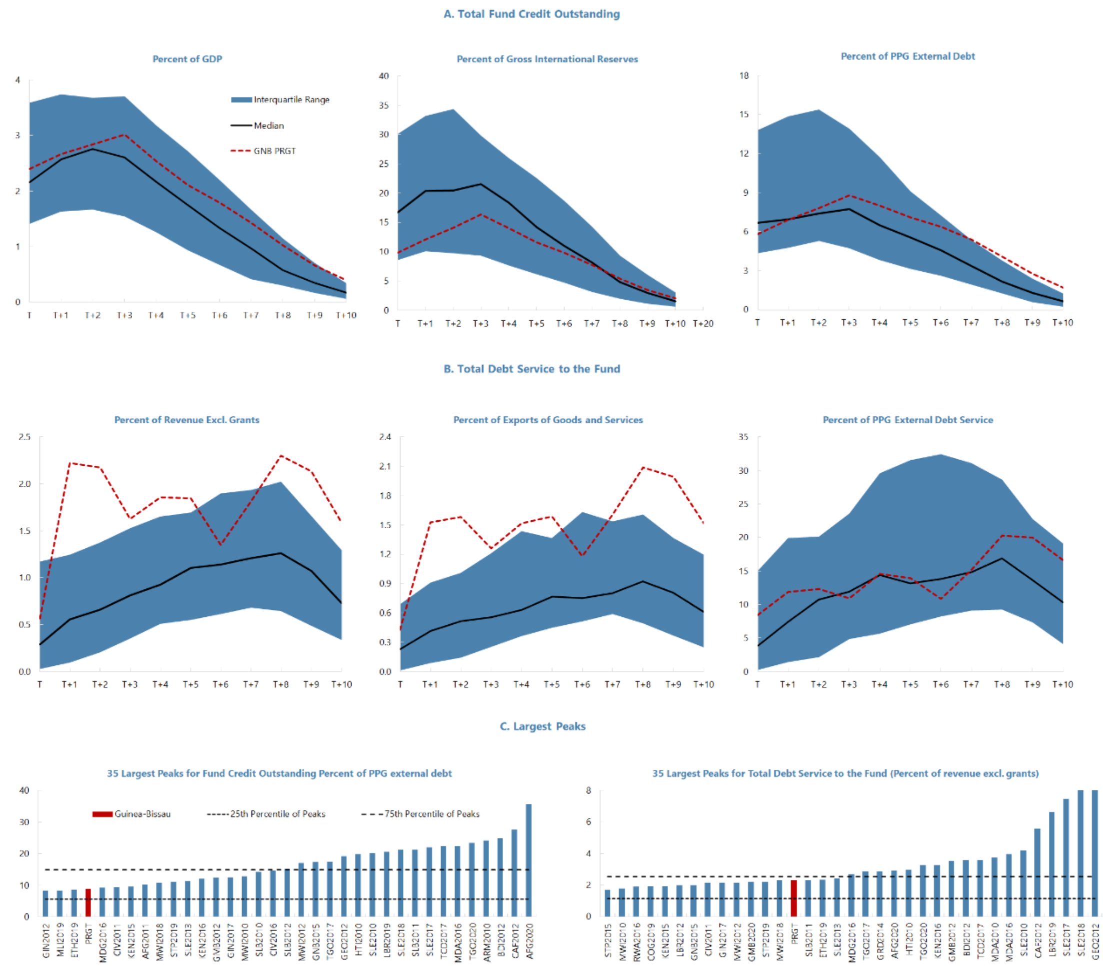
31. The authorities should bolster efforts to contain risks from EAGB, the public utility company, and reduce its financial vulnerabilities. A time-bound business strategy will be essential to improve EAGB's operational efficiency and restore the financial situation. Staff urges the authorites to work closely with the World Bank and other international financial institutions to mobilize financing for reducing its dependence on commercial bank borrowing and preventing the arrears accumulation.

32. Continued efforts to implement the governance and transparency reforms are critical for program success. Staff welcomes the authorities' progress in implementing safeguards for COVID-19 spending. Staff recommends the authorities to complete and publish an external audit of all COVID-19 spending by the Audit Court, following the independent third-party audit. The timely online publication of contract information of entities awarded public procurement contracts and their beneficial owners should continue. The authorities should promptly implement reforms for improving the AML/CFT effectiveness, the anti-corruption framework, and the the revenue administratopm and PFM.

33. Staff supports the authorities' request for the ECF arrangement. The recommendation is based on the strong progress made under the SMP program. To overcome capacity constraints, the IMF is supporting the authorities' efforts in all policy areas covered in the program through tailored TA in cooperation with international partners. It is expected that the next Article IV consultation with Guinea-Bissau be held on the 24-month cycle, according to Decision No. 14747-(10/96) on consultation cycles.

Figure 1. Guinea-Bissau: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries

(In percent of the indicated variable)

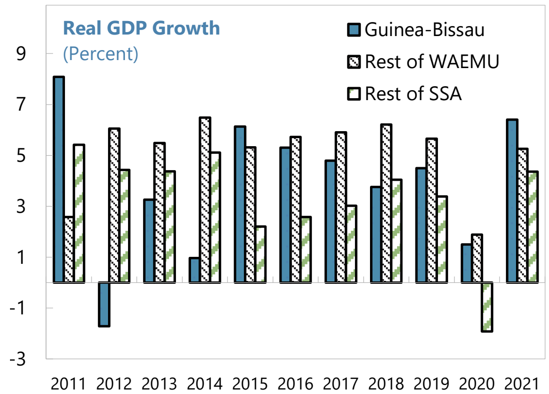


Notes:

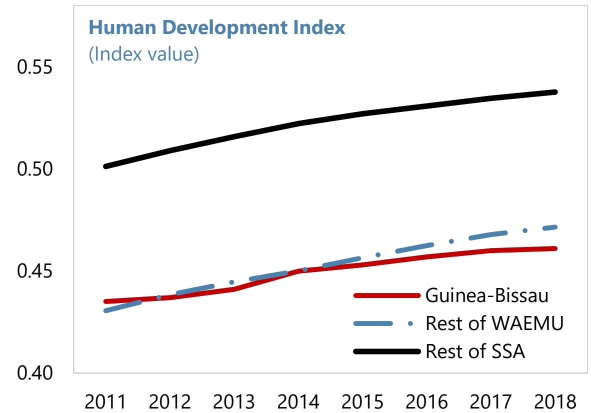
1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2010 and 2020.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.
8) In section C charts, the red bar for the country being reviewed appears only if it falls among the 35 largest peaks.

Figure 2. Guinea-Bissau: Growth and Living Standards

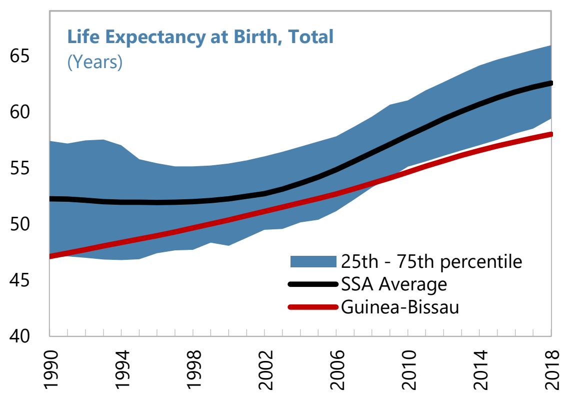
A volatile economic growth compared to its regional peers reflects a long history of political instability…



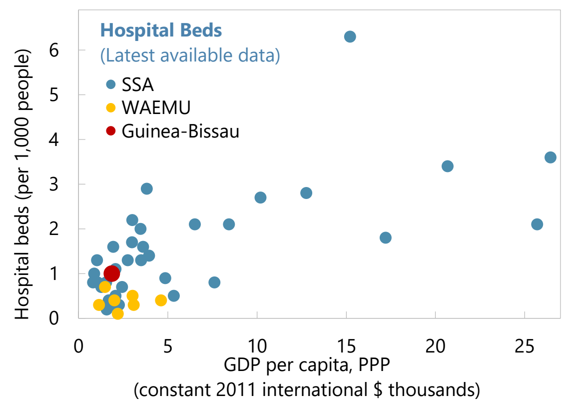
…and economic fragility, which weighs on the population's living standards.



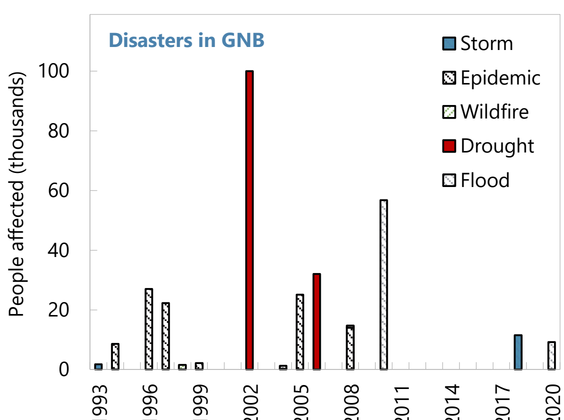
Weak health conditions are evidenced by a significantly lower life expectancy at birth, compared to SSA peers.



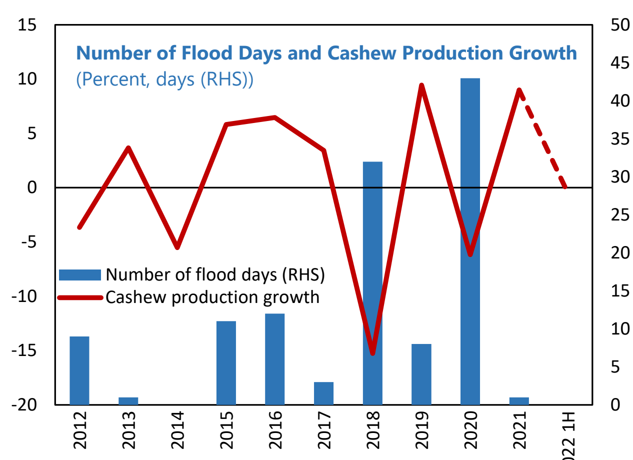
The health system has limited resources, including medical equipment, which is critical…



considering the country's exposure to natural hazard events such as the floods and the pandemic…



and the cashew production and farming livelihood is affected by climate shocks including floods.

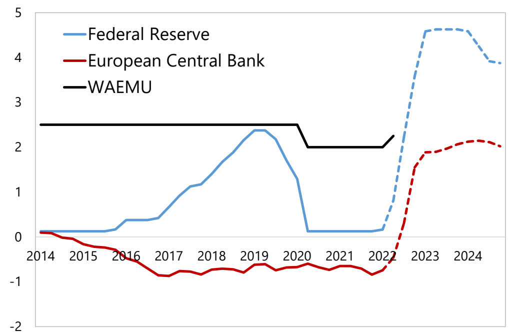


Sources: World Bank, Worldwide Development Indicators; EM-DAT, CRED database; NASA Giovanni database; Guinea-Bissau authorities; and IMF staff calculations.

Figure 3. Guinea-Bissau: Global Economic Developments

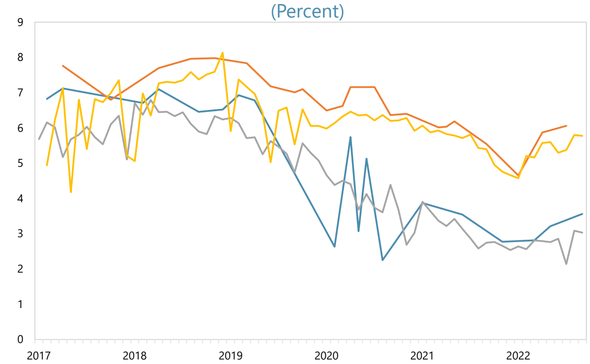
Central banks in advanced economies are tightening…

Monetary Policy Rates
(Percent)



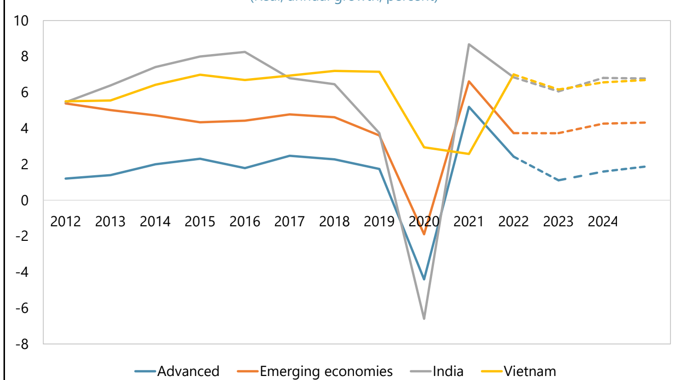
…and yields in the regional markets are starting to increase…

Sovereign Yields in the WAEMU
(Percent)



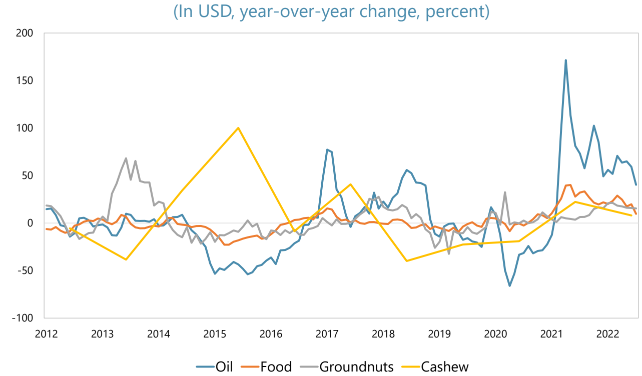
…while growth of trading partners is falling…

GDP Growth
(Real, annual growth, percent)



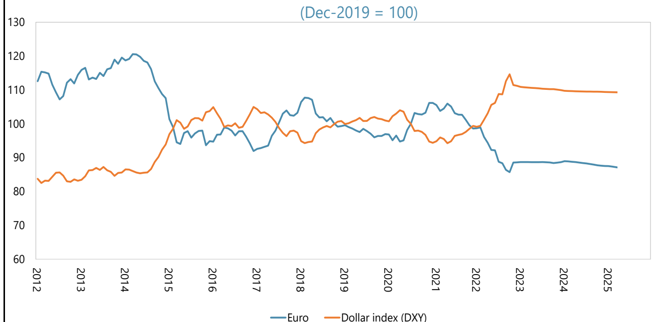
…and the growth in commodity prices is easing.

Commodity Prices
(In USD, year-over-year change, percent)



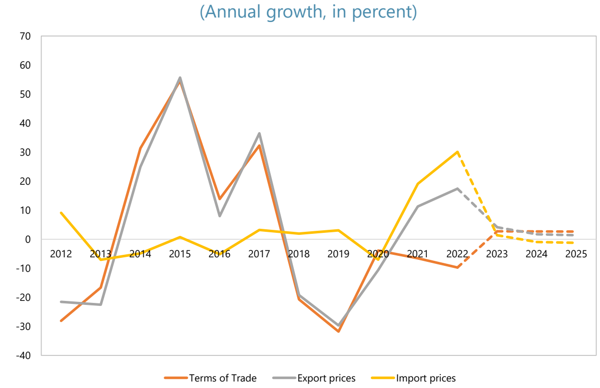
The euro and CFA have depreciated substantially against the US dollar, with no rebound expected…

Exchange Rates
(Dec-2019 = 100)



…while terms of trade are expected to remain unchanged.

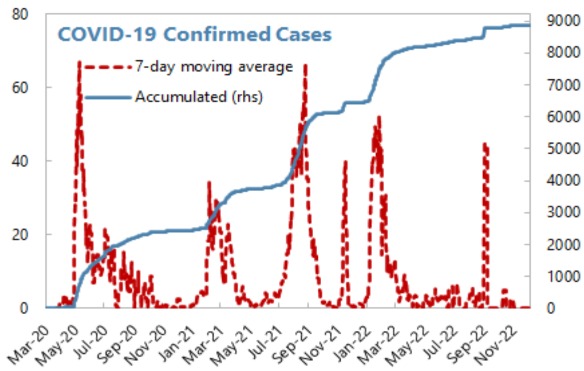
Export and Import Prices
(Annual growth, in percent)



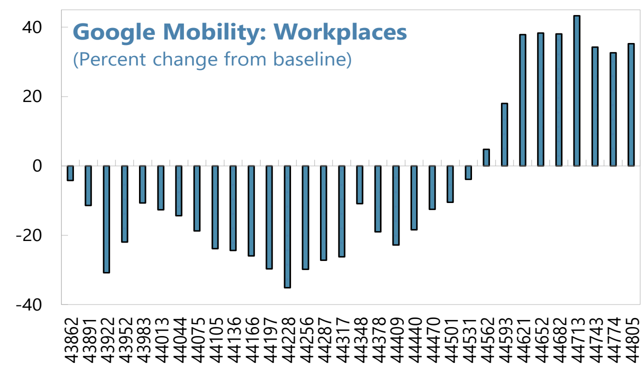
Sources: Guinea-Bissau authorities; BCEAO; and IMF staff calculations.

Figure 4. Guinea-Bissau: COVID-19 Pandemic, Activity and Prices

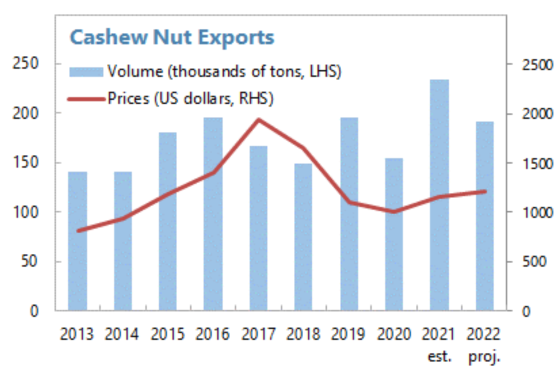
The first COVID-19 were reported in end-March 2020 and rapidly increased in the following weeks…



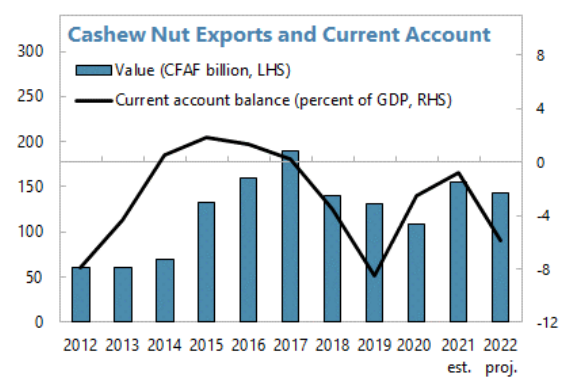
…when containment and lockdown measures were imposed by the State of Emergency (March) and the State of Calamity (September).



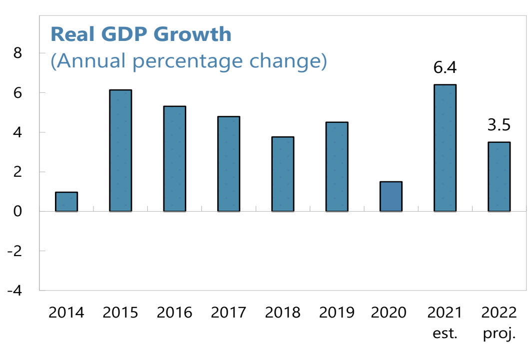
Cashew exports were affected by the delayed cashew campaign (volume) and weaker demand from trade partners (prices)…



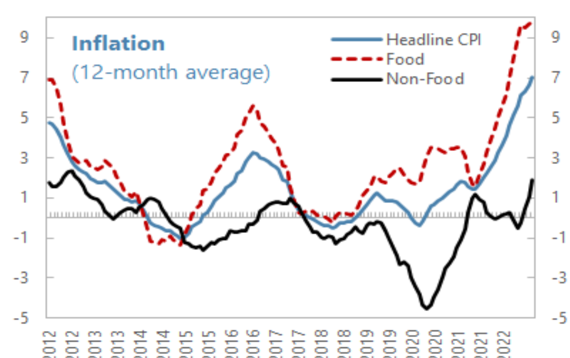
…which added to the terms-of-trade shock of recent years and further widened the current account deficit.



The effects of the War in Ukraine is expected to slowed down GDP growth in 2022…



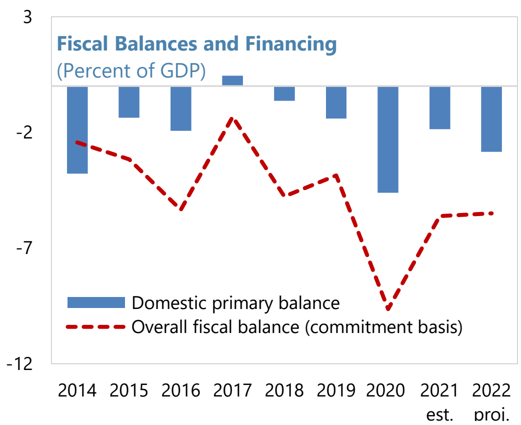
…and a pickup in inflation, as food prices also reflect disruptions in international trade.



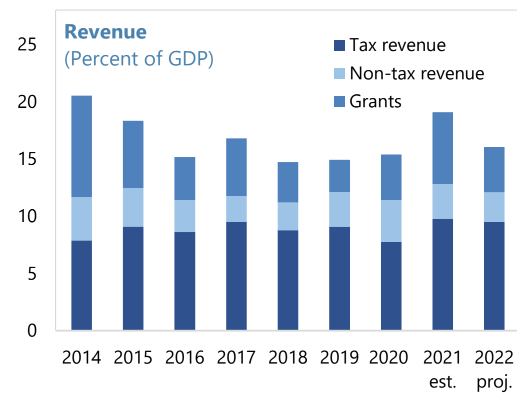
Sources: Google Mobility database, Our World in Data, Guinea-Bissau authorities and IMF staff calculations.

Figure 5. Guinea-Bissau: Fiscal, External and Monetary Developments

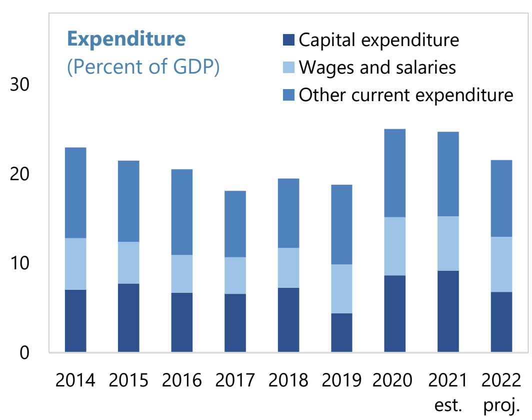
Overall fiscal balance has improved since 2020…



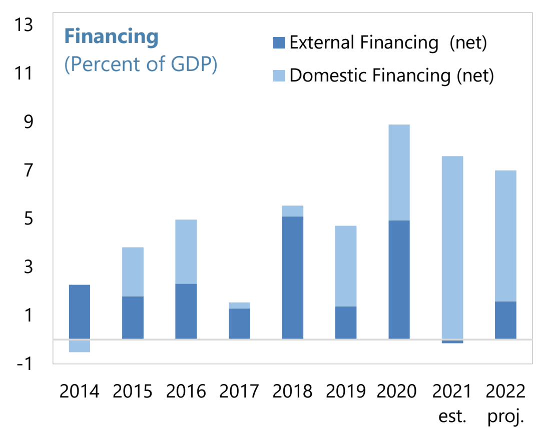
…due to stronger tax revenues…



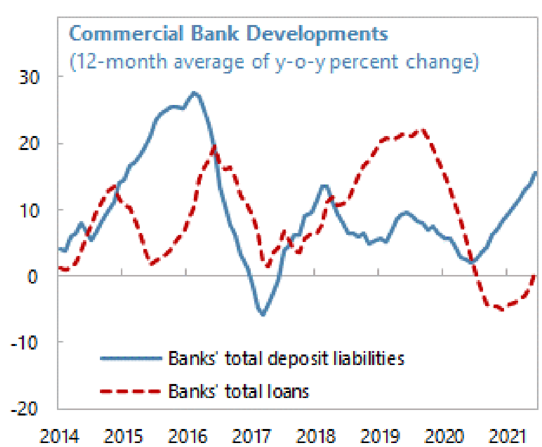
… and lower expenditures…



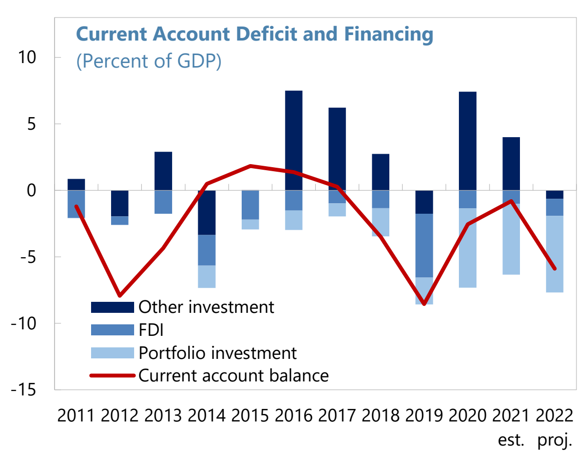
…resulting in lower financing.



Increased regional financing partially has slowed down credit to the private sector.



The financing of the current account deficit was mainly met by portfolio investment (treasury securities) in 2022.



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

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
			Est.			Proj.			
	(Annual percent change, unless otherwise indicated)								
National accounts and prices									
Real GDP at market prices	4.5	1.5	6.4	3.5	4.5	5.0	5.0	5.0	5.0
Real GDP per capita	2.3	-0.7	4.1	1.2	2.3	2.8	2.9	2.9	2.9
GDP deflator	-3.5	-1.0	2.7	7.2	4.1	2.8	2.8	2.8	2.8
Consumer price index (annual average)	0.3	1.5	3.3	7.8	5.0	3.0	2.0	2.0	2.0
External sector									
Exports, f.o.b. (CFA francs)	-22.7	-15.6	35.2	-10.7	34.2	4.4	3.6	3.5	4.2
Imports, f.o.b. (CFA francs)	20.5	-9.9	9.7	12.8	12.6	4.7	4.3	3.7	4.5
Terms of trade (deterioration = -)	-31.8	-3.9	-6.6	-9.8	2.7	2.6	2.6	2.2	2.0
Real effective exchange rate (depreciation = -)	-2.8	2.3	1.4	...	...	...	...	...	...
Exchange rate (CFAF per US$; average)	585.9	574.8	554.2	...	...	...	...	...	...
Government finances									
Revenue excluding grants	9.2	-5.5	22.7	4.6	14.1	10.8	10.5	9.6	9.8
Expenditure	-2.6	33.8	7.8	-3.3	2.7	5.7	8.4	7.3	9.6
Current expenditure	18.7	14.5	3.5	5.4	-4.4	4.3	6.5	7.9	8.6
Capital expenditure	-38.5	96.7	16.1	-17.9	18.2	8.3	11.6	6.3	11.2
Money and credit									
Domestic credit	13.8	-1.7	18.5	3.4	11.2	12.9	11.1	6.7	5.9
Credit to the government (net)	13.8	-19.7	53.4	-5.1	6.4	5.7	3.2	-7.9	-9.2
Credit to the economy	13.8	5.9	7.3	7.3	13.2	15.6	13.8	11.3	9.9
Net domestic assets	12.0	-13.8	21.0	5.1	16.5	18.0	14.9	8.7	7.6
Broad money (M2)	0.3	9.1	21.2	6.1	6.0	7.0	6.9	6.0	6.2
	(Percent of GDP, unless otherwise indicated)								
Investments and savings									
Gross investment	16.2	17.5	18.1	18.5	17.8	19.7	20.6	21.2	22.1
Of which: government investment	3.0	5.8	6.2	4.6	5.0	5.0	5.2	5.1	5.3
Gross domestic savings	2.4	3.2	7.4	4.3	4.8	7.2	8.3	9.4	10.6
Of which: government savings	-3.5	-7.6	-5.4	-4.3	-2.4	-1.6	-1.2	-1.3	-1.2
Gross national savings	7.6	15.0	17.3	12.6	13.1	15.2	16.3	17.0	18.1
Government finances									
Revenue excluding grants	12.1	11.4	12.8	12.1	12.7	13.0	13.3	13.5	13.7
Domestic primary expenditure	13.5	16.0	14.7	14.9	12.9	12.4	12.6	12.8	12.9
Domestic primary balance	-1.4	-4.6	-1.9	-2.8	-0.2	0.6	0.7	0.7	0.9
Overall balance (commitment basis)									
Including grants	-3.9	-9.6	-5.6	-5.5	-3.9	-3.2	-3.0	-3.0	-3.0
Excluding grants	-6.7	-13.6	-11.9	-9.5	-7.7	-6.9	-6.7	-6.4	-6.5
External current account	-8.5	-2.6	-0.8	-5.9	-4.7	-4.5	-4.3	-4.2	-4.0
Excluding official current transfers	-9.7	-5.7	-3.4	-8.0	-7.1	-6.9	-6.6	-6.2	-6.1
Stock of public and publicly guaranteed debt[1]	65.8	78.2	78.9	81.0	78.2	75.4	72.7	70.1	68.0
Of which: external debt	37.3	41.1	40.0	41.2	38.4	36.1	34.1	31.6	29.4
Memorandum items:									
Nominal GDP at market prices (CFAF billions)	870.9	875.2	956.3	1061.1	1154.3	1245.9	1344.8	1451.6	1566.9
WAEMU gross official reserves (billions of US$)	17.5	21.8	24.5	...	...	...	...	...	...
(percent of broad money)	34.1	33.2	30.2	...	...	...	...	...	...

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

[1] Coverage expanded to include legacy arrears.

Table 2a. Guinea-Bissau: Balance of Payments, 2019–27

(CFAF billions)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Proj.					
Current Account Balance	-74.4	-22.4	-7.8	-62.6	-54.6	-56.3	-58.1	-60.7	-63.0
Goods and services	-123.3	-119.1	-101.6	-147.8	-140.0	-147.1	-155.2	-162.1	-170.3
Goods	-50.6	-53.8	-27.7	-70.4	-47.2	-50.0	-53.8	-56.1	-59.5
Exports, f.o.b	145.7	123.1	166.3	148.5	199.2	207.9	215.3	222.8	232.1
Of which: cashew nuts	130.7	109.2	154.4	143.3	193.6	201.8	208.7	215.8	224.5
Imports, f.o.b.	-196.4	-176.8	-194.0	-218.8	-246.4	-257.9	-269.1	-278.9	-291.6
Of which: food products	-59.7	-58.7	-57.6	-61.2	-77.3	-81.2	-84.4	-87.4	-89.5
petroleum products	-33.1	-30.9	-36.1	-45.1	-52.7	-51.2	-50.3	-52.3	-52.7
Services	-72.6	-65.3	-73.9	-77.4	-92.8	-97.0	-101.4	-106.0	-110.8
Credit	25.2	10.7	19.4	20.6	13.6	14.6	15.8	17.0	18.4
Debit	-97.8	-76.0	-93.3	-98.0	-106.3	-111.6	-117.2	-123.1	-129.2
Incomes	15.8	14.5	9.4	6.8	0.9	2.2	4.3	6.7	6.9
Credit	24.5	22.5	17.3	21.5	22.3	24.8	27.1	29.3	31.0
Of which: EU fishing compensation	7.6	7.6	8.9	8.9	8.9	8.9	8.9	8.9	8.9
Other license fees	6.8	10.1	4.9	7.4	7.7	8.7	10.6	12.5	13.9
Debit	-8.8	-8.0	-7.9	-14.8	-21.4	-22.7	-22.8	-22.5	-24.1
Of which: government interest	-3.7	-7.7	-10.6	-7.2	-14.1	-15.3	-15.4	-16.6	-18.8
Current transfers (net)	33.1	82.2	84.4	78.4	84.5	88.6	92.9	94.7	100.4
Official	10.0	27.8	24.9	22.6	27.9	29.5	31.3	29.6	32.6
Private	23.1	54.3	59.5	55.8	56.6	59.1	61.6	65.1	67.8
Of which: remittances	21.7	51.8	56.7	52.7	53.3	55.7	58.0	61.4	63.9
Capital account	16.1	6.0	34.7	22.8	19.4	20.6	21.9	23.4	25.6
Of which: official transfers	14.5	5.2	33.6	19.6	16.0	17.1	18.3	19.8	21.8
Financial account	-74.7	0.8	-22.3	-81.5	-29.2	-29.6	-33.4	-52.3	-57.6
FDI	-41.8	-11.9	-9.8	-13.6	-14.8	-16.0	-17.2	-18.6	-20.1
Other investment	-33.0	12.7	-12.5	-67.9	-14.4	-13.7	-16.2	-33.7	-37.6
Official medium- and long-term disbursements	-14.1	-51.3	-24.1	-20.7	-21.1	-23.9	-25.6	-23.1	-25.9
Programs	0.0	-22.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Projects	-14.1	-29.3	-24.0	-20.7	-21.1	-23.9	-25.6	-23.1	-25.9
Amortization	2.1	11.8	25.5	3.9	18.8	19.8	19.3	16.8	19.5
Treasury bills (regional financing)	-18.3	-46.2	-59.3	-61.1	-42.0	-35.5	-35.9	-43.3	-47.1
Commercial bank net foreign assets	-28.1	72.2	5.3	-20.0	10.0	10.0	10.0	0.0	0.0
Other net foreign assets	25.5	26.2	40.0	30.0	20.0	16.0	16.0	16.0	16.0
Errors and Omissions	-3.2	-3.2	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	13.2	-20.3	51.0	41.7	-6.0	-6.1	-2.8	15.0	20.2
Financing	-13.2	20.3	-51.0	-41.7	6.0	6.1	2.8	-15.0	-20.2
Net foreign assets excluding IMF (increase -)	-12.0	20.3	-62.2	-38.6	1.0	1.4	-2.5	-11.5	-16.2
IMF purchases	0.0	0.0	11.2	0.0	8.1	8.1	8.1	0.0	0.0
IMF repurchases	-1.2	-2.0	-1.6	-3.1	-3.1	-3.4	-2.8	-3.5	-4.0
Grant for debt relief under the IMF CCRT	0.0	2.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Cashew export quantity (thousands of tons)	196	155	234	191	235	239	244	249	254
Cashew export prices (US$ per ton)	1,098	1,000	1,154	1,210	1,222	1,247	1,271	1,297	1,323
Import volume of goods (annual percentage change)	12.8	-5.8	-5.9	-14.5	10.3	5.6	5.7	4.8	4.6
Oil prices (international, US$ per barrel)	61.2	41.8	69.4	98.2	85.5	80.2	76.2	73.3	71.0
Scheduled debt service									
Percent of exports and service credits	2.8	13.5	18.2	5.1	12.8	12.8	11.5	10.4	11.4
Percent of total government revenue	4.6	18.1	27.7	6.7	18.7	17.6	14.9	12.7	13.2
Current account balance (percent of GDP)	-8.5	-2.6	-0.8	-5.9	-4.7	-4.5	-4.3	-4.2	-4.0
Official transfers (percent of GDP)	2.8	3.8	6.1	4.0	3.8	3.7	3.7	3.4	3.5
WAEMU gross official reserves (billions of US$)	17.5	21.8	24.5	...	...	...	...	...	...
(percent of broad money)	34.1	33.2	30.2	...	...	...	...	...	...

Sources: BCEAO; and IMF staff estimates and projections.

Table 2b. Guinea-Bissau: External Financing Needs and Sources, 2020-27
(CFAF billions)

	2020	2021	2022	2023	2024	2025	2026	2027
			Proj.					
Financing requirements	**-43.6**	**-122.0**	**-130.8**	**-103.3**	**-107.6**	**-114.0**	**-122.1**	**-135.3**
Current account deficit excl. official transfers	-50.2	-32.7	-85.2	-82.5	-85.8	-89.4	-90.3	-95.6
Public debt amortization	-11.8	-25.5	-3.9	-18.8	-19.8	-19.3	-16.8	-19.5
Changes in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in official reserves	20.3	-62.2	-38.6	1.0	1.4	-2.5	-11.5	-16.2
IMF repurchases	-2.0	-1.6	-3.1	-3.1	-3.4	-2.8	-3.5	-4.0
Available financing	**41.6**	**108.2**	**124.2**	**91.4**	**95.7**	**102.1**	**122.1**	**135.3**
Project grants	33.0	57.5	35.6	40.1	42.8	45.8	49.4	54.4
Net foreing direct investment	11.9	9.8	13.6	14.8	16.0	17.2	18.6	20.1
Treasury bills (regional financing)	46.2	59.3	61.1	42.0	35.5	35.9	43.3	47.1
Official creditors	51.3	24.1	20.7	21.1	23.9	25.6	23.1	25.9
Other net flows[1]	-100.8	-42.4	-6.8	-26.6	-22.5	-22.4	-12.3	-12.2
Financing needs	**2.0**	**13.8**	**6.6**	**11.9**	**11.9**	**11.9**	**0.0**	**0.0**
CCRT	2.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Budget support grants	0.0	1.0	6.6	3.8	3.8	3.8	0.0	0.0
o/w Multilateral grants	0.0	0.0	0.0	3.8	3.8	3.8	0.0	0.0
IMF disbursements	0.0	11.2	0.0	8.1	8.1	8.1	0.0	0.0
o/w ECF program	0.0	0.0	0.0	8.1	8.1	8.1	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: BCEAO, IMF staff estimates and projections.
[1] Includes net private capital transfers, changes in NFA of commercial banks and non-financial private sector, SDR allocations, and errors and omissions

Table 3a. Guinea-Bissau: Consolidated Operations of the Central Government, 2019–27
(CFAF billions)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Proj.					
Revenue and grants	130.1	134.7	182.5	170.2	190.0	208.5	228.4	245.4	269.6
Tax revenue	79.1	67.8	93.5	100.5	113.7	127.6	141.2	155.2	171.7
Nontax revenue	26.5	32.0	28.9	27.5	32.4	34.3	37.6	40.8	43.6
Grants	24.5	35.0	60.1	42.2	43.9	46.7	49.6	49.4	54.4
Budget support	1.9	0.0	1.0	6.6	3.8	3.8	3.8	0.0	0.0
Project grants	22.6	33.0	57.5	35.6	40.1	42.8	45.8	49.4	54.4
Capital grants from CCRT	0.0	2.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	163.7	219.1	236.3	228.6	234.8	248.3	269.1	288.7	316.4
Expense	125.2	143.4	148.4	156.5	149.6	155.9	166.0	179.2	194.6
Wages and salaries	47.5	57.0	58.2	65.5	59.0	62.0	65.5	69.8	75.1
Goods and services	18.7	25.4	28.7	27.0	26.5	27.9	30.2	32.5	35.1
Transfers	27.1	27.3	25.9	22.8	23.5	23.2	25.1	26.9	29.1
Interest	9.2	13.2	15.3	14.1	24.6	27.2	28.1	30.5	34.4
Other	22.7	20.5	20.2	27.1	16.0	15.6	17.0	19.4	20.9
Net acquisition of nonfinancial assets	38.5	75.7	87.8	72.1	85.2	92.3	103.0	109.5	121.9
Domestically financed	1.8	9.9	7.1	15.8	24.0	25.6	31.6	37.0	41.5
Foreign financed (including BOAD)	36.7	65.7	80.7	56.3	61.2	66.7	71.4	72.5	80.3
Overall balance, including grants (commitment)	-33.6	-84.3	-53.7	-58.3	-44.8	-39.8	-40.6	-43.3	-46.8
Overall balance, excluding grants (commitment)	-58.1	-119.3	-113.8	-100.5	-88.7	-86.4	-90.2	-92.7	-101.2
Change in arrears	0.0	6.5	-9.1	-10.6	-4.0	-4.0	-4.0	0.0	0.0
Domestic arrears[1]	-1.8	5.5	-8.2	-10.6	-4.0	-4.0	-4.0	0.0	0.0
Accumulation current year	10.4	9.6	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-12.1	-4.1	-10.2	-10.6	-4.0	-4.0	-4.0	0.0	0.0
Net external arrears	1.8	0.7	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Net BOAD interest arrears	0.0	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancy	-7.4	0.4	-8.5	-5.3	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-41.0	-77.7	-71.1	-74.2	-48.8	-43.8	-44.7	-43.3	-46.8
Financing[2]	41.0	77.7	71.1	74.2	48.8	43.8	44.7	43.3	46.8
Net acquisition of financial assets (- = build up)	-2.4	-28.8	9.8	0.0	0.0	0.0	0.0	0.0	0.0
Bank deposits	3.0	-12.9	10.6	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	0.2	-1.8	-4.1	0.0	0.0	0.0	0.0	0.0	0.0
Local commercial banks	2.8	-11.1	14.7	0.0	0.0	0.0	0.0	0.0	0.0
Other[3]	-5.4	-15.9	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
of which: Bank recapitalization	-3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	31.4	63.4	62.7	57.4	46.5	39.7	38.4	37.0	40.4
BCEAO credit	-1.4	-2.8	30.7	-3.7	4.4	4.1	2.5	-6.3	-6.8
(o/w) IMF	-1.2	-2.0	9.6	-3.1	5.0	4.7	5.3	-3.5	-4.0
Other domestic (net)	32.8	66.2	32.0	61.1	42.0	35.5	35.9	43.3	47.1
Local commercial banks	14.5	20.0	-27.2	0.0	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	18.3	46.2	59.3	61.1	42.0	35.5	35.9	43.3	47.1
Foreign financing (net)	12.0	43.1	-1.4	16.8	2.4	4.1	6.3	6.3	6.4
Disbursements	14.1	54.9	24.1	20.7	21.1	23.9	25.6	23.1	25.9
Projects	14.1	32.9	24.0	20.7	21.1	23.9	25.6	23.1	25.9
Programs	0.0	22.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-2.1	-11.8	-25.5	-3.9	-18.8	-19.8	-19.3	-16.8	-19.5
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:									
Domestic primary balance (commitment)[4]	-12.2	-40.3	-17.8	-30.1	-2.9	7.6	9.3	10.3	13.6

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, 2019–27
(Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Proj.					
Revenue and grants	14.9	15.4	19.1	16.0	16.5	16.7	17.0	16.9	17.2
Tax revenue	9.1	7.7	9.8	9.5	9.9	10.2	10.5	10.7	11.0
Nontax revenue	3.0	3.7	3.0	2.6	2.8	2.8	2.8	2.8	2.8
Grants	2.8	4.0	6.3	4.0	3.8	3.7	3.7	3.4	3.5
Budget support	0.2	0.0	0.1	0.6	0.3	0.3	0.3	0.0	0.0
Project grants	2.6	3.8	6.0	3.4	3.5	3.4	3.4	3.4	3.5
Capital grants from CCRT	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	18.8	25.0	24.7	21.5	20.3	19.9	20.0	19.9	20.2
Expense	14.4	16.4	15.5	14.7	13.0	12.5	12.3	12.3	12.4
Wages and salaries	5.5	6.5	6.1	6.2	5.1	5.0	4.9	4.8	4.8
Goods and services	2.1	2.9	3.0	2.5	2.3	2.2	2.2	2.2	2.2
Transfers	3.1	3.1	2.7	2.1	2.0	1.9	1.9	1.9	1.9
Interest	1.1	1.5	1.6	1.3	2.1	2.2	2.1	2.1	2.2
Other	2.6	2.3	2.1	2.6	1.4	1.3	1.3	1.3	1.3
Net acquisition of nonfinancial assets	4.4	8.6	9.2	6.8	7.4	7.4	7.7	7.5	7.8
Domestically financed	0.2	1.1	0.7	1.5	2.1	2.1	2.4	2.6	2.7
Foreign financed (including BOAD)	4.2	7.5	8.4	5.3	5.3	5.4	5.3	5.0	5.1
Overall balance, including grants (commitment)	-3.9	-9.6	-5.6	-5.5	-3.9	-3.2	-3.0	-3.0	-3.0
Overall balance, excluding grants (commitment)	-6.7	-13.6	-11.9	-9.5	-7.7	-6.9	-6.7	-6.4	-6.5
Change in arrears	0.0	0.7	-1.0	-1.0	-0.4	-0.3	-0.3	0.0	0.0
Domestic arrears[1]	-0.2	0.6	-0.9	-1.0	-0.4	-0.3	-0.3	0.0	0.0
Accumulation current year	1.2	1.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-1.4	-0.5	-1.1	-1.0	-0.4	-0.3	-0.3	0.0	0.0
Net external arrears	0.2	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net BOAD interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancy	-0.8	0.0	-0.9	-0.5	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-4.7	-8.9	-7.4	-7.0	-4.2	-3.5	-3.3	-3.0	-3.0
Financing[2]	4.7	8.9	7.4	7.0	4.2	3.5	3.3	3.0	3.0
Net acquisition of financial assets (- = build up)	-0.3	-3.3	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank deposits	0.3	-1.5	1.1	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	0.0	-0.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Local commercial banks	0.3	-1.3	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Other[3]	-0.6	-1.8	-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
Domestic financing	3.6	7.2	6.6	5.4	4.0	3.2	2.9	2.5	2.6
BCEAO credit	-0.2	-0.3	3.2	-0.3	0.4	0.3	0.2	-0.4	-0.4
(o/w) IMF	-0.1	-0.2	1.0	-0.3	0.4	0.4	0.4	-0.2	-0.3
Other domestic (net)	3.8	7.6	3.4	5.8	3.6	2.9	2.7	3.0	3.0
Local commercial banks	1.7	2.3	-2.8	0.0	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	2.1	5.3	6.2	5.8	3.6	2.9	2.7	3.0	3.0
Foreign financing (net)	1.4	4.9	-0.1	1.6	0.2	0.3	0.5	0.4	0.4
Disbursements	1.6	6.3	2.5	2.0	1.8	1.9	1.9	1.6	1.7
Projects	1.6	3.8	2.5	2.0	1.8	1.9	1.9	1.6	1.7
Programs	0.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.2	-1.3	-2.7	-0.4	-1.6	-1.6	-1.4	-1.2	-1.2
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:									
Domestic primary balance (commitment)[4]	-1.4	-4.6	-1.9	-2.8	-0.2	0.6	0.7	0.7	0.9

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 4. Guinea-Bissau: Monetary Survey, 2019–25[1]

	2019	2020	2021	2022	2023	2024	2025
				Proj.			
	(CFAF billions)						
Net foreign assets	217.7	271.5	329.4	351.1	355.1	359.0	366.3
Central Bank of West African States (BCEAO)	182.6	164.2	216.7	258.4	252.5	246.4	243.6
Commercial banks	35.1	107.3	112.6	92.6	102.6	112.6	122.6
Net domestic assets	148.3	127.7	154.5	162.4	189.1	223.2	256.3
Credit to the government (net)	58.8	47.2	72.5	68.8	73.2	77.3	79.8
BCEAO	42.7	40.2	66.8	63.1	67.5	71.7	74.2
Deposits (-)	0.4	0.9	5.5	5.5	5.5	5.5	5.5
Credit	43.0	41.1	72.3	68.6	73.0	77.1	79.6
Commercial banks	16.2	7.0	5.6	5.6	5.6	5.6	5.6
Deposits (-)	18.5	25.0	26.2	26.2	26.2	26.2	26.2
Credit	34.7	32.0	31.8	31.8	31.8	31.8	31.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the economy	138.9	147.1	157.9	169.4	191.8	221.7	252.3
Other items (net)	-49.5	-66.6	-75.8	-75.8	-75.8	-75.8	-75.8
Money supply (M2)	366.0	399.2	483.9	513.5	544.2	582.2	622.6
Currency outside banks	235.3	246.5	305.6	324.2	343.7	367.6	393.2
Bank deposits	130.7	152.7	178.3	189.2	200.6	214.6	229.4
Base money (M0)	258.7	274.7	350.4	371.9	394.1	421.6	450.9
	(Change in percent of beginning-of-period broad money)						
Contribution to the growth of broad money (M2)							
Net foreign assets	-4.1	14.7	14.5	4.5	0.8	0.7	1.2
BCEAO	3.6	-5.0	13.2	8.6	-1.2	-1.1	-0.5
Commercial banks	-7.7	19.7	1.3	-4.1	1.9	1.8	1.7
Net domestic assets	4.3	-5.6	6.7	1.6	5.2	6.3	5.7
Credit to the central government	2.0	-3.2	6.3	-0.8	0.9	0.8	0.4
Credit to the economy	4.6	2.3	2.7	2.4	4.3	5.5	5.3
Other items (net)	-2.2	-4.7	-2.3	0.0	0.0	0.0	0.0
Memorandum items:							
Broad money (M2, annual percentage change)	0.3	9.1	21.2	6.1	6.0	7.0	6.9
Base money (M0, annual percentage change)	4.2	6.2	27.6	6.1	6.0	7.0	6.9
Credit to the economy (annual percentage change)	13.8	5.9	7.3	7.3	13.2	15.6	13.8
Velocity (GDP/M2)	2.4	2.2	2.0	2.1	2.1	2.1	2.2
Money multiplier (M2/M0)	1.4	1.5	1.4	1.4	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, 2017–22[1]

	2017	2018	2019	2020	2021	2022 Jun	Excluding undercapitalized bank 2020 Dec	2021 Jun	2021 Dec	2022 Jun
Capital Adequacy										
Capital to risk-weighted assets	2.2	-5.4	-2.0	-3.6	-2.1	-3.0	25.6	21.7	25.5	21.4
Tier 1 capital to risk weighted assets	1.8	-5.5	-2.0	-3.6	-2.1	-3.0	25.6	21.7	25.5	21.4
Provisions to risk-weighted assets	27.6	29.8	26.0	20.4	20.8	16.8	2.3	2.7	8.0	3.5
Capital to total assets	1.0	-2.0	-0.7	-1.3	-0.7	-1.1	12.8	12.7	7.2	11.4
Asset Composition and Quality										
Total loans to total assets	40.1	50.5	46.7	40.4	38.1	45.1	36.5	44.7	36.8	42.3
Concentration: loans to 5 largest borrowers to capital	831.7	-316.1	-748.5	-379.3	-1689.3	-353.8	...	...	216.5	142.8
Sectoral distribution of loans										
Agriculture and fishing	0.9	0.5	0.5	0.8	1.4	1.5	...	...	0.8	1.1
Extractive industries	0.0	0.0	0.0	1.2	1.1	0.8	...	...	0.0	0.8
Manufacturing	0.4	0.7	0.7	15.7	14.8	15.4	...	...	18.1	17.9
Electricity, water and gas	1.1	0.7	0.7	10.5	10.7	4.9	...	...	0.0	0.1
Construction	1.7	1.7	1.7	7.7	8.1	3.2	...	...	8.4	10.0
Retail and wholesale trade, restaurants and hotels	29.7	29.4	29.4	25.2	24.1	40.5	...	...	54.0	57.1
Transportation and communication	1.1	1.1	1.1	7.1	7.4	7.1	...	...	7.0	9.1
Insurance, real state and business services	8.4	8.2	8.2	1.1	1.1	1.0	...	...	0.7	0.8
Other services	56.7	57.8	57.8	30.7	31.5	25.6	...	...	10.9	19.6
Gross NPLs to total loans	37.4	26.3	25.4	21.8	19.4	14.6	10.3	6.5	9.0	6.4
General provisions to gross NPLs	64.8	67.3	65.3	68.8	80.8	82.0	35.2	54.5	64.1	69.5
Net NPLs to total loans	17.4	10.5	10.6	8.0	4.4	3.0	2.1	3.4	3.4	2.2
Net NPLs to capital	694.6	-268.1	-680.0	-257.0	-240.7	-122.5	16.7	12.0	17.5	8.0
Earnings and profitability										
Average cost of borrowed funds	1.6	1.7	0.9	1.9	1.3	...	...	...	1.3	...
Average interest rate on loans	10.2	8.7	9.7	9.4	7.4	...	...	...	7.4	...
Average interest margin[1]	8.5	7.0	8.8	7.5	6.1	...	...	...	6.1	...
After-tax return on average assets (ROA)	-0.4	0.8	4.2	0.5	0.7	...	1.8	1.2	1.5	...
After-tax return on average equity (ROE)	-10.8	17.2	77.2	6.5	8.7	...	13.8	9.4	11.2	...
Non-interest expenses to net banking income	79.3	71.3	75.5	71.0	67.3	...	...	...	61.6	...
Personnel expenses to net banking income	33.8	28.6	32.1	32.0	29.2	...	...	...	26.7	...
Liquidity										
Liquid assets to total assets	15.0	19.6	18.9	17.3	18.0	27.5	...	...	20.1	21.1
Liquid assets to total deposits	25.3	32.7	35.9	30.4	31.3	49.6	...	...	44.4	50.2
Total loans to total deposits	89.1	102.5	106.5	83.6	78.9	92.4	92.5	103.8	86.0	96.2
Total deposits to total liabilities	59.4	59.9	52.6	56.9	57.3	55.4	39.4	43.0	45.3	44.0

Source: BCEAO.

[1] Excluding tax on banking operations.

Table 6. Guinea-Bissau: Proposed Quantitative Targets Under the Extended Credit Facility 2022–23

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

	2022	2023				
	Dec	Jan	Mar	Jun	Sep	Dec
	IT	QPC	QPC	QPC	IT	QPC
Total domestic tax revenue (floor)	100.5	5.4	21.4	53.8	87.1	113.7
Wages and salaries (ceiling)	65.5	5.7	14.3	27.8	41.8	59.0
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US$ millions)[1,2]	0.0	0.0	0.0	0.0	0.0	0.0
New external payment arrears (US$ millions, ceiling)[1]	0.0	0.0	0.0	0.0	0.0	0.0
New domestic arrears (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0
Social and priority spending (floor)[3]	55.2	2.5	12.5	26.0	38.8	51.6
Domestic primary balance (commitment basis, floor)[4]	-30.1	-4.3	-10.8	-6.3	-5.7	-2.9
Non regularized expenditures (DNTs, ceiling)	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Item:						
New concessional borrowing[5]	20.7	7.0	11.7	18.7	21.0	23.4

[1] These apply on a continuous basis.

[2] The ceiling will be adjusted upward by the amount of financing from the BOAD Development and Cohesion Fund in accordance with TMU ¶17.

[3] Defined as spending by the Ministries of Health, Education and the Ministry of Women, Family and Social Cohesion.

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

[5] Excludes IMF disbursements.

Table 7. Guinea-Bissau: Indicators of Capacity to Repay the Fund[1] ,2022-42

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
											Projections										
											(SDR millions, unless otherwise indicated)										
Fund obligations based on existing credit																					
Principal	0.00	3.82	4.12	3.41	4.26	4.66	3.14	2.84	2.84	1.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fund obligations based on existing and prospective credit																					
Principal	0.00	3.82	4.12	3.41	4.26	4.66	3.62	5.21	7.10	7.10	5.68	5.21	3.31	1.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total obligations based on existing and prospective credit																					
SDR millions	0.00	3.82	4.12	3.41	4.26	4.66	3.62	5.21	7.10	7.10	5.68	5.21	3.31	1.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CFAF billions	0.00	3.25	3.52	2.91	3.63	3.98	3.09	4.44	6.06	6.06	4.85	4.44	2.82	1.21	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Percent government revenue	0.00	2.23	2.17	1.63	1.85	1.85	1.35	1.81	2.30	2.13	1.59	1.36	0.81	0.32	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Percent exports of goods and services	0.00	1.53	1.58	1.26	1.51	1.59	1.18	1.61	2.09	1.99	1.51	1.32	0.80	0.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Percent debt service	0.00	11.90	12.37	10.93	14.63	13.94	10.96	15.25	20.29	19.90	16.43	14.54	9.34	3.95	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Percent GDP	0.00	0.28	0.28	0.22	0.25	0.25	0.18	0.25	0.32	0.30	0.22	0.19	0.12	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Percent quota	0.00	13.45	14.51	12.01	15.00	16.41	12.75	18.35	25.00	25.00	20.00	18.35	11.65	5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Outstanding Fund credit																					
SDR millions	30.50	36.17	41.51	47.56	43.30	38.64	35.03	29.82	22.72	15.62	9.94	4.73	1.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CFAF billions	25.47	30.78	35.44	40.59	36.94	32.96	29.88	25.44	19.38	13.32	8.48	4.04	1.21	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Percent government revenue	19.89	21.07	21.89	22.70	18.85	15.31	13.07	10.39	7.36	4.69	2.78	1.24	0.35	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Percent exports of goods and services	15.06	14.47	15.93	17.57	15.40	13.16	11.42	9.20	6.68	4.38	2.65	1.20	0.34	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Percent debt service	296.58	112.69	124.65	152.47	148.71	115.59	106.02	87.30	64.94	43.79	28.75	13.20	4.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Percent GDP	2.40	2.67	2.84	3.02	2.54	2.10	1.79	1.43	1.02	0.66	0.39	0.18	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Percent quota	107.40	127.35	146.16	167.47	152.47	136.07	123.33	104.99	79.99	54.99	34.99	16.65	5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net use of Fund credit	0.00	5.65	5.35	6.06	-4.26	-4.66	-3.62	-5.21	-7.10	-7.10	-5.68	-5.21	-3.31	-1.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Disbursements	0.00	9.47	9.47	9.47	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repayments and repurchases	0.00	3.82	4.12	3.41	4.26	4.66	3.62	5.21	7.10	7.10	5.68	5.21	3.31	1.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00
											(CFAF billions, unless otherwise indicated)										
Memorandum items:																					
Nominal GDP	1,061.1	1,154.3	1,245.9	1,344.8	1,451.6	1,566.9	1,670.1	1,780.2	1,897.5	2,022.6	2,155.8	2,286.9	2,426.0	2,573.5	2,729.9	2,895.9	3,072.0	3,258.8	3,456.9	3,667.1	3,890.0
Exports of goods and services	169.1	212.8	222.5	231.1	239.9	250.5	261.8	276.5	290.0	304.2	320.0	336.4	351.5	367.4	383.3	400.0	417.4	435.6	454.6	474.5	495.2
Government revenue	128.0	146.1	161.8	178.8	196.0	215.2	228.6	244.9	263.2	284.0	305.4	326.5	348.9	373.6	399.6	426.8	455.2	485.7	516.9	550.3	586.0
External debt service	8.6	27.3	28.4	26.6	24.8	28.5	28.2	29.1	29.8	30.4	29.5	30.6	30.2	30.7	30.7	31.9	32.4	33.5	30.3	32.0	33.5
CFAF/SDR (period average)	835.1	851.1	853.7	853.5	853.1	853.1	853.1	853.1	853.1	853.1	853.1	853.1	853.1	853.1	853.1	853.1	853.1	853.1	853.1	853.1	853.1
Quota (SDR millions)	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4

Source: IMF staff estimates and projections.

[1] Considers CCRT grant to cover obligations up to April, 2021, approved by the Executive Board on April 13 and October 5, 2020. Prospective CCRT grant to cover obligations up to April, 2022 is not considered.

Table 8. Guinea-Bissau: Prior Actions

Measures	Rationale
Approve by Council of Ministers the 2023 budget in line with the program parameters.	Expenditure control/budget process
Approve by Council of Minister additional measures to enforce the executive order to end hiring of irregular employees through: (i) the Ministry of Finance requesting an audit by the Tribunal de Contas of the hiring process in 2021-22; and (ii) requiring authorization by the Ministry of Public Administration and the Ministry of Finance for all hirings.	Wage bill control/Expenditure Control
Completion and publication of the complementary audit of COVID spending.	Governance/Anticorruption

Table 9. Guinea-Bissau: Structural Benchmarks

Measures	Rationale	Date
Public Financial Management		
Expenditure and wage bill control/cash management		
Conduct regular in-year (quarterly) reconciliations between the personnel and the payroll records.	Wage bill control	March 2023/Continuous
Approve by the Council of Minister a multiannual staffing plan for 2023-25 in line with program parameters and publish by the Minister of Public Administration a report with the results of the full census of public servants and implementation of remedial actions on irregular cases.	Wage bill control	June 2023
Issue a ministerial order on the revised composition of the Treasury Committee including the active participation of the Ministry of Fisheries.	Revenue mobilization/cash management	March 2023
Establish an interface between the systems of the Treasury, BCEAO, and commercial banks and classify public bank accounts into those to be closed, maintained, or integrated into the TSA.	Expenditure control	September 2023
Create a unit dedicated to cash management operations and revise the Treasury Committee's mission to approve cash forecasts with a quarterly or longer horizon	Cash management	December 2023
Execute expenditure from the TSA, starting with the wage bill.	Expenditure control/Wage bill Control	June 2024/Continuous
Revise processes and forecasting methodologies enhancing the forecasting of cash flows.	Cash management	June 2025
SOE oversight and fiscal risk mitigation		
Create by a ministerial order and implement the Technical Unit for Monitoring SOEs (UTAM) under the MoF to monitor and supervise SOEs, including adequate resourcing and powers for its operation.	SOE oversight	March 2023
Prepare and publish quarterly and annual reports on SOEs' performance, starting with the most relevant SOEs.	SOE oversight	June 2023/December 2024[1]
Prepare a report with strategy to reestablish the financial viability of EAGB, including an action plan and reinstate a functional accounting department (to avoid hiring third parties to prepare accounts).	SOE oversight/EAGB	September 2023
Public investment program		
Create an Excel-based medium-term PIP database, centralizing all the quantitative information included in the Fichas de Projecto to be used for preparing an improved PIP consistent with the medium-term fiscal strategy and annual budget.	Management of public investment	December 2023
Revenue Mobilization		
Approve by Council of Ministers and submit to parliament:		
(i) the revised law on the general exemption regime; and	Strengthen tax framework	December 2023
(ii) the revised income tax and stamp duties bills.	Strengthen tax framework	June 2025
Prepare a report with an action plan to enhancing transparency and efficiency in the fiscal regime for management of natural resources.	Revenue mobilization	June 2024
Anti-Corruption and Rule of Law		
Resubmit to parliament the Law reforming the Asset Declaration Regime after elections.	Strengthen anticorruption framework	September 2023
Issue guidance to facilitate implementation of the 2022 decree regarding beneficial ownership (BO) information of entities awarded public contracts.	Strengthen transparency in public procurement/Expenditure Control	March 2023
Issue a ministerial order to require all government entities to submit a tariff schedule of fees and charges (including court and registry fees) in 2023.	Strengthen rule of law/cash management	March 2023
Publish on a government website a list of tariff of all fees and charges levied by ministries and government agencies, including court and registry fees as part of the 2024 budget.	Strengthen rule of law/cash management	December 2023

[1] Annual and quarterly reports starting in June 2023 and December 2024 respectively.

Table 10. Guinea- Bissau: Proposed Schedule of Disbursements Under the ECF Arrangement, 2023-25

Available Date	Disbursements		Conditions for Disbursement
	In millions of SDR	In percent of Quota	
January 30, 2023	2.37	8.3	Executive Board approval of the three-year ECF arrangement.
April 17, 2023	2.37	8.3	Observance of the performance criteria for January 31, 2023 and completion of the first review under the arrangement.
July 17, 2023	2.37	8.3	Observance of the performance criteria for March 31, 2023 and completion of the second review under the arrangement.
October 17, 2023	2.37	8.3	Observance of the performance criteria for June 30, 2023 and completion of the third review under the arrangement.
April 17, 2024	4.73	16.7	Observance of the performance criteria for December 31, 2023 and completion of the fourth review under the arrangement.
October 17, 2024	4.73	16.7	Observance of the performance criteria for June 30, 2024 and completion of the fifth review under the arrangement.
April 17, 2025	4.73	16.7	Observance of the performance criteria for December 31, 2024 and completion of the sixth review under the arrangement.
October 17, 2025	4.73	16.7	Observance of the performance criteria for June 30, 2025 and completion of the seventh review under the arrangement.
Total Disbursements	**28.40**	**100.0**	

Source: IMF staff estimates and projections.

Annex I. Country Engagement Strategy

A. Background and Context

1. Guinea-Bissau has a high level of political, institutional, and economic fragility. Economic growth has been low and volatile for decades, and poverty remains widespread. The newly independent state inherited weak public institutions that severely constrain governance. The country lacks some basic functions of public financial management (PFM) systems. The security sector absorbs a large share of expenditure but faces no external threats or internal conflict. The delivery of public goods limited. Public spending is almost exclusively devoted to salaries, with little resources allocated to investment.

2. Guinea-Bissau has received a Rapid Credit Facility (RCF) disbursement in January 2021 and completed a Staff-Monitored Program (SMP) in May 2022. The RCF provided financing for critical health spending. An SMP with three quarterly reviews was approved in July 2021 to support the reform program aimed at stabilizing the economy, strengthening governance, and building a strong track record to underpin the authorities' request for an Extended Credit Facility (ECF) arrangement.

B. Sources of Fragility

3. There are many drivers of Guinea-Bissau's fragility:

- **An indebted state with low capacity to provide public services necessary for development.** The country ranks among the world's lowest in terms of government effectiveness, controlling corruption, regulatory quality, and the rule of law. Social spending is insufficient, and the country faces large infrastructure gaps. Additional financing is limited since the country is at a high risk of debt distress. Moreover, the largest share of the debt is external, and the main holders are multilateral organizations, which could complicate the debt restructuring process if it becomes necessary.
- **Conflict among elites over state power and public resources.** Elites' competition for economic and political control has contributed to state capture risk by vested interests causing low willingness to invest in institutions. State capture has produced corruption, unproductive public investment, an elevated wage bill and low tax compliance. These dynamics hamper state legitimacy and revenue mobilization, constraint private development and job creation, and cause political instability. Illicit activities including drug trafficking also contribute to state capture and political instability.
- **Poor macroeconomic fundamentals hamper investment in human capital and the private sector.** Domestic and foreign investment are among the lowest in the region, hampered by a difficult business environment and political instability. Poor infrastructure is an impediment to investment. Only a quarter of the population has access to electricity. The country lacks skilled workers and literacy rates are below the regional average. Financial intermediation is low, and the banking sector is constrained by high levels of non-performing loans (NPLs).

- **An economy over-reliant on the export of one commodity.** The economy is almost entirely dependent on cashew production. Raw cashew nuts account for over 90 percent of merchandise exports. More than 50 percent of households are thought to be employed in the sector.
- **High vulnerability to climate shocks and public health crises.** In recent decades, floods and droughts have damaged infrastructure, caused a loss of food crops, and forced internal migration. In the next decades, climate change is expected to exacerbate these problems. The country is also vulnerable to health hazards, having been struck by cholera outbreaks and the COVID-19 pandemic.

C. Strategy to Escape Fragility

4. There are several dimensions to improving state capacity in Guinea-Bissau:

- **Macroeconomic stability.** It is key to provide a stable macroeconomic environment by implementing a credible fiscal consolidation strategy and converging deficit and debt levels to the WAEMU convergence criteria. This stability will create space to build economic resilience and increase the confidence of international donors and private investors.
- **Protect and enhance social and priority spending.** Protecting social spending supports social inclusion and enables a steady build-up of fiscal, legal, and civil service capacities. By shouldering a greater share of the social and priority spending, the authorities could crowd in donor support.
- **Fiscal management and institutional reforms.** An overarching reform effort is needed to enhance state power in the areas of revenue mobilization, PFM and expenditure control. Increasing tax collection capacity is critical for enhancing state capacity. Enhancing PFM will strengthen fiscal transparency and mitigate SOE fiscal risk. Strengthening expenditure control, particularly on the wage bill will help to generate fiscal space for social and priority spending, and developmental needs.
- **Debt management.** The country should improve its capacity for debt recording, monitoring and overall management to avoid recent problems on payments and accumulation of arrears. The government needs to increase transparency by publishing annual reports which cover debt service, disbursements, and agreements. It also needs to continue reporting to debt statistics databases.
- **Improve quality and timeliness of economic data.** Poor quality and timeliness of economic data due to capacity constraints are significant obstacles to good policymaking. Data have serious shortcomings that hamper surveillance, and the problems are most serious in the national accounts and balance of payments. The statistics agency needs more resources.

5. Priority actions to foster private sector development should include:

- **Fostering financial intermediation.** Addressing NPLs and a successful disengagement from the large, undercapitalized bank will support financial stability and intermediation. Digital financial infrastructure can enable households to use more efficient means of transferring money and serve as a source of microcredit. Mobile money services could also encourage remittances and foster business creation. The country can foster financial intermediation by strengthening the credit information bureau.

- **Economic diversification**. The country is abundant in natural endowments for mining and fishing, and the coastline offers attractive tourist destinations. It is critical to address the constraints that have hindered diversification by prioritizing human capital investment, improving the regulatory system and natural resources tax regimes, and expanding infrastructure projects.
- **Agricultural productivity.** Infrastructural deficiencies will need to be addressed. Bottlenecks include an outdated land management system, limited access to inputs, and limited market information. The government, working with FAO, IFAP and WFP can develop policies to improve yields.

6. Guinea-Bissau also needs reforms that enhance the accountability of public servants:

- **Strengthen horizontal and bottom-up accountability.** Every year the budget execution should be audited by the Supreme Audit Court. Development partners and the government can foster participation by working with civil society on project evaluation and implementation. It is also important to promote transparency, information and oversight of projects involving communities, producing documents in Creole, and integrating outreach programs and anticorruption measures.
- **Enable political competition.** Stronger functional democratic institutions and political parties are missing that could bring the people and the state closer to democracy. Political and institutional arrangements need to provide checks and balances between the three branches of government.
- **Improve the rule of law, tackle corruption risks, and reduce barriers to justice.** Enhancing transparency in the judicial process warrants low-cost dissemination of laws, orders, and court decisions as well as low-cost access to courts and registries. It is essential to establish clear rules and practices for implementing the strengthened legal framework on anticorruption, including expanding the competencies of institutions responsible for the asset declaration system and anticorruption efforts. To enhance governance and oversight, the government must strengthen budgetary autonomy, and support staffing and financial resources of key institutions. It must also improve the protection of witnesses and whistleblowers.

D. Fund Engagement

7. Future Fund engagement should focus on reforms initiated under the SMP to implement credible fiscal consolidation, foster financial intermediation, and support governance, AML/CFT, and transparency reforms. To strengthen debt management and improve the efficiency of government spending, the authorities initiated the establishment of a TSA. The debt management framework, the wage bill policy, public investment management and SOE supervision are under review. Authorities have amended the procurement legal framework to enable the collection and publication of beneficial ownership information, and a submission to parliament to reform the asset declaration regime.

8. The IMF will continue providing technical assistance to the authorities through a tailored capacity building program that prioritizes key areas. A major shortcoming of the SMP implementation has been the lack of proper budget execution as authorities have not been able to control the wage bill. Implementation is crucial for successful engagement. Absorptive capacity is constrained by insufficiently trained staff, undefined work procedures and changing policy priorities. Thus, an incremental approach to TA delivery would better serve the authorities. Support will target revenue administration, tax policy, PFM, governance, debt management, bank restructuring, statistics and financial intermediation.

9. There are significant risks to develop a closer engagement with Guinea-Bissau. Political instability, disappointing cashew nuts exports and the risk of a security crisis in Europe could further impact financing needs. Guinea-Bissau is also subject to severe climate change-related disasters. Financial stress in SOEs and banking could generate contingent liabilities, fiscal pressures, and spillovers to the financial sector. If further Fund financing does not promote budget execution and economic development, a program could burden the country with senior debt. The ECF arrangement must be designed to maximize the potential upside of the engagement, while mitigating these risks.

Annex II. Risk Assessment Matrix[1]

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
External Risks			
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability. **Intensifying spillovers from Russia's war in Ukraine.** Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit. **Deepening geo-economic fragmentation and geopolitical tensions.** Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	High	High / ST • The economy would be hit hard by disruptions in the supply chain and business in general. • Increase in inflation, food insecurity and poverty. • Additional pressure on public expenditure and tax exemptions, which jeopardize fiscal consolidation strategy and sustainability. • Balance of payments imbalances generated by the worsening conditions of the current or financial accounts.	• Create fiscal space through wage bill control, spending review and tax mobilization for new policies to mitigate supply shocks in the economy. • Prioritize and target public spending towards the most vulnerable people. • Review and reprioritize tax exemptions for programs with higher economic and social impact. • Mobilize additional grants and concessional loans from development partners to cover more persistent external needs. • Encourage diversification of the economy
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices. **Europe:** The fallout from the war in Ukraine is exacerbated by a gas shutoff by Russia, resulting in acute gas shortages and further supply disruptions, which triggers an EU recession. **EMDEs:** Sharp tightening of global financial conditions combined with volatile commodity prices leads to spiking risk premia, widening of external imbalances and fiscal pressures, capital outflows, sudden stops, and debt and financial crises across EMDEs.	High	High / ST • Volatility in cashew nut prices and demand. • Balance of payments imbalances generated by the worsening conditions of the current or financial accounts. • Higher debt financing costs. • Reduced fiscal space and need for additional fiscal consolidation efforts	• Review and reprioritize public spending towards programs with higher economic and social impact. • Create fiscal space to tackle financial vulnerabilities • Mobilize additional grants and concessional loans from development partners to cover more persistent external needs.

[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

(continued…)

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
External Risks			
Systemic social unrest. Rising inflation, declining incomes, and worsening inequality amplify social unrest and political instability, causing capital outflows from EMDEs, slowing economic growth, and giving rise to economically damaging populist policies (e.g., preserving fossil fuel subsidies).	High	**High / ST, MT** • Delayed fiscal adjustment. • Political instability • Limited financing inflows and investment projects delays. • Supply disruptions and weaker confidence.	• Prioritize and target public spending towards the most vulnerable people. • Create fiscal space through wage bill control, spending review and tax mobilization. • Mobilize additional grants and concessional loans from development partners to cover more persistent external needs.
De-anchoring of inflation expectations and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	Medium	**High / ST** • Increase in inflation, food insecurity and poverty. • Social unrest • Delayed fiscal adjustment and structural reforms • Tightening financial conditions • Deterioration of fiscal position	• Prioritize and target public spending towards the most vulnerable people. • Create fiscal space through wage bill control, spending review and tax mobilization.
Further adverse cashew nut price movements. A weaker than projected price recovery of the dominant export product would hamper economic recovery.	Medium	**High / ST** • 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.	• Control public expenses to compensate for lower revenues. • Step up diversification efforts.

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.

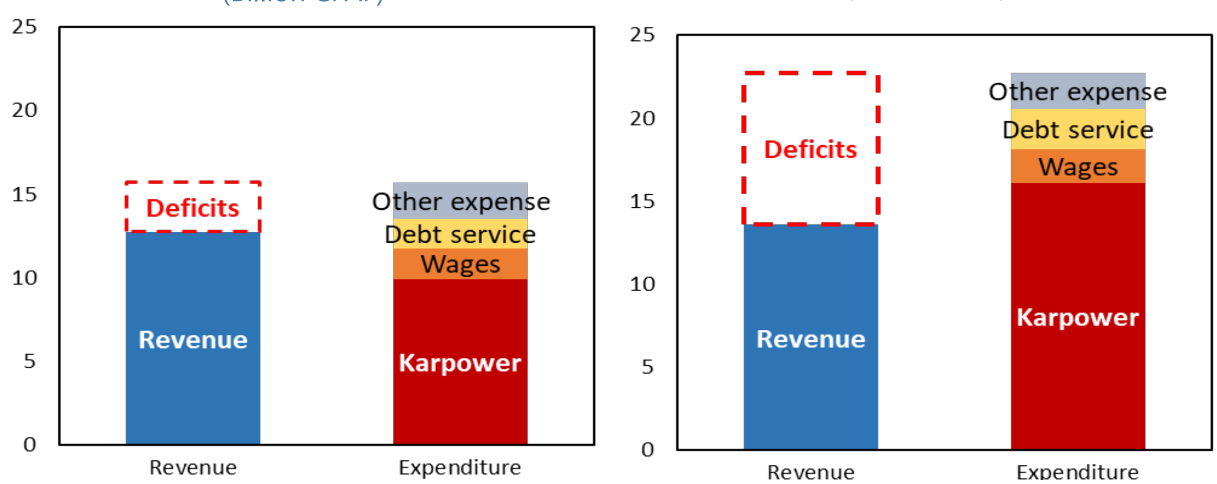
Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
Domestic Risks			
Local Covid-19 outbreaks. Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	**Medium**	**High / ST** • 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 hit hard by increased disruptions in the cashew trade and business in general.	• Prioritize spending towards health sector and social protection including to accelerate the vaccination roll out. • Mobilize additional grants and concessional loans from development partners to cover more persistent external needs.
Banking instability, arising from high NPLs, and bank's undercapitalization.	**Medium**	**High / MT** • Limited credit extension hampers investment and growth. • Weakened depositor confidence increases financial stability risks. • Potential contingent liabilities adding to fiscal pressures.	• Enhance banking supervision and enforce prudential regulations. • Improve processes and procedures for collection of debts and collateral.
Continued weaknesses in state-owned enterprises. The public electricity and water utility (EAGB), in particular, has been a long-standing problem.	**Medium**	**High / ST** • Limited and expensive electricity and water supply. • Potential contingent liabilities adding to fiscal pressures.	• Implement credible strategy to improve management of public enterprises. • Improve governance, transparency and accountability.
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	**Medium**	**High / ST, MT** • 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.	• Diversify the economy. • Address infrastructure gaps and income/developmental disparities among regions, while instituting appropriate social safety nets. • Promote investment in climate resilient infrastructure.

Annex III. Update on Fiscal Risks in EAGB[1]

1. ***Electricidade e Aguas da Guinee Bissau*** **(EAGB), the state-owned utility company, is facing a dire financial situation deteriorated by a price hike of the power ship.** It has been facing financial and operational challenges for the last decade. As a temporary solution for the electricity supply crisis, the company switched the power source from the small diesel generators to a power ship (Karpower) off the coast of Bissau in 2019. The power ship increased the generation capacity from 17 MW to 24 MW in 2021 and 30 MW in 2022 as per the power purchase agreement (PPA) amended in 2020. Because the electricity price of the power ship is driven mainly by the capacity, rather than the actual usage of electricity, it has caused an increase in EAGB's electricity purchase costs and, in absence of corresponding revenue increase, had significant toll on its financial situation. In 2021, the EAGB incurred about 0.3 billion CFAF of deficits every month (Figure 1). In 2022, the monthly deficits have tripled to 1.1 billion CFAF on average between January and September (Figure 2) with revenue covering only 60 percent of expenditure. These deficits are met by accumulation of unpaid invoices owed to the Karpower and borrowing from commercial banks, which increased EAGB's already high level of liabilities from 3.4 percent of GDP in December 2021 to 4.0 percent of GDP in September 2022.

Figure 1. EAGB Revenue and Expenditure, 2021 January-September
(Billion CFAF)

Figure 2. EAGB Revenue and Expenditure, 2022 January-September
(Billion CFAF)



Sources: IMF staff calculations, authorities and EAGB

Sources: IMF staff calculations, authorities and EAGB

2. **EAGB needs to take the immediate measures to enforce tariff collection.** Currently, the monthly tariff collection (1.5 billion CFAF on average between January and September 2022) suffers from a low collection rate (around 68 percent). By improving the collection rate, it should be able to collect more than 2 billion CFAF of tariff per month without changing the existing tariff structure. Installing meters to users is the key to enforce tariff collection. In absence of meters, several users have experienced a months-long delay in receiving electricity invoices. EAGB also sends about 0.7

[1] This Annex provides update of Annex IX in IMF Country Report No. 22/196.

billion CFAF of electricity invoices per month to the government, which however pays only 0.5 billion CFAF per month, arguing that they were invoiced more than what they consumed. The company has recently acquired 35,000 pre and post-paid analog meters and is aiming to install them by the first quarter of 2023. Installing these meters to both private and public users as soon as possible is crucial to achieve the revenue targets.

3. EAGB should speed up the reforms needed to improve the management and operation and rationalize the personnel and administrative costs. While the headcount has slightly decreased between January and September 2022, wages have increased by 10 percent from the same period in 2021. In absence of a functioning finance department or an IT system, the company has been outsourcing the accounting functions. This makes it very difficult to implement the budget and financial controls. Therefore, containing personnel and administrative costs calls for significant improvements to EAGB's management and operation. This requires facilitating the implementation of the World Bank Emergency Water and Electricity Services Upgrading Project, which is providing critical support. As the first step, it is important to facilitate the development of EAGB's new Enterprise Resource Planning (ERP) system, which is expected to be operationalized in early 2023.

4. Restoring EAGB's financial health hinges on reducing electricity purchase costs. Even if the company fully implements revenue and expenditure measures discussed above, it would be challenging to eliminate monthly deficits without reducing electricity purchase costs, which amount to 70 percent of expenditure. The implementation of the OMVG regional project, which will allow the connection to hydropower plants in Guinea-Conakry, is crucial to restore the company's financial situation. By transitioning from the power ship to the hydropower electricity purchase costs are expected to be reduced to the two-thirds. While there has been significant progress in project implementation, there are significant risks of delay. For example, construction of the transmission lines from the Guinea-Conakry border to Bissau, which is planned to be completed in the first half of 2023, is facing challenges due to soft grounds in swamp areas.

5. Mobilizing funds from international financial institutions is essential both in the short and medium-term. In the short run, EAGB needs to identify affordable financing to meet gaps that cannot be filled by revenue and expenditure measures. Accumulating further arrears poses a risk of power supply disruption, while relying only on commercial bank borrowing may cause macro-financial risks. In the medium-term, the company needs donor support for development of critical infrastructure, such as rehabilitation of distribution lines to eliminate very high technical losses. Reducing financing costs also requires concessional financing to refinance/restructure expensive debt accumulated in the past. The World Bank is playing an essential role in supporting the power sector development through (i) the improvements to EAGB's management and operation, (ii) the OMVG project implementation, (iii) extension and densification of national grids, and (iv) development of solar off-grid solutions.[2] The African Development Bank and the BOAD are also supporting the development of distribution lines to ensure connectivity to the OMVG project. The time-bound business strategy of EAGB (SB, end-September 2023) should articulate how the

[2] World Bank, "Public Expenditure Review for Guinea-Bissau", November 2022, pp.87-115.

government will support critical efforts to mobilize donor funds in close coordination with the World Bank and other development partners.

Annex IV. Implementation of Past IMF Recommendations

Fund Advice	Response
Building Capacity and Expanding Fiscal Space. Strengthen coordination between the tax and customs departments; streamline tax exemptions and subsidies; review current tax and excise rates; improve PFM systems; improve the planning framework; strengthen anti-corruption measures; and enhance debt and arrears management.	Key measures already taken to mobilize revenues including new taxes on telecommunications and labor income along with other revenue-enhancing measures. Parliament approved in December a tax package including the revised tax code and tax penalty regime, the customs code and a new VAT law. The authorities are expected to continue mobilizing revenues after the full implementation of Kontaktu, a website for electronic tax return acquisition. The Treasury Committee has continued its weekly meetings without interruption and steps have been taken towards establishing a Treasury Single Account and strengthening cash and debt management. An executive order was issued to end the hiring of employees without contract. The Council of Ministers approved and submitted to Parliament the reform of the asset declaration regime. The procurement legal framework was amended to enable the collection and publication of beneficial ownership information of all entities awarded public contracts.
Promoting Strong and Inclusive Growth. Promote an attractive business environment through sound and predictable economic policies, compliance with the rule of law, and stable and transparent regulation; improve basic infrastructure; strengthen management of state-owned enterprises; foster economic diversification; establish a comprehensive framework for managing the country's natural resources; and use social spending more forcefully to combat poverty.	The authorities have request technical assistance to strengthen fiscal oversight of the largest SOE, the utility company EAGB, including the management, operations, and financial reporting, to secure its financial viability and limit fiscal risks. The government prepared a follow-up report on recommendations from previous Audit Court audit reports on EAGB to strengthen its management and transparency.
Strengthening Financial Intermediation and Inclusion. Capital requirements should be strictly enforced; the mission will support the Minister of Finance's position of avoiding government financial involvement in the problem bank; procedures for avoiding and handling bad debts should be strengthened; reforms to improve the business environment for the financial sector should be advanced.	The government is monitoring developments of the restructuring plan of the undercapitalized bank and has delivered a report including a disengagement strategy by 2024, as agreed with the regional Banking Commission. The authorities will request an independent full audit of the bank's NPLs to provide an accurate diagnostic of the bank's situation and are committed to share with staff the results of the full NPLs audit performed by the Banking Commission in 2022.
Improve data quality and timeliness. This is critical to good policymaking. About half of GDP components have no proper source data, there are significant shortcomings in trade and other balance of payments statistics as well as in most areas of financial data.	The authorities have requested IMF technical assistance to improve quality of economic data, particularly on the national accounts system, government finance, debt statistics and balance of payments. Broadly, the TA missions have had satisfactory performance despite continuation of shortcomings.

Annex V. Action Plans for Governance-Related Reforms

1. This Annex sets out action plans for governance related reforms, building on achievements under the SMP. These action plans intend to complement SBs in a governance area by providing the intermediate steps or the measures that will enhance the effectiveness of reforms. Many measures included in the action plans are the continuation of reforms that have been implemented or initiated during the SMP (Table 1). The action plans are focusing on reforms in the following areas where the Fund has significant Capacity Development (CD) engagement in Guinea-Bissau[1]; (i) the revenue administration; (ii) the PFM; and (iii) the AML/CFT and public procurement. The main reform objectives and priorities in each area are discussed in the following paragraphs.

2. Revenue administration. The authorities will strengthen tax and customs administration based on action plans informed by the recent FAD CD (see Table 2 for summary). Drawing on efforts to simplify and modernize the tax system during the SMP, the action plans aim to address the following challenges faced by the Directorate-General for Taxes and Duties (DGCI) and the Directorate-General for Customs (DGA): (i) extensive administrative discretion; (ii) political interference in hiring decisions; (iii) inadequate exchange of information among public entities; and (iv) outdated information technology systems. Addressing these challenges will improve transparency and efficiency in revenue administration, taxpayer compliance, and professionalism of revenue officers.

3. PFM. The authorities have developed action plans for the TSA implementation and public investment management informed by the recent FAD CD (see Table 2 for summary). The TSA implementation is crucial to advance the cash management reforms initiated under the SMP and establish transparency in, and controls of, extrabudgetary fees and charges. The action plan has the objectives to (i) streamline public bank accounts in line with the TSA structure, (ii) improve financial management information systems to develop the TSA functionality, (iii) improve cash management institutions including coordination with revenue generating entities, and (iv) expand the scope of the TSA to all revenue and expenditure including extrabudgetary transactions. For the public investment management, the Ministry of Economy and the MoF have limited roles in the planning, selection, and monitoring of major investment projects. The action plan aims to develop the strong roles of the central agencies in assessing project feasibility and affordability and preventing cost overruns and implementation delays, in order to maximize efficiency in public investments within the very limited fiscal space. Annexes II and III of this Staff Report separately discuss reforms for the wage bill controls and state-owned utility company, which are also important PFM priorities.

4. AML/CFT and public procurement. Further action to strengthen AML/CFT effectiveness is needed. In the February 2022 Mutual Evaluation Report (MER), the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) gave the country low effectiveness ratings in all 11 criteria. Substantial progress is required to address the priority actions. The action plan (Table 3)

[1] See Annex VI for comprehensive information on CD strategies in the context of the Country Engagement Strategy (see Annex I for summary).

intends to enhance AML/CFT effectiveness in the three priority areas: (i) finalizing the national AML/CFT policy and action plan that addresses the risks identified in the national risk assessment (NRA) and the MER key findings by March 2023; (ii) establishing a registry to ensure beneficial ownership (BO) information is available and accessible to all legal persons registered at the Centre for Formalization of Enterprises (CFE) and at the Directorate General of Civil Identification, Registry and Notary (DGICRN) by end-June 2024; and (iii) present an action plan to strengthen risk-based AML/CFT supervision for financial institutions and designated non-financial businesses and professions (DNFBPs) by June 2023. The same action plan also aims to facilitate implementation of the new BO decree including issuance of guidance to foster an understanding of BO information requirements for all those involved in the public procurement process, which could be complemented with IMF LEG TA.

Table 1. Guinea- Bissau: Adopted Measures on Governance and Anti-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 Publica; 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 Minsters	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
Steps taken towards establishing a TSA and strengthen cash management	Sep-21
An executive order was issued to end the hiring of employees without contract	Sep-21
The Council of Ministers mandated Ministers and State Secretaries to abide by the strict observance of the legal framework of assets declaration and interest owned	Oct-21
The Council of Ministers approved and submitted to Parliament the reform of the asset declaration regime	Oct-21
The procurement legal framework was ammended with the support of IMF staff	Oct-21
Order was approved to enforce control by the financial controller over all public salaries and reconcile personnel and payroll records supported by the blockchain project.	Dec-21
Parliament approved a tax package including the revised tax code and tax penalty regime, the customs code and a new VAT law	Dec-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

Table 2. Guinea- Bissau: Fiscal Reforms: Summary Action Plan 2023-25

Area	Measures	Institutions Responsible	Mar-23	Jun-23	Sep-23	Dec-23	Jun-24	Dec-24	Jun-25
Custom Administration	In-depth pre-clearance examination and post-clearance audit of selected goods	DGA		X	X	X	X	X	
	Application of new penalties	DGA				X			
	Duty and tax ASYCUDA integrated tariff rates and based are made in compliance with the legal basis	DGA		X					
	On-site check of exemptions granted in 2021-22 and identification in ASYCUDA of suspensive procedures	DGA				X	X		
Tax Administration	Implement electronic mailboxes with large taxpayers and roll out to medium and small taxpayers	DGCI	X	X	X	X	X	X	X
	Hire IT specialists	DGCI					X		
	Audit ten cases of VAT differences declared to DGA and DGCI	DGCI/DGA DGCTP							X
	Appoint all senior staff through the public tender	DGCI/DGA				X			
	Roll out electronic tax payments via Kontakutu to three banks	DGCI				X			
PFM	Update census and study of public bank accounts and classify them into those to be closed, maintained or integrated into TSA	DGTCP	X	X	X				
	Establish interface between the systems of the Treasury, BCEAO, commecial banks	DGTCP			X				
	Create cash management units and approve cash forecasts with longer horizon and improved methods	DGTCP					X	X	X
	Execute expenditure from the TSA, starting with the wage bills	DGCTP					X		
Public Investment Management	Create an excel-based medium-term PIP database	MoE		X					
	Ensure clear prioritization of projects based on cost estimates	MoE					X		
	Establish regulatory framework for project appraisal, allocation, and implementation	MoE							X

Table 3. Guinea- Bissau: AML/CFT and Public Procurement: Action Plan 2023–25

Action	Milestones	Institutions Responsible	Mar-23	Jun-23	Dec-23	Jun-24	24-Dec	Jun-25
Enhance AML/CFT effectiveness	Finalize and publish the national AML/CFT policy/action plan that addresses the risks identified in the national risk assessment (NRA) and the MER key findings.	CENTIF	X					
	Present an action plan to strengthen risk-based AML/CFT supervision for financial institutions and designated non-financial businesses and professions (DNFBPs).	BCEAO/CENTIF		X				
Improve transparency of the public procurement system	Issue guidance to facilitate implementation of the 2022 decree regarding beneficial ownership (BO) information of entities awarded public contracts and publish it on the website of the General Directorate of Public Tenders (SB).	DGCP	X					
	Publish procurement contracts and BO information on the website of the General Directorate of Public Tenders.	DGCP	X	X	X	X	X	X
	Establish a registry to ensure BO information is available and accessible for all legal persons registered at the Centre for Formalization of Enterprises (CFE) and at the Directorate General of Civil Identification, Registry and Notary (DGICRN).	DGCP/CFE/DGICRN				X		

Annex VI. Capacity Development Strategy

1. **The recovery from the COVID-19 pandemic has underscored the need for continued CD assistance on ongoing workstreams to improve fiscal governance and debt sustainability.** The specific objectives address weaknesses in core functions and meet the authorities' demands for assistance. In FY2022, increased political stability opens a window of opportunity for sustained buy-in. While hybrid missions are the new norm, medium-term CD will be delivered by long-term resident advisors fluent in Portuguese and by hands-on training, to better address capacity constraints. To ensure effectiveness of CD initiatives, coordination within the Fund and with outside partners will remain a priority.

Key Overall CD Priorities Going Forward

<table>
<tr><th>Priorities</th><th>Objectives</th><th>Challenges</th></tr>
<tr><td>Revenue Administration and Tax policy</td><td>Strengthen revenue administration management and governance arrangements. Implement the 2021 tax reform plan.</td><td rowspan="4">Ongoing capacity constraints (fragile institutions, high staff turnover, lack of basic equipment, weak institutional and policy coordination); political instability and pervasive rent seeking.</td></tr>
<tr><td>Public Financial Management</td><td>Strengthen governance, execution, and control. Implement a Treasury Single Account. Wage bill control. Enhance social spending. Strengthen the surveillance of State-owned Enterprises (SOEs). Improve public investment management.</td></tr>
<tr><td>Debt Management</td><td>Improve the monitoring and reporting of domestic and external debt. Support the preparation of annual borrowing plans with fiscal projections and debt sustainability objectives.</td></tr>
<tr><td>Enhance Governance and the Anti-Corruption Framework</td><td>Implement the legal procurement framework to enable the collection and publication of beneficial ownership information of entities awarded public contracts; review of the asset declaration regime and support the implementation of the RCF's governance safeguards.</td></tr>
<tr><td>Financial Crisis Management</td><td>Enforce compliance with prudential norms. Support the implementation of resolution frameworks.</td><td>Coordination with the BCEAO and the regional Banking Commission.</td></tr>
<tr><td>National Accounts Statistics and GFS</td><td>Timely publication of the national accounts, also including the compilation of quarterly data, and strengthen Government Finance and Balance of Payment Statistics.</td><td>Capacity constraints.</td></tr>
</table>

Engagement Strategy

3. Engagement with the authorities. Absorptive capacity is constrained by insufficiently trained staff, undefined work procedures and changing policy priorities. The authorities thus prefer TA delivered by long-term resident advisors fluent in Portuguese as well as hands-on training. The current period of political stability and the progress during the SMP create opportunities for sustained buy-in. To enhance traction, a set of practical and actionable recommendations from CD missions will be proposed to the authorities. Other medium-term priorities (natural resource taxation, climate change) require raising awareness.

4. Coordination within the Fund. The country team will continue to reach out to functional departments and AFW to identify CD priorities, learn about reform implementation, devise policy benchmarks, review mission reports, organize joint missions, participate in regional CD seminars and facilitate take-up by the authorities.

5. Engagement with outside partners. Continued efforts to sequence and complement CD initiatives will be undertaken with the WB (PFM**,** tax policy and SOE's oversight, public sector reform, and debt management), the EU (fiscal governance, external audit function), UNCTAD (debt management), the AfDB (justice), WFP (food security and agricultural development) and possibly the UNDP and other UN agencies.

Authorities' Views

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

Appendix I. Letter of Intent

Bissau, January 12, 2023

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

Dear Managing Director,

Guinea-Bissau has made great progress in building economic and political stability, despite an extremely challenging domestic and external environment. In recent years, the country has been struck by several shocks, beginning with the large drop in cashew prices in 2019, followed by floods and the Covid-19 pandemic in 2020 and 2021, and the increase in food and fuel prices stemming from the war in Ukraine this year. Our economy is highly dependent on cashew nut exports and especially vulnerable to these external shocks. This government took office in February 2020 after a transparent and fair election and attained a peaceful and smooth transition of power. Sustained political stability has opened a window of opportunity to embark on long-awaited reforms. Our policies and political efforts have allowed the moderate but sustained growth recovery and mitigated the devastating effects of the ongoing global crisis.

The government of Guinea-Bissau has demonstrated its determination and capability to implement fundamental reforms that tackle long-standing structural challenges. We successfully completed an ambitious reform agenda of the IMF staff monitored program (SMP) in June 2022. Under the SMP, the government implemented significant fiscal consolidation, which was essential to contain the rising level of public debt, ensuring debt sustainability and creating much needed fiscal space. It allowed the government to increase public investment and social and priority spending to protect vulnerable households and meet its pressing infrastructure needs. We also implemented a series of structural reforms to strengthen governance and transparency in the public sector and accountability for crisis-related spending. Achieving these reforms just in nine months, has built our confidence to implement an ambitious reform program over the next year.

Despite the progress achieved, the challenges ahead are significant and further support from the international community is crucial. The economy is facing significant downside risks from volatile cashew production, persistent inflation and tight financial conditions, a global economic slowdown, and climate shocks. Without further policy actions, additional external shocks will exacerbate development challenges and undermine our capacity to support the most vulnerable. The IMF Extended Credit Facility (ECF) arrangement will provide crucial financial support to meet our balance of payment needs and government priority spending, just like financial assistance from the IMF Rapid Credit Facility did amid the COVID-19 pandemic.

Staying on track with a fiscal consolidation path will create a fiscal space and catalyze much-needed financing from development partners, freeing up resources to meet significant economic and social development needs while ensuring debt sustainability. Our government will ensure engagement with local stakeholders and develop strong national consensus and ownership over the reforms and policies under the program. Continuing an intensive engagement with the IMF and other development partners will also enable us to advance governance and transparency reforms, which are essential to reach our economic potential and break away from fragility. The government of Guinea-Bissau remains strongly committed to the economic and structural reform process, which will benefit current and future generations.

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

In December 2022, the Council of Ministers approved the 2023 budget proposal in line with the ECF supported-program's objectives. We will submit the budget to Parliament when it reconvenes in 2023 after the elections. We will work with political parties and Parliament to secure the national consensus necessary for budget approval and legislative reforms during the program. We are committed to narrow the domestic primary deficit through strong revenue mobilization, strengthened expenditure control, and prudent debt management. Our goal is to secure a fiscal consolidation path to secure the convergence of the deficit and the public debt level to the WAEMU regional criteria over the medium-term.

In 2023 we aim to strengthen fiscal policy and ensure the effective implementation of the reforms under the ECF supported program.

- **Fiscal policy.** The approved budget for 2023 is anchored in line with the parameters of the ECF supported program in terms of overall and domestic primary deficits. Measures include enhancing revenue mobilization, adhering to strict limits for wages and salaries, rationalization of 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 to avoid accumulation of arrears, and not contract non-concessional borrowing to ensure debt sustainability. To strengthen debt management and improve spending efficiency, we will enhance debt management practices, wage bill policy, public investment management and SOEs supervision and continue the gradual implementation of the Treasury Single Account with technical assistance from the World Bank and the IMF.
- **Governance reforms.** We are committed to fighting corruption and improving AML/CFT effectiveness, governance and transparency by completing the implementation of the RCF's governance safeguards on COVID-19 spending and the recommendations of the 2020 Governance Diagnostic report. We will continue improving beneficial ownership transparency and accelerating the asset declaration regime reforms. IMF technical assistance will continue to support our work in both areas.

We are requesting the approval of a new three-year ECF arrangement in the total amount equivalent to SDR 28.4 million for the period January 2023-January 2026. The ECF arrangement will support our macroeconomic and structural reform program. The government is also requesting the immediate disbursement of the first tranche, totaling SDR 2.37 million. To support this request, the attached Memorandum of Economic and Financial Policies outlines the government's objectives and sets out the policies that the authorities intend to implement under the ECF arrangement. Our policies aim to create fiscal space for social and priority spending and revamp public infrastructure while strengthening macroeconomic stability and securing debt sustainability. We are confident that these policies will support inclusive growth and catalyze resources from international donors to back up our national development plan and will continue to build institutions and human capacities, address governance and transparency concerns and enhance the capacity to manage public resources efficiently.

The implementation of our program will be monitored through quantitative performance criteria and indicative targets, as described in the attached Technical Memorandum of Understanding (TMU). There will be seven reviews under the ECF arrangement, scheduled to be completed on a quarterly basis until June 2023 and afterwards on semi-annual basis. The reviews will assess program implementation progress and reach understandings on additional measures needed to achieve the program objectives.

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 8-22 mission, which we consider adequate to achieve the objectives of the ECF-supported program. We stand ready to undertake any further measures to achieve the program objectives, if necessary, in close consultation with 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, together with the attached MEFP and the TMU, as well as the IMF staff report on the request for an ECF arrangement, subject to Executive Board approval. These documents will also be posted on the official website of the Bissau-Guinean government.

Yours sincerely,

/s/
Ilídio VIEIRA TÉ

Minister of Finance
Guinea-Bissau

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

Attachment I. Memorandum of Economic and Financial Policies

A. Context

1. Following a peaceful transition of power in the beginning of 2020, our country has gone through the COVID-19 global pandemic with the support of the international community, and it now faces the adverse impact from the war in Ukraine. After years of political turmoil and delayed reforms, in 2021 the government started implementing an ambitious fiscal consolidation program in the middle of the pandemic to ensure debt sustainability while creating fiscal space to address developmental needs with the IMF's support. The Rapid Credit Facility (RCF) disbursement of SDR 14.2 million (50 percent of quota) approved in January 2021 provided urgent financing to support critical spending on health. The satisfactory performance of the nine-month SMP approved in June 2021 with three quarterly reviews was key to support the government's reform program aimed at stabilizing the economy, strengthening governance, and building a sound track record of policy implementation toward the Extended Credit Facility (ECF) arrangement. In addition, the August 2021 SDR 27.2 million allocation and the reforms underpinned by the SMP addressed the adverse impact of the pandemic, improved government spending transparency, and mitigated debt vulnerabilities.

2. The government is determined to pursue a sustainable growth path and build resilience for the future amid renewed and significant challenges. These challenges include the protracted effects of the COVID -19 pandemic, the February 2022 coup attempt, more frequent and intense weather events driven by climate change, and global shocks that push up shipping costs, energy and food prices and tighten financial conditions, and disrupting global supply chains. These combined shocks have affected the most vulnerable, disrupted the provision of essential public goods, and pushed up the overall cost of economic activity through higher import prices of essential goods. A further deterioration of the global environment is a key risk, leading to a fall in the international price of cashews and a tightening of domestic financing conditions. Acting decisively is therefore needed to build resilience and tackle the ongoing crisis.

3. Guinea-Bissau took decisive actions to address the social and economic impact of COVID-19 and the global inflation surge. The pandemic affected directly over 8,900 people with over 170 deaths. The economy was partially shut down and scarce public resources were allocated to protect the most vulnerable and support health services through a vaccination campaign. The cashew nut export volume decreased by 21.0 percent in 2020 but increased to the level exceeding its pre-crisis level in 2021. By end-December 2022, about 58 percent of the adult population had been fully vaccinated. In 2022, higher prices of food, basic staples, fuel are slowing down economic growth, adding to inflationary pressures, widening the current account deficit, and weighing on the fiscal position. Protecting the livelihood of the most vulnerable has required additional policy actions through targeted transfers and temporary cuts of gasoline taxes. Our policies aim to mitigate these effects while creating conditions to recover from the pandemic with the support from the Fund and other international partners.

4. The government is fully committed to pursuing our reform agenda which tackles longstanding structural vulnerabilities that constrain inclusive growth for which we have requested financial support. The government's commitments include securing macroeconomic stability, ensuring fiscal and debt sustainability, strengthening social protection, fighting against corruption, and improving governance and transparency. The success of the ECF arrangement hinges on meeting strong governance commitments aimed at enhancing public finance transparency, accountability, and efficiency. In this regard, our policies aim to ensure further fiscal consolidation towards WAEMU standards and address debt vulnerabilities. These objectives are incorporated in this program.

B. Macroeconomic Developments and Outlook

5. Growth is expected to slow to 3.5 percent, while average inflation is expected to increase to 7.8 percent in 2022. Growth accelerated from 1.5 percent in 2020 to 6.4 percent in 2021 due to record high exports of cashew nuts, a high level of public investments, and the gradual lifting of COVID-19 containment measures. In 2022, growth has been negatively affected by lower-than-expected cashew exports. The surge in commodity prices associated with the war in Ukraine has added renewed pressures on prices, especially in food and fuel. However, moderate growth in 2022 will be supported by higher agricultural production, private sector investments and relative political stability, which partially offset the impact of inflation on the cost-of-living and the current account.

6. The increase in economic activity improved revenue mobilization in 2021 but spending pressures have increased in 2022. Greater revenue mobilization and expenditure controls reduced the overall fiscal deficit from 9.6 percent in 2020 to 5.6 percent of GDP in 2021. However, the overall fiscal deficit in 2022 is expected to equal 5.5 percent of GDP, higher than the 2022 Article IV staff report by 1.1 percentage points of GDP mainly due to higher-than-expected expenditures. The wage spending overrun was caused mainly by the irregular hiring of workers and has already been addressed. In addition, other current expenditure is higher mainly due to spending on the upcoming election as well as higher spending related to security and defense, social and diplomatic services. We are also rationalizing non-priority spending. While non-tax revenue is expected to be lower-than-expected, we are implementing new fees on bunking services for industrial fishing to enhance revenue mobilization.[1] On the other hand, tax revenue is slightly higher while transfers expenditure is lower. Budget support is also higher amid prospective ECF supported program.[2] Moreover, we are taking actions to improve the financial sustainability and mitigate the fiscal risks of the national utility company EAGB.

7. Pandemic-related measures implemented by the BCEAO, the regional central bank, have supported credit. The accommodative stance of the BCEAO improved liquidity in the banking

[1] Impact of this new measure is uncertain at this stage and will be assessed over the course of ECF supported program.

[2] Portugal and France provided budget support of CFAF 3.3 billion each in 2022.

system and credit to the economy. Credit grew by 7.3 percent in 2021 and is expected to grow at the same rate in 2022. Except for one large undercapitalized bank, the banking sector has adequate capital levels, meeting the regional prudential criteria. Although gross Non-Performing Loans (NPL) to total loans remain high due to the situation of the undercapitalized bank, banks are well provisioned.

8. The external position is expected to deteriorate in 2022. The current account deficit improved to 0.8 percent of GDP in 2021 from 2.6 percent of GDP in 2020 due mainly to record high cashew exports. The August 2021 SDR allocation enabled us to pay debt service of the BOAD, the regional development bank due in 2021 and 2022. In 2022, the current account deficit is projected to worsen to 5.9 percent of GDP due mainly to the lower cashew nuts exports and higher import prices. The external financing need is met by smaller growth of net foreign assets and lower debt service.

9. In the medium-term, growth is expected to increase to around 5 percent, supported by political stability, structural reforms, and higher investments. The medium-term growth will be sustained by stronger fiscal management, greater political stability, and donor support catalyzed under the ECF supported program. The fiscal consolidation strategy will improve the allocation of public expenditures towards pro-growth expenditures on infrastructure investments and social programs. Implementation of governance and structural reforms will further accelerate medium-term growth in the private sector through improvements in the business environments, better access to credit, and an increase in investments. Although the country's long-term growth potential conservatively estimated to be around 4 percent per year, harnessing the economic potential in agriculture, tourism, natural resources, and fisheries has the potential to create significant upward momentum in growth. As the security crisis in Europe subsides, inflation is expected to gradually converge to 2 percent in the medium-term. Sustained fiscal consolidation and more favorable terms-of-trade will also reduce the current account deficit to around 4 percent of GDP in the medium-term.

C. Objectives of the Program

10. The government's National Development Plan 2020-23 (PND), supported by the ECF arrangement, aims to secure macroeconomic stability, and foster sustainable and inclusive growth. The successive PND will ensure that the fiscal consolidation is executed without the accumulation of arrears. The PND will help voiding expensive non-concessional borrowing while protecting social and priority spending. These goals will be achieved through (i) stronger revenue mobilization and expenditure containment, including in the wage bill, generating fiscal space to protect social spending and undertake key infrastructure investments to sustain the recovery; and (ii) seeking additional grants and highly concessional financing from development partners. The Council of Ministers also approved the 2023 budget in 2022 with a spending envelope that reflects available resources without recourse to non-concessional financing. This budget will be submitted to Parliament when it reconvenes after parliamentary elections in early 2023. Over the medium-term, the government is committed to bringing the fiscal deficit and debt ratio within 3 percent of GDP by

2025 and 70 percent of GDP respectively by 2027, in line with the WAEMU convergence criteria.

11. Building on the SMP achievements, the government aims to further strengthen expenditure control, revenue mobilization and the fight against corruption, including through governance and transparency reforms. We published the 2019 IMF Report on Governance and Anti-corruption and implemented several of its recommendations during the SMP. [3] Our program will continue implementing sequenced governance reforms with multilateral and bilateral technical assistance. We expect to gradually improve state capacities to control expenditures, moderate fiscal risks from SOEs, enforce the tax and custom framework, and mitigate corruption risks. We will develop a strategy to prevent arrears accumulation and clear the stock of audited and approved domestic expenditure arrears.

D. Creating Fiscal Space for Priority Spending while Securing Public Debt Sustainability and Mitigating Fiscal Risks

Measures to Address Fiscal Consolidation

12. 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**. Under the SMP, Parliament approved a series of the new tax legislation, including the revised general tax code and tax penalty regime and the new VAT bill. In addition, we submitted the revised custom code, which is pending approval by Parliament. In 2022, we promulgated a tax package to simplify and enhance transparency of the tax system and fully implemented the Kontaktu system for electronic filing of tax returns. All these measures are expected to support our revenue mobilization targets. To further accelerate revenue mobilization and modernize the tax regime, we will submit to Parliament the revised law on the general exemption regime (SB, end-December 2023) and the revised income tax and stamp duties bills (SB, end-June 2025). We will also implement the new VAT law and the action plans for improving the custom and tax administrations with support from continued technical assistance of the IMF. To improve revenue generation from natural resources and its transparency, we will prepare an action plan to develop a register of resource rights holders and undertake diagnosis of the fiscal regime for natural resources (SB, end-June 2024).
- **Wage bill and expenditure controls.** The government is committed to rationalize public expenditures, particularly in controlling of public salaries and incentives. To address the wage bill overrun in 2022, the government has taken a series of corrective actions, including total freezing of hirings, capping salary expenses for key ministries, the full inventory-taking of health and education facilities to assess the personal needs and identify irregular workers. In addition, we steamlined advisor positions by two-thirds (i.e., 51 people) at the Presidency, the Prime Minister's Office, the Presidency of the Parliament, the Presidencies of the Supreme and Audit Courts, and Prosecutor's Office. Furthermore, we dismissed health and education workers who

[3] The report can be found at the Ministry of Finance's website.

were also working in the private sector. We will also take measures to strengthen payroll integrity, including through deployment of the blockchain solution as discussed in ¶18. The Council of Ministers approved the 2023 budget proposal consistent with the program parameters (Prior Action). The budget includes measures for the rationalization of the wage bill, containment of non-priority expenditures, tax expenditures controls, and suspensions of new infrastructure projects financed by non-concessional borrowing. We are strongly committed not to incur overspending except in the case of *force majeure* as mentioned in the WAEMU Directive N°06/2009/CM/UEMOA on Finance Laws.

- **Safeguarding priority spending and public investments.** While the government is rationalizing wages and non-priority expenditures, we are committed to safeguarding priority spending on health, education and social sectors and public investments. Over the medium-term, social priority spending is projected to increase by 0.7 percentage points of GDP compared to the average of pre-Covid-19 period, as reflected in the program floor on social and priority spending. To enhance efficiency in public investments and ensure their consistency with the medium-term fiscal strategies and budgets, we will accelerate reforms of public investment management, including the creation of an excel-based medium-term Public Investment Project (PIP) database and centralization of all quantitative information included in the Fichas de Projecto (SB, end-December 2023).

Mitigating Fiscal Risks

13. To mitigate fiscal risk, government will enhance the SOE oversight and strengthen the management and operations of the Electricidade e Aguas da Guinea-Bissau (EAGB). As the first step, we will create by a ministerial order and implement the Technical Unit for Monitoring SOEs (UTAM) under the MoF to monitor and supervise SOEs (SB, end-March 2023). To increase transparency in the SOE sector, we will prepare and publish quarterly and annual reports on SOEs performance, starting with the most relevant SOEs (SB, end-June 2023 and end-December 2024). EAGB, which is facing financial and operational challenges, forms the most significant fiscal risk. We will prepare a report with strategies and action plans to reestablish the financial situation of EAGB. Its accounting department needs to internalize accounting and record-keeping functions and avoid outsourcing (SB, end-September 2023). We are also receiving assistance from the World Bank to revamp EAGB's management and operations and enhance the performance of the electricity sector.

Measures to Mitigate Debt Vulnerabilities

14. The government will mitigate debt vulnerabilities through a sustained fiscal consolidation and prudent borrowing policy. In 2021, total public debt of Guinea-Bissau is estimated to be 79 percent of GDP. The share of credits from the Fund, World Bank, and African Development Bank in total external public debt (40 percent of GDP in 2021) is limited to 40 percent in 2021. Although the share of all multilateral creditors in total external public debt is relatively high (79 percent in 2021), past reliance on non-concessional borrowing from the BOAD, which is the largest holder of external public debt, will be reduced significantly during the program. Through our commitments to the fiscal consolidation path and the zero ceiling on new non-concessional borrowing (except for the BOAD Development and Cohesion Fund), total public debt and external debt will decline steadily to 68 percent and 30 percent of GDP, respectively, by 2027.

15. The government is committed to clear part of outstanding domestic arrears and to avoid accumulating new ones. The government plans to start clearing the remaining stock of domestic arrears accumulated between 1974 and 1999 amounting to CFAF 12.2 billion in the coming years. With external technical support, the government intends to determine the true amount of any outstanding domestic arrears through further auditing, verifying full tax compliance of all creditors, and determining 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.

16. The government remains committed to solving all legacy external arrears and to avoid further accumulation. Agreements or settlements have been reached with Libya, Taiwan Province of China, Angola, and [Russia]. Negotiations with Brazil are also pending final approval from the Brazilian authorities. In November 2021, requests were sent to Pakistan to attempt resolving remaining external arrears. In addition, the government has joined the Debt Service Suspension Initiative (DSSI) and intend to explore debt reprofiling and restructuring with development partners if downside risks materialize.

17. 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 including those of arrears and extrabudgetary and social security funds. The government has started publishing annual reports on debt (both external and domestic) covering debt service, disbursements and agreements. It also continues reporting to international debt statistics databases. To enhance public debt transparency, we will expand the coverage of the published annual debt bulletin to cover debt from the two largest SOEs that pose the largest fiscal risks (EAGB and the civil aviation authority) and publish quarterly debt bulletins that include central government debt and guarantees. 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 implement the decree that reinforces their organizations.

18. 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 contract non-concessional loans. In line with this commitment, the government buttressed debt sustainability by using the 2021 IMF SDR allocation to repay non-concessional debt.

E. Governance and Management of Public Resources

19. The government will bolster efforts to reform Public Financial Management (PFM), which will strengthen accountability in the use of public resources.

20. Strengthening the cash management and implementation of the Treasury Single Account (TSA) will continue to be the key priority for fiscal governance reforms. Significant progress on cash management reforms has been achieved under the SMP, including the resumption of weekly Treasury Committee meetings, issuance of an order to define cash payment priorities, stock-taking of all public bank accounts, and requirements of the MoF authorization for opening a bank account. To further advance implementation of the TSA, we will establish an interface between the systems of the Treasury, BCEAO, and commercial banks and classify public bank accounts into those to be closed, maintained, or integrated into the TSA (SB, end-September 2023) These measures will lay the foundation for the MoF to pay all budgetary expenditure, particularly wages, from the TSA (SB, end-June 2024). To enhance the cash management functions, we will create a Cash Management Unit (CMU) and revise the Treasury Committee's mission to approve cash forecasts with a quarterly or longer horizon (SB, end-December 2023). Cash forecasting methodologies and process will be further revised by incorporating lessons learnt from the CMU's experience (SB, end-June 2025).

21. Ensuring the budget credibility and implementing the TSA hinge on better coordination and information flow between the MoF and revenue generating entities. As the first step, we will issue a ministerial order on the revised membership of the Treasury Committee including the active participation of the Ministry of Fisheries, which is one of the largest revenue generating ministries, to monitor the forecasted and actual revenue collection (SB, end-March 2023). We plan to roll out this coordination mechanism to all revenue generating entities in a sequenced manner. As a first step for ensuring transparency in fees and charges, we will issue a ministerial order to require all government entities to submit a tariff schedule of their fees and charges (including court and registry fees) (SB, end-March 2023). Based on the information submitted, we will publish a list of rates, scales and tariffs of all fees and charges collected by ministries and government agencies including the Judiciary and registers as part of the 2024 budget (SB, end-December 2023). Based on these results, we will require ministries and government agencies to publish the same list in their own websites and report the actual collection of their fees and charges during 2024. We will eventually require all fees and charges to be approved in the General State Budget and deposited into the TSA to ensure their complete transparency and efficient management.

22. Improving the payroll integrity will be a cornerstone for expenditure controls and fiscal governance. To support fiscal consolidation and wage bill controls mentioned above, we will speed up reforms to enhance the integrity of data on payroll spending, which comprises a majority of public spending. As the first step, we have approved additional measures to enforce the executive order to end irregular hiring of employees through requirements of authorization by the Ministries of Public administration and Finance for all hiring (Prior Action). We will approve a multiannual staffing plan for 2023-25 in line with program parameters and publish a report with the results of the full census of public servants and implementation of remedial actions on irregular workers (SB, end-June 2023). To ensure the payroll integrity, we will conduct quarterly reconciliation between the personnel and payroll records held by the Ministries of Finance and Public Administration (SB, end-March 2023). Deploying the IMF-supported blockchain project will ensure the integrity of the reconciliation process through an innovative digitalization technology. The integration of personnel and payroll records will be ultimately attained by development of the integrated human resource management system, which we aim to operationalize in the medium-term for implementing the public sector administration reform. To enhance transparency in wage spending, we will revise the chart of accounts to classify compensation of employees, which are currently included in wages and salaries, transfers, and other current expenditure, in accordance with the Government Finance Statistics Manual 2014. For non-wage spending, there has been recent progress in strengthening financial controls, including the approval of the new Manual on Public Expenditure Procedures and the pilot of a new process to certify delivery of goods and service before issuing payment orders. We will roll out this certification process to all ministries and government agencies to ensure accountability for public spending.

23. We will continue public procurement reforms to improve transparency, building upon our achievements under the SMP. During the pandemic, the government undertook major reforms for public procurement, including publication of beneficial ownership and other key information of all crisis-related contracts in the websites of the General Directorate for Public Tenders (DGCP) and the High Commission for COVID-19 and the approval of the decree on beneficial ownership of bidders of public procurement in April 2022. Our next focus will be implementation of this new decree, which expands publication of beneficial ownership information to all public contracts on the website of the DGCP. We will issue the guidelines for implementing this new decree, including formats for beneficial ownership information to be submitted in the bidding process (SB, end-March 2023). We will also hold a series of training sessions to sensitize the new decree to suppliers and procurement officers in ministries. To ensure the comprehensiveness of beneficial ownership publication, we will develop mechanisms to ensure the DGCP’s access to all signed public contracts, including those for emergency procurement and direct purchases.

24. The government is committed to advancing external audits, which act as an essential check on public finances. To safeguard proper use of COVID-19 related funds, the government took a significant step towards revamping the roles of external audits. The High Commissioner for COVID-19 requested an audit of its COVID-19 related spending between June 2020 and August 2021, completed by the Audit Court, which published the audit report in June 2022. The independent third-party auditor has also completed an audit of all COVID-19 related spending between June 2020 and December 2021 with support of the Inspector-General of Finance, which published the audit report on the website (Prior Action). Subsequently, the Audit Court will undertake an external audit of all COVID-19 related spending where the results of the independent third-party audit are used as technical inputs in accordance with the Organic Law on the Audit Court. The Ministry of Finance has requested an audit of the irregular hiring process in 2021-22 (Prior Action), which the Audit Court will plan to complete in 2023. Building on these achievements, the Audit Court will undertake priority audits with full support of the government. The Audit Court will undertake a follow-up audit of EAGB by updating the results of the previous audit and publish the audit report by the end 2023. In addition, the MoF will finalize and submit the consolidated financial statements for 2017-2022 to the Audit Court, which will complete their audits in the medium-term.

25. **We will take further actions to strengthen the AML/CFT effectiveness.** In the February 2022 Mutual Evaluation Report (MER), the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) gave Guinea-Bissau low effectiveness ratings in all 11 criteria. With the goal of building broader access to BO information and addressing the concerns of the February 2022 GIABA MER, we will take the following priority actions; (i) preparing the national AML/CFT policy and action plan that addresses the risks identified in the national risk assessment (NRA) and the MER key findings by March 2023; (ii) requiring all legal persons registering at the Centre for Formalization of Enterprises (CFE) and at the Directorate General of Civil Identification, Registry and Notary (DGICRN) to submit a BO identification form similar to the one submitted as part of the tender process by end-June 2024; and (iii) preparing an action plan to strengthen risk-based AML/CFT supervision for financial institutions and designated non-financial businesses and professions (DNFBPs) by June 2023.

26. **The government will accelerate reforms to strengthen the anti-corruption framework.** Our short-term priorities include revamping the asset declaration regime, which will facilitate the identification of potential corruption cases. As the first step, we will resubmit to Parliament the law that reforms the asset declaration regime with the broader coverage and strengthened enforcement (SB, end-September 2023). To facilitate implementation, we will issue the guidelines for submission and publication of asset declarations, including their formats, by end-2023. Enhancing the independence and capacity of the anti-corruption institutions, including the Judicial Police, the Supreme Anti-Corruption Inspectorate, Prosecutor's Office will be essential to ensure the effectiveness of the anti-corruption framework. In 2024, we will prepare a national anti-corruption strategy based on updating the diagnosis of corruption risks. This strategy will prioritize legal and other reforms and inform medium-term resource planning of these institutions.

27. **We will take actions to improve the rule of law and market regulations.** The aforementioned PFM reform for extrabudgetary revenue will lay a foundation for improving access to the judicial services and public registries. As their fees are mostly extrabudgetary, bringing them onto the budget will be needed to control the level of fees to balance access to services and their costs. Furthermore, the government has established the Center for Access to Justice (CAJ), which has programs for supporting public access to the judicial system. To ensure the equal access particularly by population in the rural area, the government will roll out the CAJ's offices to two main provinces by the end 2023. We will also improve access to legislation and judicial decisions and enhance population's understanding of the law through development of an online platform and sensitization programs. To develop property registration, which is essential to protect economic rights, the government will prepare a medium-term action plan that improves cadaster coverage by surveying broader land areas, and digitalization of property registers to improve public access. In addition, to

improve the public access and support beneficial ownership disclosures, we will prepare an action plan to complete digitalization of the companies' register maintained by the CFE.

F. Measures to Strengthen the Financial Sector

28. The government will continue to make efforts that preserve the stability of the financial sector and is committed to a successful disengagement strategy for a large, undercapitalized bank. The council of ministers approved an offer of a strategic investor to buy the government stake and capitalize the institution to comply with regulatory standards. The government is monitoring the due diligence process on the offer and the timeline of the recapitalization by the investor, which will subsequently be submitted to the Regional Banking Comission for the evaluation. We settled arrears owed by the govenrment to borrowers from the undercapitalized bank. In case the operation does not materialize, the government is commited to an additional SB to implement the 2022 Article IV recommendations by end-December 2023: (i) providing the financial information requested by the IMF including to request an assessment of the bank's financial position and a full independent audit of all loan portfolio including NPLs from a third-party auditing firm; (ii) preparing a report that reconsiders a viable government's plan for disengaging from the undercapitalized bank by 2024 and (iii) implementing the recommendations of the Banking Commission.

G. Risks and Contingencies

29. The government stands ready to adjust policies if risks materialize. Downside risks to the program include growth and inflation setbacks from domestic political risks and weak state capacity, disappointing cashew nut exports, materialization of climate and health hazards, extreme tightening financial conditions in the regional market, and geopolitical tensions which could further impact food and oil prices and donor support. A further tightening of global financial conditions and worsening of debt risks would further constrain access to financing. Financial stress in SOEs and fragility in the situation of the undercapitalized bank could also generate contingent liabilities. If these risks materialize, we stand ready to adjust our policies, in close consultation with IMF staff, to ensure the achievement of the program's objectives. These policies could include further rationalization of non-priority expenditures, domestically financed investment and requests for additional support from development partners.

H. Improving Economic Statistics

30. The government is committed to improve the National Statistical Institute (INE) and improve national accounts and government finance statistics. To strengthen the institutional capacity of the INE, we will approve the bylaw that implements the new statistics law and enhances the organizational structure and human and technological resources of the INE. Following recommendations from IMF technical assistance, the government aims to improve the quality and timeliness of economic data.

31. We will implement the Enhanced General Data Dissemination System (e-GDDS) to strengthen transparency. The participation in this initiative will support our efforts to publish, in a timely manner, key macroeconomic and financial data which are aligned with the common indicators required for IMF surveillance. In addition, the e-GDDS will contribute to enhancing interagency coordination and statistical development in support of our program objectives.

I. Program Design, Financing and Monitoring

32. The ultimate responsibility of program monitoring and coordination will rest with the Ministry of Finance (MF). To ensure coordinated implementation of the program, the MF will consult with the other public institutions involved in meeting program objectives to track progress on various targets and reforms under the program. Similarly, the MF will provide oversight responsibility to ensure that public spending complies with budget limits.

33. The program will be monitored by the IMF Executive Board. Assessment will be on a quarterly basis until June 2023 and thereafter on a semi-annual basis using bi-annual performance criteria (end-June and end-December) and continuous performance criteria for end-January 2023, end-March 2023, end-June 2023, and end-December 2023, and indicative targets for end-December 2022 and end-September 2023 as presented in Table 1. To monitor progress on the structural reforms previously described, structural benchmarks are presented in Table 2. Detailed definitions and reporting requirements for all performance criteria and indicative targets are presented in the Technical Memorandum of Understanding (TMU). The TMU also defines the scope and frequency of data to be reported for program monitoring purposes and presents the projected assumptions that form the basis for some of the performance assessments. The first three reviews will take place on or after April 17, 2023; July 17, 2023; and October 17, 2023. To this end, the government plans to:

- **i.** Refrain entering new external borrowing contracts at non-concessional rates, except for disbursements from the Development and Cohesion Fund of the West African Development Bank as mentioned in TMU ¶5;
- **ii.** Adhere to the quantitative performance criteria (QPC) on the floors on domestic tax revenues, the domestic primary budget balance and social and priority spending, the ceiling on wages and salaries, and the zero ceilings on new non-concessional external debt contracted or guaranteed by the public sector (continuous criterion), new external payments arrears (continuous criterion), new domestic payments arrears, and non-regularized expenditures;
- **iii.** The government will prepare an external borrowing plan to facilitate assessment of the QPCs on external debt;
- **iv.** Agree not to: (1) introduce or intensify restrictions on payments and transfers for current international transactions; (2) introduce or modify multiple currency practices; (3) enter into bilateral payment agreements that are inconsistent with Article VIII of the IMF Articles of Agreement; and (4) introduce or intensify import restrictions for balance of payments purposes; and

v. Adopt any new financial or structural measures that may be necessary for the success of its policies, in consultation with the IMF.

34. Financing needs for the 2023 are fully covered, and the government expects that the ECF-supported program will catalyze additional sources during the rest of the program. We expect additional budget support from other development partners including from the World Bank and the African Development Bank over the program period.

35. The government believes the policies specified in this MEFP provide a foundation for sustaining growth, lower inflation, and a reduction in poverty, and we stand ready to take additional measures if required. The government will provide IMF staff with the information needed to assess progress in implementing our program as specified in the TMU and will consult with IMF staff on any measures that may be appropriate at the initiative of the government or whenever the IMF requests a consultation. The government intends to make this MEFP and the TMU available to the public. In this context, it authorizes the IMF to post the MEFP and the TMU on the IMF website, after Executive Board approval.

36. Accordingly, the government is requesting Board approval of the policies set forth in the MEFP, and disbursement of the first loan installment, totaling SDR 2.37 million, out of a total three-year arrangement of SDR 28.4 million.

Table 1. Guinea- Bissau: Quantitative Performance Criteria (QPCs) Under the Extended Credit Facility, 2022-23

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

	2022	2023				
	Dec	Jan	Mar	Jun	Sep	Dec
	IT	QPC	QPC	QPC	IT	QPC
Total domestic tax revenue (floor)	100.5	5.4	21.4	53.8	87.1	113.7
Wages and salaries (ceiling)	65.5	5.7	14.3	27.8	41.8	59.0
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US$ millions)[1,2]	0.0	0.0	0.0	0.0	0.0	0.0
New external payment arrears (US$ millions, ceiling)[1]	0.0	0.0	0.0	0.0	0.0	0.0
New domestic arrears (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0
Social and priority spending (floor)[3]	55.2	2.5	12.5	26.0	38.8	51.6
Domestic primary balance (commitment basis, floor)[4]	-30.1	-4.3	-10.8	-6.3	-5.7	-2.9
Non regularized expenditures (DNTs, ceiling)	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Item:						
New concessional borrowing[5]	20.7	7.0	11.7	18.7	21.0	23.4

[1] These apply on a continuous basis.

[2] The ceiling will be adjusted upward by the amount of financing from the BOAD Development and Cohesion Fund in accordance with TMU ¶17.

[3] Defined as spending by the Ministries of Health, Education and the Ministry of Women, Family and Social Cohesion.

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

[5] Excludes IMF disbursements.

Table 2. Guinea- Bissau: Prior Actions and Structural Benchmarks

Measures	Rationale	Date
Prior actions		
Approve by Council of Ministers the 2023 budget in line with the program parameters.	Expenditure control/budget process	Prior Action
Approve by Council of Minister additional measures to enforce the executive order to end hiring of irregular employees through: (i) the Ministry of Finance requesting an audit by the Tribunal de Contas of the hiring process in 2021-22; and (ii) requiring authorization by the Ministry of Public Administration and the Ministry of Finance for all hirings.	Wage bill control/Expenditure Control	Prior Action
Completion and publication of the complementary audit of COVID spending.	Governance/Anticorruption	Prior Action
Structural Benchmarks		
Public Financial Management		
Expenditure and wage bill control/cash management		
Conduct regular in-year (quarterly) reconciliations between the personnel and the payroll records.	Wage bill control	March 2023/Continuous
Approve by the Council of Minister a multiannual staffing plan for 2023-25 in line with program parameters and publish by the Minister of Public Administration a report with the results of the full census of public servants and implementation of remedial actions on irregular cases.	Wage bill control	June 2023
Issue a ministerial order on the revised composition of the Treasury Committee including the active participation of the Ministry of Fisheries.	Revenue mobilization/cash management	March 2023
Establish an interface between the systems of the Treasury, BCEAO, and commercial banks and classify public bank accounts into those to be closed, maintained, or integrated into the TSA.	Expenditure control	September 2023
Create a unit dedicated to cash management operations and revise the Treasury Committee's mission to approve cash forecasts with a quarterly or longer horizon	Cash management	December 2023
Execute expenditure from the TSA, starting with the wage bill.	Expenditure control/Wage bill Control	June 2024/Continuous
Revise processes and forecasting methodologies enhancing the forecasting of cash flows.	Cash management	June 2025
SOE oversight and fiscal risk mitigation		
Create by a ministerial order and implement the Technical Unit for Monitoring SOEs (UTAM) under the MoF to monitor and supervise SOEs, including adequate resourcing and powers for its operation.	SOE oversight	March 2023
Prepare and publish quarterly and annual reports on SOEs' performance, starting with the most relevant SOEs.	SOE oversight	June 2023/December 2024[1]
Prepare a report with strategy to reestablish the financial viability of EAGB, including an action plan and reinstate a functional accounting department (to avoid hiring third parties to prepare accounts).	SOE oversight/EAGB	September 2023
Public investment program		
Create an Excel-based medium-term PIP database, centralizing all the quantitative information included in the Fichas de Projecto to be used for preparing an improved PIP consistent with the medium-term fiscal strategy and annual budget.	Management of public investment	December 2023
Revenue Mobilization		
Approve by Council of Ministers and submit to parliament:		
(i) the revised law on the general exemption regime; and	Strengthen tax framework	December 2023
(ii) the revised income tax and stamp duties bills.	Strengthen tax framework	June 2025
Prepare a report with an action plan to enhancing transparency and efficiency in the fiscal regime for management of natural resources.	Revenue mobilization	June 2024
Anti-Corruption and Rule of Law		
Resubmit to parliament the Law reforming the Asset Declaration Regime after elections.	Strengthen anticorruption framework	September 2023
Issue guidance to facilitate implementation of the 2022 decree regarding beneficial ownership (BO) information of entities awarded public contracts.	Strengthen transparency in public procurement/Expenditure Control	March 2023
Issue a ministerial order to require all government entities to submit a tariff schedule of fees and charges (including court and registry fees) in 2023.	Strengthen rule of law/cash management	March 2023
Publish on a government website a list of tariff of all fees and charges levied by ministries and government agencies, including court and registry fees as part of the 2024 budget.	Strengthen rule of law/cash management	December 2023

[1] Annual and quarterly reports starting in June 2023 and December 2024 respectively.

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 Performance Criteria (QPCs), Indicative Targets (ITs) and structural benchmarks (SBs) supported by the Extended Credit Facility (ECF) 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 2022 and 2023 will be converted into local currency (CFAF) using program exchange rates of, respectively, CFAF 554.2 and 659.0/US$ and cross rates as of end-December 2022 and 2023.

Quantitative Performance Criteria/Indicative Target

A. 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. Wage Bill

4. Definition. For the purpose of program monitoring, the wage bill is defined to include (i) personnel expenditure (“despesas de pessoal”), such as staff salaries and benefits, subsidies, and gratuities, and (ii) 50 percent of transfers to embassies. These definitions are as presented in the central government financial operations table.

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

5. 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).

6. Definition. Those are defined as all forms and maturities of new non-CFAF denominated debt contracted or guaranteed by the central government and CFAF denominated debt contracted with BOAD. For program purposes, a debt is considered to be contracted when all conditions for its

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

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 other debt denominated in CFAF, but will include domestically held foreign exchange (non-CFAF) debts. This QPC applies not only to debt as defined in the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Decision No.16919-(20/103), adopted October 28, 2020, point 8 but also to commitments contracted or guaranteed for which value has not been received. Excluded from this QPC are disbursements from the IMF and those debts subject to rescheduling or for which verbal agreement has been reached. This QPC will apply on a continuous basis. For program purposes, a 'guaranteed debt' is an explicit promise by the public sector to pay or service a third-party obligation (involving payments in cash or in kind).

7. Adjustor. The ceiling on new non-concessional external debt contracted or guaranteed by the central government will be adjusted upward by the amount of financing of the following projects from the Development and Cohesion Fund ("Le Fonds de Développement et de Cohésion") of the West African Development Bank (BOAD) up to the amounts respectively mentioned;

- **a.** The establishment of the National Financing Fund for Small and Medium-size Enterprises – up to CFAF 10 billion cumulative during the program period;
- **b.** The construction of the Bissau General Hospital – up to CFAF 10 billion cumulative during the program period;
- **c.** The development of urban roads in the City of Bissau – up to CFAF 10 billion cumulative during the program period;[3]provided that the ceiling may be adjusted upward only up to CFAF 10 billion per year.

8. Concessionality. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD Secured Overnight Financing Rate (SOFR) is 1.56 percent and will remain fixed for the duration of the program. Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR will be added.

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[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.

[3] These projects have been included in the National Development Plan 2020-2023. In consultation between key development partners, including the World Bank and BOAD, no alternative concessional financing was found for these projects.

9. Reporting requirement. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.

D. New External Payment Arrears of the Central Government

10. 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 QPC, central government is as defined in paragraph 8 above. This QPC will apply on a continuous basis effective on the date of approval of the ECF arrangement.

E. New Domestic Arrears of Central Government

11. 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 QPC, central government is as defined in paragraph 8 above.

F. Social and Priority Spending

12. 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.

G. Domestic Primary Balance (Commitment Basis)

13. 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.

H. Non-Regularized Expenditure (DNTs)

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

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

Program Monitoring

16. Program performance will be monitored via two quarterly reviews followed by five biannual reviews of quantitative targets and structural benchmarks. The first performance criteria will be set for January 31, 2023, and the review is expected to be completed by mid-April 2023. The second test date will be March 31, 2023, and the review is expected to be completed by mid-July 2023. The third test date will be June 30, 2023, and the review is expected to be completed by mid-October 2023. The fourth test date will be December 31, 2023, and the review is expected to be completed by mid-April 2024. The fifth test date will be June 30, 2024, and the review is expected to be completed by mid-October 2024. The sixth test date will be December 31, 2024, and the review is expected to be completed by mid-April 2025. The seventh test date will be June 30, 2025, and the review is expected to be completed by mid-October 2025.

Table 1. Guinea-Bissau: Summary of Reporting Requirements

Information	Frequency	Reporting Deadline	Responsible
Fiscal Sector			
Central Government budget and execution	Monthly	30 days after the end of the month	DGPEE[1]/MF[2]
Budgetary grants	Quarterly	30 days after the end of the quarter	DGPEE/MF
Project grants	Quarterly	30 days after the end of the quarter	DGPEE/MF
Change in the stock of domestic arrears	Monthly	30 days after the end of the month	DGPEE/MF
Unpaid claims	Monthly	30 days after the end of the month	DGPEE/MF
Interest arrears	Monthly	30 days after the end of the month	DGPEE/MF
Proceeds from bonds issued in the regional WAEMU market	Monthly	30 days after the end of the month	DGPEE/MF
Social and priority spending	Quarterly	30 days after the end of the quarter	DGPEE/MF
Non-regularized expenditure	As occuring		DGPEE/MF
Extrabudgetary expenditure for force majeure	As occuring		DGPEE/MF
Real and External Sector			
Updates on annual National Accounts by sector	Annually	30 days after approval	DGPEE/MF
Balance of Payments data	Annually	30 days after approval	BCEAO[3]
Balance of Payments data	Quarterly	45 days after the end of the quarter	BCEAO
Details of exports breakdown	Monthly	45 days after the end of the month	DGPEE/MF
Details of imports breakdown	Monthly	45 days after the end of the month	DGPEE/MF
CPI Monthly	Monthly	45 days after the end of the month	DGPEE/MF
Debt sector			
External and domestic debt and guaranteed debt by creditor	Monthly	30 days after the end of the month	DGPEE/MF
Disbursements	Monthly	30 days after the end of the month	DGPEE/MF
Amortization Monthly	Monthly	30 days after the end of the month	DGPEE/MF
Interest payments	Monthly	30 days after the end of the month	DGPEE/MF
Stock of external debt	Monthly	30 days after the end of the month	DGPEE/MF
Stock of domestic debt	Monthly	30 days after the end of the month	DGPEE/MF
Arrears on interest and principal	Monthly	30 days after the end of the month	DGPEE/MF
Exceptional domestic financing	Monthly	30 days after the end of the month	DGPEE/MF
Copies of any new loan agreements	As occuring		DGPEE/MF
Monetary/Financial sector			
Detailed consolidated balance sheet of commercial banks	Monthly	45 days after the end of the month	BCEAO
The monetary survey	Monthly	45 days after the end of the month	BCEAO
Detailed net position of central government (PNG/PNT)	Monthly	45 days after the end of the month	BCEAO
Financial soundness indicators	Semi-annually	90 days after the end of the half year	BCEAO
Interest rates	Monthly	45 days after the end of the month	BCEAO
Deposit rates on all types of deposits at commercial banks	Monthly	45 days after the end of the month	BCEAO
Short- and long-term lending rates of commercial banks	Monthly	45 days after the end of the month	BCEAO

[1] Directorate General for Projections and Economic Studies

[2] Ministry of Finance

[3] Central Bank of West African States

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

January 13, 2023

Approved By
Montfort Mlachila and Eugenio Cerutti (IMF) and Abebe Adugna and Marcello Estevão (IDA)

Prepared jointly by the Staffs of the International Monetary Fund and the International Development Association [1, 2]

Guinea-Bissau: Joint Bank-Fund Staff Debt Sustainability Analysis	
Risk of external debt distress	*High*[3]
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgment	*No*

Guinea-Bissau's risks of external and overall debt distress remain high, in line with the June 2022 Debt Sustainability Analysis (DSA). GDP growth accelerated in 2021 on the back of the gradual lifting of COVID containment measures and the record high cashew nut production, with positive spillovers on the fiscal and external accounts. The macroeconomic outlook underpinning the DSA assumes a gradual economic recovery in 2022-24 and sustained growth in the medium-term supported by an improvement of terms of trade, a more stable socio-political environment, and the ongoing governance and structural reforms. The baseline assumes that the fiscal consolidation efforts will ensure convergence of the fiscal deficit to the West African Economic and Monetary Union's (WAEMU) convergence criterion of 3 percent of GDP by 2025, which creates fiscal space for higher social spending and growth-enhancing public investment. The ratio of public debt to GDP increased in 2021 but is projected to start falling in 2023 and converge to below the 70 percent of GDP debt ceiling by 2027.

[1] The previous DSA was dated June 2, 2022 (IMF Country Report No. 22/196) and accompanied the third review under Guinea-Bissau's Staff-Monitored Program (SMP).

[2] The DSA compares the evolution of debt-burden indicators against thresholds and benchmarks pre-determined by the country's debt-carrying capacity. Guinea-Bissau's Composite Indicator (CI) index, based on October 2022 WEO update and the World Bank's 2021 World Bank's Country Policy and Institutional Assessment (CPIA), indicates that the country's debt carrying capacity remains weak (Para.15).

[3] This DSA follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018.

Risks include an adverse political scenario, limited capacity, weaker cashew nut exports, tighter global financial conditions, volatile global food and oil prices, and climate change-related natural disasters. Financial stress in state-owned enterprises and high NPLs could generate contingent liabilities and pose macro financial risks.

The present value (PV) of public and publicly guaranteed (PPG) debt relative to GDP exhibits a prolonged and substantial breach of its indicative benchmark. However, considering that (i) the country benefits from WAEMU currency union safeguards that provide for financial and technical support from the regional debt market institutions and larger regional members with strong debt carrying capacity; (ii) the PV of public debt shows a consistent downward trend from 2022 onwards under the baseline scenario; and (iii) the external DSA indicators are consistent with sustainability following a downward trend over the medium-term, public debt is assessed as sustainable.

This conclusion is contingent on the authorities' continued commitment to an ambitious, yet feasible, fiscal adjustment that aims to bring the fiscal deficit within the 3 percent of GDP WAEMU convergence criterion by 2025. This fiscal adjustment was supported by the Fund's Staff Monitored Program (SMP) which is expected to continue during the Extended Credit Facility (ECF) arrangement. The downward trend of the baseline debt indicators would further improve with full multilateral donor re-engagement and a further shift towards debt obligations on concessional terms. The authorities are also following IMF/WB advice on improving debt management and dedicating efforts to resolve legacy external arrears.

DEBT COVERAGE

1. **The perimeter of public debt is limited to the central government, the central bank and government-guaranteed debt.**[4] Data limitations preclude the inclusion of other units of general government and state-owned enterprises (SOEs) (Text Table 1). In general, SOEs are not likely to represent a major contingent public liability. A notable exception is the electricity and water utility *Eletricidade e Águas da Guiné-Bissau* (EAGB), which has non-publicly guaranteed debts estimated at 2.7 percent of GDP in 2021.[5]

[4] Debt management was strengthened after the approval by the Council of Ministers in July 2021 of decrees related to the creation of a National Committee of Debt Policy and the organization and functioning of the Debt Directorate. The authorities use the Debt Management and Financial Analysis system (DMFAS) to record external debt and seek to start incorporating domestic debt into the system. The first annual debt bulletin was published in 2021, followed by an improved version in 2022, which will partially cover debt held by SOEs. Additionally, the World Bank implemented a Debt Management Performance Assessment (DeMPA) in 2022 that identified needed reforms to further strengthen debt management. Guinea-Bissau continues to receive technical assistance from the IMF and the World Bank to improve debt reporting to the International Debt Statistics (IDS) and the Quarterly External Debt Statistics (QEDS). Technical assistance from the IMF's statistics department planned for 2022-23 aims at expanding data coverage and improving public data debt according to international guidance.

[5] Government clearance of EAGB debt amounted to CFAF 6.6 billion in 2017, CFAF 2.5 billion in 2018, CFAF 5.9 billion in 2019, and CFAF 3.6 billion in 2020. There were no transfers in 2021. Also, the government guaranteed loans to EAGB with a total value of CFAF 5.6 billion in 2020 and CFAF 7.4 billion in 2021 as part of debt service restructuring agreements with local commercial banks. In 2022, guarantees increased to CFAF 11.9 billion. These guarantees are included in the DSA.

2. **Debt classification follows a hybrid approach in which debt to the West African Bank for Development (*Banque Ouest Africaine de Développement* or BOAD) is classified as external and bonds issued in the regional market are classified as domestic.** Since the previous Guinea-Bissau DSA, debt denominated in Communauté Financière Africaine francs (CFA francs or CFAF) to BOAD, amounting to 12.8 percent of GDP at end-2021, is classified as external whereas the remaining debt sources follow a currency-based classification. Treasuries issued in CFA francs in the regional market remain treated as domestic for the purpose of this DSA.[6] The stock of such treasury securities (held by both local and regional banks) at end-2021 was CFAF 193.3 billion, equivalent to 52 percent of domestic debt or 20.2 percent of GDP.

Text Table 1. Guinea-Bissau: Public Debt Coverage Under the Baseline Scenario

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

3. **The authorities are seeking long-term technical assistance from international partners to improve their capacity for debt recording, monitoring, and overall debt management.** In the context of the implementation of three decrees approved in June 2021,[7] the Directorate Generals of Treasury and Debt are holding weekly coordination meetings. Biannual meetings of the recently created National Committee of Public Debt start in 2022. The World Bank, through the Performance and Policy Actions supported under the Sustainable Development Finance Policy, is supporting authorities with the publication and expansion of the debt bulletin. Additionally, the Word Bank is supporting EAGB on implementing a Management Improvement Plan and a financial restructuring plan. Both plans have yielded a more accurate assessment of the utility's stock of debt by end-2022. The Statistics Department of the IMF has planned two technical assistance missions during 2022–23 to support the authorities to improve debt recording and data coverage expansion.

BACKGROUND

4. **Guinea-Bissau's public debt rose to 78.9 percent of GDP in 2021.** The ratio of public debt to GDP increased by an estimated 0.7 percentage points with respect to 2020. This increase was observed in the domestic debt side and is mostly explained by the resources of the Special Drawing Rights (SDR) allocation on-lent by the regional central bank (*Banque Centrale des États de l'Afrique de l'Ouest* or BCEAO). External debt remained broadly stable in 2021 as a large part of those on-lent resources was allocated to

[6] In 2021, local banks held 7 percent of outstanding domestic debt issued in the regional market.

[7] In June 2021 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 Directorate-General for Public Debt (*Direção Geral da Dívida Publica*); and (iii) regulating the process of debt issuance and management.

pre-pay non-concessional external debt to BOAD due in 2022, which offset the budget support from the IMF's Rapid Credit Facility (RCF) and project financing from the World Bank. BOAD and the World Bank are the main holders of Guinea-Bissau's external debt (Text Table 2). On the domestic side, government financing has relied on the regional treasury market (Text Table 2 and Debt Holder Profile Table in Annex 1). Part of the resources raised on the regional market allowed for the payment of domestic expenditure arrears that were accumulated in 2019-20, but only recognized in 2021. The stock of debt also reflects the authorities' efforts to resolve legacy external arrears following advice from the IMF and the World Bank.

Text Table 2. Guinea-Bissau: Total Public Debt

	2019 Act.	2020 Act.	2021 Prel.	2022 Proj.	2019 Act.	2020 Act.	2021 Prel.	2022 Proj.
	(Billions of CFAF)				*(Percent of GDP)*			
Central Government Debt	**572.7**	**684.4**	**754.5**	**859.1**	**65.8**	**78.2**	**78.9**	**81.0**
External	**325.1**	**360.1**	**382.7**	**437.4**	**37.3**	**41.1**	**40.0**	**41.2**
Multilateral	249.6	282.7	303.3	351.0	28.7	32.3	31.7	33.1
IMF	18.5	15.8	26.4	25.9	2.1	1.8	2.8	2.4
IDA	67.4	78.0	97.9	119.2	7.7	8.9	10.2	11.2
BOAD	117.1	138.6	122.0	141.0	13.4	15.8	12.8	13.3
AfDB	22.4	22.5	27.7	31.9	2.6	2.6	2.9	3.0
Others (IDB, BADEA, IFAD, etc)	24.3	27.8	29.3	32.9	2.8	3.2	3.1	3.1
Bilateral	75.5	77.4	79.4	86.4	8.7	8.8	8.3	8.1
of which Legacy Arrears [1]	22.8	29.5	3.3	3.6	2.6	3.4	0.3	0.3
Paris Club	9.1	8.3	5.9	6.3	1.0	1.0	0.6	0.6
Non-Paris Club [2]	66.3	69.1	73.5	80.1	7.6	7.9	7.7	7.5
Domestic	**247.6**	**324.3**	**371.8**	**421.7**	**28.4**	**37.1**	**38.9**	**39.7**
Local Banking System	143.7	162.8	156.7	156.1	16.5	18.6	16.4	14.7
BCEAO	110.3	109.5	130.5	130.0	12.7	12.5	13.6	12.2
Loans local commercial banks	20.9	33.2	12.0	12.0	2.4	3.8	1.3	1.1
Treasury Securities held by local banks	12.5	20.2	14.2	14.2	1.4	2.3	1.5	1.3
Treasury Securities held by regional banks	73.7	119.9	179.2	235.8	8.5	13.7	18.7	22.2
Payment Arrears	26.3	31.0	22.8	12.2	3.0	3.5	2.4	1.2
Guarantees	3.9	10.6	13.1	17.5	0.4	1.2	1.4	1.7

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

[1] Legacy Arrears are due to Brazil, Russia as well as Pakistan.

[2] Non-Paris Club: Angola, Exim Bank of India, Kuwait, Libya, Pakistan, Saudi Fund, Exim Bank of Taiwan Province of China.

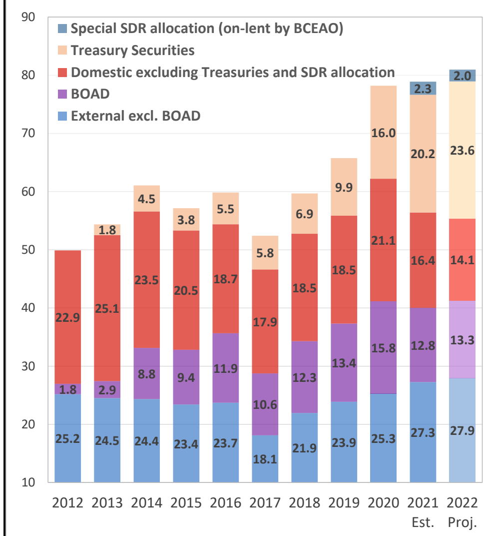
5. **The special SDR allocation contributed to lower financing costs and closed the 2021 financing gap associated with the emergency response to the pandemic.** In line with the WAEMU agreement, the BCEAO on-lent the counterpart of the SDR allocation.[8] Despite being treated as domestic debt, the DSA calculates the present value of the loan to incorporate its highly concessional nature, which reduces its initial impact on the DSA's assessment of the overall risk of debt distress.[9] The concessional terms of the on-lending operation provided an alternative to more costly financing such as contracting non-concessional debt and issuing Treasury bills in the WAEMU

[8] The end-August SDR 27.2 million allocation was transferred by the BCEAO, as a currency repo operation of CFAF 21.6 billion (2.3 percent of GDP) 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.

[9] In general, domestic debt is treated in nominal terms in the DSA.

regional market. The authorities used most of those resources to pre-pay non-concessional debt to BOAD, due at end-2021 and in 2022.[10] The remaining amount financed part of the emergency response to the pandemic.

Public Debt Stock
(Percent of GDP)

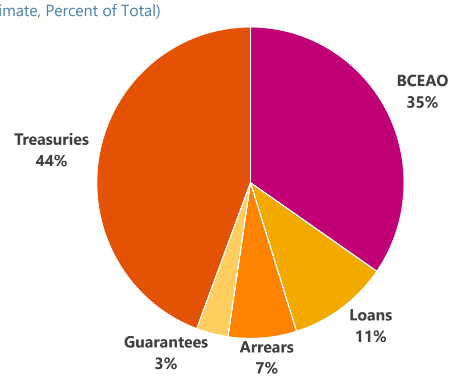


Sources: Guinea-Bissau authorities and IMF staff calculations.

6. Non-concessional domestic borrowing slightly decreased in 2021 after the significant increase observed in 2020 to finance the response to the pandemic (Text Table 2). Excluding the SDR allocation, central government domestic debt amounted to 36.6 percent of GDP at end-2021. The largest source of net borrowing was Treasury securities, the stock of which rose by 5 percentage points of GDP between 2020 and 2021, with the bulk purchased by commercial banks from elsewhere in the WAEMU region.

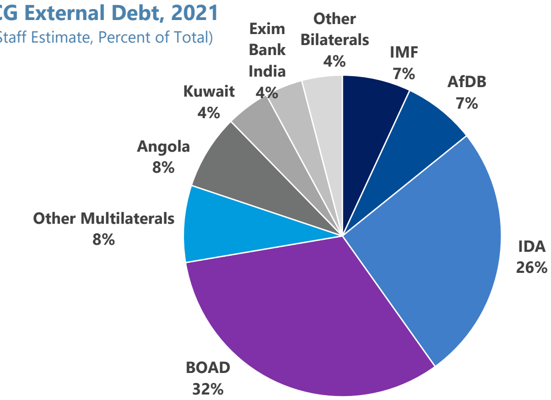
7. External borrowing remained broadly stable with an increase in concessional sources compensated by the pre-payment of non-concessional debt to BOAD. Debt to BOAD decreased by 3 percentage points of GDP in 2021 whereas more concessional external borrowing increased by 2.4 percentage points. Since 2017, the World Bank has been the main source of new concessional financing, promoting large regional telecommunications and energy projects as well as national projects to support rural transportation.[11] Altogether, multilaterals held 80 percent of Guinea-Bissau's external debt at end-2021. The remaining external debt was bilateral, mainly to non-Paris Club creditors. External debt includes legacy arrears that the authorities have been actively seeking to resolve. In July 2021, an agreement was reached with Angola, the main creditor in this context,

CG Domestic Debt, 2021
(Staff Estimate, Percent of Total)



Sources: Guinea-Bissau authorities and IMF staff calculations.

CG External Debt, 2021
(Staff Estimate, Percent of Total)



Sources: Guinea-Bissau authorities and IMF staff calculations.

[10] Out of the total amount, 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.

[11] World Bank national operations also include projects to support food security, improve health service delivery, enhance the quality of education, and boost social safety nets. These operations are all grants.

bringing the stock of legacy arrears down from 3.4 percent of GDP in 2020 to 0.3 percent of GDP at end-2021.[12]

8. **Debt service has significantly increased in 2021 due to the pre-payment of debt to BOAD and payment of domestic arrears.** The ratio of debt service to revenue excluding grants increased from 78.7 percent in 2020 to 101 percent in 2021, of which 9.7 percent of revenues corresponds to the debt service to BOAD originally due in 2022. Additionally, payment of domestic arrears accumulated in 2019-20 represented 8.4 percent of revenues (4.3 percentage points above the corresponding amount in 2021). The Catastrophe Containment and Relief Trust (CCRT) grant helped alleviate the debt service burden, amounting to 1.3 percent of revenues. The authorities requested by end-2020 and again in 2021 to join the Debt Service Suspension Initiative (DSSI). Even without any debt suspension, debt sustainability prospects are expected to be enhanced through the commitment to limit non-concessional borrowing to levels agreed under IMF programs and the International Development Association's Sustainable Development Finance Policy and to disclose all public sector financial commitments involving debt.[13]

9. **Regional institutions with a strong capacity to help manage debt provide support to Guinea-Bissau's debt management capacity.** WAEMU currency union regional institutions manage both the debt issued by Guinea-Bissau in the regional sovereign treasury securities market (*UMOA-Titres*) as well as the debt held by the central bank (BCEAO). These two components account for almost 90 percent of Guinea-Bissau's domestic debt at end-2021. Moreover, Guinea-Bissau's borrowing through WAEMU sovereign securities market is expected to account for an insignificant share of available regional financing to the eight countries in this currency union.

BASELINE SCENARIO

10. **The near-term outlook projects a moderate recovery and sustained growth over the medium term, but risks are tilted to the downside.** The main changes relative to the previous DSA of June 2022 (Text Table 3) include an upward revision on inflation, a reduction in GDP growth, and a depreciation of the currency in 2022 and 2023. The main macroeconomic assumptions are as follows:

- **Real GDP growth.** After a modest GDP growth of 1.5 percent in 2020, growth is estimated to have accelerated to 6.4 percent in 2021 on the back of record high cashew nut production, public investment in critical externally financed infrastructure, the gradual lifting of COVID

[12] Guinea-Bissau has external arrears, totaling US$5.7 million at end-2021, to Brazil, Russia, and Pakistan for longstanding debts that were not covered in the HIPC process and that are eligible for debt relief. In 2017, Guinea-Bissau secured extensive debt relief on arrears of US$43.2 million to Taiwan Province of China. In 2018, a debt rescheduling agreement was reached with Libya for arrears of US$6.9 million with limited net debt relief. In 2021, a debt rescheduling agreement was reached with Angola for arrears of US$49.2 million with limited net debt relief. Negotiations with Brazil resumed in 2022 (US$1.9 million) after the agreement reached in 2017 was never signed. A settlement was negotiated with Russia in 2018 (US$1.5 million) but the agreement is still pending signature. Negotiations with Pakistan (US$2.2 million) have been protracted. This DSA includes some conservative repayment assumptions that will be revised once rescheduling agreements are reached.

[13] Regarding the DSSI, the authorities declined to suspend the small debt service involved (0.7 percent of revenues) and some creditors did not respond.

containment measures, and an improvement in business confidence associated with a more stable political situation. Growth is projected to moderate to 3.5 percent in 2022 due to lower-than-expected cashew nut exports and spillovers from the war in Ukraine, and gradually reach 5 percent by 2024-2027. In the medium term, growth will be supported by higher cashew nut export prices and volumes driven by a recovery in global trade, and a more stable political situation, with structural reforms and stronger business environment expected to support private investment growth. Long-term growth is projected at 4 percent in line with the growth potential of the economy.[14]

- **Inflation.** Average price inflation reached 3.3 percent in 2021 reflecting pressures on prices of imported goods, especially food and oil. In 2022, average inflation is expected to reach 7.8 percent. This is substantially above the 3 percent convergence WAEMU criteria, reflecting persistent inflationary pressures due to supply chain disruptions, the impact of the war in Ukraine on global commodity prices, and a stronger dollar.[15]

Text Table 3. Guinea-Bissau: Key Macroeconomic Projections

(Percent of GDP, Unless Otherwise Indicated)

	2020	2021 Prel.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	Long Term[1]
Real GDP growth (percent)									
Previous DSA	1.5	5.0	3.8	4.5	5.0	5.0	5.0	5.0	4.2
Current DSA	1.5	6.4	3.5	4.5	5.0	5.0	5.0	5.0	4.2
CPI inflation (percent)									
Previous DSA	1.5	3.3	5.5	4.0	3.0	2.0	2.0	2.0	2.0
Current DSA	1.5	3.3	7.8	5.0	3.0	2.0	2.0	2.0	2.0
Primary fiscal balance									
Previous DSA	-8.1	-4.1	-3.0	-2.1	-1.5	-1.1	-1.1	-1.0	-0.7
Current DSA	-8.1	-4.0	-4.2	-1.7	-1.0	-0.9	-0.9	-0.8	-0.6
Overall fiscal balance (commitment)									
Previous DSA	-9.6	-5.7	-4.4	-4.0	-3.5	-3.0	-3.0	-3.0	-3.0
Current DSA	-9.6	-5.6	-5.5	-3.9	-3.2	-3.0	-3.0	-3.0	-3.1
Tax revenues									
Previous DSA	7.7	9.9	9.9	10.9	11.1	11.3	11.3	11.4	12.4
Current DSA	7.7	9.8	9.5	9.9	10.2	10.5	10.7	11.0	11.7
Domestic primary expenditures									
Previous DSA	16.0	14.9	14.2	14.3	13.6	13.5	13.7	13.7	14.4
Current DSA	16.0	14.7	14.9	12.9	12.4	12.6	12.8	12.9	13.5
Non-interest current account balance									
Previous DSA	-1.8	-2.1	-5.8	-3.5	-3.4	-3.1	-3.1	-2.9	-3.1
Current DSA	-1.7	0.3	-5.2	-3.5	-3.3	-3.2	-3.0	-2.8	-2.6
External debt									
Previous DSA[2]	40.4	40.1	40.3	37.7	35.4	32.8	30.4	28.3	20.8
Current DSA	41.1	40.0	41.2	38.4	36.1	34.1	31.6	29.4	21.7
Domestic debt									
Previous DSA[2]	36.1	38.4	38.1	38.7	38.5	38.4	38.4	38.4	39.8
Current DSA	37.1	38.9	39.7	39.8	39.3	38.6	38.6	38.5	40.0

Source: Bissau-Guinean authorities and staff estimates.

[1] Covers the period 2028-42 for current DSA, and 2028-42 for the previous DSA.

[2] Adjusted based on the reclassification of BOAD as external debt.

- **Fiscal deficit.** Greater revenue mobilization and expenditure controls reduced the overall fiscal deficit from 9.6 percent in 2020 to 5.6 percent of GDP in 2021. However, the overall fiscal deficit in 2022 is expected to reach 5.5 percent of GDP, higher than the 2022 Article IV report by 1.3 percentage points of GDP mainly due to higher-than-expected expenditures. The wage spending overrun was caused mainly by the irregular hiring of workers, which has already been addressed. The authorities are also rationalizing non-priority spending in the last three months of 2022. In addition, other current expenditure is higher mainly due to spending on the upcoming election as well as higher spending related to security and defense, social and diplomatic services. While budget support has been higher than expected, with France and Portugal each providing CFAF 3.3 billion in 2022, lower tax revenue has also impacted fiscal goals.

[14] Potential growth is estimated at around 4 percent for 2021 based on standard techniques such as the Hodrick-Prescott Filter and estimation using an aggregate production function.

[15] The WAEMU's CFA is pegged to the euro, which is expected to depreciate by 10.7 percent against the US dollar in 2022.

- In the medium-term, the overall deficit is expected to converge to the WAEMU regional target of 3 percent of GDP by 2025. Consistent with the authorities' commitment to consolidate and improve debt sustainability, an annual average of 1.1 percentage points of GDP adjustment in the domestic primary balance (on a commitment basis) is projected over three years (2022-25).[16] A balanced and durable growth-supportive fiscal consolidation would be supported by following measures:
  - **Enhancing revenue mobilization.** Tax revenues increased by 2.0 percentage points of GDP in 2021 compared to 2020 and are expected to further increase around 0.7 percentage points by 2025. Measures to enhance tax revenue mobilization cover both revenue administration and tax policy reforms, including the broadening of the tax base, simplifying the tax system, and strengthening tax administration and compliance. In 2022, the authorities promulgated a tax package to simplify and enhance transparency of the tax system and fully implemented a digital tax filling platform (the *Kontaktu* system). To further accelerate revenue mobilization and modernize the tax regime, authorities will submit to Parliament the revised law on the general exemption regime (structural benchmark (SB), end-December 2023) and the revised income tax and stamp duties bills (SB, end-June 2025). They will also implement the new VAT law and the action plans for improving the custom and tax administrations with support from continued technical assistance of the IMF. Notably, fiscal yield from the implementation of VAT is expected to be 2.6 percent of GDP by 2027. To improve revenue generation from natural resources and its transparency, authorities will prepare an action plan to develop a register of resource rights holders and undertake diagnosis of the fiscal regime for natural resources (SB, end-June 2024) with IMF technical assistance (TA) support.
  - **Strengthening PFM and expenditure control.** The government is committed to decrease domestic primary expenditures by around 2.3 percentage points of GDP between 2022 and 2025, of which 1.3 percentage points come from wage bill management measures. The recent FAD wage bill management mission provided additional reform options for wage bill management while protecting social priority spending.[17] To address the wage bill overrun in 2022, the government has taken a series of corrective actions: (i) the dismissal of irregular hirings[18]; (ii) total freezing of hirings; (iii) capping salary expenses for key ministries; (iv) full inventory-taking of health and education facilities to assess the personal needs and identify irregular workers; (v) a new decree was also issued which stipulated that all contracts should be carried out by submitting the vacancies authorized by the Ministry of Labor and the Ministry of Finance; and (vi) elimination of two-thirds of advisor positions at the Presidency, Prime Minister's Office, the Presidency of the Parliament, and the Presidencies of the Constitutional and Audit Courts. To meet the wage spending ceiling quantitative performance criteria in 2023, the authorities will undertake additional containment measures in 2023, including conducting new census of public administration[19] and redistribution of staff workload in the Ministry of

[16] The domestic primary balance excludes grants and foreign financed capital spending.

[17] The estimated fiscal saving of wage bill and expenditure control is about 1.9 percent of GDP by 2027.

[18] Except for regularized workers in the education sector and justice administration.

[19] The new census will be conducted within the framework of the World Bank project on capacity building in the public sector.

Education -the ministry with the largest number of civil servants. They will also undertake reforms aim to strengthen PFM and expenditure control in line with the ECF structural benchmarks, including measures to reconcile the personnel and the payroll records[20], enhancing the treasury and cash management function with the implementation of a Treasury Single Account (TSA) and executing expenditure from the TSA, starting with the wage bill.

- **Improving SOE oversight and mitigating fiscal risks.** The IMF SOE oversight and fiscal risk TA mission identified the national utility company, EAGB, as one of the biggest sources fiscal risks amongst the four SOEs.[21] The authorities are taking several measures to improve the finanical sustainability of EAGB and mitigate fiscal risks.[22] Customer management and revenue collection will be improved with the instalation of 35,000 post- and pre-paid electricity meters. EAGB also plans to progress in the connection to the Gambia River Basin Development Organization (OMVG) regional project, supported by the World Bank, which will bring hydropower from neighboring Guinea and should lower the average generation costs and diversify Guinea-Bissau's sources of power generation. Fiscal oversight of EAGB and governance could also be enhanced with support from IMF TA. Support by the World Bank in revamping EAGB's management and operations, including a financial restructuring plan, will also enhance the performance of the electricity sector and mitigate fiscal risks over the medium term.

- **Safeguarding social and priority spending and investment.** The authorities are committed to safeguarding social and priority spending and public investment over the medium term. During 2022-27, social and priority spending is projected to increase by 0.7 percentage points of GDP compared to pre-COVID-19 period (2010-19). Public investment is projected to average around 7.4 percent of GDP per annum during 2022-27, 1.5 percentage points higher than pre-COVID-19 period (2010-19). Notably, domestically financed capital investment is projected to be higher than historical average, underpinned by the fiscal space created.

11. Current account deficit. The non-interest current account deficit is estimated to have remained broadly stable in 2021 and is projected to widen by 5.5 percentage points in 2022, reaching 5.2 percent of GDP. The deterioration of the current account mostly reflects higher import prices and lower private transfers. Improvements in the trade balance, driven by an improvement in the terms of trade and a rebound in export volumes, are expected to reduce the current account deficit to 3.2 percent of GDP by 2025.

[20] This will be supported by the deployment of the blockchain technology-based solution supported by the IMF. The design of block-chain solutions will be interwoven into governance reforms.

[21] The other SOEs are Administration of the Ports of Guinea-Bissau (APGB); Civil Aviation Agency of Guinea-Bissau (AACGB); and National Petroleum Exploration and Exploration Company of Guinea-Bissau (PetroGuin).

[22] See Staff Report for the Request of a Three-Years Arrangement under the Extended Credit Facility (Annex III) and 2022 Article IV Consultation and Third Review of the SMP (Annex IX).

12. Public debt to GDP is expected to increase by 2.1 percentage points in 2022. The stock of domestic debt is projected to increase by 0.8 percentage points of GDP compared to 2021. The authorities will continue to seek financing through the issuance of treasury bills. As a result, the stock of securities (held by local and regional commercial banks) is projected to further grow by 3.3 percentage points of GDP. Except for guarantees, which increased due to new guarantees issued to debt of EAGB, the stock of other domestic debt sources is expected to fall in 2022. Debt to the regional central bank (BCEAO), loans from local commercial banks and domestic payment arrears are projected to jointly drop by 2.8 percentage points of GDP. The stock of external debt is projected to increase by 1.2 percentage points of GDP, mostly driven by a revaluation effect from the weaker domestic currency.

Text Table 4. Guinea-Bissau: 2022 Borrowing Plan

PPG external debt contracted or guaranteed	Volume of new debt in 2022[1] (US$ million)	Present value of new debt in 2022[1] (US$ million)
Sources of debt financing	**73.1**	**43.0**
Concessional debt[2]	73.1	43.0
Multilateral debt	73.1	43.0
Uses of debt financing	**73.1**	**43.0**
Education	17.0	8.7
Energy	40.3	26.2
Roads	15.8	8.1

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 of at least 35 percent.

13. The DSA assumes that authorities will implement a prudent borrowing strategy and medium-term investment-related borrowing is projected to prioritize concessional financing. Given the large pipeline of contracted yet undisbursed investment project loans, bringing down public debt may require restructuring some projects. Contracting of new loans is expected to be also constrained. Gross annual project disbursements from loans and grants are assumed to between 65 and 75 percent of capital expenditure, which is expected to average 5.3 percent of GDP in the next five years, given the low absorption capacity. In the medium term, in line with the government's policy to prioritize low-cost funding, multilateral creditors are expected to provide most project financing on grant or concessional terms. Borrowing from BOAD, which is almost entirely non-concessional, is projected to decline significantly.[23] The baseline assumes better investment planning and execution to ensure value for money and better alignment with the budget process. Treasury securities with longer maturities are expected to fill most non-investment-related financing needs in the medium-term (2023 onwards). Interest rates are projected to increase to 6.2 percent for bonds with maturities of one to three years, to 6.5 percent for bonds with maturities of four to seven years, and to 6.7 percent for bonds with maturities beyond seven years. These interest rates reflect the effect of the recent tightening of financial conditions in the WAEMU.[24]

14. The macroeconomic scenario is broadly realistic. The non-interest current account deficit in 2022-27 is projected to contribute to external debt accumulation, in line with debt dynamics over the past five years. This driver of debt is expected to be offset by sustained growth, increased reliance on committed

[23] For 2022, staff estimate that only 34 percent of contracted BOAD loans were disbursed. For 2023, staff project that 41 percent of contracted BOAD loans will be disbursed. BOAD accounted for 20 percent of external disbursements in 2022. Authorities are committed to only borrow on concessional terms from BOAD and will finalize the execution of projects already contracted.

[24] In addition, interest rates on short-term T-bills are projected to increase to 6 percent from 2023 onwards.

grants (captured in the residual of the drivers of debt dynamics in Figure 4[25]) and higher-than-expected inflation. It is assumed that multilateral donors will prioritize grant disbursements considering the structural fragility of the country, its large development needs, and limited access to alternative financing sources. Fiscal consolidation and improvements in governance are also expected to crowd in grants. The dynamics of total public debt are dominated by developments of the primary fiscal balance and real GDP growth. Both factors are expected to have a greater debt-containment effect than in the past, due to increased authorities' commitment to fiscal and governance reforms, as well as a stable political environment more conducive to growth. The projected three-year adjustment in the primary deficit is marginally larger than the 25th percentile observed in historical data from low-income countries (LICs) with Fund-supported programs (Figure 5), which is consistent with the authorities' commitment to continued fiscal consolidation during the IMF financial program. Actual fiscal results, however, tend to be highly volatile in Guinea-Bissau.[26] Real GDP growth is projected at 3.5 percent in 2022 consistent with a small fiscal multiplier (Figure 5), as presumed by a high import content of government spending and evidenced by essentially zero correlation between real GDP growth and changes in the fiscal primary balance since 2010.

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TEST SCENARIOS

15. **Guinea-Bissau is assessed to have weak debt carrying capacity, unchanged from the June 2022 DSA.** The Composite Indicator (CI) score for Guinea-Bissau is 2.63, based on data on macroeconomic indicators from the October 2022 WEO and from the 2021 Country Policy and Institutional Assessment (CPIA) of the World Bank (Text Table 5). This score is below the 2.69 cutoff, thus resulting in a weak debt-carrying capacity.

Text Table 5. Guinea-Bissau: Calculation of the CI Index

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.440	0.94	36%
Real growth rate (in percent)	2.719	4.280	0.12	4%
Import coverage of reserves (in percent)	4.052	44.277	1.79	68%
Import coverage of reserves^2 (in percent)	-3.990	19.604	-0.78	-30%
Remittances (in percent)	2.022	8.671	0.18	7%
World economic growth (in percent)	13.520	2.898	0.39	15%
CI Score			2.63	100%
CI rating			Weak	

[25] For 2017-2021, the reclassification of BOAD debt from domestic to external accounts for the large unexplained increase in external debt (Figure 4). For the 5-year forecast period, the residual is also affected by the financing from treasury securities in the regional market, which are considered domestic debt in the DSA, but account for sizable capital inflows in the financial account.

[26] Past debt forecast errors are mostly explained by unexpected changes in the primary deficit driven by cashew campaigns, the impact of political instability on reform implementation, and large investments. The country's structural fragility accounts for the large difference in unexpected debt changes compared to other LICs. Given efforts to diversify the economy, recent political stability, and commitments of the authorities to reform implementation, forecast errors are expected to subside in the future. For the 2017-2021 period, residuals, were also a large contributor to the unexpected increase in public debt (Figure 5). 2017 and 2020 account for most of these residuals. About three-fourth of the residuals are explained by unaccounted external debt, new guarantees, and BOAD's reclassification and membership rights. Most of these factors are not likely to reoccur.

16. The magnitude of the combined contingent liability shock is higher than in most DSAs (Text Table 6). This DSA runs a stress test with a contingent liability shock for SOE debt of 6.7 percent of GDP instead of the default value of 2 percent.[27] The increase in the shock mostly captures the potential liabilities related to the possible recapitalization needs of a systemic bank that does not meet the WAEMU's minimum capital requirements. The shock also reflects the potential fiscal costs of operational losses of the electricity utility (EAGB), contingent liabilities linked with increased public guarantees, and the possibility of the domestic arrears being larger than what is already included in the debt stock (2.4 percent of GDP at end-2021). The current estimate builds on audits that still need to be validated by the authorities. The authorities requested support from the World Bank to finalize those audits.

Text Table 6. Guinea-Bissau: Combined Contingent Liabilities Shock

1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government)	2 percent of GDP	6.7	Increased from 2 to 6.7 to reflect potential liabilities linked to bank recapitalisation needs (2 percent), EAGB debt (2.7 percent) and domestic arrears (2 percent).
4	PPP	35 percent of PPP stock	0.00	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		11.7	

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

17. Guinea-Bissau's risk of external debt distress remains high, in line with the June 2022 DSA. External debt reaches 40 percent of GDP at end-2021. A worsening external environment, including the sharp depreciation of the CFA, explains some of the increase in the external debt-to-GDP ratio compared to the June 2022 DSA. The external debt indicators based on PV ratios remain below the relevant indicative thresholds throughout the projection period (2022–42) under the baseline scenario (except for a one-year breach of the PV of debt-to-exports ratio in 2022, which becomes below the threshold in 2023).[28] However, the indicators based on the debt-service ratios breach their indicative thresholds under the baseline, which implies a mechanical 'high' risk rating (Figure 1 and Table 3).[29] That said, since Guinea-Bissau is in a currency union with FX reserve pooling, the effective impact of these indicators is rather limited.

18. The adverse commodity price stress test was designed to reflect Guinea-Bissau's vulnerability to cashew price fluctuations. In 2020, cashew prices fell by 33 percent amid the global

[27] Breakdown of the SOE shock: bank recapitalization (2 percent), EAGB debt (2.7 percent) and domestic arrears (2 percent).

[28] Under the most extreme (combination) shock, the PV of debt-to-GDP ratio breaches the threshold until 2025, but steadily declines afterwards. The most extreme shocks for other indicators show a repeated breach of the threshold.

[29] For the standard export shock, nominal export growth is set to its historical average (5.5 percent) minus 0.5 standard deviation (SD), instead of 1 SD (default parameter, which amounts to 28 percent in Guinea-Bissau). This reflects the fact that the ten-year lagged standard deviation of export growth (excluding the covid-shock of 2020) is half of the historical standard deviation. This scenario results in an annual drop of 8.6 percent in exports both in 2023 and 2024 (as opposed to 5.8 percent average export growth in the baseline).

slowdown. In line with the June 2022 DSA, the analysis shows the debt sustainability prospects after a hypothetical 15 percent fall in cashew export prices in the first year of the projection (Figure 1).

B. Public Debt Sustainability Analysis

19. Guinea-Bissau's overall risk of debt distress is assessed as high. The PV of total public debt-to-GDP ratio stays above its indicative benchmark (35 percent) through 2032, a substantial and prolonged breach (Table 4 and Figure 2).[30] Moreover, debt service as a percentage of revenues and grants increases to 74 percent in 2028 from 66 percent in 2022. Despite the expected improvement in revenues and authorities' efforts to shift to concessional financing, this increase is projected because of higher future amortization of existing debt in the medium run.

20. Public debt sustainability is vulnerable to a commodity price shock. After a 15 percent drop in cashew prices, the present value of the debt-to-GDP ratio reaches 78 percent in 2028 and keeps rising, and the debt service-to-revenue ratio reaches 116 percent in 2028 before stabilizing at around 90 percent.

CONCLUSIONS

21. Public debt is considered sustainable based on the authorities' commitment to the fiscal consolidation towards the WAEMU deficit convergence criteria and the support provided by the regional institutions with strong capacity to help manage debt. Guinea-Bissau's external debt burden indicators are consistent with sustainability in the sense of following a downward trend over the medium-term, but the present value of total public debt-to-GDP and indicators based on the external debt-service ratios show large and prolonged breaches of their indicative benchmarks. Nonetheless, the country benefits from financial and technical support from the regional institutions and debt markets and larger regional currency union members with stronger debt carrying capacity. The supportive WAEMU context bolsters the country's capacity to carry domestic/regional debt beyond what is captured by the standard composite indicator. Taking this into consideration underpins the conclusion that Guinea-Bissau's public debt is sustainable contingent on the authorities' commitments to sound policies in the context of an engagement with the Fund and other development partners, together. This engagement should ensure that policies are in place that would put debt on a robust downward trajectory.

22. Under the staff's baseline scenario, Guinea-Bissau's public debt is kept on a sustainable path, with the overall public debt burden falling below the regional convergence criterion of 70 percent by 2027. If the policy agenda is successfully executed and barring a resurgence of the pandemic or unexpected external shocks, total public debt would decline steadily from 78.9 percent of GDP estimated at end-2021 to 68 percent of GDP by 2027.

23. A Fund-supported program and strong multilateral donor engagement will underpin the policy actions necessary for achieving the baseline projection. Key policy actions include (i) continued

[30] Under the most extreme (commodity price) shock, the PV of debt-to-GDP ratio increases to 81 percent in 2032, and the PV of debt-to-revenue increases to 453 percent. The impact of the most extreme shock on debt service-to-revenue increases this ratio from 56 percent in 2022 to 120 percent in 2027.

fiscal consolidation efforts including revenue enhancement measures, containing current spending below nominal GDP growth, a sharp reduction in the wage bill, and robust implementation of growth-enhancing reforms; (ii) prudent borrowing policies, including the avoidance of non-concessional project financing; (iii) enhanced debt management, with more rigorous compilation and monitoring of debt statistics, upgraded procedures and publication of regular debt reports to improve transparency; and (iv) improved management of the existing loan pipeline and application of recognized assessment procedures to ensure criticality of investment projects. The baseline debt dynamics could further improve with full donor re-engagement leading to (i) a substantial scaling up of grants by multilateral institutions; and (ii) a reprofiling of selected debt obligations to extend maturities and reduce interest rates when financing terms are favorable.

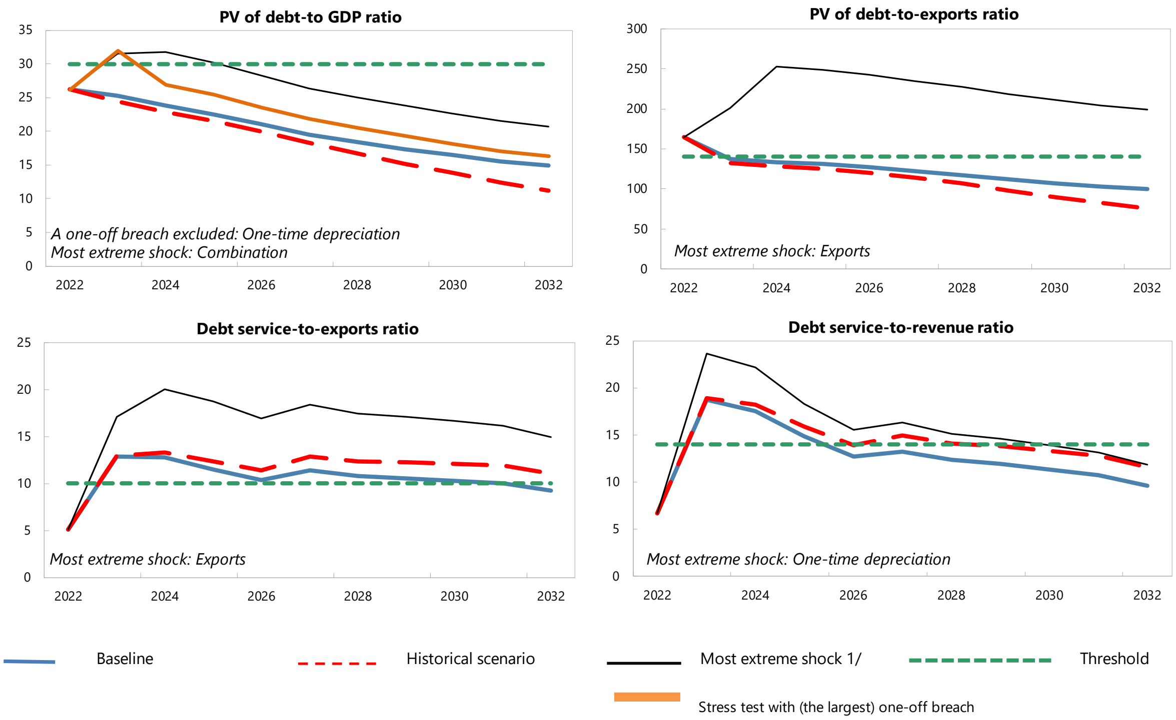
24. There are significant downside risks to the baseline scenario. Strong and sustained political commitment is needed to deliver the envisaged medium-term fiscal adjustment embedded in this DSA. The debt outlook remains highly vulnerable to a weaker economic recovery as well as the materialization of unexpected contingent liabilities, a potential wage-bill overrun, and renewed political conflict after the parliamentary elections. Since the June 2022 DSA, downside risks from a deteriorating global outlook have intensified. A further tightening of financial conditions in the regional bond market, weakening global demand, and continued pressure on exchange rate pose risks for debt sustainability. If realized, these downside risks could lead to higher external and public debt burden indicators and increase the risk of arrears accumulation. It is also contingent on the limited impact of the pandemic with its effects mitigated by a relatively high vaccination rate.[31] Risks also arise from high global food and oil prices, including the effects of a protracted political security crisis in Europe, and climate change-related natural disasters. Financial stress in state-owned enterprises could generate contingent liabilities, adding to fiscal pressures. If these risks materialize, social tensions could increase, triggering political instability that may constrain the fiscal adjustment and increase debt vulnerabilities.

AUTHORITIES' VIEWS

25. The authorities broadly concur with staff's views on debt sustainability and the recommendations. They agree that debt sustainability depends crucially on sound macroeconomic policies including the fiscal consolidation envisioned during the program. They emphasized (i) their commitment to the agreed fiscal path and reforms, while relying on concessional borrowing and (ii) the need to carefully calibrate the financing of the public investment plan and select investment projects with critical contributions to growth that are aligned with the budget targets and improved coordination among the different agencies involved in the Debt Committee. The authorities recognize the risks to the debt outlook and expect that satisfactory performance during the Extended Credit Facility (ECF) will contribute to mitigate the country's high risk of debt distress.

[31] By December 2022, there were 8,931 confirmed cases and 176 deaths. The authorities contained infections and limited the economic impact of the pandemic. About 58 percent of the adult population has been vaccinated. Donors have supported vaccine procurement and rollout.

Figure 1. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2022–32[1]



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

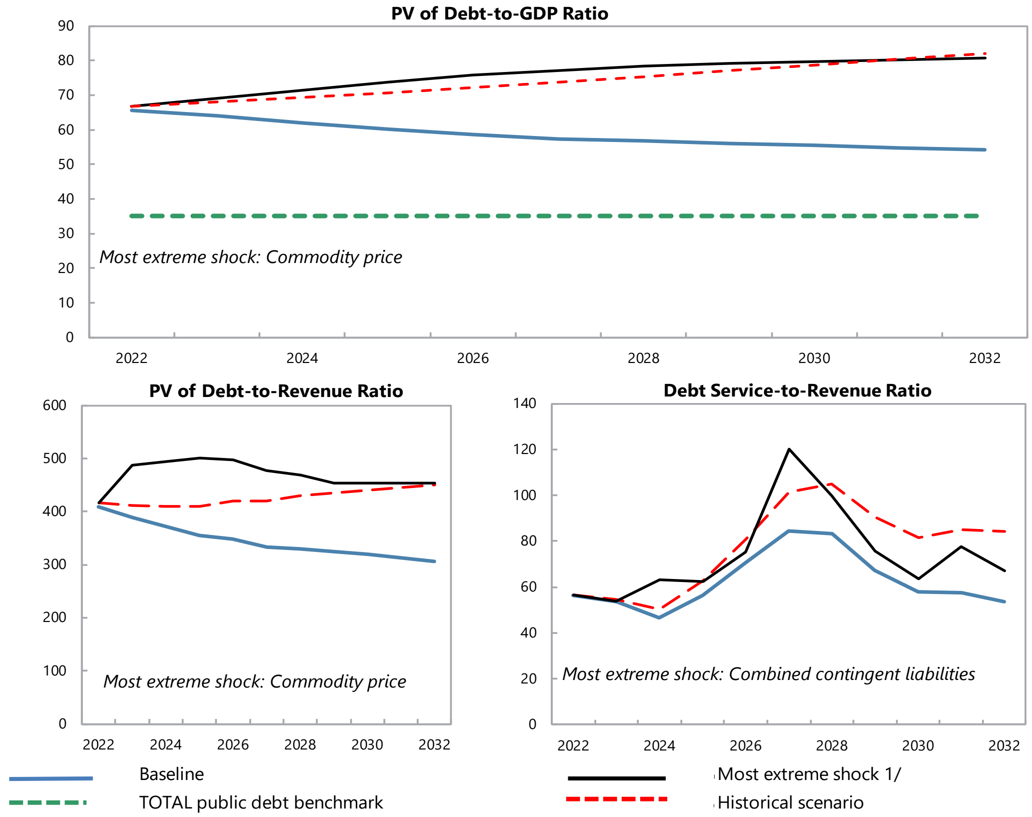
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	29	30
Avg. grace period	6	10

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

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Guinea-Bissau: Indicators of Public Debt Under Alternative Scenarios, 2022–32



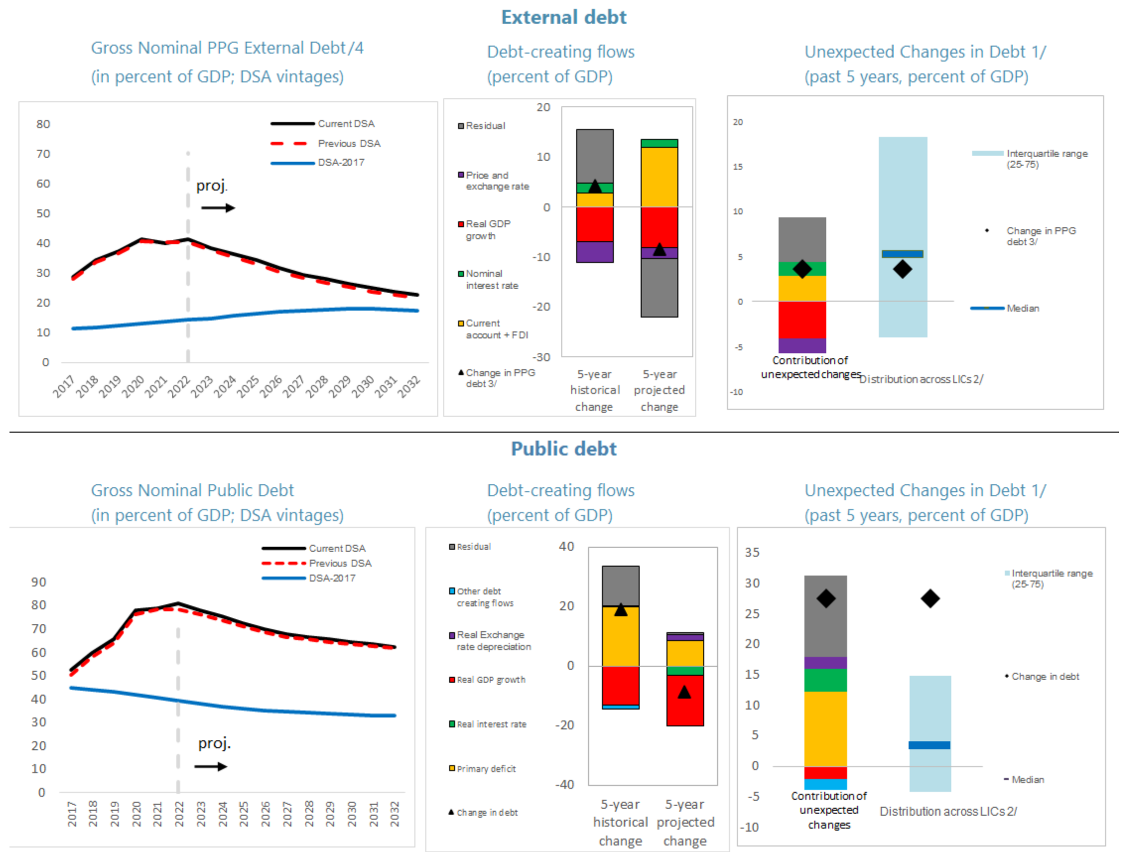
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	17%	17%
Domestic medium and long-term	63%	63%
Domestic short-term	20%	20%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	29	30
Avg. grace period	6	10
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.4%	3.4%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.0%	3.0%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 4. Guinea-Bissau: Drivers of Debt Dynamics - Baseline Scenario



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

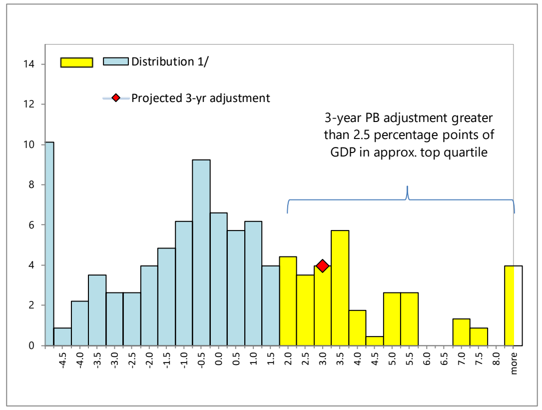
2/ Distribution across LICs for which LIC DSAs were produced.

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

4/ Difference between current and previous DSA due to the reclassification of debt to BOAD as external.

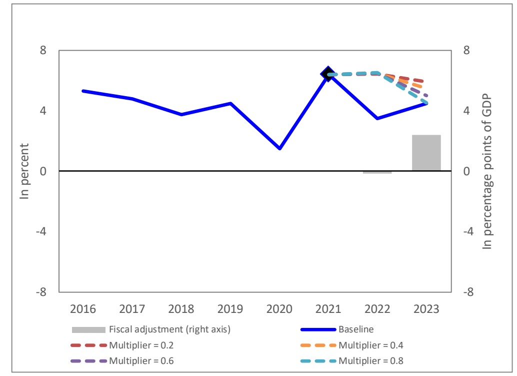
Figure 5. Guinea-Bissau: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



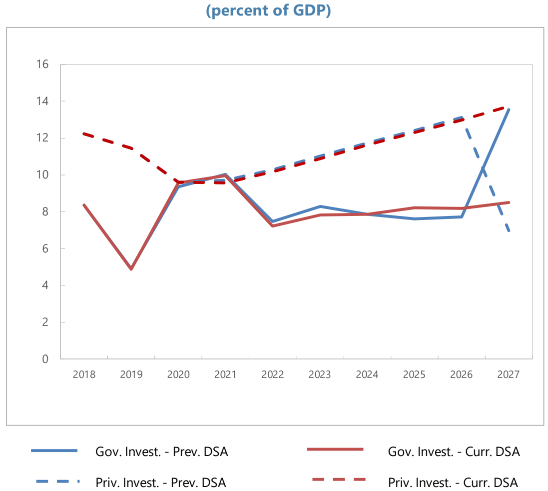
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

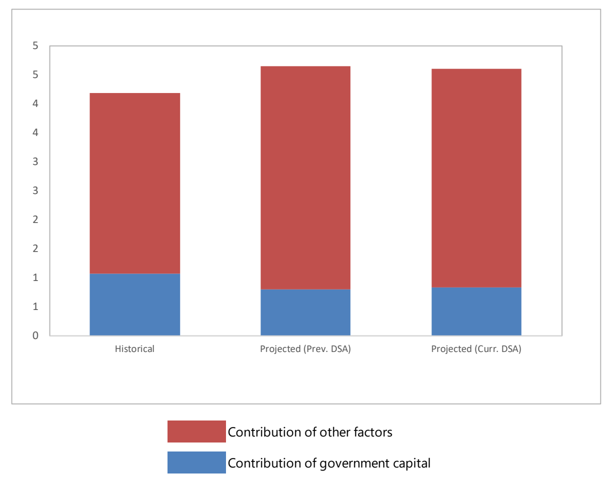
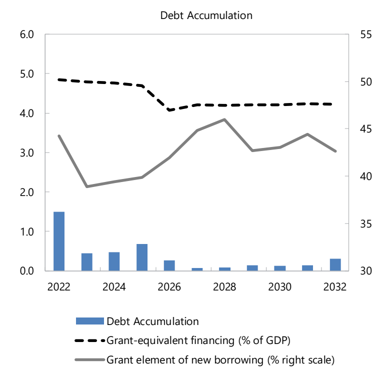


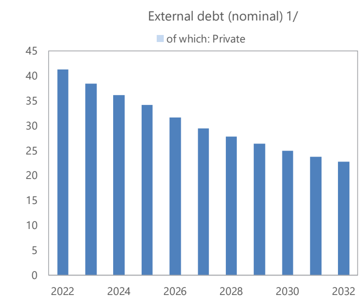
Table 1. Guinea-Bissau: External Debt Sustainability Framework, Baseline Scenario, 2019–42

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	**37.3**	**41.1**	**40.0**	**41.2**	**38.4**	**36.1**	**34.1**	**31.6**	**29.4**	**22.7**	**18.9**	**33.2**	**30.6**
of which: public and publicly guaranteed (PPG)	**37.3**	**41.1**	**40.0**	**41.2**	**38.4**	**36.1**	**34.1**	**31.6**	**29.4**	**22.7**	**18.9**	**33.2**	**30.6**
Change in external debt	3.0	3.8	-1.1	1.2	-2.8	-2.3	-2.0	-2.5	-2.2	-1.0	-0.2		
Identified net debt-creating flows	**5.1**	**0.0**	**-5.5**	**2.7**	**0.9**	**0.7**	**0.6**	**0.5**	**0.4**	**0.7**	**0.7**	**-0.9**	**0.8**
Non-interest current account deficit	**8.1**	**1.7**	**-0.3**	**5.2**	**3.5**	**3.3**	**3.2**	**3.0**	**2.8**	**2.8**	**2.5**	**1.9**	**3.2**
Deficit in balance of goods and services	14.2	13.6	10.6	13.9	12.1	11.8	11.5	11.2	10.9	10.5	9.0	**8.4**	**11.3**
Exports	19.6	15.3	19.4	15.9	18.4	17.9	17.2	16.5	16.0	14.8	12.7		
Imports	33.8	28.9	30.0	29.9	30.6	29.7	28.7	27.7	26.9	25.4	21.7		
Net current transfers (negative = inflow)	-3.8	-9.4	-8.8	-7.4	-7.3	-7.1	-6.9	-6.5	-6.4	-6.0	-5.0	**-5.4**	**-6.6**
of which: official	-1.1	-3.2	-2.6	-2.1	-2.4	-2.4	-2.3	-2.0	-2.1	-2.1	-1.8		
Other current account flows (negative = net inflow)	-2.2	-2.5	-2.1	-1.3	-1.3	-1.4	-1.5	-1.6	-1.6	-1.8	-1.5	**-1.1**	**-1.6**
Net FDI (negative = inflow)	**-4.8**	**-1.4**	**-1.0**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.8**	**-1.3**
Endogenous debt dynamics 2/	**1.8**	**-0.3**	**-4.2**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.1**	**-0.8**	**-0.5**		
Contribution from nominal interest rate	0.2	0.6	0.6	0.1	0.5	0.4	0.3	0.3	0.3	0.2	0.2		
Contribution from real GDP growth	-1.6	-0.5	-2.3	-1.4	-1.8	-1.8	-1.7	-1.6	-1.5	-1.0	-0.7		
Contribution from price and exchange rate changes	3.2	-0.3	-2.5	...	...	...	...	...	...	...	...		
Residual 3/	**-2.1**	**3.8**	**4.4**	**-1.5**	**-3.8**	**-2.9**	**-2.6**	**-3.0**	**-2.6**	**-1.7**	**-0.8**	**2.4**	**-2.4**
of which: exceptional financing	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**24.5**	**26.2**	**25.3**	**23.8**	**22.5**	**21.0**	**19.5**	**14.9**	**12.4**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**126.0**	**164.5**	**137.1**	**133.2**	**131.1**	**127.0**	**122.0**	**100.2**	**97.1**		
PPG debt service-to-exports ratio	**3.1**	**14.1**	**17.8**	**5.1**	**12.8**	**12.8**	**11.5**	**10.4**	**11.4**	**9.2**	**6.8**		
PPG debt service-to-revenue ratio	**5.0**	**18.9**	**27.1**	**6.7**	**18.7**	**17.6**	**14.9**	**12.7**	**13.2**	**9.7**	**5.7**		
Gross external financing need (Million of U.S. dollars)	58.5	37.5	37.2	81.1	82.9	83.8	82.1	79.9	83.5	97.3	125.3		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.5	1.5	6.4	3.5	4.5	5.0	5.0	5.0	5.0	4.5	4.0	**3.5**	**4.6**
GDP deflator in US dollar terms (change in percent)	-8.5	0.9	6.5	-4.3	1.0	3.1	3.4	3.5	2.8	2.0	2.0	**0.8**	**1.8**
Effective interest rate (percent) 4/	0.7	1.6	1.7	0.4	1.2	1.2	1.0	1.0	1.1	1.1	1.3	**1.1**	**1.0**
Growth of exports of G&S (US dollar terms, in percent)	-24.8	-20.2	44.0	-18.7	22.0	4.9	4.5	4.5	4.4	5.2	4.4	**5.7**	**4.2**
Growth of imports of G&S (US dollar terms, in percent)	7.6	-12.4	17.8	-1.5	8.0	5.1	5.1	4.7	4.7	5.6	3.8	**5.3**	**4.8**
Grant element of new public sector borrowing (in percent)	...	...	...	44.3	38.9	39.4	39.9	42.0	44.9	42.7	40.5	**...**	**42.6**
Government revenues (excluding grants, in percent of GDP)	12.1	11.4	12.8	12.1	12.7	13.0	13.3	13.5	13.7	14.2	15.1	**11.1**	**13.4**
Aid flows (in Million of US dollars) 5/	65.8	156.3	151.9	90.2	84.3	87.9	97.2	101.5	113.7	150.8	255.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.8	4.8	4.8	4.7	4.1	4.2	4.2	4.1	**...**	**4.4**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	81.7	75.6	75.4	75.7	81.5	82.2	82.0	81.5	**...**	**80.5**
Nominal GDP (Million of US dollars)	1,487	1,523	1,725	1,710	1,804	1,952	2,119	2,303	2,485	3,420	6,171		
Nominal dollar GDP growth	-4.4	2.4	13.3	-0.9	5.5	8.2	8.6	8.6	7.9	6.6	6.1	**4.3**	**6.4**
Memorandum items:													
PV of external debt 7/	...	...	24.5	26.2	25.3	23.8	22.5	21.0	19.5	14.9	12.4		
In percent of exports	...	...	126.0	164.5	137.1	133.2	131.1	127.0	122.0	100.2	97.1		
Total external debt service-to-exports ratio	3.1	14.1	17.8	5.1	12.8	12.8	11.5	10.4	11.4	9.2	6.8		
PV of PPG external debt (in Million of US dollars)			422.3	448.1	455.7	464.3	477.5	483.3	484.9	508.6	762.4		
(PVt-PVt-1)/GDPt-1 (in percent)				1.5	0.4	0.5	0.7	0.3	0.1	0.3	0.7		
Non-interest current account deficit that stabilizes debt ratio	5.1	-2.1	0.8	4.0	6.3	5.6	5.2	5.6	5.0	3.7	2.6		

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





Sources: Country authorities; and staff estimates and projections.

1/ Public sector external debt only. With respect to DSA 2018, coverage expanded to include legacy arrears.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief, including IMF CCRT 2020-2022); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes. The residual is also affected by grants and the financing from treasury securities in the regional market, which are considered domestic debt in the DSA.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

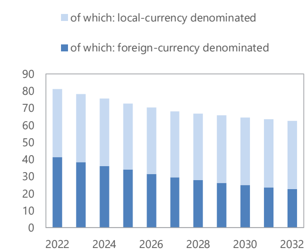
Table 2. Guinea-Bissau: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–42

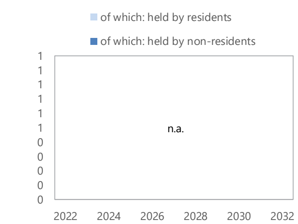
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	**65.8**	**78.2**	**78.9**	**81.0**	**78.2**	**75.4**	**72.7**	**70.1**	**68.0**	**62.5**	**59.2**	**61.1**	**69.8**
of which: external debt	**37.3**	**41.1**	**40.0**	**41.2**	**38.4**	**36.1**	**34.1**	**31.6**	**29.4**	**22.7**	**18.9**	**33.2**	**30.6**
Change in public sector debt	6.1	12.4	0.7	2.1	-2.8	-2.7	-2.7	-2.6	-2.2	-0.9	-0.1		
Identified debt-creating flows	**4.0**	**7.2**	**2.2**	**1.5**	**-2.8**	**-2.7**	**-2.7**	**-2.6**	**-2.2**	**-0.9**	**-0.1**	**1.1**	**-1.5**
Primary deficit	**2.8**	**8.1**	**4.0**	**4.2**	**1.7**	**1.0**	**0.9**	**0.9**	**0.8**	**0.6**	**0.6**	**3.3**	**1.2**
Revenue and grants	14.9	15.4	19.1	16.0	16.5	16.7	17.0	16.9	17.2	17.7	18.5	**15.7**	**17.0**
of which: grants	2.8	4.0	6.3	4.0	3.8	3.7	3.7	3.4	3.5	3.5	3.5		
Primary (noninterest) expenditure	17.7	23.5	23.1	20.2	18.2	17.7	17.9	17.8	18.0	18.3	19.2	**18.9**	**18.2**
Automatic debt dynamics	**1.2**	**-2.1**	**-2.1**	**-2.6**	**-4.5**	**-3.7**	**-3.7**	**-3.5**	**-3.0**	**-1.5**	**-0.8**		
Contribution from interest rate/growth differential	-1.4	0.4	-5.6	-6.4	-4.2	-3.3	-3.1	-3.0	-2.7	-1.1	-0.4		
of which: contribution from average real interest rate	1.2	1.4	-0.9	-3.8	-0.7	0.4	0.4	0.5	0.6	1.7	1.9		
of which: contribution from real GDP growth	-2.6	-1.0	-4.7	-2.7	-3.5	-3.7	-3.6	-3.5	-3.3	-2.7	-2.3		
Contribution from real exchange rate depreciation	2.6	-2.5	3.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**1.2**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**2.1**	**5.2**	**-1.5**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2.2**	**-0.1**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**63.1**	**65.6**	**63.9**	**62.1**	**60.2**	**58.7**	**57.3**	**54.3**	**52.6**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**330.6**	**409.1**	**388.4**	**371.0**	**354.5**	**347.4**	**333.1**	**306.7**	**283.9**		
Debt service-to-revenue and grants ratio 3/	**54.7**	**58.9**	**67.7**	**56.5**	**53.7**	**46.7**	**56.2**	**71.0**	**84.5**	**53.5**	**49.0**		
Gross financing need 4/	10.9	18.3	17.2	13.2	10.6	8.8	10.5	12.9	15.3	10.0	9.7		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.5	1.5	6.4	3.5	4.5	5.0	5.0	5.0	5.0	4.5	4.0	**3.5**	**4.6**
Average nominal interest rate on external debt (in percent)	0.7	1.6	1.6	0.4	1.2	1.2	1.0	1.0	1.1	1.1	1.2	**1.1**	**1.0**
Average real interest rate on domestic debt (in percent)	6.3	4.3	0.2	-3.6	0.4	1.9	2.0	2.2	2.4	3.7	4.3	**-0.5**	**2.1**
Real exchange rate depreciation (in percent, + indicates depreciation)	8.0	-6.6	9.2	...	...	...	...	...	...	...	...	**1.6**	**...**
Inflation rate (GDP deflator, in percent)	-3.5	-1.0	2.7	7.2	4.1	2.8	2.8	2.8	2.8	2.0	2.0	**2.4**	**3.0**
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.7	34.6	4.5	-9.5	-5.8	2.3	6.0	4.2	6.3	5.2	4.0	**9.6**	**2.5**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-3.3	-4.3	3.3	2.1	4.5	3.7	3.7	3.5	3.0	1.5	0.8	**-1.4**	**2.6**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt . Definition of external debt is Currency-based. Includes external legacy arrears.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–32

(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	26	25	24	23	21	20	18	17	16	16	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	26	24	23	22	20	18	17	15	14	12	11
B. Bound Tests											
B1. Real GDP growth	26	27	27	25	24	22	21	20	19	18	17
B2. Primary balance	26	26	25	23	22	21	20	19	18	17	17
B3. Exports	26	28	**30**	29	27	25	24	23	22	21	20
B4. Other flows 3/	26	28	29	28	26	24	23	22	21	20	19
B5. Depreciation	26	**32**	27	25	24	22	20	19	18	17	16
B6. Combination of B1-B5	26	**32**	**32**	**30**	28	26	25	24	23	22	21
C. Tailored Tests											
C1. Combined contingent liabilities	26	26	25	24	22	21	20	19	18	18	17
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	26	26	25	23	22	20	18	17	16	14	13
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	**164**	137	133	131	127	122	117	112	107	103	100
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**164**	133	128	125	121	114	106	98	90	83	76
B. Bound Tests											
B1. Real GDP growth	**164**	137	133	131	127	122	117	112	107	103	100
B2. Primary balance	**164**	139	138	136	132	128	126	121	117	113	111
B3. Exports	**164**	**201**	**252**	**249**	**243**	**235**	**227**	**218**	**211**	**205**	**199**
B4. Other flows 3/	**164**	**153**	**164**	**162**	**158**	**152**	**148**	**142**	137	133	129
B5. Depreciation	**164**	137	119	117	113	108	103	98	94	90	87
B6. Combination of B1-B5	**164**	**197**	**158**	**206**	**200**	**193**	**187**	**179**	**173**	**168**	**163**
C. Tailored Tests											
C1. Combined contingent liabilities	**164**	**143**	**140**	139	135	133	130	125	121	118	116
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**164**	137	137	135	131	124	117	109	102	95	89
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	5	**13**	**13**	**12**	**10**	**11**	**11**	**11**	**10**	**10**	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	5	**13**	**13**	**12**	**11**	**13**	**12**	**12**	**12**	**12**	**11**
B. Bound Tests											
B1. Real GDP growth	5	**13**	**13**	**12**	**10**	**11**	**11**	**11**	**10**	**10**	9
B2. Primary balance	5	**13**	**13**	**12**	**10**	**11**	**11**	**11**	**10**	**10**	9
B3. Exports	5	**17**	**20**	**19**	**17**	**18**	**17**	**17**	**17**	**16**	**15**
B4. Other flows 3/	5	**13**	**13**	**12**	**11**	**12**	**11**	**11**	**11**	**11**	10
B5. Depreciation	5	**13**	**13**	**11**	**10**	**11**	**10**	**10**	**10**	10	9
B6. Combination of B1-B5	5	**16**	**17**	**16**	**14**	**16**	**15**	**15**	**14**	**14**	**13**
C. Tailored Tests											
C1. Combined contingent liabilities	5	**13**	**13**	**12**	**11**	**12**	**11**	**11**	**11**	**10**	10
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	5	**13**	**13**	**12**	**11**	**12**	**11**	**11**	**11**	**10**	10
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	7	**19**	**18**	**15**	13	13	12	12	11	11	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	7	**19**	**18**	**16**	14	**15**	**14**	14	13	13	12
B. Bound Tests											
B1. Real GDP growth	7	**20**	**20**	**17**	**14**	**15**	14	13	13	12	11
B2. Primary balance	7	**19**	**18**	**15**	13	13	12	12	12	11	10
B3. Exports	7	**19**	**18**	**16**	14	**14**	13	13	12	12	10
B4. Other flows 3/	7	**19**	**18**	**16**	13	14	13	13	12	11	10
B5. Depreciation	7	**24**	**22**	**18**	**16**	**16**	**15**	**15**	14	13	12
B6. Combination of B1-B5	7	**20**	**20**	**18**	**15**	**16**	**14**	14	13	13	11
C. Tailored Tests											
C1. Combined contingent liabilities	7	**19**	**18**	**15**	13	13	13	12	12	11	10
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	7	**23**	**22**	**19**	**15**	**15**	14	13	12	11	10
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public Debt, 2022–32
(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	66	64	62	60	59	57	57	56	56	55	54
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**67**	**68**	**69**	**71**	**72**	**74**	**75**	**77**	**79**	**80**	**82**
B. Bound Tests											
B1. Real GDP growth	**67**	**69**	**73**	**72**	**72**	**72**	**73**	**73**	**74**	**74**	**75**
B2. Primary balance	**67**	**68**	**70**	**68**	**66**	**65**	**64**	**63**	**62**	**61**	**60**
B3. Exports	**66**	**66**	**68**	**66**	**64**	**62**	**62**	**61**	**60**	**59**	**59**
B4. Other flows 3/	**66**	**67**	**68**	**65**	**64**	**62**	**61**	**61**	**60**	**59**	**59**
B5. Depreciation	**67**	**69**	**66**	**63**	**60**	**57**	**56**	**54**	**53**	**51**	**50**
B6. Combination of B1-B5	**67**	**66**	**67**	**64**	**62**	**60**	**60**	**59**	**58**	**57**	**57**
C. Tailored Tests											
C1. Combined contingent liabilities	**67**	**76**	**73**	**71**	**69**	**67**	**66**	**65**	**64**	**63**	**62**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**67**	**69**	**71**	**74**	**76**	**77**	**78**	**79**	**80**	**80**	**81**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	409	388	371	354	347	333	330	325	319	312	307
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	417	411	410	409	419	420	429	435	441	445	451
B. Bound Tests											
B1. Real GDP growth	417	416	426	415	416	408	412	412	413	412	412
B2. Primary balance	417	415	420	401	393	376	371	363	356	348	341
B3. Exports	409	403	405	387	378	362	359	352	346	338	332
B4. Other flows 3/	409	406	404	385	377	361	358	351	345	337	331
B5. Depreciation	417	429	400	375	360	339	330	318	307	295	285
B6. Combination of B1-B5	417	405	399	374	366	351	348	340	334	326	321
C. Tailored Tests											
C1. Combined contingent liabilities	417	461	439	419	410	391	386	378	370	361	353
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	417	487	494	501	497	477	469	453	454	453	453
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	56	54	47	56	71	84	83	67	58	57	53
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	56	55	50	63	81	101	105	90	82	85	84
B. Bound Tests											
B1. Real GDP growth	56	56	52	64	81	99	101	86	76	78	76
B2. Primary balance	56	54	52	65	75	97	102	77	63	66	65
B3. Exports	56	54	47	57	72	85	84	68	58	58	54
B4. Other flows 3/	56	54	47	57	72	85	84	68	58	58	54
B5. Depreciation	56	53	49	57	70	83	81	67	57	57	53
B6. Combination of B1-B5	56	53	47	60	73	86	91	72	60	59	59
C. Tailored Tests											
C1. Combined contingent liabilities	56	54	63	63	75	120	100	76	64	78	67
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	56	63	60	76	92	114	116	99	88	91	89
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Annex I. Debt Holder Profile Table

Guinea-Bissau: Decomposition of Public Debt and Debt Service by Creditor, 2021-23[1/]

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(In US$ million)	*(Percent of total debt)*	*(Percent of GDP)* [5]	*(In US$ million)*			*(Percent of GDP)*		
Total	1,300.1	100.0	78.9	142.5	154.0	120.9	8.3	9.0	6.7
External	659.5	50.7	40.0	61.1	13.8	42.2	3.5	0.8	2.3
Multilateral creditors[2]	522.6	40.2	31.7	57.6	10.7	38.2	3.3	0.6	2.1
IMF	45.5	3.5	2.8						
World Bank	168.7	13.0	10.2						
AfDB	47.7	3.7	2.9						
BOAD	210.2	16.2	12.8						
Other Multilaterals	50.5	3.9	3.1						
o/w: Islamic Development Bank	21.8	1.7	1.3						
BADEA	9.7	0.7	0.6						
Bilateral Creditors	136.8	10.5	8.3	3.6	3.1	4.0	0.2	0.2	0.2
Paris Club	10.1	0.8	0.6	0.0	0.3	0.7	0.0	0.0	0.0
o/w: Brazil	1.9	0.1	0.1						
Russia	1.5	0.1	0.1						
Non-Paris Club	126.7	9.7	7.7	3.6	2.8	3.3	0.2	0.2	0.2
o/w: Angola	49.1	3.8	3.0						
Kuwait	28.9	2.2	1.8						
Domestic	640.6	49.3	38.9	81.4	140.2	78.7	4.7	8.2	4.4
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	333.1	25.6	20.2	-	121.2	69.4	-	7.1	3.8
BCEAO	224.9	17.3	13.6	1.3	1.2	1.2	0.1	0.1	0.1
Loans local commercial banks[3]	43.3	3.3	2.6	61.7	0.7	1.9	3.6	0.0	0.1
Payment Arrears	39.3	3.0	2.4	18.3	17.1	6.3	1.1	1.0	0.4
Memo items:									
Collateralized debt[4]	0	0.0	0.0						
Contingent liabilities	22.5	1.7	1.4						
Public guarantees	22.5	1.7	1.4						
Nominal GDP	1,725.5			1,725.5	1,709.7	1,803.6			

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.

Statement by Mr. Sylla, Mr. N'Sonde, and Mr. Lopes Varela on Guinea-Bissau
January 30, 2023

INTRODUCTION

On behalf of the Bissau-Guinean authorities, we would like to express our appreciation to the IMF's Executive Board and Management for supporting the country in its ongoing efforts to preserve macroeconomic stability and promote stronger economic growth and social development. We also thank Fund staff for the constructive engagement and candid discussions, which rightly focused on policies to withstand the economic fallout from the war in Ukraine and the lingering effects of the pandemic while addressing structural challenges facing this economy.

The authorities broadly share staff's assessment and concur with the main policy recommendations. They have renewed their commitments to continue implementing the reforms set forth under the SMP and to stay the course with policies under an ECF-supported program. These commitments were strongly affirmed by the President of Guinea-Bissau, **H.E. Umaro Sissoco Embaló**, during the fruitful discussion held with the Managing Director at the IMF headquarters in Washington, DC, on December 15, 2022, in the margins of the Second USA-Africa Leaders' Summit.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Recent Developments

Economic recovery is underway and has taken firm hold despite moderating in 2022. Real GDP growth is expected to have decelerated to 3.5 percent in 2022, from 6.4 percent in 2021 on account of a decline in cashew production and exports. Following the rise in commodity prices related to the war in Ukraine, average inflation is expected to reach 7.8 percent in 2022 against 3.3 percent in 2021.

Following the strong economic rebound of 2021 and ensuing reduction in the overall fiscal deficit, the fiscal outcome deteriorated in 2022. The deficit is expected to exceed staff projections by 1.3 percentage points, leading to missed fiscal targets. This largely reflects an acceleration in spending related to the critical hiring of public workers in the health, education, and security sectors, as well as commitments on the preparation of elections. Nonetheless, the authorities have taken bold corrective measures to ensure control and accountability for the public sector wage bill. Especially noteworthy was the drastic reduction in wages and in the number of advisors to senior government officials, including the President of the Republic, the Prime Minister, the President of the Supreme Court, and the President of the National Assembly. Other key measures included freezing new hires and promotions in the public sector and dismissing all employees whose recruitment did not follow due process. The Ministry of Finance requested an audit by the Court of Auditors on the irregular hiring of civil servants in 2021 and 2022. The authorities stand ready to implement any recommendation deemed necessary by the audit. Moreover, a new decree from the Prime Minister orders that all new hiring contracts are the exclusive joint competence of the Ministry of Labor and the Ministry of Finance. Further, the authorities have recently announced the extinction of the so-called sovereignty benefits or allowances to high-ranking government officials and travel representation allowances. All these strong and politically sensitive measures were possible thanks to the firm determination on the part of the authorities and the spirit of solidarity of Guinea-Bissau's senior government officials and other branches of power to keep the budget within program targets and the public finances on a sound footing.

The overall debt was stable in 2021 on the back of the authorities' decision to pre-paying with SDR resources the loan due in 2022 to the regional development bank, BOAD. However, the debt level is estimated to have risen slightly in 2022 mainly due to the increase in financing needs, new government guarantees on the national water and electricity company (EAGB), and recognition of legacy arrears. Despite these developments, public debt is anticipated to take a downward path from 2023 onwards and drop below the WAEMU criterion of 70 percent of GDP by 2026.

Regarding the external sector, the current account deficit is projected to have increased to about 5.9 percent of GDP from 0.8 percent of GDP in 2021 due to lower performance of cashew exports.

With measures taken by BCEAO to mitigate the impact of the Covid-19 pandemic on the financing of economic activity in the monetary union, Guinea-Bissau's banking system has enjoyed comfortable liquidity and capital levels in line with the regional prudential criteria, except for one undercapitalized bank. On lending activity, bank credit improved while non-performing loans (NPLs), albeit still elevated, declined in 2022 and are better provisioned.

Outlook and Risks

The authorities share staff's view on the economic outlook for the near-term. They project growth to rebound to 4.5 percent in 2023—due mostly to a return to 2021 cashew export levels and expected increase in private sector investments. Over the medium-term, growth should reach 5 percent, supported by improvements in agriculture, mining, tourism, and fisheries activities and underpinned by sounder fiscal management. Nonetheless, the authorities are mindful of the downside risks stemming notably from challenging domestic and external environments and the country's vulnerability to shocks. To mitigate these risks and unleash the country's economic potential, the authorities reiterate their strong commitment to reforms under the program.

Policies and Reforms for 2023 and the Medium-Term

Following months of steadfast policy and reform implementation, with support from the IMF staff, the authorities successfully completed their SMP program in June 2022 in challenging circumstances. They view the ECF-supported program as the appropriate anchor for notably ensuring fiscal discipline and advancing governance reforms.

Fiscal Reforms and Debt Policy

The authorities remain engaged in ensuring continuous reduction in the fiscal deficit-to-GDP and debt-to-GDP ratios, starting in 2023, towards meeting the WAEMU convergence criteria of 3 percent by 2025 for the deficit and 70 percent by 2026 for debt. To that end, the 2023 budget approved by the government in December is the basis of the newly agreed program. It sets out critical fiscal and tax reform measures to strengthen fiscal and debt sustainability, including ambitious targets for tax revenues, wage bill, priority expenditures, domestic primary balance, and financing conditions.

On the revenue front, the authorities continue to implement measures to enhance domestic revenue mobilization, including by broadening the tax base. To this vein, their tax reform, supported by Fund technical assistance, has allowed the enactment of a much-needed package to enhance the transparency of the tax system, improve the tax penalty regime, promote a new VAT law, and ensure full implementation of the electronic filing of tax returns. The authorities expect to generate more revenues by implementing the VAT this year. They are grateful for the continued Fund assistance in this regard. They look forward to Fund support on modernizing the general exemptions regime and stepping up tax administration reforms.

On spending and public financial management, the authorities reaffirm their determination to take further expenditure containment measures, especially regarding the wage bill growth, to provide better and sustainable public service delivery. Therefore, to ensure the integrity of the payroll process and strengthen wage bill management, they will implement the Fund's innovative Blockchain Project, a flexible and secure technological solution promoted by the IMF and a reputable private consulting firm, and which was selected as one of the winners of the 2020 IMF Anticorruption Challenge. This will help contain the payroll bill and address other red flags by monitoring and reporting resources spent as well as potential discrepancies between budgeted and executed wage payments across ministries. Furthermore, actions are underway to conduct a more comprehensive and modern civil service census based on other countries' experiences, with support from the World Bank. The authorities have also elaborated an action plan to implement the Treasury Single Account (TSA) to help with their cash management and cash flow forecasting.

The authorities acknowledge the need to address fiscal risks associated with SOEs, especially EAGB, and create fiscal space for much-needed social and investment spending. To this end, the ongoing restructuring of the utility company, with support from the World Bank, is expected to address its financial and operational weaknesses. In addition, the company is about to install new pre-paid analog meters starting February 15, which would help increase revenue. The government has followed through with its commitment to not intervene financially or issue bank guarantees to fulfill EAGB's obligations. The authorities agree that fully restoring the company's financial situation is essential to complete the interconnection to the regional energy project (OMVG). The authorities highly appreciate the technical support from the Fund, World Bank, and other partners on this front.

Regarding debt, the authorities have reiterated their plan to reinforce debt management. They intend to pursue prudent policies focusing on concessional resource mobilization to the extent possible.

Strengthening Governance and the Fight against Corruption

It has been made clear at the highest level that strengthening governance and fighting corruption are the at the forefront of the authorities' reform priorities. The continued Fund support in this area, including in preparing the decree-law on public procurement, is well appreciated. The legality and accountability requirements for the COVID-19 emergency expenditures committed by Guinea-Bissau when requesting the Rapid Credit Facility (RCF) have been largely met. The audits conducted by the Audit Court and Inspection General on pandemic-related spending were published in June 2022. The ex-post independent audit by a reputable third-party auditor firm was also published in January 2023. The authorities intend to follow up and implement all recommendations of the independent auditor promptly.

The authorities remain determined to bring transparency requirements to international standards and continue to publish all financial reports, critical information on pandemic-related contracts, and beneficial ownership information. They are preparing guidelines for the successful implementation of the 2022 decree on beneficial ownership to help further disclose all beneficial ownership information on all publicly awarded contracts.

Regarding institutional measures, the authorities intend to step up efforts to strengthen the effectiveness of the AML/CFT mechanism and provide more resources for the functioning of the Audit Court, the financial intelligence unit (CENTIF), and the Public Procurement Authority.

Enhancing the Financial Sector

The authorities will act to preserve the resilience of the financial system and ensure compliance with regulatory and regional requirements, including curbing NPLs and successfully exiting the undercapitalized bank. In this regard, all due diligences were made with a potential investor to buy the government's stake and inject more capital into the bank to bring it in compliance with prudential standards. The authorities are optimistic and expect to receive the investor's final position soon. Meanwhile, they settled a considerable amount of debt owed by the government, which has helped improve the bank's financial position. Notwithstanding, the government stands ready to implement any recommendation that the regional banking supervisory commission deems appropriate in case the operation with the investor did not materialize, and it will prepare a plan to disengage from the bank by 2024.

CONCLUSION

Building on the achievements made under the SMP, the Bissau-Guinean authorities intend to pursue economic and structural measures to preserve macroeconomic stability, strengthen governance and transparency, and tackle sources of fragility to enhance resilience. We would appreciate Executive Directors' support of Guinea-Bissau's request for an ECF arrangement.