IMF Country Report No. 23/403

GUINEA-BISSAU

December 2023

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR AUGMENTATION OF ACCESS, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA-BISSAU

In the context of the Third Review Under the Extended Credit Facility Arrangement And Requests For Augmentation Of Access, Waiver Of Nonobservance Of Performance Criteria, Modification Of A Performance Criterion, And Financing Assurances Review, 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 October 3, 2023, following discussions that ended on November 29, 2023, with the officials of Guinea-Bissau on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the Staff Report was completed on November 10, 2023.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the World Bank
- A **Statement by the Executive Director** for Guinea-Bissau

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International Monetary Fund
Washington, D.C.

IMF Executive Board Completes the Third Review of the Extended Credit Facility Arrangement for Guinea-Bissau and Approves US$8.2 Million Disbursement

FOR IMMEDIATE RELEASE

- The IMF Executive Board decision allows for an immediate disbursement of about US$8.23 million (SDR6.16 million) to help meet the country's financing needs.
- The IMF Executive Board also approved an augmentation of access under the Extended Credit Facility arrangement from about US$37.96 (SDR28.4 million) to US$53.14 million (SDR39.76 million or 140 percent of quota).
- The new government is firmly committed to implementing the policies underpinning the IMF-supported program.

Washington, DC – November 29, 2023 : The Executive Board of the International Monetary Fund (IMF) completed today the third review under Guinea-Bissau's Extended Credit Facility (ECF) arrangement. The three-year arrangement, approved on January 30, 2023, aims to secure debt sustainability, improve governance, and reduce corruption while creating fiscal space for inclusive growth. The completion of the review enables the disbursement of SDR6.16 million (about US$8.23 million) to help meet the country's balance-of-payments and fiscal financing needs amid the significant deterioration of Guinea-Bissau terms of trade and a tightening of regional financing conditions. With the third review disbursement, the total amount disbursed under the arrangement is SDR13.27 million (about US$ 17.7 million).

Performance under the ECF supported program was weaker than expected for the third review, against a challenging external and domestic context. The authorities remain committed to strong policies and are taking measures to ensure that end-December 2023 targets are met. In completing the review, the Executive Board also approved an augmentation of access under the ECF arrangement from SDR28.4 million (about US$37.96 million) to SDR39.76 million (about US$53.14 million or 140 percent of quota). The Executive Board also granted a waiver for nonobservance of performance criteria on the floor on domestic tax revenue, the ceiling on wages, the floor on the domestic primary fiscal balance, and the nonobservance of the continuous performance criterion on ceiling on new external arrears. Furthermore, the Executive Board approved the request to modify the end-December 2023 performance criterion on the domestic primary balance and completed the financing assurances review.

The economy continues to recover in 2023 and growth is projected at 4.2 percent, the same level as in 2022. Inflation is expected to reach 8 percent in 2023, because of soaring food prices. The overall fiscal deficit is projected at 5.6 percent of GDP in 2023, partly reflecting the spending overruns during the legislative elections period. Public debt is projected to decline and reach 76.5 percent of GDP in 2023 because of a lower fiscal deficit, an appreciation of the domestic currency and higher nominal GDP. Going forward, improving domestic revenue mobilization and containing wage and non-wage current expenditures will be key to support fiscal consolidation and put public debt on a firm downward trajectory.

At the conclusion of the Executive Board's discussion, Mr. Li, Deputy Managing Director and Acting Chair, made the following statement:

“Guinea-Bissau’s successful completion of the last legislative election and the timely formation of the new government is commendable. However, the country is facing acute economic shocks from disappointing cashew exports, soaring food inflation, and a tightening of regional financing conditions. Sustained implementation of the reform agenda under the ECF arrangement will be crucial, and the authorities’ firm commitment to the program objectives is welcome. The augmentation of access under the ECF, together with increased support from development partners, will help cover the balance of payments needs.

“Program performance was weaker than expected, but the authorities have adopted corrective actions and a draft 2024 budget in line with program parameters. They are strictly rationalizing non-priority expenditure, mobilizing additional revenue, and tightly controlling the wage bill. Continued efforts in these areas and sustained fiscal consolidation are needed to ensure debt sustainability. The new government is leading structural reforms to mitigate fiscal risks in the energy and financial sectors, as well as in governance and the rule of law, which are pivotal to the program’s success. Implementation of policies to foster agricultural and economic diversification is also important.

“Progress continues in strengthening external audits, public procurement, and AML/CFT effectiveness. The Audit Court has published the audit report of the High Commissioner for COVID-19. The authorities continue to publish the beneficial ownership information of all public contracts. A series of legislative reforms are underway to modernize the asset declaration regime and improve the anti-corruption and AML/CFT framework.

Guinea-Bissau: Selected Economic and Financial Indicators, 2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Proj.					
	(Annual percent change, unless otherwise indicated)								
National accounts and prices									
Real GDP at market prices	1.5	6.4	4.2	4.2	5.0	5.0	5.0	5.0	4.5
Real GDP per capita	-0.7	4.1	1.9	2.0	2.8	2.9	2.9	2.9	2.4
GDP deflator	-1.0	2.7	7.3	7.2	3.1	2.8	2.8	2.8	2.8
Consumer price index (annual average)	1.5	3.3	7.9	8.0	3.0	2.0	2.0	2.0	2.0
External sector									
Exports, f.o.b. (CFA francs)	-15.6	35.1	-14.3	-14.8	36.4	5.8	3.6	5.1	5.1
Imports, f.o.b. (CFA francs)	-9.9	9.7	25.3	-0.1	5.1	2.2	2.5	5.3	3.8
Terms of trade (deterioration = -)	-3.9	-6.5	-10.1	-9.6	13.4	2.5	1.9	2.7	1.8
Real effective exchange rate (depreciation = -)	2.0	1.3	-2.1	...	...	...	...	...	...
Exchange rate (CFAF per US$; average)	574.8	554.2	622.4	...	...	...	...	...	...
Government finances									
Revenue excluding grants	-5.5	22.7	3.4	15.8	12.2	10.2	10.2	10.1	8.5
Expenditure	33.8	8.9	-4.6	15.0	2.3	2.1	7.9	9.4	7.9
Current expenditure	14.5	3.5	8.0	14.0	-4.2	-1.5	7.9	8.4	6.8
Capital expenditure	96.7	19.3	-25.1	17.6	17.2	8.8	8.0	11.1	9.8
Money and credit									
Domestic credit	-1.7	17.2	26.6	8.3	12.3	9.1	6.6	5.9	5.6
Credit to the government (net)	-19.7	55.3	32.8	7.4	9.5	1.9	-5.3	-5.9	-5.5
Credit to the economy	5.9	5.0	23.7	8.8	13.7	12.6	11.8	10.2	9.1
Net domestic assets	-13.8	19.6	52.1	10.4	15.0	10.9	7.7	6.8	6.4
Broad money (M2)	9.1	20.9	3.5	8.6	8.2	5.7	6.5	6.5	7.4
	(Percent of GDP, unless otherwise indicated)								
Investments and savings									
Gross investment	17.5	18.3	18.1	18.1	19.2	20.0	20.7	21.5	22.5
Of which: government investment	5.8	6.4	4.3	4.5	4.9	4.9	4.9	5.1	5.2
Gross domestic savings	3.3	7.6	0.2	1.0	5.6	7.5	8.9	10.2	11.7
Of which: government savings	-7.6	-5.5	-4.6	-4.5	-2.0	-1.4	-1.4	-1.3	-1.2
Gross national savings	15.0	17.5	8.5	9.3	14.2	15.2	16.3	17.3	18.5
Government finances									
Revenue excluding grants	11.4	12.8	11.8	12.3	12.7	13.0	13.3	13.5	13.6
Domestic primary expenditure	16.0	14.7	15.0	14.4	13.1	12.3	12.6	12.7	12.8
Domestic primary balance	-4.6	-1.9	-3.2	-2.1	-0.4	0.7	0.7	0.8	0.8
Overall balance (commitment basis)									
Including grants	-9.6	-5.9	-6.1	-5.6	-3.5	-3.0	-3.0	-3.0	-3.0
Excluding grants	-13.6	-12.2	-9.5	-9.7	-8.0	-6.6	-6.4	-6.4	-6.3
External current account	-2.6	-0.8	-9.6	-8.9	-5.0	-4.8	-4.4	-4.2	-4.0
Excluding official current transfers	-5.7	-3.4	-11.4	-11.6	-8.2	-7.1	-6.4	-6.3	-6.0
Stock of public and publicly guaranteed debt[1]	77.7	78.8	80.4	76.5	74.1	71.5	69.3	67.3	65.7
Of which: external debt	41.1	40.3	39.2	34.9	33.3	31.6	29.5	27.5	25.9
Memorandum items:									
Nominal GDP at market prices (CFAF billions)	875.2	956.3	1069.2	1194.4	1292.9	1395.6	1506.4	1626.0	1746.8
WAEMU gross official reserves (billions of US$)	21.8	24.5	25.2	...	...	...	...	...	...
(percent of broad money)	33.2	30.2	30.6	...	...	...	...	...	...

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

[1] Coverage expanded to include legacy arrears.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

November 10, 2023

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR AUGMENTATION OF ACCESS, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Guinea Bissau's socio-political context remained stable during the transition to an opposition-led new government, but the country is facing an adverse external shock. Disappointing cashew nut exports have widened the current account deficit substantially, while financing is constrained by tighter regional financial conditions. High food prices are causing food insecurity risks. Against this backdrop, the authorities have requested augmentation of access of 40 percent of quota (SDR 11.36 million) to meet pressing financing needs, bringing the total program access to 140 percent of quota (SDR 39.76 million). The ECF-supported program has been catalyzing much-needed highly concessional financing, especially additional budget support.

Program performance. Performance under the ECF supported program was weaker than expected. Four out of eight Quantitative Performance Criteria (QPC) were missed for June 2023. The QPC on the domestic primary balance was missed because of the significant discretionary spending overrun during the election period. However, the new government has demonstrated its strong commitment to fiscal consolidation and securing debt sustainability. The authorities have been strictly rationalizing non-priority expenditure, mobilizing additional revenue, and tightly controlling the wage bill. With the adoption of corrective actions, the 2023 budget ensures a substantial consolidation path despite an extremely challenging environment. Moreover, the new government has been pushing for the implementation of structural reforms to support key reforms in the energy and financial sectors, and to promote governance and rule of law.

Staff views. Staff welcomes the authorities' strong commitment to the program objectives and supports the requests for augmentation of access and completion of third review on the basis of corrective actions that will keep the country on a strong fiscal consolidation path. However, risks to the outlook are tilted to the downside. Staff recommends to the authorities to accelerate reforms on revenue mobilization, expenditure controls, and fiscal risk mitigation and improving expenditure efficiency, given limited fiscal space.

Approved By
Montfort Mlachila (AFR) and Alison Holland (SPR)

An IMF team consisting of Jose Gijon (Head), Pedro Juca Maciel, Yugo Koshima, Harold Zavarce (all AFR), Koon Hui Tee (FAD), Yazan Al-Karablieh (SPR), Babacar Sarr (Resident Representative) and Gaston Fonseca (local economist) held discussions with the authorities. The mission met with President Sissoco Embaló, President of National Assembly Simões Pereira, Chair of National Assembly Executive Board Duarte Barros, Prime-Minister João Martins, Minister of Economy and Finance Seidi, Minister of Public Administration Moreira, National Director of BCEAO Cassama, President of Audit Court Baldé, and officials from the Ministries of Agriculture, Health, Education, Justice, Economy and Finance as well as the National Institute of Agricultural Research, the Center for Access to Justice, the Financial Intelligence Unit, and the National Institute of Statistics. In addition, the mission met with representatives from private and public sector enterprises and key bilateral and international partners. The mission took place during September 20-October 3, 2023 in Bissau. Romao Varela (Advisor to the Executive Director, OED) participated in the policy discussions. Vicky Pilouzoue and Fey Derrouis and Tomas Picca (all AFR) contributed to the preparation of this report.

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CONTEXT

1. **Guinea-Bissau has maintained socio-political stability during a transition to an opposition-led new government.** Despite a long history of political instability and ongoing security challenges in the WAEMU region, the legislative election took place successfully on June 4, 2023. The new parliament was constituted in July and the new government was formed on August 8. The 2023 budget will be approved by parliament in November 2023 together with the short-term action plan of the new government (called the "Emergency Plan").

2. **The country is facing an adverse external environment.** Disappointing cashew exports and higher food prices have created a severe terms-of-trade shock. Financing has been constrained by tightening of regional financial conditions. All these have created balance of payment (BoP) needs much larger than anticipated during the second review. A decrease in income from cashew sales and high prices of imported foods are also posing significant food insecurity risks especially to the most vulnerable population.

3. **The new government is highly committed to the program objectives of a strong fiscal consolidation and securing debt sustainability.** Despite the spending overrun during the election and social pressures for increased spending, the 2023 budget maintains a substantial consolidation target. The new government has been rationalizing non-priority expenditure, boosting tax revenue collection, and strictly controlling the wage bill. The authorities continue implementing critical policies to redress the public utility company, enhancing the financial stability, and promoting governance reforms.

PROGRAM PERFORMANCE

4. **Four out of eight quantitative performance criteria (QPC) for June 2023 were met.** The floor on tax revenue was missed by 0.4 percent of GDP due to lower-than-expected cashew revenue. The ceiling on the wage bill was missed by 0.2 percent of GDP because of lower-than-expected savings from the census of public workers in 2022. The floor on a domestic primary balance was missed by 2.3 percent of GDP, because of significant overrun of non-wage expenditure during the election period. In addition to a transfer to the public utility company (CFAF 5.2 billion), there was a surge in discretionary expenditure (3.1 percent of GDP) between April-July 2023, comprising mainly of unbudgeted presidential travel expenses and the acquisition of security equipment.[1] The ceiling on external arrears was missed by CFAF 0.6 billion because of a late payment of external debt service, which has been already paid.[2] The government has been implementing a series of corrective actions for the missed QPCs (¶25).

[1] All these unbudgeted discretionary expenditures were authorized by the then Minister of Finance based on Article 49 of the regional PFM Law, which allows unbudgeted expenditures for force majeure without limitation.

[2] This late payment occurred due to lack of prioritization of external debt service in cash management. Starting from the second review, a ministerial order was issued to require the Treasury to prioritize external debt service with monitoring through the Treasury Committee. See Country Report No. 2023/328.

5. Two out of three structural benchmarks (SBs) for June 2023 have been met. A SB on a multiyear staffing plan is proposed to be reprogramed for March 2024 to be aligned with the 2024 budget. In addition, two SBs for September and December 2023 have been met and another for September 2023 has been completed with slight delay. A continuous SB on external debt service was not met between July-September 2023. A continuous SB on the Technical Committee of Arbitration of Budgetary Expenditure (COTADO) was not met between July-August 2023, but COTADO resumed its activities in September with revised and enhanced expenditure control procedures (¶13).

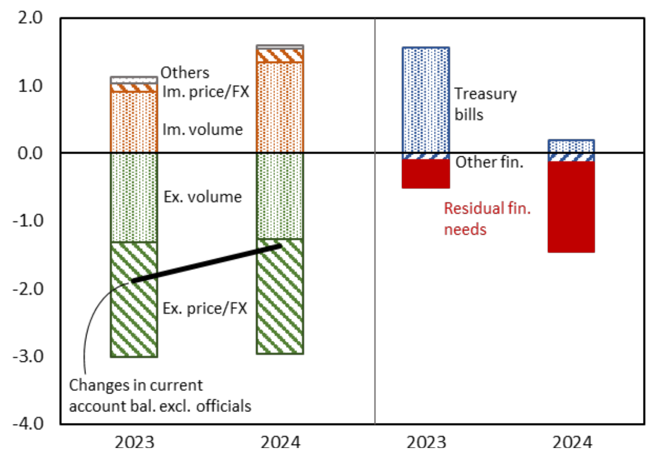
RECENT ECONOMIC DEVELOPMENTS

6. Growth is projected to be lower than expected for 2023, and inflation is projected to remain high. For 2023, growth is projected to moderate to 4.2 percent from 4.5 percent projected at the second review, because of the negative impact of declining income from cashew sales on consumption. However, it will be partially compensated by an increase in subsistence farming, which has been supported by good rainfall, and higher private investments, including those in the energy sector. Average inflation is expected to be 8.0 percent in 2023 driven by food inflation and surge of international rice prices, pushed up by the India's partial ban on rice exports in July 2023.

7. Projected external imbalances are larger than anticipated in 2023 and 2024 (Text Figure 1). With respect to the second review, the export projections have been lowered by 3.0 percent of GDP in 2023 and 2024 due to decline of international cashew prices, which also lowered export volumes given small value-added of raw cashew. The impact of lower exports should be partly compensated by lower imports because expensive imported foods have been substituted with domestically produced ones. The current account deficit (excluding official transfers) will widen by 1.9 percent and 1.4 percent of GDP in 2023 and 2024 from the second review.

Text Figure 1. Changes in External Sector Projections from the Second Review

(Percent of GDP)



Source: Staff calculations.

Financing through issuance of treasury securities will be constrained particularly in 2024, because of tighter regional financing conditions. The residual financing needs are estimated to be 0.4 percent and 1.3 percent of GDP in 2023 and 2024 and should be met by the requested augmentation and additional budget support.

8. The health of banking sector improved in 2022. Except for one large undercapitalized bank, the banking sector has adequate capital levels, meeting the regional prudential criteria. Gross NPLs to total loans declined from 19.4 percent in 2021 to 10.4 percent in 2022 mainly due to the settlement of cross-arrears by the government with debtors of the undercapitalized bank. The financial vulnerabilities stemming from the sovereign debt and exchange rate exposures in the banking sector remain low.[3]

OUTLOOK AND RISKS

9. The medium-term outlook is broadly unchanged. In the medium term, the growth is expected to accelerate to about 5 percent, supported by normalization of cashew exports, greater donor engagement, and governance reforms that will improve business environments and boost investments. Inflation is expected to converge to about 2 percent. The current account deficit is expected to improve gradually due to a fiscal consolidation and more favorable terms of trade.

10. The outlook is facing significant downside risks (Annex I). The risks arise from a continued terms-of-trade shock, further tightening of regional financial conditions, and adverse weather conditions. In the short-term, a larger impact of declining income from cashew sales could slow the growth further. Guinea-Bissau continues to be exposed to political instability risks, which would constrain fiscal consolidation efforts. Materialization of contingent liabilities in the SOEs and banking system would add fiscal costs.[4] If these risks materialize, the authorities should further rationalize expenditures and seek additional donor support, especially additional budget support from IFIs.

POLICY DISCUSSIONS

Fiscal policy will maintain a strong consolidation path through rationalization of non-priority expenditure and additional revenue mobilization. Policies will continue to focus onr reforms to address risks in the energy and financial sectors, and to improve the governance and rule of law.

A. Macroeconomic Policies

Fiscal Policy

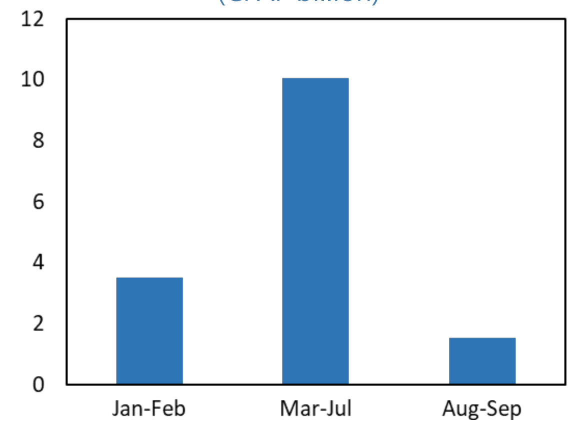
11. Compared to the second review, the domestic primary deficit for December 2023 is expected to widen by 1.9 percent of GDP but remains on track with the consolidation path. Since August 2023, the new government has been strictly rationalizing non-priority expenditure. Monthly discretionary expenditure has been curtailed to a bare minimum, less than one-fifth of the level between March and July 2023 (Text Figure 2). Further adjustments are being made by revenue

[3] In 2022, the domestic banking sector held 12 percent of its total assets in central and local government debt while their exposure to SOEs was only 2 percent.

[4] The main sources of SOE related risks include invoices owed to Karpower, the payment plan of which has been recently agreed without additional fiscal costs for 2023 (see footnote 5). The DSA includes contingent liabilities of 3.2 percent of GDP for SOEs and 2 percent of GDP for the undercapitalized bank, in addition to 5 percent of GDP for financial markets.

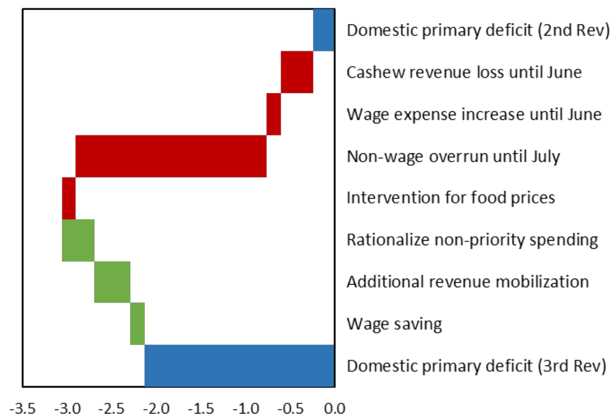
mobilization especially through the DGCI's professionalization (¶13). Tax revenue is expected to meet the QPC for December 2023 despite lower cashew revenue. Continuing strict no new hiring policy will bring down the wage bill to meet the QPC. These measures should reduce the deficit by 0.9 percent of GDP in less than six months (Text Figure 3). Up-front adjustments remain significant, improving the domestic primary deficit by 1.1 percent of GDP from 2022.

Text Figure 2. Monthly Average Discretionary Expenditure, 2023
(CFAF billion)



Sources: MoEF, staff calculations.

Text Figure 3. Changes in Domestic Primary Balance from Second Review, 2023
(Percent of GDP)



Sources: MoEF, staff calculations.

12. The fiscal consolidation should accelerate in 2024. The draft 2024 budget, which will be submitted to parliament in December 2023, is being prepared in line with the program parameters (a new SB). The updated projections include -0.4 percent of GDP of the domestic primary balance for 2024, a deterioration of 0.8 percent of GDP from the second review, because of settlement of Karpower invoices and costs of early termination of the power purchase contract (0.5 percent of GDP) and presidential election costs scheduled in late 2024 and limited interventions in the social protection sector (0.3 percent of GDP). However, continuing revenue mobilization efforts, the wage bill control, and rationalization of non-priority expenditure will improve the domestic primary balance by 1.8 percent of GDP with respect to 2023. In the medium-term, the overall deficit and public debt will be reduced below 3 percent and 70 percent of GDP by 2025 and 2026, respectively, in line with the WAEMU criteria.

13. The authorities have been implementing corrective actions to meet the fiscal target:

- **Revenue mobilization** (MEFP ¶9). The authorities have demonstrated a strong reform ownership at the Directorate-General of Duties and Taxes (DGCI). Tax revenue (excluding cashew-related taxes) outperformed the target by CFAF 1.3 billion until June. To solidify the DGCI's professionalization, the authorities will introduce a quantitative performance evaluation, based on which underperforming managers will be reallocated to positions outside the DGCI and replaced with new managers selected through public tender. Tax enforcement has been one of the DGCI's weakest links. Out of 149 large taxpayers, only 9 taxpayers were audited in the first half of 2023, recovering little additional revenue, and no audit was undertaken between July-

September. The authorities will reactivate the tax audit program by auditing 25 large taxpayers selected on a risk basis, focusing on divergence of amounts of IGV paid at customs and included in tax returns in the next 12 months. For non-tax revenue, the 5G license sale has been slightly postponed, allowing the new government to negotiate better terms with telecom companies. The license fees will be included in the 2024 budget.

- **Expenditure controls** (MEFP ¶10-11). The COTADO has been taking a central role in rationalizing non-priority expenditure. The authorities will institutionalize the COTADO through ex-post scrutiny by the Prime Minister, who will ensure continuity of the COTADO activities, and registration of the commitment approvals in the system, which will block spending not approved by the COTADO. With strict no new hiring policy, the wage bill declined 25 percent y/y in September 2023 and is expected to follow this trend for the rest of the year. The new census of public workers will be the key to eliminating ghost workers and generate the wage bill savings, especially in 2024. The 2022 census led to reinstatement of around 1,500 workers mainly because the census results were incorrectly validated by a small number of staff of the Ministry of Public Aministration (MoPA). The authorities will improve the process by requring the line ministries to validate and sign off on the census results. Biometric devices will be also rolled out to the line ministries participating in the new census, after the pilot at the Ministry of Economy and Finance (MoEF). The IMF-supported blockchain project will complete the pilot phase at the MoEF and MoPA in December 2023 and be rolled out to other ministries in 2024.

14. Enhancing expenditure efficiency is essential to supporting economic diversification and providing better public services delivery (MEFP ¶12-13). While fiscal consolidation will increase the overall envelop for growth-friendly expenditure, the wage bill currently consumes about 80 percent of budget allocations to the priority sectors (Annex II). Lack of resources for non-wage expenditure has been the main obstacle for service delivery. The 2024 budget should safeguard resources for key projects and activities in the priority sectors. To address declining income of cashew farmers, the 2023 budget introduced a temporary food price subsidy (0.2 percent of GDP). However, this would be too costly should it become permanent. To support agricultural diversification and protect subsistence farmers, for 2024, the government is introducing a more sustainable program of agricultural input support based on experience of the existing innovative projects supported by development partners including the World Food Program (Annex III).

15. The authorities are making progress in other fiscal structural reforms (MEFP ¶11, 19)**.** To ensure transparency in the spending overrun until July 2023, the authorities will publish a report that reclassifies "other current expenditure", explaining the major spending items. To implement the Treasury Single Account, the authorities will freeze, investigate, and close bank accounts of line ministries that have negative balances.

Fiscal Risks from the Public Utility Company

16. A transition to more diversified sources of power will be the key to restore financial viability of *Electricidade e Aguas da Guinea-Bissau* (EAGB) (MEFP ¶14-18). In just five months, EAGB installed 32,700 pre-paid meters, which have increased its monthly revenue from CFAF 1.5 to

1.9 billion. EAGB has been staying current with payments to Karpower since April 2023 and has purchased 40,000 additional prepaid meters, which will cover most residential clients with pre-paid meters. The OMVG project, which connects Bissau to a hydropower plant in Guinea-Conakry, is nearly complete and will substantially reduce power purchase costs. However, a transitional period is needed before switching the source of power from Karpower to OMVG, because the "Ring Line" Project financed by AfDB, a transmission line that connects the OMVG terminal and the distribution grid, is yet to be completed. The authorities are taking measures to speed up the construction, which has been delayed for five years, and fix deficiencies in the partially completed line, which raises serious quality and safety concerns. Meanwhile, the government will continue renegotiating with Karpower with the support of the World Bank.[5] The Audit Court is making progress in auditing the power purchase contract and addendums, which will be published by December 2023. The government will continue to pursue accountability for any irregularities in the addendum process after terminating a power supply from Karpower.

Financing and Debt

17. Guinea-Bissau is at a high risk of debt distress, but debt remains assessed as sustainable (MEFP ¶20-24). The stock of public and publicly guaranteed debt is projected to decline to 76.5 percent of GDP in 2023.. Debt is assessed as sustainable based on the authorities' commitment to sound policies, supported by strong donor engagement. Debt sustainability should improve through compliance with a QPC of the zero ceiling on new non-concessional borrowing which is consistent with the authorities' external borrowing plan (Text Table 1).

Text Table 1. Guinea-Bissau: External Borrowing Plan
(In USD million)

PPG external debt contracted or guaranteed	Volume of new debt[1]		Present value of new debt[1]	
	2023 (US$ million)	2024[2] (US$ million)	2023 (US$ million)	2024[2] (US$ million)
Sources of debt financing	**32.7**	**38.9**	**21.2**	**26.4**
Concessional debt[3]	32.7	38.9	21.2	26.4
Multilateral debt	32.7	38.9	21.2	26.4
Uses of debt financing	**32.7**	**38.9**	**21.2**	**26.4**
Urban Infrastructure	12.3	14.2	8.0	9.7
Agriculture	20.4	24.7	13.2	16.8

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/ Preliminary data.

3/ Debt with a grant element of at least 35 percent.

Source: Staff calculations.

18. Guinea-Bissau's supportive regional context reduces medium-term rollover risks associated with domestic debt. The PV of public debt relative to GDP is projected to decline gradually over the medium term. The authorities also plan to clear during the program period all audited and recognized domestic arrears and are making progress in settling the legacy external

[5] In October 2023, Karpower cut the power supply for two days to demand the payment of six months of invoices from late 2022 and early 2023 totaling USD 14.2 million. To recover the power supply, the government and EAGB paid USD 10.0 million of invoices through a government transfer (US 3.9 million) and EAGB's short-term borrowing (US 6.1 million). The remaining invoices will be paid from a concessional project loan (USD 4.2 million) in 2024. Because the transfer was already included in the 2023 budget and the borrowing is within the existing line of government guarantees, this intervention created no additional fiscal costs for 2023.

arrears.[6] The authorities will continue to strengthen debt management and ensure payments of external debt services before the due date through implementation of the ministerial order that prioritizes debt service payments (continuous SB). The debt outlook remains vulnerable to a weaker economic recovery, further tightening of financial conditions, and authorities' failure to adhere to prudent fiscal policies.

Financial Sector

19. The government is progressing in the orderly disengagement from the large and undercapitalized bank (MEFP ¶32). The council of ministers approved an offer of a strategic investor to buy the government stake and recapitalize the institution to comply with regulatory standards. The due diligence process has been successfully completed, and the investor has reiterated its interest in the purchase to the new government. The new government has agreed on the final terms of the agreement, which will subsequently be submitted to the Regional Banking Commission for evaluation after the approval at the bank's shareholders meeting. If the operation does not materialize, the government remains committed to a new SB to request an assessment of the bank's financial position and a full independent audit of the loan portfolio including NPLs from a third-party auditing firm and to prepare a report on a viable plan which ensures that the bank is either recapitalized or resolved or liquidated by the end of the program based on the IMF recommendations.

B. Governance and Rule of Law Reforms

20. There has been progress in strengthening external audits, public procurement transparency, and the AML/CFT effectiveness (MEFP, ¶25-27). The Audit Court will publish the audit report of the High Commissioner for COVID-19 as per the prior action and is making progress in audits of COVID-19 related transactions of other entities. The Directorate-General of Public Tenders (DGCP) continues to publish the beneficial ownership information of all crisis-related contracts and is expanding the disclosure to all public contracts through participation in the COTADO. With Fund technical assistance, the authorities will take actions to enhance AML/CFT effectiveness in accordance with the revised action plan based on the 2023 WAEMU AML/CFT Law (Annex IV).

21. The new government is committed to prioritizing anti-corruption and rule of law reforms (MEFP, ¶28-31). Implementing the new law on asset declaration regime, which is pending before Parliament, requires capacity development of the Supreme Court of Justice, which will be made responsible for maintaining the depository. Lack of infrastructure has been posing existencial risks to the justice sector. Several regional courts and justice services have been closed due to lack

[6] 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 to cancel the debt (US$1.5 million). Negotiations with Brazil (US$1.9 million) are pending final approval from the Brazilian parliament. Since November 2021, requests have been sent to Pakistan (US$2.2 million) to attempt resolving remaining external arrears. Staff has obtained from the relevant Executive Directors consent to move ahead with the completion of the review notwithstanding the arrears.

of rent payments or personnel, or both. Anti-corruption operations of the Judiciary Police in the regions have been incapacitated in the absence of a base outside Bissau. The 2024 budget will prioritize construction of minimum infrastructure to maintain the sector's operation.

PROGRAM MODALITIES AND OTHER ISSUES

22. **The authorities have requested an augmentation of access of 40 percent of quota to meet larger BoP needs caused by a severe terms of trade shock.** The proposed augmentation will meet residual financing needs created by an adverse external shock to cashew exports and be supported by the new government' strong commitments to program objectives. The augmentation would be phased by adding disbursements of 13.3 percent of quota to each of the next three reviews. The nature of the financing needs remains unchanged, and the additional resources would be for budget support. Notwithstanding higher access, annual and cumulative access would remain well within the PRGT normal access limits.

23. **The program is fully financed.** Despite the increased financing needs, there are firm commitments of financing for the next 12 months, including additional budget support (CFAF 11.0 billion)[7] and taking into account the requested augmentation. There are good prospects that financing will be adequate for the remainder of the program. Fund's share in cumulative financing needs would be decreased from 61 percent to 53 percent after the augmentation. With catalytic effects of the ECF arrangement, in 2024, IFIs are likely to provide budget support in addition to the amount mentioned above.

24. **Guinea-Bissau's capacity to repay would remain adequate after the proposed augmentation but subject to significant risks** (Table 6, Text Figure 4)**.** Three out of six Guinea-Bissau's capacity to repay indicators exceed the 75th percentile of past UCT-quality PRGT arrangements, particularly in the long-term. With the proposed higher access, outstanding obligations to the Fund based on existing and prospective drawings would peak in 2025 at 3.4 percent of GDP, while debt service to the Fund would peak at 2.8 percent of revenues (excluding grants) or 3.0 percent of exports in 2030. Capacity to repay the Fund is subject to significant downside risks. Risks are mitigated by the government's commitment to fully implement the program as well as its strong track record of servicing debt to the Fund, fiscal policy measures under the program, which will put public debt on a strong downward path, and measures to strengthen governance, which will improve the institutional capacity for policy implementation. Structural reforms in the financial and energy sector have been reducing contingent liability risks significantly. With these measures and reforms, risks to capacity to repay will remain manageable.

[7] Additional budget support since the second review includes CFAF 1.9 billion from Spain for 2023 and CFAF 11.0 billion from France and Portugal in 2024.

25. The authorities have requested a waiver for non-observance of the missed QPCs for June 2023 on a basis of corrective actions. These corrective actions include: (i) solidifying the DGCI's professionalization through quantitative performance evaluation, and tax audits (for floors on tax revenue and domestic primary balance); (ii) institutionalizing the COTADO (for a floor on domestic primary balance); and (iii) implementing a strict no new hiring policy (for a ceiling on the wage bill). With these measures, the QPCs on tax revenue and wage bill for December 2023 should be met. Discretionary spending has been minimized to the full extent since August 2023. The external debt arrears have been paid and measures taken to mitigate the risk of future breaches (¶4).

26. The authorities proposed a revision to the QPC on a domestic primary balance for December 2023. This is to accommodate the overrun that cannot be compensated with corrective actions (¶11) as well as an impact of the delay in the 5G licensing (¶13).

27. Prior actions and structural benchmarks. Two prior actions are critical to ensure that the 2023 budget revised by the new government remains consistent with the program parameters and to enhance transparency in COVID-19 related spending. Eight new SBs (see SB Table) are proposed to underpin corrective actions and the 2024 budget preparation, while kept parsimonious, carefully prioritized and sequenced. Three SBs are proposed to be reprogrammed for better sequencing.[8] Two SBs are proposed to be replaced with modified SBs to ensure consistency with the legal framework. For a continuous SB on external debt service, the government has been raising awareness of the ministerial order.

28. Safeguards assessment. The 2023 update assessment of the BCEAO found that the institution continues to have a robust control environment with strong governance arrangements. All recommendations from the 2018 safeguards assessment have been implemented. Financial reporting and external audit arrangements remain in line with international practices.

STAFF APPRAISAL

29. Guinea Bissau is facing an adverse external shock. The fall in international cashew prices resulted in much lower-than-expected exports and will widen the current account deficit significantly. Financing is constrained by tightening of regional financial conditions. The shock has created larger BoP needs in the near-term. A moderate economic recovery is expected to continue, but there are significant downside risks to the growth outlook.

30. The program performance was weaker than expected for June 2023, but staff welcomes the new government's commitment to fiscal consolidation. The QPC on a domestic primary deficit for June 2023 was missed by the significant spending overrun during the election

[8] A SB on a redeployment plan of DGCI managers is proposed to be reprogramed for December 2024 so that managers to be redeployed can be selected based on the quantitative performance evaluation introduced by a new SB by June 2024 (MEFP ¶9). A SB on a strategic plan of EAGB is reprogrammed for December 2024 as faster-than-expected completion of the OMVG project has changed the short-term priority. A SB on a multiyear staffing plan is reprogrammed for March 2024 to be aligned with the 2024 budget and guide better the hiring process in 2024.

period. However, the new government has been taking corrective actions to rationalize non-priority expenditure and mobilize additional revenue. The QPCs on tax revenue and wage bill were missed for June 2023 but is expected to be met for December 2023. The 2023 budget, which will be approved in November 2023, maintains the significant size of fiscal consolidation despite an extremely challenging environment. The domestic primary deficit target for December 2023 is widened because of the slippage in the frist half of the year that cannot be accomodated by corrective actions.

31. Revenue mobilization is a critical pillar of fiscal consolidation strategies. Staff welcomes the authorities' strong ownership for reforms to strengthen DGCI's professionalization, especially through the introduction of quantitative performance indicators, and the reactivation of tax audits. DGCI's managers will be held accountable for these actions by underperforming managers being reallocated and replaced with new managers selected through public tenders.

32. The new corrective actions will strengthen expenditure controls. The wage bill target will be underpinned by the new census of public workers, which will be made more effective by the line ministries taking the leading roles, instead of the MoPA. Since September 2023, discretionary expenditure has been strictly controlled through the COTADO, which will be institutionalized through an ex-post scrutiny by the Prime Minister and digitalization of the commitment approvals.

33. A transition to diversified power sources is critical to restore the financial viability of EAGB. Staff commends EAGB's record-fast installation of 32,700 pre-paid meters. Power supply from Karpower will be terminated after the critical section of the Ring Line Project is completed and electricity of the OMVG project arrives. Staff urges EAGB to push the contractor for fixing the defective works and completing the line as soon as possible, while the government to continue renegotiation with Karpower, including costs of early termination of the power purchase contract.

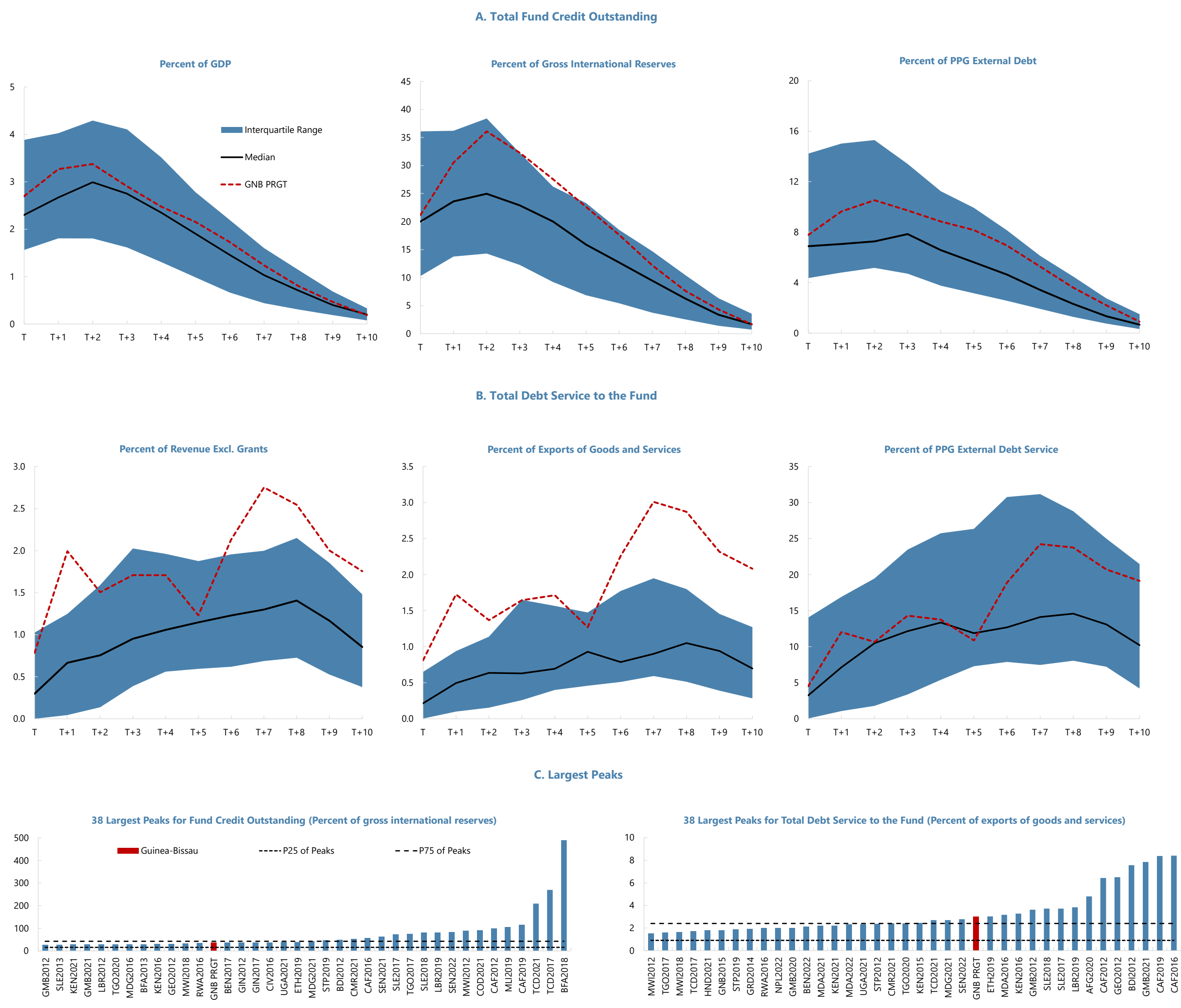
34. Staff is encouraged by strong implementation of governance reforms. Staff welcomes progress in the audit of the High Commissioner for COVID-19 by the Audit Court and development of the new asset declaration regime. A revised national strategy and action plan is needed to improve AML/CFT effectiveness in line with the new WAEMU AML/CFT Law. Staff recommends the authorities to solve a dire situation of the judicial sector by constructing minimum infrastructure.

35. Efficiency in social and priority spending should be improved. Non-wage spending of the priority sectors should be protected better, while the wage bill, which includes a large number of ghost workers and consumes most of the resource envelop, should continue to be streamlined. In the agricultural sector, the food price subsidiy introduced in 2023 would be very costly if it were continued and should be replaced with a more sustainable policy in 2024. Staff recommends expansion of agricultural input support, which should be highly adopted to local contexts to be effective.

36. Based on the strong policy commitments and prevailing BoP needs, staff supports the authorities' request for augmentation of access. Given corrective actions, staff also supports the authorities' requests for waivers for non-observance of the end-June 2023 performance criteria on tax revenue, wage bill, domestic primary balance, and external arrears. Staff supports the request to modify the end-December 2023 performance criterion on a domestic primary balance. Staff supports completion of the third review, the authorities' request for the associated disbursement, and completion of the financing assurance review on the basis that adequate safeguards remain in place for the further use of the Fund's resources in Guinea Bissau's circumstances and that Guinea Bissau's adjustment efforts have not been undermined by developments in debtor-creditor relations.

Text Figure 4. Capacity to Repay Indicators Compared to UCT Arrangements and PRGT Countries

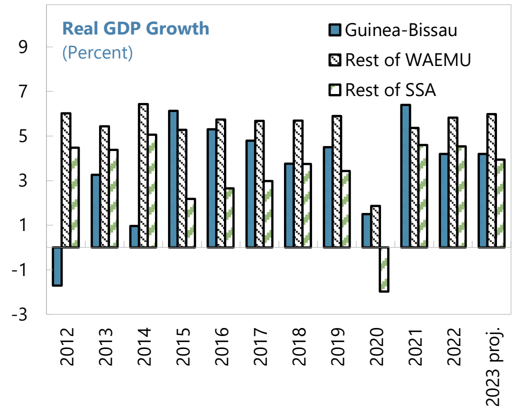
(In percent of the indicated variable)



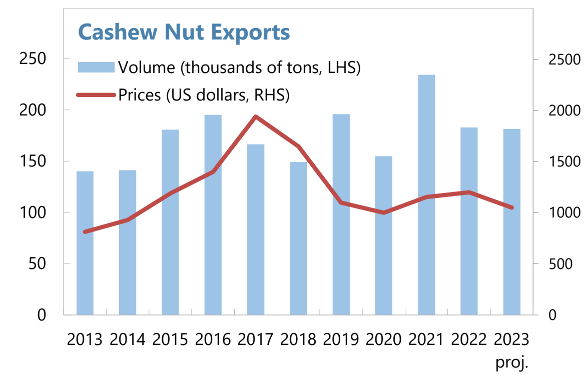
Notes:
1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
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.

Figure 1. Guinea-Bissau: Growth and Living Standards

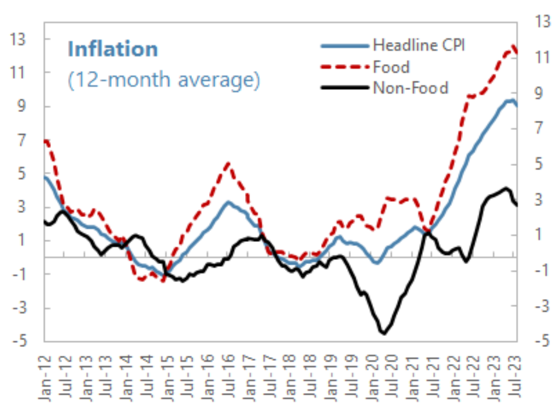
Growth in 2023 is estimated to moderate…



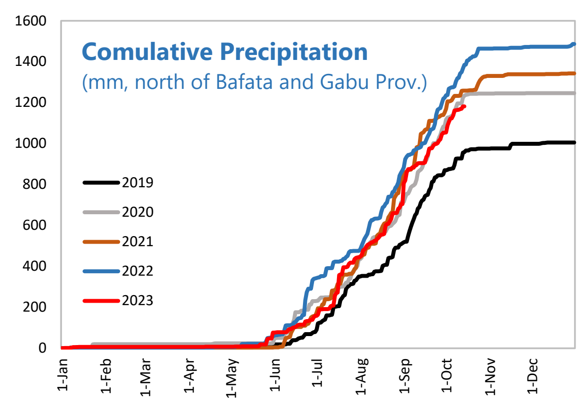
… because of lower cashew exports affected by delays in exports of inventories.



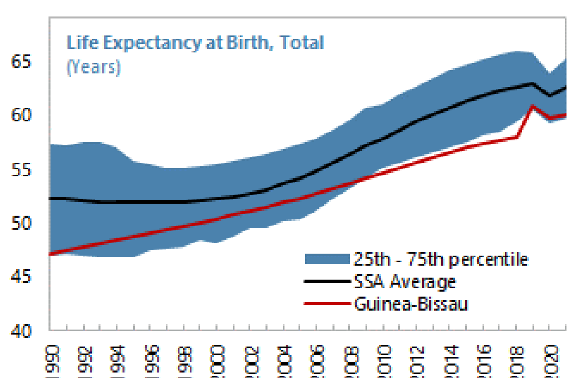
Inflation increased due to higher fuel and food prices…



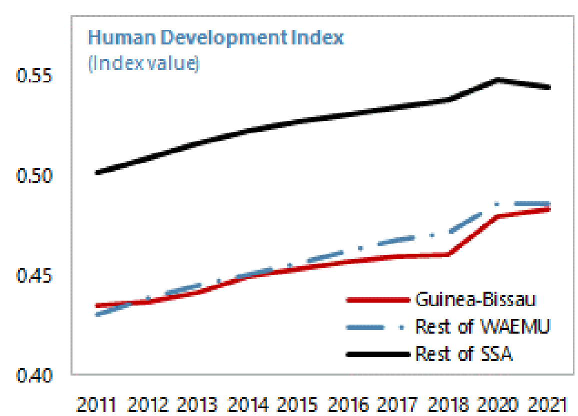
… however better weather conditions supported domestic agriculture production and food security.



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



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

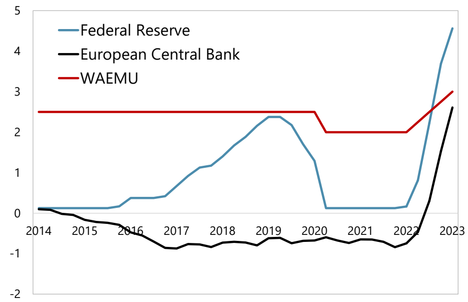


Sources: World Bank, Worldwide Development Indicators; EM-DAT, CRED database; NASA Giovanni database; Guinea-Bissau authorities; and IMF staff calculations.

Figure 2. Guinea-Bissau: Global Economic Developments

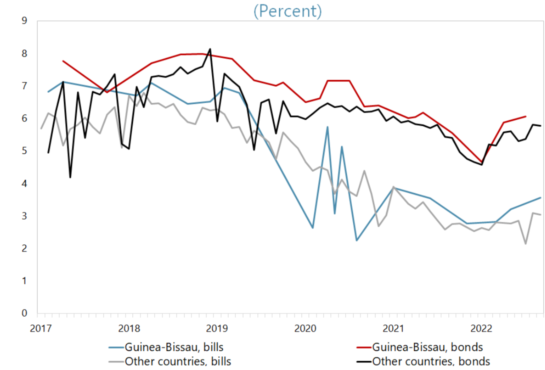
Central banks in advanced economies are tightening monetary policy…

Monetary Policy Rates
(Percent)



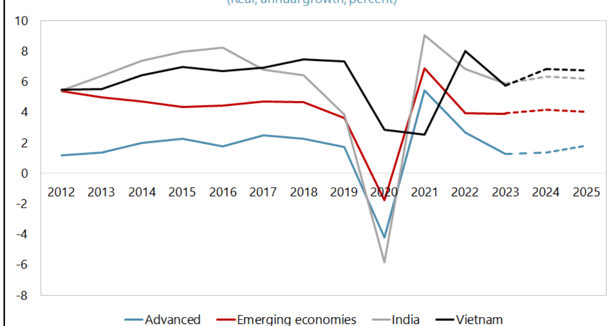
…and yields in the regional market are starting to increase…

Sovereign Yields in the WAEMU
(Percent)



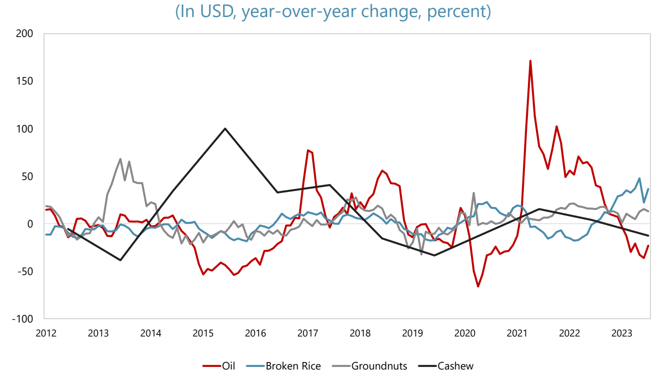
…while growth of trading partners is falling…

GDP Growth
(Real, annual growth, percent)



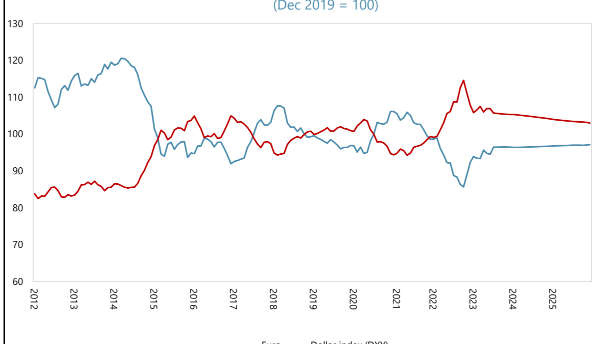
…and cashew prices are also falling but rice prices are rising.

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



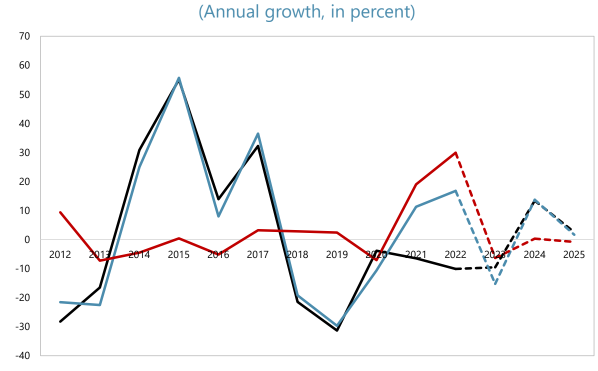
The euro and CFA have depreciated substantially against the US dollar, with no rebound expected…

Exchange Rates
(Dec 2019 = 100)



…and terms of trade are expected to continue deteriorating.

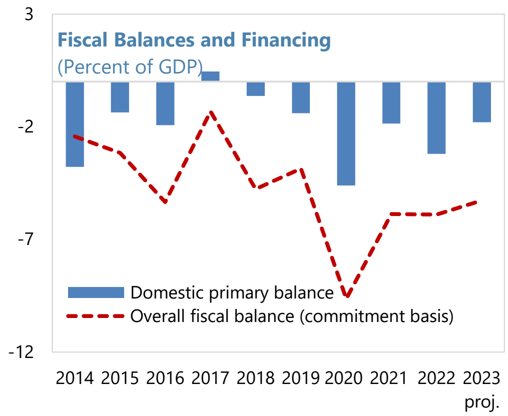
Export and Import Prices
(Annual growth, in percent)



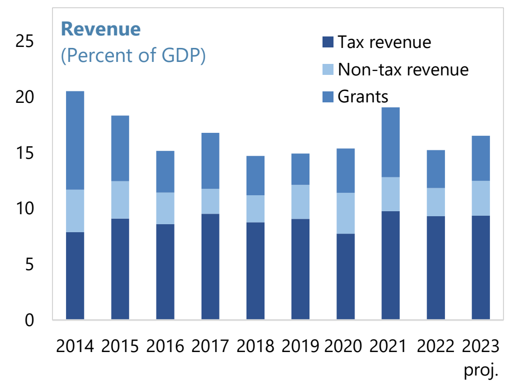
Sources: Guinea-Bissau authorities; BCEAO; and IMF staff calculations.

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

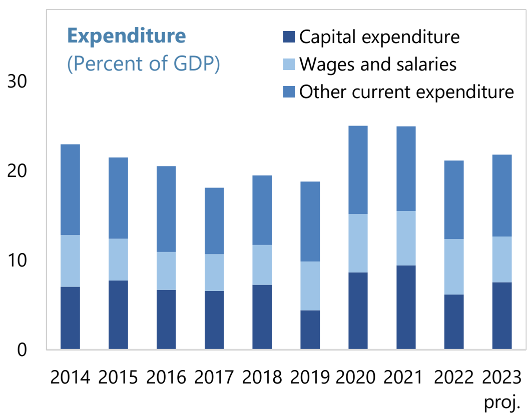
Fiscal balances improved since 2020…



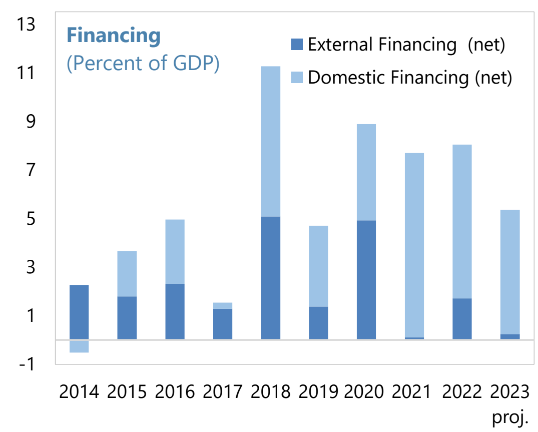
…due to stronger tax revenues…



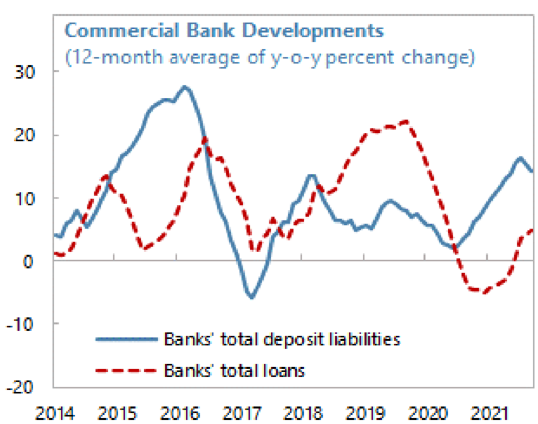
… and lower expenditures…



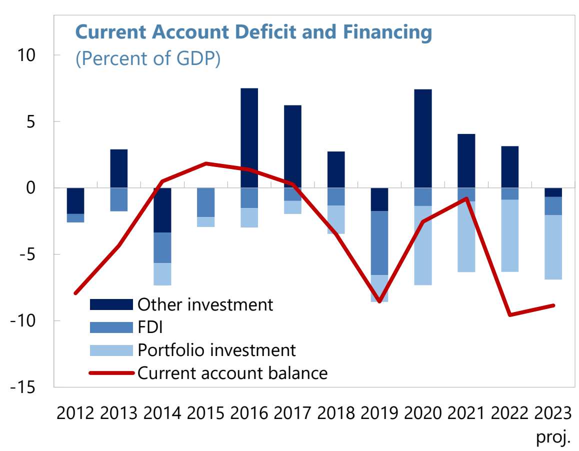
…though financing is constrained by tightening of regional financial conditions.



Increased regional financing partially crowded out bank credit to the private sector.



The widened current account deficit is financed only partially by portfolio investment (treasury securities).



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

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Proj.					
	(Annual percent change, unless otherwise indicated)								
National accounts and prices									
Real GDP at market prices	1.5	6.4	4.2	4.2	5.0	5.0	5.0	5.0	4.5
Real GDP per capita	-0.7	4.1	1.9	2.0	2.8	2.9	2.9	2.9	2.4
GDP deflator	-1.0	2.7	7.3	7.2	3.1	2.8	2.8	2.8	2.8
Consumer price index (annual average)	1.5	3.3	7.9	8.0	3.0	2.0	2.0	2.0	2.0
External sector									
Exports, f.o.b. (CFA francs)	-15.6	35.1	-14.3	-14.8	36.4	5.8	3.6	5.1	5.1
Imports, f.o.b. (CFA francs)	-9.9	9.7	25.3	-0.1	5.1	2.2	2.5	5.3	3.8
Terms of trade (deterioration = -)	-3.9	-6.5	-10.1	-9.6	13.4	2.5	1.9	2.7	1.8
Real effective exchange rate (depreciation = -)	2.0	1.3	-2.1	...	...	...	...	...	...
Exchange rate (CFAF per US$; average)	574.8	554.2	622.4	...	...	...	...	...	...
Government finances									
Revenue excluding grants	-5.5	22.7	3.4	15.8	12.2	10.2	10.2	10.1	8.5
Expenditure	33.8	8.9	-4.6	15.0	2.3	2.1	7.9	9.4	7.9
Current expenditure	14.5	3.5	8.0	14.0	-4.2	-1.5	7.9	8.4	6.8
Capital expenditure	96.7	19.3	-25.1	17.6	17.2	8.8	8.0	11.1	9.8
Money and credit									
Domestic credit	-1.7	17.2	26.6	8.3	12.3	9.1	6.6	5.9	5.6
Credit to the government (net)	-19.7	55.3	32.8	7.4	9.5	1.9	-5.3	-5.9	-5.5
Credit to the economy	5.9	5.0	23.7	8.8	13.7	12.6	11.8	10.2	9.1
Net domestic assets	-13.8	19.6	52.1	10.4	15.0	10.9	7.7	6.8	6.4
Broad money (M2)	9.1	20.9	3.5	8.6	8.2	5.7	6.5	6.5	7.4
	(Percent of GDP, unless otherwise indicated)								
Investments and savings									
Gross investment	17.5	18.3	18.1	18.1	19.2	20.0	20.7	21.5	22.5
Of which: government investment	5.8	6.4	4.3	4.5	4.9	4.9	4.9	5.1	5.2
Gross domestic savings	3.3	7.6	0.2	1.0	5.6	7.5	8.9	10.2	11.7
Of which: government savings	-7.6	-5.5	-4.6	-4.5	-2.0	-1.4	-1.4	-1.3	-1.2
Gross national savings	15.0	17.5	8.5	9.3	14.2	15.2	16.3	17.3	18.5
Government finances									
Revenue excluding grants	11.4	12.8	11.8	12.3	12.7	13.0	13.3	13.5	13.6
Domestic primary expenditure	16.0	14.7	15.0	14.4	13.1	12.3	12.6	12.7	12.8
Domestic primary balance	-4.6	-1.9	-3.2	-2.1	-0.4	0.7	0.7	0.8	0.8
Overall balance (commitment basis)									
Including grants	-9.6	-5.9	-6.1	-5.6	-3.5	-3.0	-3.0	-3.0	-3.0
Excluding grants	-13.6	-12.2	-9.5	-9.7	-8.0	-6.6	-6.4	-6.4	-6.3
External current account	-2.6	-0.8	-9.6	-8.9	-5.0	-4.8	-4.4	-4.2	-4.0
Excluding official current transfers	-5.7	-3.4	-11.4	-11.6	-8.2	-7.1	-6.4	-6.3	-6.0
Stock of public and publicly guaranteed debt[1]	77.7	78.8	80.4	76.5	74.1	71.5	69.3	67.3	65.7
Of which: external debt	41.1	40.3	39.2	34.9	33.3	31.6	29.5	27.5	25.9
Memorandum items:									
Nominal GDP at market prices (CFAF billions)	875.2	956.3	1069.2	1194.4	1292.9	1395.6	1506.4	1626.0	1746.8
WAEMU gross official reserves (billions of US$)	21.8	24.5	25.2	...	...	...	...	...	...
(percent of broad money)	33.2	30.2	30.6	...	...	...	...	...	...

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

[1] Coverage expanded to include legacy arrears.

Table 2a. Guinea-Bissau: Balance of Payments, 2020–28
(CFAF billions)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Proj.					
Current Account Balance	-22.4	-7.8	-102.3	-105.8	-64.6	-67.4	-66.5	-68.5	-70.1
Goods and services	-119.1	-101.6	-189.5	-202.2	-173.5	-173.0	-176.9	-185.4	-190.4
Goods	-53.8	-27.7	-100.6	-121.4	-89.4	-85.5	-85.9	-90.7	-91.8
Exports, f.o.b	123.1	166.3	142.5	121.4	165.6	175.3	181.5	190.7	200.4
Of which: cashew nuts	109.2	154.4	136.5	114.7	158.3	167.4	173.0	181.5	190.6
Imports, f.o.b.	-176.8	-194.0	-243.1	-242.8	-255.0	-260.8	-267.4	-281.4	-292.2
Of which: food products	-58.7	-57.6	-60.6	-57.7	-62.5	-62.6	-65.0	-67.2	-69.8
petroleum products	-30.9	-36.1	-63.8	-61.4	-64.9	-62.6	-62.8	-62.4	-62.0
Services	-65.3	-73.9	-88.9	-80.9	-84.1	-87.5	-91.0	-94.6	-98.6
Credit	10.7	19.4	22.0	24.9	27.0	29.1	31.5	34.0	36.5
Debit	-76.0	-93.3	-110.9	-105.8	-111.1	-116.6	-122.5	-128.6	-135.0
Incomes	14.5	9.4	5.2	-0.2	0.6	1.9	3.9	4.5	5.0
Credit	22.5	17.3	20.8	22.3	24.4	23.8	25.8	27.8	29.5
Of which: EU fishing compensation	7.6	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
Other license fees	10.1	4.9	6.6	7.7	9.7	8.5	10.2	12.0	13.5
Debit	-8.0	-7.9	-15.6	-22.4	-23.8	-21.9	-21.9	-23.4	-24.6
Of which: government interest	-7.7	-10.6	-7.5	-15.4	-16.6	-16.1	-17.2	-19.2	-20.8
Current transfers (net)	82.2	84.4	82.0	96.6	108.3	103.7	106.5	112.4	115.3
Official	27.8	24.9	20.0	32.3	41.2	31.8	30.4	33.4	35.2
Private	54.3	59.5	62.0	64.3	67.1	71.9	76.1	79.0	80.1
Of which: remittances	51.8	56.7	58.9	61.0	63.8	68.4	72.4	75.2	76.2
Capital account	6.0	34.7	17.6	17.2	18.4	19.6	21.1	23.2	24.8
Of which: official transfers	5.2	33.6	16.4	16.0	17.2	18.4	19.8	21.8	23.4
Financial account	0.8	-21.7	-34.2	-82.4	-37.2	-39.2	-50.5	-54.6	-63.5
FDI	-11.9	-9.8	-9.6	-16.5	-11.8	-12.8	-13.8	-14.9	-16.0
Other investment	12.7	-12.0	-24.6	-65.9	-25.3	-26.4	-36.7	-39.8	-47.5
Official medium- and long-term disbursements	-51.3	-26.5	-23.7	-21.4	-24.1	-24.9	-22.4	-24.9	-26.1
Programs	-22.0	-0.1	0.0	-0.8	0.0	0.0	0.0	0.0	0.0
Projects	-29.3	-26.4	-23.7	-20.6	-24.1	-24.9	-22.4	-24.9	-26.1
Amortization	11.8	25.5	3.8	18.3	19.3	19.0	16.6	19.2	19.4
Treasury bills (regional financing)	-46.2	-59.3	-58.1	-57.8	-40.5	-35.5	-45.9	-49.1	-50.8
Commercial bank net foreign assets	72.2	5.9	-12.2	25.0	15.0	10.0	10.0	10.0	10.0
Other net foreign assets	26.2	42.4	65.6	-30.0	5.0	5.0	5.0	5.0	0.0
Errors and Omissions	-3.2	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-20.3	51.0	-50.4	-6.2	-9.0	-8.6	5.2	9.3	18.2
Financing	20.3	-51.0	50.4	6.2	9.0	8.6	-5.2	-9.3	-18.2
Net foreign assets excluding IMF (increase -)	20.3	-62.2	53.5	-1.6	-1.5	3.6	-1.8	-5.5	-15.3
IMF purchases	0.0	11.2	0.0	10.7	13.7	7.6	0.0	0.0	0.0
IMF repurchases	-2.0	-1.6	-3.1	-2.9	-3.2	-2.7	-3.4	-3.8	-2.9
Grant for debt relief under the IMF CCRT	2.0	1.6	0.0	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)	155	234	183	181	220	229	233	238	244
Cashew export prices (US$ per ton)	1,000	1,154	1,200	1,050	1,200	1,224	1,242	1,273	1,299
Import volume of goods (annual percentage change)	-5.7	-5.9	-4.5	5.7	4.7	3.6	3.6	5.0	3.4
Oil prices (international, US$ per barrel)	41.8	69.2	96.4	80.5	79.9	76.0	72.7	69.9	67.5
Scheduled debt service									
Percent of exports and service credits	13.5	18.2	5.3	17.9	14.2	12.6	11.3	12.3	11.4
Percent of total government revenue	18.1	27.7	6.8	17.9	16.7	14.2	12.1	12.6	11.4
Current account balance (percent of GDP)	-2.6	-0.8	-9.6	-8.9	-5.0	-4.8	-4.4	-4.2	-4.0
Official transfers (percent of GDP)	3.8	6.1	3.4	4.0	4.5	3.6	3.3	3.4	3.4
WAEMU gross official reserves (billions of US$)	21.8	24.5	25.2	…	…	…	…	…	…
(percent of broad money)	33.2	30.2	30.6	…	…	…	…	…	…

Sources: BCEAO; and IMF staff estimates and projections.

Table 2b. Guinea-Bissau: External Financing Needs and Sources, 2020–28
(CFAF billions)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Proj.					
Financing requirements	**-43.6**	**-122.0**	**-75.6**	**-160.9**	**-129.8**	**-117.2**	**-118.6**	**-130.4**	**-142.9**
Current account deficit excl. official transfers	-50.2	-32.7	-122.3	-138.1	-105.8	-99.2	-96.9	-101.9	-105.3
Public debt amortization	-11.8	-25.5	-3.8	-18.3	-19.3	-19.0	-16.6	-19.2	-19.4
Changes in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in official reserves	20.3	-62.2	53.5	-1.6	-1.5	3.6	-1.8	-5.5	-15.3
IMF repurchases	-2.0	-1.6	-3.1	-2.9	-3.2	-2.7	-3.4	-3.8	-2.9
Available financing	**41.6**	**108.2**	**69.1**	**142.0**	**100.7**	**105.3**	**117.9**	**129.7**	**142.9**
Project grants	33.0	57.5	29.8	40.1	43.0	45.9	49.5	54.5	58.6
Net foreing direct investment	11.9	9.8	9.6	16.5	11.8	12.8	13.8	14.9	16.0
Treasury bills (regional financing)	46.2	59.3	58.1	57.8	40.5	35.5	45.9	49.1	50.8
Official creditors	51.3	26.5	23.7	21.4	24.1	24.9	22.4	24.9	26.1
Other net flows[1]	-100.8	-44.8	-52.1	6.2	-18.8	-13.7	-13.7	-13.7	-8.6
Financing needs	**2.0**	**13.8**	**6.6**	**18.9**	**29.2**	**11.9**	**0.7**	**0.7**	**0.0**
CCRT	2.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Budget support grants	0.0	1.0	6.6	8.2	15.4	4.3	0.7	0.7	0.0
o/w Multilateral grants	0.0	0.0	0.0	3.7	3.7	3.8	0.0	0.0	0.0
IMF disbursements	0.0	11.2	0.0	10.7	13.7	7.6	0.0	0.0	0.0
o/w ECF program	0.0	0.0	0.0	10.7	13.7	7.6	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

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, 2020–28
(CFAF billions)

	2020	2021	2022	2023			2024	2025	2026	2027	2028
				Budget[1]	2nd rev.	Rev. proj.			Proj.		
Revenue and grants	134.7	182.5	163.0	190.0	197.5	194.9	222.8	231.3	249.8	274.9	297.0
Tax revenue	67.8	93.5	99.7	113.7	113.7	114.2	126.0	142.9	158.3	175.1	190.7
Nontax revenue	32.0	28.9	27.0	32.4	37.4	32.4	38.4	38.2	41.3	44.6	47.7
Grants[2]	35.0	60.1	36.4	43.9	46.4	48.3	58.4	50.2	50.2	55.2	58.6
Budget support	0.0	1.0	6.6	3.8	6.3	8.2	15.4	4.3	0.7	0.7	0.0
Project grants	33.0	57.5	29.8	40.1	40.1	40.1	43.0	45.9	49.5	54.5	58.6
Expenditure	219.1	238.7	227.8	233.4	239.7	262.1	268.1	273.7	295.3	323.1	348.8
Expense	143.4	148.4	160.2	146.0	154.8	182.6	175.0	172.3	185.9	201.5	215.2
Wages and salaries[3]	57.0	58.2	66.3	59.0	59.0	59.0	61.0	65.3	70.0	75.6	79.9
Goods and services[3]	25.4	28.7	27.7	26.5	23.3	24.2	26.2	25.8	28.0	30.4	32.8
Transfers[3]	27.3	25.9	23.0	23.5	29.4	26.5	30.2	25.3	27.8	29.9	31.8
Interest	13.2	15.3	14.6	21.0	24.9	29.2	31.7	31.5	33.7	37.1	40.2
Other	20.5	20.2	28.7	16.0	18.2	43.6	25.8	24.4	26.4	28.5	30.6
Net acquisition of nonfinancial assets	75.7	90.3	67.6	87.4	84.9	79.5	93.1	101.4	109.4	121.6	133.5
Domestically financed	9.9	7.1	15.2	24.0	24.0	18.8	26.0	30.6	37.4	42.2	48.8
Foreign financed (including BOAD)	65.7	83.1	52.4	63.4	60.9	60.7	67.1	70.8	72.0	79.4	84.7
Overall balance, including grants (commitment)	-84.3	-56.1	-64.8	-43.4	-42.2	-67.2	-45.3	-42.4	-45.5	-48.2	-51.8
Overall balance, excluding grants (commitment)	-119.3	-116.2	-101.2	-87.3	-88.6	-115.5	-103.7	-92.5	-95.7	-103.4	-110.4
Change in arrears	6.5	-9.1	-6.7	0.0	-4.1	-1.0	-10.0	-1.2	0.0	0.0	0.0
Domestic arrears[4]	5.5	-8.2	-6.7	0.0	-4.1	-1.0	-10.0	-1.2	0.0	0.0	0.0
Accumulation current year	9.6	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-4.1	-10.2	-6.7	0.0	-4.1	-1.0	-10.0	-1.2	0.0	0.0	0.0
Net external arrears	0.7	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net BOAD interest arrears	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancy	0.4	-8.5	-16.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-77.7	-73.5	-87.6	-43.4	-46.2	-68.2	-55.3	-43.6	-45.5	-48.2	-51.8
Financing[5]	77.7	73.5	87.6	43.4	46.2	68.2	55.3	43.6	45.5	48.2	51.8
Net acquisition of financial assets (- = build up)	-28.8	9.8	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank deposits	-12.9	10.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	-1.8	-4.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local commercial banks	-11.1	14.7	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other[6]	-15.9	-0.8	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Bank recapitalization	0.0	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Domestic financing	63.4	62.7	69.1	52.1	43.2	65.1	50.5	37.7	39.7	42.6	45.1
BCEAO credit	-2.8	30.7	-3.6	0.0	4.2	7.2	10.0	2.2	-6.2	-6.5	-5.7
(o/w) IMF	-2.0	9.6	-3.1	0.0	4.7	7.8	10.5	5.0	-3.4	-3.8	-2.9
Other domestic (net)	66.2	32.0	72.7	52.1	39.1	57.8	40.5	35.5	45.9	49.1	50.8
Local commercial banks	20.0	-27.2	14.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	46.2	59.3	58.1	52.1	39.1	57.8	40.5	35.5	45.9	49.1	50.8
Foreign financing (net)	43.1	1.0	19.9	-8.8	3.0	3.1	4.8	5.9	5.9	5.7	6.7
Disbursements	54.9	26.5	23.7	23.4	21.6	21.4	24.1	24.9	22.4	24.9	26.1
Projects	32.9	26.4	23.7	23.4	20.8	20.6	24.1	24.9	22.4	24.9	26.1
Programs	22.0	0.1	0.0	0.0	0.8	0.8	0.0	0.0	0.0	0.0	0.0
Amortization	-11.8	-25.5	-3.8	-32.1	-18.6	-18.3	-19.3	-19.0	-16.6	-19.2	-19.4
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Memorandum item:											
Domestic primary balance (commitment)[7]	-40.3	-17.8	-34.2	-2.9	-2.9	-25.5	-4.8	9.7	9.9	13.1	14.6

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

[1] Draft budget approved by the Council of Ministers, pending on parliamentry approval after the elections in June 2023.

[2] Includes capital grants from CCRT

[3] Adjusted for embassy salaries.

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

[5] Financing is on currency basis.

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

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

Table 3b. Guinea-Bissau: Consolidated Operations of the Central Government, 2020–28

(Percent of GDP)

	2020	2021	2022	2023			2024	2025	2026	2027	2028
				Budget[1]	2nd rev.	Rev. proj.			Proj.		
Revenue and grants	15.4	19.1	15.2	15.9	16.5	16.3	17.2	16.6	16.6	16.9	17.0
Tax revenue	7.7	9.8	9.3	9.5	9.5	9.6	9.7	10.2	10.5	10.8	10.9
Nontax revenue	3.7	3.0	2.5	2.7	3.1	2.7	3.0	2.7	2.7	2.7	2.7
Grants[2]	4.0	6.3	3.4	3.7	3.9	4.0	4.5	3.6	3.3	3.4	3.4
Budget support	0.0	0.1	0.6	0.3	0.5	0.7	1.2	0.3	0.0	0.0	0.0
Project grants	3.8	6.0	2.8	3.4	3.4	3.4	3.3	3.3	3.3	3.4	3.4
Expenditure	25.0	25.0	21.3	19.5	20.1	21.9	20.7	19.6	19.6	19.9	20.0
Expense	16.4	15.5	15.0	12.2	13.0	15.3	13.5	12.3	12.3	12.4	12.3
Wages and salaries[3]	6.5	6.1	6.2	4.9	4.9	4.9	4.7	4.7	4.7	4.7	4.6
Goods and services[3]	2.9	3.0	2.6	2.2	1.9	2.0	2.0	1.9	1.9	1.9	1.9
Transfers[3]	3.1	2.7	2.2	2.0	2.5	2.2	2.3	1.8	1.8	1.8	1.8
Interest	1.5	1.6	1.4	1.8	2.1	2.4	2.5	2.3	2.2	2.3	2.3
Other	2.3	2.1	2.7	1.3	1.5	3.7	2.0	1.8	1.8	1.8	1.8
Net acquisition of nonfinancial assets	8.6	9.4	6.3	7.3	7.1	6.7	7.2	7.3	7.3	7.5	7.6
Domestically financed	1.1	0.7	1.4	2.0	2.0	1.6	2.0	2.2	2.5	2.6	2.8
Foreign financed (including BOAD)	7.5	8.7	4.9	5.3	5.1	5.1	5.2	5.1	4.8	4.9	4.9
Overall balance, including grants (commitment)	-9.6	-5.9	-6.1	-3.6	-3.5	-5.6	-3.5	-3.0	-3.0	-3.0	-3.0
Overall balance, excluding grants (commitment)	-13.6	-12.2	-9.5	-7.3	-7.4	-9.7	-8.0	-6.6	-6.4	-6.4	-6.3
Change in arrears	0.7	-1.0	-0.6	0.0	-0.3	-0.1	-0.8	-0.1	0.0	0.0	0.0
Domestic arrears[4]	0.6	-0.9	-0.6	0.0	-0.3	-0.1	-0.8	-0.1	0.0	0.0	0.0
Accumulation current year	1.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-0.5	-1.1	-0.6	0.0	-0.3	-0.1	-0.8	-0.1	0.0	0.0	0.0
Net external arrears	0.1	-0.1	0.0	0.0	0.0	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	0.0	0.0
Float and statistical discrepancy	0.0	-0.9	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-8.9	-7.7	-8.2	-3.6	-3.9	-5.7	-4.3	-3.1	-3.0	-3.0	-3.0
Financing[5]	8.9	7.7	8.2	3.6	3.9	5.7	4.3	3.1	3.0	3.0	3.0
Net acquisition of financial assets (- = build up)	-3.3	1.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank deposits	-1.5	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	-0.2	-0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local commercial banks	-1.3	1.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other[6]	-1.8	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Bank recapitalization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Domestic financing	7.2	6.6	6.5	4.4	3.6	5.4	3.9	2.7	2.6	2.6	2.6
BCEAO credit	-0.3	3.2	-0.3	0.0	0.3	0.6	0.8	0.2	-0.4	-0.4	-0.3
(o/w) IMF	-0.2	1.0	-0.3	0.0	0.4	0.7	0.8	0.4	-0.2	-0.2	-0.2
Other domestic (net)	7.6	3.4	6.8	4.4	3.3	4.8	3.1	2.5	3.0	3.0	2.9
Local commercial banks	2.3	-2.8	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	5.3	6.2	5.4	4.4	3.3	4.8	3.1	2.5	3.0	3.0	2.9
Foreign financing (net)	4.9	0.1	1.9	-0.7	0.3	0.3	0.4	0.4	0.4	0.3	0.4
Disbursements	6.3	2.8	2.2	2.0	1.8	1.8	1.9	1.8	1.5	1.5	1.5
Projects	3.8	2.8	2.2	2.0	1.7	1.7	1.9	1.8	1.5	1.5	1.5
Programs	2.5	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Amortization	-1.3	-2.7	-0.4	-2.7	-1.6	-1.5	-1.5	-1.4	-1.1	-1.2	-1.1
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Memorandum item:											
Domestic primary balance (commitment)[7]	-4.6	-1.9	-3.2	-0.2	-0.2	-2.1	-0.4	0.7	0.7	0.8	0.8

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

[1] Draft budget approved by the Council of Ministers, pending on parliamentry approval after the elections in June 2023.

[2] Includes capital grants from CCRT

[3] Adjusted for embassy salaries.

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

[5] Financing is on currency basis.

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

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

Table 4. Guinea-Bissau: Monetary Survey, 2020–26[1]

	2020	2021	2022	2023	2024	2025	2026
				Proj.			
				(CFAF billions)			
Net foreign assets	271.5	329.9	267.3	286.1	292.1	293.4	308.6
Central Bank of West African States (BCEAO)	164.2	216.7	166.3	160.1	151.1	142.5	147.6
Commercial banks	107.3	113.2	101.0	126.0	141.0	151.0	161.0
Net domestic assets	127.7	152.7	232.3	256.3	294.8	326.8	352.1
Credit to the government (net)	47.2	73.4	97.4	104.7	114.6	116.8	110.6
BCEAO	40.2	66.8	64.8	72.0	82.0	84.2	78.0
Deposits (-)	0.9	5.5	5.8	5.8	5.8	5.8	5.8
Credit	41.1	72.3	70.6	77.8	87.8	90.0	83.8
Commercial banks	7.0	6.6	32.6	32.6	32.6	32.6	32.6
Deposits (-)	25.0	25.4	23.5	23.5	23.5	23.5	23.5
Credit	32.0	32.0	56.1	56.1	56.1	56.1	56.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the economy	147.1	154.4	191.1	207.9	236.5	266.2	297.7
Other items (net)	-66.6	-75.1	-56.2	-56.2	-56.2	-56.2	-56.2
Money supply (M2)	399.2	482.7	499.5	542.4	586.9	620.3	660.7
Currency outside banks	246.5	305.2	298.0	323.5	350.1	370.0	394.1
Bank deposits	152.7	177.4	201.6	218.9	236.8	250.3	266.6
Base money (M0)	274.7	350.4	324.1	351.9	380.8	402.4	428.7
				(Change in percent of beginning-of-period broad money)			
Contribution to the growth of broad money (M2)							
Net foreign assets	14.7	14.6	-13.0	3.8	1.1	0.2	2.4
BCEAO	-5.0	13.2	-10.5	-1.2	-1.7	-1.5	0.8
Commercial banks	19.7	1.5	-2.5	5.0	2.8	1.7	1.6
Net domestic assets	-5.6	6.3	16.5	4.8	7.1	5.5	4.1
Credit to the central government	-3.2	6.5	5.0	1.4	1.8	0.4	-1.0
Credit to the economy	2.3	1.8	7.6	3.4	5.3	5.1	5.1
Other items (net)	-4.7	-2.1	3.9	0.0	0.0	0.0	0.0
Memorandum items:							
Broad money (M2, annual percentage change)	9.1	20.9	3.5	8.6	8.2	5.7	6.5
Base money (M0, annual percentage change)	6.2	27.6	-7.5	8.6	8.2	5.7	6.5
Credit to the economy (annual percentage change)	5.9	5.0	23.7	8.8	13.7	12.6	11.8
Velocity (GDP/M2)	2.2	2.0	2.1	2.2	2.2	2.2	2.3
Money multiplier (M2/M0)	1.5	1.4	1.5	1.5	1.5	1.5	1.5

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	Excluding undercapitalized bank 2020 Dec	2021 Jun	2021 Dec	2022 Jun	2022 Dec
Capital Adequacy											
Capital to risk-weighted assets	2.2	-5.4	-2.0	-3.6	-1.4	-4.0	25.6	21.7	25.5	21.4	26.6
Tier 1 capital to risk weighted assets	1.8	-5.5	-2.0	-3.6	-1.4	-4.0	25.6	21.7	25.5	21.4	26.6
Provisions to risk-weighted assets	27.6	29.8	26.0	20.4	20.3	9.9	2.3	2.7	8.0	3.3	4.3
Capital to total assets	1.0	-2.0	-0.7	-1.3	-0.5	-1.3	12.8	12.7	7.2	12.4	12.1
Asset Composition and Quality											
Total loans to total assets	40.1	50.5	46.7	40.4	38.1	45.5	36.5	44.7	36.8	47.3	45.5
Concentration: loans to 5 largest borrowers to capital	831.7	-316.1	-748.5	-379.3	-2344.0	-273.5	...	...	216.5	...	...
Sectoral distribution of loans											
Agriculture and fishing	0.9	0.5	0.5	0.8	1.4	1.5	...	...	0.8	1.4	1.5
Extractive industries	0.0	0.0	0.0	1.2	1.1	0.8	...	...	0.0	1.1	0.8
Manufacturing	0.4	0.7	0.7	15.7	14.8	15.4	...	...	18.1	14.8	15.4
Electricity, water and gas	1.1	0.7	0.7	10.5	10.7	4.9	...	...	0.0	10.7	4.9
Construction	1.7	1.7	1.7	7.7	8.1	3.2	...	...	8.4	8.1	3.2
Retail and wholesale trade, restaurants and hotels	29.7	29.4	29.4	25.2	24.1	40.5	...	...	54.0	24.1	40.5
Transportation and communication	1.1	1.1	1.1	7.1	7.4	7.1	...	...	7.0	7.4	7.1
Insurance, real state and business services	8.4	8.2	8.2	1.1	1.1	1.0	...	...	0.7	1.1	1.0
Other services	56.7	57.8	57.8	30.7	31.5	25.6	...	...	10.9	31.5	25.6
Gross NPLs to total loans	37.4	26.3	25.4	21.8	19.4	10.4	10.3	6.5	9.0	5.5	5.9
General provisions to gross NPLs	64.8	67.3	65.3	68.8	80.8	61.6	35.2	54.5	64.1	72.7	71.4
Net NPLs to total loans	17.4	10.5	10.6	8.0	4.4	4.3	2.1	3.4	3.4	1.5	1.7
Net NPLs to capital	694.6	-268.1	-680.0	-257.0	-333.9	-154.5	16.7	12.0	17.5	5.8	6.5
Earnings and profitability											
Average cost of borrowed funds	1.6	1.7	0.9	1.9	1.3	1.6	...	...	1.3	...	1.6
Average interest rate on loans	10.2	8.7	9.7	9.4	7.4	9.3	...	...	7.4	...	9.3
Average interest margin[1]	8.5	7.0	8.8	7.5	6.1	7.7	...	...	6.1	...	7.7
After-tax return on average assets (ROA)	-0.4	0.8	4.2	0.5	0.7	1.7	1.8	1.2	1.5	...	1.7
After-tax return on average equity (ROE)	-10.8	17.2	77.2	6.5	8.7	21.3	13.8	9.4	11.2	...	21.3
Non-interest expenses to net banking income	79.3	71.3	75.5	71.0	67.3	69.2	...	...	61.6	...	69.2
Personnel expenses to net banking income	33.8	28.6	32.1	32.0	29.2	29.9	...	...	26.7	...	29.9
Liquidity											
Liquid assets to total assets	15.0	19.6	18.9	17.3	18.0	24.9	...	...	20.1	25.0	24.9
Liquid assets to total deposits	25.3	32.7	35.9	30.4	31.3	46.7	...	...	44.4	45.5	46.7
Total loans to total deposits	89.1	102.5	106.5	83.6	78.9	91.0	92.5	103.8	86.0	89.9	92.7
Total deposits to total liabilities	59.4	59.9	52.6	56.9	57.3	53.4	39.4	43.0	45.3	52.4	47.3

Source: BCEAO.

[1] Excluding tax on banking operations.

Table 6. Guinea-Bissau: Indicators of Capacity to Repay the Fund, 2023–35

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
							Projections						
							(SDR millions, unless otherwise indicated)						
Fund obligations based on existing credit													
Principal	1.47	4.12	3.41	4.26	4.66	3.62	4.26	4.26	2.84	1.42	0.95	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
Fund obligations based on existing and prospective credit													
Principal	1.47	4.12	3.41	4.26	4.66	3.62	6.73	9.38	9.37	7.95	7.48	4.07	1.42
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
Total obligations based on existing and prospective credit													
SDR millions	1.47	4.12	3.41	4.26	4.66	3.62	6.73	9.38	9.37	7.95	7.48	4.07	1.42
CFAF billions	1.19	3.31	2.75	3.44	3.78	2.96	5.50	7.67	7.66	6.50	6.12	3.33	1.16
Percent government revenue	0.81	2.01	1.52	1.72	1.72	1.24	2.16	2.78	2.58	2.03	1.78	0.91	0.29
Percent exports of goods and services	0.81	1.72	1.34	1.62	1.68	1.25	2.22	2.96	2.82	2.28	2.05	1.06	0.35
Percent debt service	4.52	12.09	10.68	14.26	13.70	10.92	19.17	25.04	24.68	21.54	19.90	11.23	4.02
Percent GDP	0.10	0.26	0.20	0.23	0.23	0.17	0.30	0.39	0.36	0.29	0.26	0.13	0.04
Percent quota	5.18	14.51	12.01	15.00	16.41	12.75	23.70	33.03	32.99	27.99	26.34	14.33	5.00
Outstanding Fund credit													
SDR millions	39.96	52.88	58.92	54.66	50.00	46.39	39.66	30.29	20.91	12.96	5.48	1.42	0.00
CFAF billions	32.26	42.51	47.46	44.13	40.59	37.94	32.44	24.77	17.10	10.60	4.48	1.16	0.00
Percent government revenue	22.01	25.85	26.20	22.11	18.48	15.92	12.71	8.99	5.76	3.31	1.31	0.32	0.00
Percent exports of goods and services	22.04	22.07	23.22	20.72	18.07	16.02	13.09	9.55	6.30	3.71	1.50	0.37	0.00
Percent debt service	122.98	155.22	184.56	182.91	147.00	139.90	112.98	80.86	55.07	35.11	14.58	3.92	0.00
Percent GDP	2.70	3.29	3.40	2.93	2.50	2.17	1.74	1.25	0.81	0.47	0.19	0.05	0.00
Percent quota	140.70	186.20	207.46	192.46	176.06	163.35	139.65	106.65	73.63	45.63	19.30	5.00	0.00
Net use of Fund credit	11.77	12.96	6.08	-4.26	-4.66	-3.62	-6.73	-9.38	-9.37	-7.95	-7.48	-4.07	-1.42
Disbursements	13.24	17.08	9.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repayments and repurchases	1.47	4.12	3.41	4.26	4.66	3.62	6.73	9.38	9.37	7.95	7.48	4.07	1.42
							(CFAF billions, unless otherwise indicated)						
Memorandum items:													
Nominal GDP	1,194.4	1,292.9	1,395.6	1,506.4	1,626.0	1,746.8	1,861.9	1,984.6	2,115.4	2,254.8	2,391.9	2,537.3	2,691.6
Exports of goods and services	146.4	192.6	204.4	213.0	224.7	236.9	247.8	259.3	271.3	285.4	298.7	312.6	327.2
Government revenue	146.6	164.4	181.1	199.6	219.7	238.4	255.3	275.5	297.0	320.2	343.3	366.7	395.1
External debt service	26.2	27.4	25.7	24.1	27.6	27.1	28.7	30.6	31.1	30.2	30.7	29.6	28.9
CFAF/SDR (period average)	807.4	803.8	805.5	807.4	811.8	817.9	817.9	817.9	817.9	817.9	817.9	817.9	817.9
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

Source: IMF staff estimates and projections.

Table 7. Guinea-Bissau: Public Debt Holder Profile, 2022–24[1]

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In US$ million)	*(Percent of total debt)*	*(Percent of GDP)* [5]	*(In US$ million)*			*(Percent of GDP)*		
Total	1,387.0	100.0	80.4	129.7	177.8	130.7	7.5	9.0	6.1
External	676.4	48.8	39.2	13.9	43.5	45.1	0.8	2.2	2.1
Multilateral creditors[2]	541.8	39.1	31.4	10.9	39.7	41.1	0.6	2.0	1.9
IMF	40.5	2.9	2.3						
World Bank	190.6	13.7	11.0						
AfDB	53.8	3.9	3.1						
BOAD	205.6	14.8	11.9						
Other Multilaterals	51.3	3.7	3.0						
o/w: Islamic Development Bank	21.9	1.6	1.3						
BADEA	9.4	0.7	0.5						
Bilateral Creditors	134.6	9.7	7.8	3.0	3.8	4.0	0.2	0.2	0.2
Paris Club	9.8	0.7	0.6	0.3	0.5	1.3	0.0	0.0	0.1
o/w: Brazil	1.9	0.1	0.1						
Russia	1.5	0.1	0.1						
Non-Paris Club	124.8	9.0	7.2	2.7	3.3	2.7	0.2	0.2	0.1
o/w: Angola	49.1	3.5	2.8						
Kuwait	28.9	2.1	1.7						
Domestic	710.5	51.2	41.2	115.8	134.2	85.6	6.7	6.8	4.0
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	405.8	29.3	23.5	83.6	126.9	63.2	4.9	6.4	2.9
BCEAO	209.8	15.1	12.2	1.2	1.2	1.2	0.1	0.1	0.1
Loans local commercial banks[3]	75.2	5.4	4.4	20.3	4.4	4.4	1.2	0.2	0.2
Payment Arrears	19.7	1.4	1.1	10.7	1.7	16.7	0.6	0.1	0.8
Memo items:									
Collateralized debt[4]	0	0.0	0.0						
Contingent liabilities	32.2	2.3	1.9						
Public guarantees	32.2	2.3	1.9						
Nominal GDP	1,717.8			1,717.8	1,981.6	2,156.1			

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

2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor

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.

Table 8. Guinea-Bissau: Current Phasing and Proposed Schedule of Disbursements Under the ECF Arrangement, 2023–25

Available Date	Current Phasing		Proposed		Conditions for Disbursement
	In millions of SDR	In percent of Quota	In millions of SDR	In percent of Quota	
January 30, 2023	2.37	8.3	2.37	8.3	Executive Board approval of the three-year ECF arrangement.
April 17, 2023	2.37	8.3	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	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	6.16	21.7	Observance of the performance criteria for June 30, 2023 and completion of the third review under the arrangement.
January 17, 2024	2.37	8.3	6.16	21.7	Observance of the performance criteria for September 30, 2023 and completion of the fourth review under the arrangement.
April 17, 2024	2.37	8.3	6.15	21.7	Observance of the performance criteria for December 31, 2023 and completion of the fifth review under the arrangement.
October 17, 2024	4.73	16.7	4.73	16.7	Observance of the performance criteria for June 30, 2024 and completion of the sixth review under the arrangement.
April 17, 2025	4.73	16.7	4.73	16.7	Observance of the performance criteria for December 31, 2024 and completion of the seventh review under the arrangement.
October 17, 2025	4.72	16.7	4.72	16.7	Observance of the performance criteria for June 30, 2025 and completion of the eighth review under the arrangement.
Total Disbursements	**28.40**	**100.0**	**39.76**	**140.0**	

Source: IMF staff estimates and projections.

Annex I. Risk Assessment Matrix[1]

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
External Risks			
Intensification of regional conflicts. Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems. **Deepening geo-economic fragmentation.** Broader and deeper conflicts and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, 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 revenue 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.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. **Europe:** Intensifying fallout from the war in Ukraine, worsening energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns and housing market corrections. **China:** Greater-than-expected economic disruptions from COVID resurgence, rising geopolitical tensions, and/or a sharper-than-expected slowdown in the property sector disrupt economic activity. **EMDEs:** A new bout of global financial tightening, possibly combined with volatile commodity prices, leads to spiking risk premia, debt distress, widening of external imbalances, fiscal pressures, and sudden stops.	Medium	**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

(continued)

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
		External Risks	
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	**Medium**	**High / ST** • Increase in inflation, food insecurity and poverty. • Social unrest • Financial and monetary aggregates volatility	• Adjust fiscal policy to anchor expectations of economic agents. • Prioritize and target public spending towards the most vulnerable people. • Monitor macro-financial risks.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**High**	**High / ST** • Deterioration of fiscal position • Increase in inflation, food insecurity and poverty. • Social unrest • Delayed fiscal adjustment and structural reforms	• Create fiscal space through wage bill control, spending review and tax mobilization. • Prioritize and target public spending towards the most vulnerable people. Encourage diversification of the economy
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.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	**Medium**	**Medium / ST, MT** • Impact on public services that rely on digital infrastructure.	• Create contingent plans for cyberattacks • Assess the risk and impact of cyberattacks on public services.

surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
Domestic Risks			
Social discontent and political risks. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest and political tensions, and give rise to financing pressures and damaging populist policies. This exacerbates imbalances and slows growth.	**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.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks, causing markets dislocations. Domestic banking instability may also arise from high NPLs, and bank's undercapitalization.	**Medium**	**High / MT** • Limited credit extension hampers investment and growth. • Potential contingent liabilities adding to fiscal pressures.	• Enhance banking supervision and enforce prudential regulations. • Improve processes and procedures for collection of debts and collateral. • Create fiscal space to absorb financial shocks.
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.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing 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 II. Strengthening Social and Priority Sectors

Strengthening the health, education, justice, and agricultural sectors as well as promoting gender equality are crucial to overcome state fragility and attain the Sustainable Development Goals. While Guinea-Bissau has made progress in enhancing priority spending, there remains significant room for improvement in the outcomes of priority spending. Notably, outcomes could be enhanced with better allocation of spending in priority sectors, which has been crowded out by the wage bill.

1. **Strengthening the health, education, justice and agricultural sectors as well as promoting gender equality, are crucial for reducing poverty and inequality, enhancing food security, and bolstering long-term growth potential.**[1] Public spending on education and health can directly reduce market income inequality as well as promote growth, equity and efficiency, by enhancing human capital and productivity (IMF 2017). Investment in access to justice provides a vital channel towards better governance, by tackling local situations of corruption and injustice, closing the gap between formal and actual rights, and triggering legal and institutional change (OECD 2019). Moreover, investment in the agriculture sector is crucial for improving efficiency, productivity and income growth, and for reducing poverty, hunger and climate vulnerabilities (UN 2023 and IMF 2023). Reducing gender disparities in opportunities, outcomes, and decision-making roles raises economic growth and enhances macro-financial stability (IMF 2022).

2. **Against this backdrop, Guinea-Bissau has made progress in enhancing priority spending.** The IMF 2021-22 Staff Monitored Program (SMP) and the recently approved Extended Credit Facility (ECF) arrangement provided impetus to create fiscal space to protect priority spending in the Ministries of Health, Education and Women, Family and Social Cohesion.[2] Moreover, the government has established the Center for Access to Justice (CAJ), which has programs for supporting access of vulnerable populations to the judicial system. They will also improve access to legislation and judicial decisions and enhance population's understanding of the law through development of a CAJ's website, which includes a database of fundamental legislation and information for raising legal literacy and awareness (SB, end-March 2024).[3] To address food insecurity, the IMF is collaborating with the World Food Program to implement a feeding program for 150,000 school children combined with support to smallholder farmers associations to supply fresh food to schools and improve the agricultural diversification and productivity (Annex III).[4]

[1] Under the United Nations 2030 Agenda for Sustainable Development, strengthening priority spending in health, education, justice and agriculture sectors, and promoting gender equality are key thrusts for achieving the Sustainable Development Goals (SDGs) in good health and well-being (SDG 3), quality education (SDG 4), peace, justice and strong institutions (SDG 16), zero hunger (SDG 2) and gender equality (SDG 5) respectively.

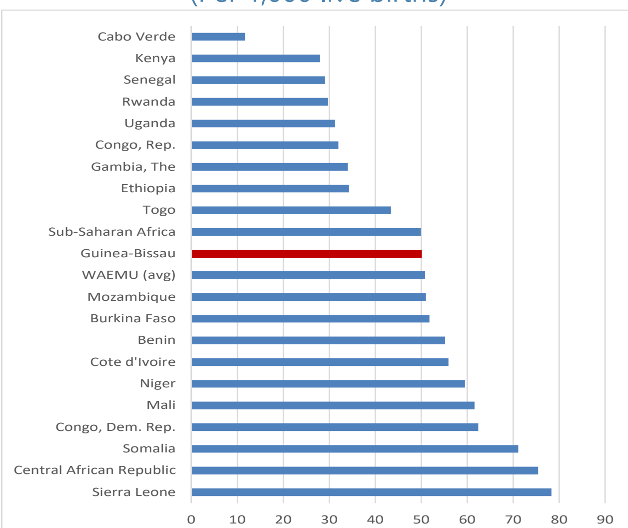
[2] The SMP and ECF respectively entail quantitative target and quantitative performance criteria on social and priority spending floor for the Ministries of Health, Education and Women Family and Social Cohesion. Over the medium-term, priority social spending is projected to increase by 0.6 percentage points of GDP compared to the average of pre-Covid-19 period.

[3] See IMF Country Report No. 23/328 MEFP section D.

[4] See 2022 Article IV Consultation and Third Review of the SMP (Box 1 and Annex VII).

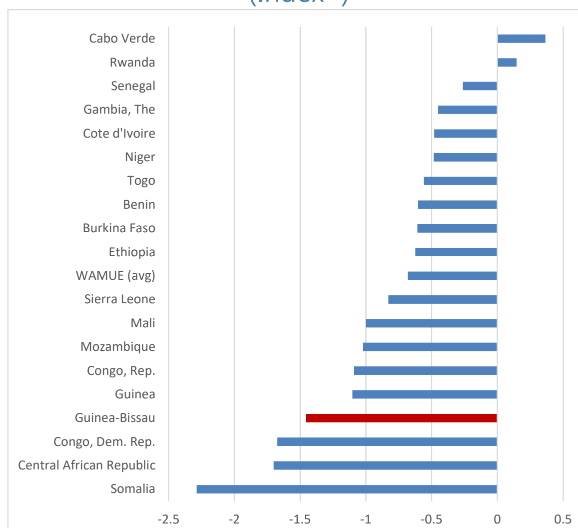
3. Nevertheless, there remains significant room for improvement in the outcomes of priority spending. In terms of health outcomes, while infant mortality rates in Guinea-Bissau are broadly on par with the WAEMU and Sub-Saharan African (SSA) averages, it significantly lags with respect to other low-income countries in SSA such as Cabo Verde, Kenya, Senegal and Rwanda (Annex II Figure 1). In education, the primary school completion rates in Guinea-Bissau are ranked at the bottom in SSA, and retention rates are estimated to be low amongst girls, and rural and poor populations (World Bank 2019). In the justice sector, the rule of law is also weak in Guinea-Bissau, as they lag behind WAEMU countries and peer leaders such as Cabo Verde, Rwanda, and Senegal (Annex II Figure 2). Food insecurity is high as 22 percent of the Guinea-Bissau population is in a food insecurity situation, and the country is ranked very poorly amongst other countries globally in the Global Hunger Index.[5]

Annex II. Figure 1. Infant Mortality Rate
(Per 1,000 live births)



Sources: World Bank Health Nutrition and Population Statistics, IMF staff estimates.

Annex II. Figure 2. Rule of Law
(Index 1/)



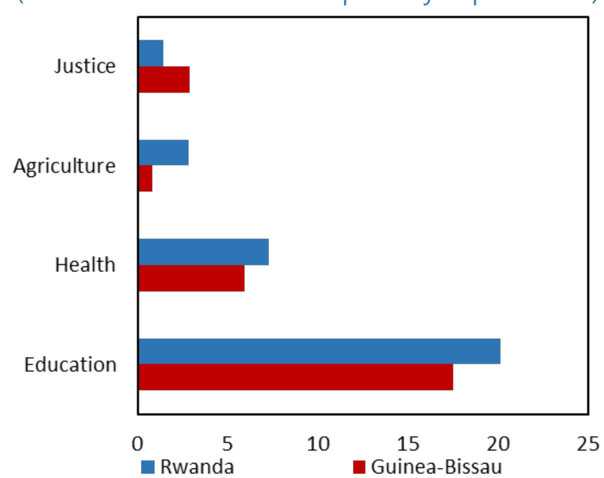
Sources: World Bank Worldwide Governance Indicators, IMF staff estimates.
1/ Scores range from -2.5 (weakest) to 2.5 (strongest).

4. Outcomes could be enhanced with better allocation of spending in priority sectors through strengthening of public financial management (PFM). In Guinea-Bissau, the 2023 budget allocation to the four priority sectors (education, health, agriculture, justice) is limited to 27 percent of total domestic primary expenditure. When compared with Rwanda, which exhibits better outcomes in health and education (Annex II Figures 1 and 2) and has more robust PFM systems and institutions, Guinea-Bissau's budget allocates less domestic primary resources to all these priority sectors, except for the justice sector (Annex II Figure 3). More importantly, composition of spending matters. In the budgets of these priority sectors, shares of the wage bill are much higher in Guinea-Bissau than in Rwanda (Annex II Figure 4). Especially in the education sector of Guinea-Bissau, the

[5] The Global Hunger Index (GHI) is a means of monitoring whether countries are achieving hunger-related SDGs. The index captures three dimensions of hunger: insufficient availability of food, shortfalls in the nutritional status of children and child mortality. In 2023, Guinea-Bissau was ranked 118 out of 125 countries in the GHI.

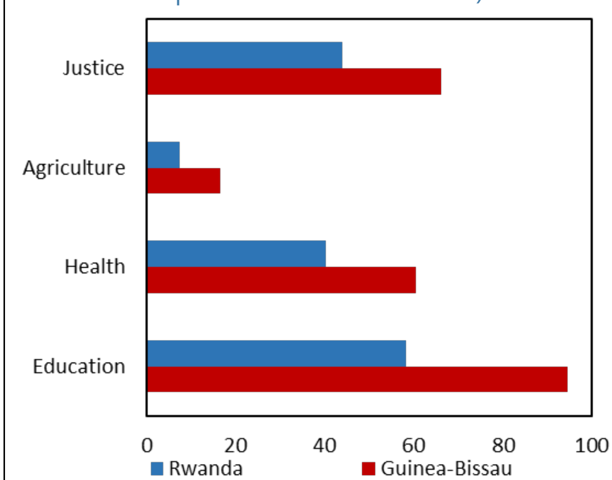
wage bill eats up 94 percent of the sector's domestic primary budget. The wage bill dominance would become worse during the budget execution, because low proportion of already-small non-wage budgets is typically executed in these sectors. Overwhelming resource allocations to the wage bill constrain essential spending such as training, provision of medicines, teaching materials and capital investment. The World Bank (2019, 2022) noted that the PFM in health and education sectors in Guinea-Bissau are weak. This underscores the importance of strengthening PFM and ensuring efficient budget allocation of priority sectors to protect essential non-wage spending while streamlining wage spending, which has been at a very high level and includes substantial inefficiencies, constraining capacity for public service deliveries.

Annex II. Figure 3. Share of Budget Allocation of Priority Sectors, FY2023-24 Budget
(Percent of total domestic primary expenditure)



Source: Staff calculations.

Annex II. Figure 4. Share of Wages, FY2023-24 Budget (Percent of domestic primary expenditure of each sector)



Source: Staff calculations.

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Annex III. Recent Projects for Agricultural Diversification

Agricultural input support is playing an important role in agricultural diversification in Guinea-Bissau. However, the government budget does not include sufficient resources for agricultural input support both in terms of the quantity and quality. Using recent experience from innovative projects from the World Food Program and the National Institute of Agricultural Research could support policy design.

1. **Support for agricultural inputs is essential for diversifying production and moving away from cashew monoculture.** In Guinea-Bissau, the agricultural sector has been focusing on cashew nuts and the area of food crop farms has decreased significantly over time. However, in 2023, declining cashew income and high food inflation have been driving subsistence farmers to increase domestic food production and substitute for expensive imported foods. Because farmers do not have sufficient stocks of seeds, development partners have provided substantial quantity of agricultural inputs, including 1,355 tons of rice seeds, 446 tons of vegetable seeds, and 1,540 tons of fertilizers. This support has played an important role in reviving subsistence farming and mitigating risks of food insecurity.

2. **The effectiveness of agricultural input support depends both on the quantity and the quality of the support.** Experience in other fragile states shows that the effectiveness of input subsidy programs is strongly influenced by their design and implementation (IMF 2023). In Guinea-Bissau, which is one of the pilot countries for collaboration between the World Food Program (WFP) and IMF, the following two projects have achieved an increase in agricultural productivity:

- **System of Rice Intensification (SRI) project of the WFP:** The SRI project uses improved agricultural practies that facilitate growth of rice plants with less inputs. The practies have been highly customized to Guinea-Bissau's local climate and environment[1]. The project results show that the SRI method drastically reduces use of seeds while doubles yield, improving productivity of seed inputs by 19-fold (Annex III Table 1);

Annex III. Table 1. Guinea-Bissau: Productivity of Rice Farms

Average of Six Sites in Guinea-Bissau

	Traditional	SRI
Seeds	60 kg/ha	6 kg/ha
Yield	2,000 kg/ha	3,740 kg/ha
Yield/seeds	33 kg/kg	623 kg/kg

Sources: World Food Program, staff calculations.

- **Seed suppport program of the National Institute of Agricultural Research (INPA):** With support of the WFP and other development partners, experimental farms of the INPA have been producing high quality seeds, which are distributed to subsistence farmers. Especially, the INPA has been persevering a stock of special seeds of mangrove rice, which has important share in Guinea-Bissau's food production. The INPA provides training of subsistence farmers for good practices and closely monitors the seed performance.

[1] Further details of the SRI practices in Guinea-Bissau are provided in the following websites of Cornell University (http://sri.ciifad.cornell.edu/countries/guineabissau/index.html) and IFAD (https://ioe.ifad.org/es/w/rice-based-production-systems-improved-in-guinea-bissau?p_l_back_url=%2Fen%2Fstories%3Fdelta%3D125%26start%3D1)

3. Guinea-Bissau's budget allocates little domestic resources to agricultural input support. In recent years, the INPA has not received any financing from the budget, except for wages. In absence of resources to purchase inputs and operate equipment, only 7 ha out of 141 ha of the INPA's main rice farms in Contuboel, central Guinea-Bissau have been cultivated and the rest abandoned. Expanding the experimental farms and securing resources for their operations are necessary to create a program for agricultural input support that can be sustained after donors leave the space. For example, only a small amount of resources (CFAF 24 million) is needed to expand the experimental farms by 30 ha, which can generate seeds enough to produce foods for 2,400 people, while providing direct subsidies of the same quantity of foods would have much higher fiscal costs (CFAF 100 million).

4. There are concerns about the quality of agriculture input support provided by some projects. For example, the government has been considering a major, externally financed project that was recently proposed to provide significant agricultural inputs, close to 1 percent of GDP. However, under this project proposal, each hectare of rice farms will receive excessive quantity of inputs, which, however, will cost much less than inputs that the INPA is using (Annex III, Table 2). This suggests that this project provide the excessive volume of low-quality inputs, which are likely to be unusable or damaging for agricultural production, while wasting very limited fiscal space. The government should undertake rigorous due diligence to weed out costly and ineffective project proposals.

Annex III. Table 2. Guinea-Bissau: Comparison of Agricultural Input Support Projects

	New Project	SRI/INPA
Seeds	133 kg/ha	6 kg/ha (SRI)
Input costs	CFAF 0.5 million/ha	CFAF 0.8 million/ha (INPA)

Source: Staff calculations.

References

IMF (2023), “Climate Challenges in Fragile and Conflict-Affected States”, IMF Staff Climate Note 2023/001.

Annex IV. 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 the governance area by providing the intermediate steps or the measures that will enhance the effectiveness of reforms, building on the findings from the 2020 Governance Diagnostic Assessment. Many measures included in the action plans are the continuation of reforms that have been implemented or initiated during the SMP (Annex IV 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; (i) the revenue administration; (ii) the public investment management; (iii) the AML/CFT and public procurement; and (iv) the anti-corruption and rule of law. The main reform objectives and priorities in each area are discussed in the following paragraphs.

2. Revenue administration and tax policy. The authorities will strengthen tax and customs administration based on action plans, which were developed with FAD CD support and have been endorsed in a ministerial order. 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. The action plans include 24 priority actions to be implemented between March 2023 and June 2025 (see Annex IV Table 2 for summary) and other actions specific to the implementation of the new VAT law. The authorities are also taking efforts to overhaul the tax framework, with FAD CD support.

3. Public Financial Management. For the fiscal risks management, the SOE Monitoring Unit was established, and the first SOE report was published in 2023. For the public investment management, The Ministry of Economy and Finance (MoEF) has 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, to maximize efficiency in public investments within the very limited fiscal space.

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 (Annex IV Table 3) intends to enhance AML/CFT effectiveness in the following areas: (i) operationalizing the Inter-Ministerial Committee presided by the Minister of Finance coordinating the implementation of the recommendations and the national AML/CFT policy by November 2023. The Committee will coordinate the implementation of the MER and national risk assessment (NRA) recommendations and the national AML/CFT policy; (ii) conducting a national risk assessment update that incorporates recommendations from the 2022 MER by end March 2024; (iii) publishing the national AML/CFT policy and finalize the action plan addressing the risks identified in the NRA and the MER key findings, which will be completed by June 2024; (iv) prepare the legal framework and an action plan for designating the CENTIF as the AML/CFT supervisor for non-financial businesses and professions (DNFBPs) starting with high-risk sectors and in line with the 2023 AML/CFT WAEMU law by end-December 2024. The government will resource the CENTIF accordingly to enable the institution to carry out its new role; and (v) 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. Authorities will seek Fund technical assistance to complete some of the above milestones. For public procurement transparency, the Directorate-General of Public Tenders (DGCP) will continue expanding the scope of beneficial ownership disclosure to a broader range of public contracts, which will be supported by publication of audit reports of State General Accounts (CGE) highlighting public contracts breaching the authorization by the DGCP and Audit Court.

5. **Anti-corruption and rule of law.** Advancing the anti-corruption and rule of law reforms remains a high priority for the government. In line with the authorities' commitments described in the program documents and with IMF technical assistance, those reforms will focus on (i) strengthening and operationalizing the asset declaration regime in line with international good practices, including the G-20 High Level Principles on asset disclosure by public officials; (ii) supporting the rule of law and access to justice and ensuring that the population have access to fundamental legislation and information on court fees and procedures free of charges; and (iii) updating where appropriate and implementing recommendations from the 2020 Governance Diagnostic Report.

Annex IV. 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

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

Area	Measures	Institutions Responsible	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	
	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
	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			
Public Investment Management	Establish a monthly reporting process for externally financed capital expenditure	MoE	X			
	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

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

Action	Milestones	Institutions Responsible	Dec-23	Mar-24	Jun-24	24-Dec	Jun-25
Enhance AML/CFT effectiveness	1. Operationalize the Inter-Ministerial Committee that will coordinate implementing the recommendations from the 2022 GIABA Mutual Evaluation Report (MER) and coordinating a national AML/CFT policy based on money laundering (ML) and terrorist financing (TF) issues at the policy level.	Minister of Finance/CENTIF	x				
	2. Council of Minister to approve and submit to Parliament the 2023 uniform law relating to AML/CFT in WAEMU Member States.	Minister of Finance/CENTIF	x				
	3. Conduct a national risk assessment that incorporates the recommendations from the 2022 MER or supplement it with a thematic/sectoral risk assessment focusing on high-risk areas.	CENTIF		x			
	4. Publish a national AML/CFT policy and finalize AML/CFT action plan addressing the recommendations from the MER key findings.	CENTIF			x		
	5. Prepare the legal framework and an action plan designating CENTIF as the supervisor for non-financial businesses and professions (DNFBPs) starting with high-risk sectors and in line with 2023 AML/CFT WAEMU law.	CENTIF				x	
Improve transparency of the public procurement system	Publish procurement contracts and BO information on the website of the General Directorate of Public Tenders.	DGCP	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		

Appendix I. Letter of Intent

Bissau, November 10, 2023

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

Dear Ms. Georgieva,

I am delighted to inform you that Guinea-Bissau held peaceful and transparent elections on June 4, 2023. They took place against a backdrop of a long history of political instability which has included 18 coups and coup attempts, while the WAEMU region is facing a challenging political and security situation. Since its appointment in August 2023, the new government has been brought up to full speed with the mandate to address dire needs of Guinea Bissau's population.

As mentioned in an earlier letter to you, we will do all we can to achieve the objectives of our program under the Extended Credit Facility (ECF) arrangement. The government is fully committed to sustaining fiscal consolidation, improving governance and transparency, and overcoming challenges in the energy and financial sectors. The policies and reforms under the ECF supported program have been implemented through our collective national efforts, as demonstrated by the successful completion of the first and second reviews.

I am pleased to report our performance at the third review. We met four out of eight quantitative performance criteria (QPC) for end-June 2023. Because the government worked tirelessly to contain the wage bill and mobilize tax revenue, the targets were missed by relatively small margins, despite extremely difficult external and domestic environments. Furthermore, the government has taken corrective actions to mobilize additional revenue, strengthen expenditure controls, and ensure timely debt service payments. These actions will keep us on track with the program objectives. Since the second review, we have also met or completed three structural benchmarks (SBs) and continue to push for structural reforms. On this basis, we request waivers for the non-observance of the four missed QPCs for end-June 2023.

Since the second review, the country has faced a considerable economic shock. Disappointing cashew exports have severely affected farmers' income and many vulnerable households are facing a dire situation, including severe food insecurity, fueled by soaring inflation on essential staple foods, particularly rice. The government is making targeted interventions to tackle high food prices and provide to the population the tools to diversify agricultural crops to reduce its dependance on cashew nuts. While these actions will help meeting essential needs of population, external shocks outside of our control have undermined the country's external position. To secure financial resources to cover the near-term balance of payment needs, we request an augmentation of access under the ECF arrangement by SDR 11.36 million (40 percent of quota). To get through this crisis, we cannot stress enough our need for support from all other development partners which we hope will come forward soon with the implementation of our ambitious reform program.

Regardless of the severe economic shock, we remain committed to achieving a fiscal consolidation and reducing a high level of public debt in the short term. In November 2023, Parliament will approve the 2023 budget which includes a significant improvement in the fiscal deficit with respect to 2022, consistent with the program parameters. With a series of corrective actions, especially to rationalize non-priority expenditure to the full extent, we will meet the agreed targets for December 2023, only with a revision to the domestic primary balance target, because the overspending made between April and July 2023 cannot be fully addressed by corrective actions. Accordingly, we request modification of the QPC on the floor for a domestic primary balance for December 2023.

Governance reforms are at the heart of the government's agenda. We will scale up reforms to fight against corruption, strengthen the AML/CFT effectiveness, and improve the rule of law and the state property management. We will also complete the RCF's governance safeguards on COVID-19 spending and continue improving beneficial ownership transparency and external audits. The IMF technical assistance would be essential to achieve these reforms. The recommendations of the 2020 Governance Diagnostic report are providing important guidance on these reforms.

The government believes that the measures and policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP), on which we reached understandings with the IMF staff during the mission between September 20 - October 3, 2023, are appropriate and sufficient to secure program objectives. We stand ready to take the additional measures necessary to meet the objectives of the program and will consult with the IMF in advance of any revision of the policies contained in this letter and MEFP. We will provide timely information for monitoring development of economy and policy implementation, as agreed under the attached Technical Memorandum of Understanding, or upon staff request.

We hereby request the completion of the third review under the ECF arrangement and the financing assurances review, and the disbursement of SDR 6.16 million and agree to the publication of this letter and its attachments, as well as the related staff report, on the IMF's website.

Yours sincerely,

/s/
Suleimane Seidi

Minister of Economy and Finance
Guinea-Bissau

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

Attachment I. Memorandum of Economic and Financial Policies

Recent Development and Program Performance

A. Introduction

1. Guinea-Bissau's reform commitments under the IMF-supported program will create a critical window of opportunity to boost inclusive growth and poverty reduction. Our objectives and policies for growth and poverty reduction are described in the National Development Plan (PND). The existing PND was approved at the onset of the COVID-19 pandemic in 2020 and has been extended until the mid-2024, to have sufficient time to prepare the next PND. The program under the Extended Credit Facility (ECF) arrangement supports these objectives and policies. The engagement through the ECF supported program has been essential to build a reform momentum and catalyze highly concessional financing for meeting the long-waited development needs and fostering the macroeconomic stability and sustainable growth.

2. The new government is committed to the program objectives, but the country has been affected by a severe external shock. As demonstrated during the last two successfully completed reviews, we have made significant progress in implementing reforms under the ECF supported program. The new government remains resolute in delivering a fiscal consolidation, securing debt sustainability, and improving governance. However, disappointing cashew exports have severely undermined the near-term outlook. Because of the surge of international rice prices, the vulnerable households are facing dire conditions including heightened food insecurity, which requires the government's actions at least until the next agricultural season provides better crop yields. Support from the ECF arrangement is now critical more than ever to protect our vulnerable households.

B. Economic Development and Outlook

3. Growth is projected to be slower than expected for 2023, while inflation remains high. In 2023, the growth is projected to be 4.2 percent, at around the same rate as in 2022. The cashew export volume is unlikely to recover from last year when it experienced a disappointing campaign. It will be partially compensated by an increase in subsistence farming, which has been supported by good rainfall and high private investment, including in the energy sector. In the first half of 2023, CPI inflation was high, reaching 9.9 percent on average. With the government's measures to address high food prices, inflation is projected to be decreased to around 2 percent in the medium-term.

4. Projected external imbalances are larger than anticipated in 2023. With a significant drop of international cashew prices, which reduced an already thin margin in raw cashew nuts, producers and exporters began the export campaign preparation with a large delay. The export value for 2023 will be much smaller than we expected before the beginning of the campaign.

This external shock will widen the current account deficit, which is projected to be -8.9 percent of

GDP for 2023. Moreover, financing is severely constrained by tightening of regional financing conditions, which has sharply raised interest rates of Treasury securities and shortened average maturities.

5. In the medium-term, growth is expected to increase to around 5 percent, while an external balance to improve gradually. The medium-term growth will be supported by robust fiscal policy, which will allocate more resources to pro-growth expenditure, and ambitious governance reforms, which will improve business environment, mobilize additional financing, and boost private and public investments. While the current account deficit will remain large in 2024, the normalization of cashew export and better terms of trade will gradually reduce it in the medium-term.

C. Program Performance

6. We met four out of eight quantitative performance criteria (QPC) for June 2023 (Table 1). The floor on tax revenue was missed by CFAF 4.3 billion due to lower-than-expected cashew related revenue. The ceiling on the wage bill was missed by CFAF 1.9 billion because of lower-than-expected savings from the census of public workers in 2022. The floor on a domestic primary balance was missed by CFAF 28.0 billion, because of significant overrun of non-wage expenditure. While this includes one-off transfer to the public utility company (CFAF 5.2 billion) and election related costs (CFAF 2.2 billion), a significant part of the overrun was due to surge of discretionary spendings including presidential travel expenses and purchases of security equipment. The government is implementing a series of corrective actions described in ¶9-11 for these missed QPCs. The ceiling on external arrears was missed by CFAF 0.6 billion because of a late payment of external debt service, which has been already paid. For this QPC, we have taken a corrective measure by issuing a ministerial order to prioritize external debt service.

7. Two out of three structural benchmarks (SB) for June 2023 have been met. We request to postpone the approval of the medium-term staffing plan until March 2024 to align it with the 2024 budget. But we continue to show our commitment to the reform agenda by implementing SBs ahead of the deadline and since the second review, we have met two SBs for September and December 2023 and completed another SB for September 2023 with slight delay. Unfortunately, we did not meet a continuous SB on external debt service for September 2023. On the continuous SB on the Technical Committee of Arbitration of Budgetary Expenditure (COTADO), it resumed the activities in September 2023 after the formation of the new government and it has been meeting regularly since then.

Economic and Financial Policies

D. Fiscal Policy and Reforms

Supporting Fiscal Consolidation

8. The domestic primary deficit for 2023 will widen because of emergency interventions to offset food prices in key food staples and the overrun until July that cannot be fully compensated by corrective actions. Because of the recent legislative elections, the budget for 2023 will be approved by the Parliament in November (prior action) and the target for the domestic primary deficit has been widened to CFAF 25.5 billion. The government has provided CFAF 1.8 billion price subsidy for 26,000 tonnes of rice, which is equivalent to about three months of rice imports. Since the formation of the new government, we have been rationalizing non-priority expenditure until the margin to reduce further discretionary spending has been exhausted. Moreover, because the government has delayed the completion of the 5G licensing sale round until 2024, part of overrun until July cannot be compensated through expenditure rationalization. As described below, we have taken corrective actions to raise additional revenue and outperform the QPC on tax revenue. We continue to tighten the wage bill control through a strict no new hiring policy and the new census of public workers to keep the wage bill ceiling unchanged. We will submit to Parliament the draft 2024 budget prepared in line with the program parameters (SB, end of December 2023).

9. We will accelerate reforms for domestic revenue mobilization through the following actions:

- **The professionalization of the Directorate-General of Duties and Taxes (DGCI):** There has been good progress in revenue administration reform. The tax collection has outperformed the target by CFAF 1.3 billion through June, excluding cashew-related taxes. To solidify the professionalization of the DGCI, the managers will be evaluated based on performance indicators and quantitative targets (SB, end of June 2024). Moreover, appointments to service commissions will be made through an internal competition process in accordance with the Decree-Law No. 8/2012, of October 19, which approves the Human Resources Statute. To make possible the public tenders, a redeployment plan will be prepared by the Minister of Finance to reallocate these existing unqualified managers to other positions outside the DGCI (SB, reprogrammed to end-December 2024). We will also issue a streamlined policy for incentive payments to gradually introduce performance-based incentives in 2024.

- **Improvements to taxpayer compliance:** Lack of taxpayers' voluntary compliance has been posing challenges for revenue mobilization. To improve compliance of 149 large taxpayers, we will undertake tax audits of 25 large taxpayers selected on a risk basis, focusing on divergence of amounts of IGV paid at customs and included in tax returns during 12 months from October 2023 (SB, end-September 2024).

- **Implementation of the new VAT Law:** We have ratified the ministerial order on the revenue reform action plan, which describes detailed actions to implement the new VAT Law. To implement the priority action in the short-term, we will secure funding for taxpayers' VAT training.

- **Streamlining of tax exemptions:** We have submitted the revised law on the general exemption regime to Parliament. In recent years, a cement company accounted for around a half of total tax exemptions granted to private sector beneficiaries for imported goods. We will submit to the

Cabinet a report that assesses the compliance of the cement company's exemptions with the WAEMU regional legislation, taking into account the WAEMU Commission's decision to ban similar exemptions given to cement companies in Senegal.

- **Mobilization of 5G license fees:** After the election, the new government is re-assessing progress in the negotiation for the sale of 5G licenses. We will continue to balance revenue mobilization needs and preventing the failure of the licensing sale round, as it happened during the 3G licensing sale process. However, the collection of 5G license fees is likely to be delayed until mid-2024, when the National Regulatory Authority (NRA) is expected to establish the license fee schedule.

- **Other reforms:** We will ask Parliament to include in the agenda approval of the new Customs Code, which is important for modernization of customs administration. In the medium-term, we will submit to Parliament the revised income tax and stamp duties bills (SB, end-June 2025). We will also prepare an action plan to improve the fiscal regime for natural resource management (SB, end-June 2024).

10. We will continue strengthening wage bill controls. To achieve the QPC for December 2023, we will strictly adhere to the total freezing of new hiring and capping of salaries, and maintaining streamlined advisor positions, which were reduced by 51 people in 2022. However, the appeal process of the 2022 census of public workers resulted in reinstatement of about 1,500 workers. To compensate this increase in the wage bill, we will undertake a new census of public workers in the Ministries of Education, Health, Interior, Justice, and Economy and Finance, which will be completed in March 2024. To improve the effectiveness of the new census, we will issue a joint order of the Ministry of Economy and Finance (MoEF) and the Ministry of Public Administration (MoPA) to set out the terms of reference of the census process, prepared in accordance with IMF staff advice (SB, end-December 2023). Because the results of the 2022 census were insufficiently validated by a small number of MoPA staff, the results of the new census will be validated by each line ministry and signed by each of the line ministers. To monitor attendance of employees, a biometric control system connected to the payroll system has been installed at the MoEF. We will begin the pilot by requiring all employees of the MoEF to record their attendance in the biometric device. If the pilot results are found effective, we will roll out the same biometric devices to other four ministries that participated in the 2023 census. The IMF-supported blockchain project will complete the pilot phase at the MoEF and MoPA in December 2023 and be rolled out to other ministries in 2024. We will ultimately develop the integrated human resource management system.

11. We are taking corrective actions to strengthen controls of, and transparency in, all non-wage expenditure. The priority actions in this area are as follows:

- **Institutionalization of the COTADO:** The overrun of non-wage spending until July 2023 was largely due to discontinuation of the COTADO, which is the central institution for expenditure controls. It has resumed the activities and minimized discretionary spending since September 2023. To prevent the COTADO from being discontinued again, we will issue a Prime Minister's order to (i) require the COTADO's decision to be monitored and endorsed by the Prime Minister permanently; (ii) submit to the Prime Minister a quarterly report of expenditure approved by the COTADO; and (iii) prohibit payments of all non-wage expenditure unless it has been approved by the COTADO and registered by the DGO in the SIGFIP (SB, end-March 2024). We will implement this Prime Minister's order by ensuring that all commitments of discretionary expenditure are approved by the COTADO, and its decision is scrutinized by the Prime Minister on an ex-post basis (continuous SB, replacing the existing continuous SB).

- **Publication of the Other Common Expenditure Report and State General Accounts:** The overrun until July was mostly accounted for in the "other common expenditure" category, which provides little information on actual use of resources. To ensure transparency, we will publish a report that includes (i) economic and administrative classifications of all "other common expenditure"; and (ii) explanations of largest expenditures made for force majeure, sovereign, and similar purposes (SB, end-March 2024). We will also prepare and send the State General Accounts for 2022 and 2023 to the National Assembly and the Audit Court, including detailed information on other common expenses.

- **Reintroduction of systemic commitment controls:** The reintroduction of systemic commitment controls, which used to exist but were discontinued in 2018, is critical to expand controls to all expenditure. As the first step, we will require the approval by the Ministry of Finance (MoEF) of public contracts for all purchases of four key food items (rice, cooking oil, meat, and fish) and fuel, which comprise important part of goods and service expenditure but are currently purchased without contracts (SB, end-March 2024). Subsequently, we will expand this requirement to a purchase of medicines and laboratory materials.

12. We will develop a policy to support subsistence farmers. Most of our vulnerable households are subsistence farmers in rural areas, which comprise around 60 percent of total population. In the 2024 budget, we will implement the following programs for agricultural diversification and social protection.

- **Agricultural input subsidy program through experimental farms:** In 2023, in response to shocks to cashew export and high prices of imported foods, the Ministry of Agriculture provided, through development partners, support for seeds, fertilizers, and equipment which was essential to revive farming of staple foods and prevent food insecurity. In particular, the experimental farms of the National Institute of Agricultural Research (INPA) and other entities also provided seeds with good quality to subsistence farmers and trained them for good practices. Based on this experience, we will expand the experimental farms of the INPA by 30 ha, which could provide seeds for food crops to feed more than 2,000 people for a year at the costs four times less than providing food directly.

- **School feeding from domestic agricultural products:** With support of the World Food Program (WFP) and other partners, the government is implementing a project for the food system transformation, which establishes linkages between smallholder farmers and local markets. This project has been achieving multiple objectives of improving agricultural diversification, social protection, and food security. Based on this experience, with support of the

WFP, the government will implement a school feeding project, which provides agricultural input and training to smallholder farmers and purchases their agricultural products for school feeding. This will aim at improving not only agricultural productivity and farmers' income but also access to education and children's health.

- **Program for monitoring of cashew producer prices:** In 2023, the impact of low levels cashew exports on rural population was amplified by a sharp drop of cashew producer prices. While the law fixed producer price at CFAF 375 per kg, it fell to CFAF 215 per kg on average, because intermediaries created a fire-sale environment by taking advantage of the delay in export process. To protect farmers better, we will develop a mechanism to monitor and publish cashew producer prices in different localities for the campaign in 2024.

13. We will ensure safeguarding of social and priority spending during the fiscal consolidation process. Over the medium-term, priority social spending is projected to increase by 0.6 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 strengthen public investment management, progress has been made in the creation of an Excel-based medium-term Public Investment Project (PIP) database and centralization of all quantitative information included in the *Fichas de Projeto* (SB, end-December 2023). To incorporate the critical data in the PIP database, we have constructed the online system for monthly reporting of externally financed capital expenditure, which is being piloted in 30 top projects in accordance with the ministerial order.

Mitigating Fiscal Risks

14. There has been progress in increasing revenue of *Electricidade e Aguas da Guinea-Bissau* (EAGB). EAGB's deteriorated financial situation endangered the provision of power supply to Guinea-Bissau. Because of accumulated unpaid invoices, Karpower cut the power supply for two days in October 2023, which posed very high risks to the economic and social stability. The government has provided CFAF 5.2 billion of transfers to EAGB in April, May, and October 2023 to clear these invoices and get back the power. We have agreed with Karpower to pay the remaining invoices from a concessional project loan. Fiscal risks have been mitigated through the installation of 32,700 pre-paid meters just in five months. These pre-paid meters have increased EAGB's monthly revenue from CFAF 1.5 billion to CFAF 1.9 billion, close to the target of CFAF 2.0 billion. EAGB has been staying current in payments to Karpower since April 2023. After completing installation of 35,000 pre-paid meters (SB, end-December 2023), we will install additional 40,000 pre-paid meters to cover the vast majority of residential clients by the end of 2024. For large clients, with which pre-paid meters cannot be installed, we will take actions to collect tariffs arrears.

15. The transition to diversified sources of power will restore EAGB's financial viability in the short-term. The OMVG project, which will connect Bissau to a hydropower plant in Guinea-Conakry, is nearly completed, with 196 km out of 218 km of transmission lines constructed to date. Because the hydropower plant has capacity enough to cover the power use of Bissau throughout the year, we will be able to terminate the power supply from Karpower when electricity from the OMVG arrives. However, it will be necessary to have a transitional period, during which both power supply from the OMVG and Karpower will be maintained, because the transmission line that connects the OMVG's terminal to central Bissau is yet to be completed under the Ring Line project. During this period, EAGB will pay, in addition to Karpower's invoices, the OMVG's capital costs, which will be around CFAF 0.3 billion per month and can be met from the additional revenue from the installation of pre-paid meters. We will analyze legal risks in terminating the power supply from Karpower, which in any case, will no longer be the largest risk of total blackout in Bissau. By the end of 2023, the Minister of Economy and Finance will approve EAGB's transition plan which specifies technical, financial, and legal actions to be completed before terminating the power supply from Karpower in mid-2024. After completing this transition, we will prepare a strategic plan to ensure financial viability of EAGB in the medium to long-term (SB, reprogrammed to end-December 2024).

16. Completing the Ring Line Project is crucial to diversify sources of power. The Ring Line Project is building a circular transmission line around Bissau. While it began in 2015, this project remains far from completion. In particular, a transmission line between Antula substation, which is the OMVG's terminal, and Central substation, from which all distribution lines begin, is essential to connect electricity from the OMVG to Bissau but is yet to be completed. We have serious concerns quality and security concerns on the partially completed line. To complete this critical infrastructure as soon as possible while meeting quality standards, we will submit to the Prime Minister and publish a report that (i) calibrates negative economic and financial impact of delay in the Ring Line Project; (ii) presents the testing and inspection results of the Antula-Central line; and (iii) specifies remedial works that the contractor should undertake (SB, end-March 2024). In the remaining part of the Ring Line Project, it is also essential to connect to the Bor thermal powerplant, which will be an important backup source of power, and expand the distribution grid outside central Bissau. EAGB will strengthen day-to-day oversight of the contractors to complete the entire Ring Line by the end of 2024.

17. The government will audit the 2020 addendums to the Karpower contract. The addendums made in 2020 increase the capacity from 30MW to 70MW until the end 2025, which is beyond the country's current and future electricity needs. The Audit Court will complete and publish an audit report of EAGB's power purchase agreement and its addendums (SB, end-December 2023).

18. We will continue to improve EAGB's management and operations. After expiration of the contract with a Portuguese consortium in June 2023, new management has been selected with the support of the World Bank, which is also providing support to revamp EAGB's operations and enhance the performance of the overall electricity sector.

Improving Treasury Management

19. Strengthening the cash management and implementation of the Treasury Single Account (TSA) will continue to be the key priorities. Based on the government bank account census results completed in April 2023, we have frozen bank accounts of line ministries that have negative balances. The General Finance Inspectorate will undertake inspection of these accounts to clarify the responsibilities for making overdraft, which is not allowed for line ministries. Afterwards, the accounts will be closed, and the balances will be repaid. Going forward, the MoEF will pay all budgetary expenditure, particularly wages, from the TSA (SB, end-June 2024). To enhance cash management function, we will revise cash forecasting methodologies and processes (SB, end-June 2025). We will also continue strengthening coordination with other ministries that collect non-tax revenue. 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 (SB, end-December 2023, replacing the existing SB).

Mitigating Debt Vulnerabilities

20. The government will mitigate debt vulnerabilities through a sustained fiscal consolidation and prudent borrowing policy. In 2022, total public and external debt of Guinea-Bissau is estimated to be 80.4 percent and 39.2 percent of GDP, respectively. The share of credits from the Fund, World Bank, and African Development Bank in total external public debt is estimated at 42 percent in 2022. While the share of all multilateral creditors in total external public debt is relatively high (80 percent in 2022), 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)[1], total public debt and external debt will decline steadily to 65.7 percent and 25.9 percent of GDP, respectively, by 2028.

21. The government is committed to clearing part of outstanding domestic arrears. 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.

22. The government remains committed to solving all legacy external arrears and avoiding 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. Since November 2021, requests have been sent to Pakistan to attempt resolving remaining external arrears.

23. The government will continue strengthening debt management. We are improving our debt service payment operations by implementing the ministerial order that attributes clearly the roles and responsibilities of the authorities involved in the process. However, during the transition to the new MoEF management after the election, there was a gap in implementation of the ministerial order. We will strictly implement the ministerial order to prevent recurrence of delay in external debt services. 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

[1] BOAD recently changed the terms of this facility to make it fully concessional for Guinea Bissau.

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.

24. The government will contract external debt only on highly concessional terms. To ensure that the risk of debt stress remains manageable, the government is committed not to contract non-concessional external loans. The government will consult with the IMF on evaluation of the financial terms of new proposed loans.

E. Governance and Rule of Law Reforms

25. 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 on 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. In addition to the issuance of the implementing guidelines, we have been holding a series of training sessions to publicize the new decree to suppliers and procurement officers in ministries. We will enforce the DGCP's prior authorization of public procurement and contracts for discretionary expenditure, including direct purchases and emergency expenditure, through the DGCP's participation of the COTADO.

26. The government is committed to completing external audits, which are an essential oversight 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 independent third-party auditor has 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. The government published the audit response letter where we expressed our commitments to implementing the recommendations of the independent auditor. The Audit Court has completed an external audit of the High Commissioner for COVID-19 and will publish the audit report (Prior Action). Subsequently, the Audit Court is undertaking an external audit of all COVID-19 related spending where the results of the independent third-party audit are used as technical inputs. The Ministry of Finance has requested an audit of the irregular hiring process in 2021-22, which the Audit Court will plan to complete in 2023.

27. We will take further actions to enhance 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. To address the February 2022 GIABA MER, we will operationalize the Inter-Ministerial Committee presided by the Minister of Finance coordinating the implementation of the MER and national risk assessment (NRA) recommendations and the national AML/CFT policy by November 2023. To conform with regional standards, the Council of Ministers will approve and submit to Parliament the 2023 uniform law relating to AML/CFT in WAEMU Member States by end-December 2023. In this regard, the government will: (i) conduct a national risk assessment that incorporates recommendations from the 2022 MER by end March 2024; (ii) publish the national AML/CFT policy and action plan addressing the risks identified in the NRA and the MER key findings, which will be completed by June 2024; and (iii) prepare the legal framework and an action plan designating the CENTIF as the AML/CFT supervisor for non-financial businesses and professions (DNFBPs) starting with high-risk sectors and in line with the 2023 AML/CFT WAEMU law by December 2024. The government will resource the CENTIF accordingly to enable the institution to carry out its new role. We will also require 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 beneficial ownership identification form similar to the one submitted as part of the tender process by June 2024. We will seek Fund technical assistance to complete some of the above milestones.

28. 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 have resubmitted to Parliament the law that reforms the asset declaration regime with the broader coverage and strengthened enforcement. The law will be in line with the G20 High Level Principles and assign the responsibilities of the depository to the Supreme Justice Court, given that the existing Supreme Anti-Corruption Inspectorate is not functioning as envisaged. All members of the new government have made the asset declarations, which are deposited with the Secretary-General of Government according to the existing law and will be transferred to a new depository once the new law is approved. The Supreme Justice Court will establish a unit responsible for implementing the new law as the depository in 2024. We will provide sufficient resources to cover operations of this unit from the 2024 budget. This unit will issue the guidelines for submission and publication of asset declarations, including their formats, by end-2024. Enhancing the independence and capacity of the anti-corruption institutions, including the Judicial Police and Prosecutor’s Office will be essential to ensure the effectiveness of the anti-corruption framework. Starting in 2024, we will establish decentralized units of the Judicial Police, which currently does not have a base outside Bissau and is facing severe constraints in tackling corruption cases in the regions outside Bissau. In 2024, we will also submit a package of legislation to strengthen independence of the Supreme Court Judges and Prosecutor-General through the improved nomination process and develop the legal framework for asset recovery and cooperation in economic crime investigations. In 2025, we will update a national anti-corruption strategy based on the diagnosis of corruption risks. This strategy will prioritize legal and other reforms and inform medium-term resource planning of these institutions.

29. We will take urgent actions to support the judicial sector which has been severely under-resourced and faces existential risks. The sector in Guinea-Bissau is severely constrained because of limited financial resources. Several regional courts, including those in Safim, Catio, Pirada, Xitole, Babuque, and many other towns, have closed because of lack of rent payments or magistrates, or both. To turn around this dire situation, we will urgently construct three Houses of Justice which accommodate regional courts, Identity Services, and all other justice-related services by the end 2024. If this model is found effective, we will roll out construction of Houses of Justice to other towns in the medium-term.

30. We will push for reforms to improve the rule of law and market regulations. 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 vulnerable population, the government will construct buildings for the CAJ in Bubaque and Catio, which are in two remaining provinces that do not have the CAJ by the end 2024. We will also continue to provide financial resources to meet operational costs without delay. We will improve access to legislation and judicial decisions and enhance population's understanding of the law through development of a CAJ's website which includes a database of fundamental legislation and information for raising legal literacy and awareness (SB, end-March 2024). This website will aim to ensure easy access to legislation by the public for free of charges, as in case of all services provided by the CAJ. 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 transparency in beneficial ownership disclosures, by December 2023, we will prepare the strategic plan to ensure the financial sustainability of the CFE, which is yet to have resources needed to complete digitalization of the companies' register.

31. We will accelerate reforms of the state property management. There have been significant weaknesses in management of state property, which have significantly increased risks of misuse. Many government houses are occupied by former public servants, who have continued to live in houses without rental payments after the end of their terms (*casas avaliadas sem pagamento*). Also, many government vehicles have been unused or disposed for private use and free of charge. We stepped up efforts to strengthen the state property management. In March 2023, the government approved the decree to transpose the WAEMU Directive on the State Property Management. To implement this new legal framework, we will issue regulations that will replace outdated provisions of the existing legislation dating back to the colonial period by June 2024. The Ministry of Public Works, jointly with the National Secretariat of State Property (SNPE), are undertaking inspection of all *casas avaliadas sem pagamento* to assess their conditions, evaluate their market values, and compare with the valuations included in the register, which are likely to be significantly underestimated (SB, end-December 2023). By the end 2023, the Inspector-General of Finance, jointly with the SNPE, will also undertake inspection of major ministries to identify unused or misused government vehicles, which will be recovered by the MoEF and reallocated to other government entities that need additional vehicles. We are also exploring technological solutions to keep track of movement of government vehicles and detect their misuse.

F. Financial Sector Reforms

32. 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 recapitalize the institution to comply with regulatory standards. The due diligence process has been successfully completed, and the investor has reiterated its interest in the purchase to the new government. The government has agreed on the final terms of the agreement, which will subsequently be submitted to the Regional Banking Commission for evaluation after the approval at the bank's Shareholders Meeting. In case the operation does not materialize, the government remains commited to a new SB to request an assessment of the bank's financial position and a full independent audit of the loan portfolio including NPLs from a third-party auditing firm and to prepare a report on a viable plan which ensures that the bank is either recapitalized or resolved or liquidated by the end of the program based on the IMF recommendations.

G. Statistics Reforms

33. **The government is committed to enhancing the National Statistical Institute (INE) and improving national accounts.** Addressing the long delays in publication of national accounts, we will publish the national accounts for 2019 and 2020 by December 2023. We will establish a committee between the INE, MoEF (Directorate-General of Forecasts and Economic Study), and BCEAO which will validate national accounts data before their publication to improve the quality of national accounts. To strengthen the institutional capacity of the INE, we approved a decree that enhances the organizational structure and human and technological resources of the INE. In 2024, the government will begin increasing human resources of the INE as envisaged in the decree, particularly in its national accounts directorate, which currently has only two staff.

34. **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.

H. Risks and Contingencies

35. **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, tighter financial conditions in the regional market, and geopolitical tensions which could impact food and oil prices and donor support. A further tightening of regional financial conditions and worsening of debt risks would constrain access to financing. Fiscal risks in SOEs and the undercapitalized bank could 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 and requests for additional support from development partners.

I. Program Design, Financing and Monitoring

36. The program monitoring and coordination will be made through the MoEF. To ensure coordinated implementation of the program, the MoEF 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 MoEF will provide oversight responsibility to ensure that public spending complies with budget limits.

37. The program will be monitored by the IMF Executive Board. Assessment will be on a quarterly basis until December 2023 and thereafter on a semi-annual basis using bi-annual performance criteria (end-June and end-December) and continuous performance criteria throughout the program period 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. To this end, the government plans to:

i. Refrain entering or guaranteeing 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 ¶8;

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) impose 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) impose 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.

38. There are firm commitments to financing for the next 12 months following the third review with good prospects for the remainder of the program period. We expect additional budget support from other development partners including from the World Bank and the African Development Bank over the program period.

39. 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.

Table 1. Guinea-Bissau: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) Under the ECF, 2023-24

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

	2023									2024		
	Mar			Jun			Sep	Dec		Mar	Jun	Sep
	QPC	Prel.	Status	QPC	Prel.	Status	QPC	QPC	Revised	IT	QPC	IT
Total domestic tax revenue (floor)	21.4	21.1	not met	53.8	49.5	not met	87.1	113.7	113.7	24.3	61.2	99.1
Wages and salaries (ceiling)	14.3	14.9	not met	27.8	29.6	not met	41.8	59.0	59.0	15.1	29.5	44.3
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US$ millions)[1,2]	0.0	0.0	met	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0
New external payment arrears (US$ millions, ceiling)[1]	0.0	0.0	met	0.0	0.6	not met	0.0	0.0	0.0	0.0	0.0	0.0
New domestic arrears (ceiling)	0.0	0.0	met	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0
Social and priority spending (floor)[3]	12.5	12.7	met	26.0	28.1	met	38.8	51.6	51.6	13.5	28.1	42.0
Domestic primary balance (commitment basis, floor)[4]	-10.8	-21.6	not met	-6.3	-34.3	not met	-5.7	-2.9	-25.5	1.2	2.4	3.9
Non regularized expenditures (DNTs, ceiling)	0.0	0.0	met	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Item:												
New concessional borrowing[5]	11.7	2.8		18.7	7.9		21.0	23.4	23.4	10.3	18.9	21.6

[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 ¶8.

[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	Status	Date	Comments
Prior Action				
Approve by Parliament the 2023 budget in line with the program parameters	Expenditure control		Prior Action	
Publish in the website an audit report of the High Commissioner for COVID-19 by the Audit Court	Strengthen governance		Prior Action	
Structural Benchmarks				
Public Financial Management				
Expenditure and wage bill control/cash management				
Submit to Parliament the draft 2024 budget in line with the program parameters	Expenditure control		December 2023	Proposed
Conduct regular in-year (quarterly) reconciliations between the personnel and the payroll records.	Wage bill control	Met	March 2023	
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	Not met	June 2023	Reprogrammed to March 2024
Issue a joint order of the MoEF and MoPA to set out the terms of reference of the new census of public workers, prepared in accordance with IMF staff advice	Wage bill control		December 2023	Proposed
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	Met	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	Met	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	Met	December 2023	
Issue a Prime Minister's order to (i) require COTADO's decision to be monitored and endorsed by the Prime Minister permanentely, (ii) submit to the Prime Minister a quarterly report of expenditure approved by the COTADO, and (iii) prohibit payments of all non-wage expenditure unless it has been approved by the COTADO and registered by the DGO in the SIGFIP	Expenditure control		March 2024	Proposed
Conclude public contracts for all purchase of four food items (rice, cooking oil, meat, fish) and fuel and obtain the MoF's approval	Expenditure control/transparency		March 2024	
Publish in the MoEF website a report that includes (i) economic and administrative classifications of all "other common expenditure" and (ii) explanations of largest expenditures made for force majeure, sovereign, and similar purposes	Transparency		March 2024	Proposed
Execute expenditure from the TSA, starting with the wage bill.	Wage bill Control		June 2024	
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	Met	March 2023	
Prepare and publish quarterly and annual reports on SOEs' performance, starting with the most relevant SOEs.	SOE oversight	Met	June 2023 /December 2024[1]	
Complete installation of 10,000 pre-paid meters to largest residential clients that use post-paid meters	SOE oversight/EAGB	Met	June 2023	
Complete installation of additional 25,000 pre-paid meters to largest residential clients that use post-paid meters	SOE oversight/EAGB		December 2023	
Submit to the Prime Minister and publish a report that (i) calibrates negative economic and financial impact of delay in the Ring Line Project, (ii) presents the testing and inspection results of the Antula-Central line, and (iii) specifies remedial works that the contractor should undertake	SOE oversight/EAGB		March 2024	Proposed
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	Not met	September 2023	Reprogrammed to December 2024
Complete and publish an audit of EAGB's power purchase agreement and its ammendments	SOE oversight/fiscal transparency		December 2023	

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

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

Measures	Rationale	Status	Date	Comments
Structural Benchmarks				
Public Financial Management				
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	Met	December 2023	
(ii) the revised income tax and stamp duties bills.	Strengthen tax framework		June 2025	
Prepare by the Minister of Finance a redeployment plan to reallocate DGCI's directors and chiefs who were not appointed through an open and competitive process to other positions outside the DGCI	Revenue mobilization		December 2023	Reprogrammed to December 2024
Undertake evaluation of DGCI's managers based on performance indicators and quantitative targets	Revenue mobilization		June 2024	Proposed
Undertake tax audits of 25 large taxpayers selected on a risks basis and focusing on divergence of amounts of IGV paid at customs and included in tax returns	Revenue mobilization		September 2024	Proposed
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	Not met	September 2023	Completed in October 2023
Issue guidance to facilitate implementation of the 2022 decree regarding beneficial ownership (BO) information of entities awarded public contracts.	Transparency/Expenditure Control	Met	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	Met	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	Proposed to be modified (see the SB below)
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, existing as of December 2023.	Strengthen rule of law/cash management		December 2023	
Create a website of the CAJ which includes a database of fundamental legislation and information for raising legal literacy and awareness	Strengthen rule of law		March 2024	
Undertake inspection of all *casas avaliadas sem pagamento*[2] jointly by the Ministry of Public Works and National Secretariat of State Property	Strengthen governance		December 2023	
Consinutous Structural Benchmarks				
Require all commitments of discretionary spending to be approved by the COTADO and send its summary decision to the President of Republic for his ex-post review	Expenditure control	Not met for August 2023	July 2023/ continuous until end-December 2023	Proposed to be modified (see the SB below)
Require all commitments of discretionary spending to be approved by the COTADO and send its summary decision to the Prime-Minister for his ex-post review	Expenditure control		September 2023/ continuous	Proposed, monitored on a monthly basis
Issue by DGTCP bank instructions for all external debt service by the due date or if denominated in CFAF on the dates specified by the Minister of Finance and send their copies to the Treasury Committee	Debt management	Not met for September 2023	July 2023/ continuous	Monitored on a monthly basis

[2] Government houses occupied by former public servants and other tenants without payments after the end of their terms

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 622.4 and 611.4/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

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

with BOAD. For program purposes, a debt is considered to be contracted when all conditions for its entry into effect have been met, including approval by the Minister of Finance.[2] For this purpose, new non-concessional external debt will exclude normal trade credit for imports and 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 non-concessional 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) and the six-month Euro Interbank Offered Rate

[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.

(EURIBOR) are, respectively, 2.73 percent and 2.00 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 and the six-month EURIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR will be added.

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.

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 5 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 three months after the end of the month for wages and salaries (including pensions), and three months after the due dates 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 and non-CFAF denominated accounts payable that remains unpaid three months after the due dates. For the purposes of this QPC, central government is as defined in paragraph 5 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 commitments 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.

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
Execution of top 30 externally financed projects[4]	Monthly	30 days after the end of the month	DGPEE/MF
Non-regularized expenditure	As occuring		DGPEE/MF
Extrabudgetary expenditure for force majeure	As occuring		DGPEE/MF
Cost structure of cashew nuts	Monthly	30 days after the end of the month	DGPEE/MF
All decisions and minutes of technical committees responsible for determining tax exemptions and custom reference prices	As occuring		DGPEE/MF
Results of census of industrial fishing activities	Quarterly	45 days after the end of the quarter	DGPEE/MF
EAGB financial report	Monthly	30 days after the end of the month	DGPEE/MF
Cash balances of all Treasury bank accounts	Monthly	30 days after the end of the month	DGPEE/MF
All bank instructions for external debt service	Weekly	7 days after the payments	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
Commercial data with most detailed breakdowns including amounts of revenue and exemptions of each import and export	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	As occuring		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
[4] Including data on disbursement of grants and loans and expenditure. Applicable after September 2023

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

November 10, 2023

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR AUGMENTATION OF ACCESS, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF A PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
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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, as in the January 2023 Debt Sustainability Analysis (DSA). The present value (PV) of public and publicly guaranteed (PPG) debt relative to GDP exhibits a prolonged and substantial breach of its indicative benchmark while there are also significant breaches of the thresholds for the PV of external debt-to exports and external debt service-to-exports ratios. 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

[1] The previous DSA was dated January 13, 2023 (IMF Country Report No. 22/87) and accompanied the Request for a Three-Year Arrangement under the Extended Credit Facility (ECF).

[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 2023 WEO update and the World Bank's 2022 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.

shows a consistent downward trend from 2023 onwards under the baseline scenario; and (iii) the external DSA indicators are trending downwards consistent with sustainability over the medium-term, public debt is assessed as sustainable with high risk of debt distress

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 is supported by the Extended Credit Facility (ECF) arrangement. Risks include an adverse political scenario, limited capacity, weaker cashew nut exports, tighter global and regional financial conditions, higher 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 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). The main source of risk from SOEs comes from the electricity and water utility *Eletricidade e Águas da Guiné-Bissau* (EAGB),[5] which has guaranteed debt included in the DSA and its non-publicly guaranteed debts, estimated at 1.2 percent of GDP in 2022, included in the contingent liabilities shock.[6] Beyond EAGB, other SOEs have relatively small non-guaranteed debt, based on the limited available information, and are not expected to represent a significant contingent liability.

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**

[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 and 2023, which will partially cover debt held by SOEs. Additionally, the World Bank carried out a Debt Management Performance Assessment (DeMPA) in 2021 that identified needed reforms to further strengthen debt management, with technical assistance ongoing in this area. 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 occurred in 2023 providing support to expand data coverage and improve public debt data 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, CFAF 3.6 billion in 2020, and CFAF 5.2 billion in 2023. 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 15.0 billion. These guarantees are included in the DSA.

[6] Non-guaranteed debt of EAGB in 2022 was predominantly composed of unpaid invoices owed to the power supplier (Karpower). With EAGB's increased revenue and the government's implementation of the repayment plan, this amount will be significantly reduced in early 2024. The remainder of EAGB's balance sheet includes only non-debt liabilities such as taxes and social security arrears and legacy Treasury on-lending, which are consolidated out for DSA purposes. The exclusion of these explains the reduction in the stock of non-publicly guaranteed debt vis-à-vis the January 2023 DSA.

bonds issued in the regional market are classified as domestic. The debt denominated in *Communauté Financière Africaine* francs (CFAF) to BOAD, amounting to 11.9 percent of GDP at end-2022, is classified as external whereas the remaining debt sources follow a currency-based classification. Treasury securities issued in CFA francs in the regional market remain treated as domestic for the purpose of this DSA.[7] The stock of such treasury securities (held by both local and regional banks) at end-2022 was CFAF 251.4 billion, equivalent to 57 percent of domestic debt or 23.5 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.** The World Bank, through the Performance and Policy Actions (PPAs) under the International Development Association's (IDA) Sustainable Development Finance Policy (SDFP), is supporting authorities with the publication and expansion of the debt bulletin (in FY23) and providing technical assistance on debt management following the Debt Management Performance Assessment (DeMPA) carried out in 2021.[8] 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 undertook 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 80.4 percent of GDP in 2022.** The ratio of public debt to GDP increased by an estimated 1.6 percentage points with respect to 2021. This increase was observed in the domestic debt side and is mostly explained by a higher-than-projected overall fiscal deficit, new government guarantees to the public utility company (EAGB) and recognition of legacy arrears. External debt declined in 2022 due to better control of non-concessional borrowing, grant financing from the World Bank and other multilateral creditors as a high risk of debt distress country, lower project loans disbursements and reliance on financing from the domestic regional market. BOAD and the World Bank are the main lenders 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

[7] In 2022, local banks held 8.4 percent of outstanding domestic debt issued in the regional market.

[8] The planned FY24 PPAs will support the authorities' efforts to improve debt management, including through the preparation and publication of a Medium-Term Debt Strategy.

1). Part of the resources raised on the regional market allowed for the payment of domestic arrears. 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

	2020 Act.	2021 Act.	2022 Act.	2023 Proj.	2020 Act.	2021 Act.	2022 Act.	2023 Proj.
	(Billions of CFAF)				*(Percent of GDP)*			
Central Government Debt	**680.4**	**753.6**	**859.2**	**913.2**	**77.7**	**78.8**	**80.4**	**76.5**
External	**360.1**	**385.4**	**419.0**	**416.7**	**41.1**	**40.3**	**39.2**	**34.9**
Multilateral	282.7	306.0	335.6	337.7	32.3	32.0	31.4	28.3
IMF	15.7	26.4	25.1	32.1	1.8	2.8	2.3	2.7
IDA	78.0	100.4	118.0	119.1	8.9	10.5	11.0	10.0
BOAD	138.6	122.0	127.4	118.2	15.8	12.8	11.9	9.9
AfDB	22.5	27.7	33.4	36.2	2.6	2.9	3.1	3.0
Others (IDB, BADEA, IFAD, etc)	27.8	29.5	31.8	32.2	3.2	3.1	3.0	2.7
Bilateral	77.4	79.4	83.4	79.0	8.8	8.3	7.8	6.6
of which Legacy Arrears [1]	29.5	3.3	3.5	3.4	3.4	0.3	0.3	0.3
Paris Club	8.3	5.9	6.1	5.6	1.0	0.6	0.6	0.5
Non-Paris Club [2]	69.1	73.5	77.3	73.4	7.9	7.7	7.2	6.1
Domestic	**320.4**	**368.2**	**440.2**	**496.4**	**36.6**	**38.5**	**41.2**	**41.6**
Local Banking System	162.8	156.7	177.8	177.3	18.6	16.4	16.6	14.8
BCEAO	109.5	130.5	130.0	129.4	12.5	13.6	12.2	10.8
Loans local commercial banks	33.2	12.0	26.6	26.6	3.8	1.3	2.5	2.2
Treasury Securities held by local banks	20.2	14.2	21.2	21.2	2.3	1.5	2.0	1.8
Treasury Securities held by regional banks	119.9	179.2	230.2	288.0	13.7	18.7	21.5	24.1
Payment Arrears	27.1	18.9	12.2	11.2	3.1	2.0	1.1	0.9
Guarantees	10.6	13.5	20.0	20.0	1.2	1.4	1.9	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.

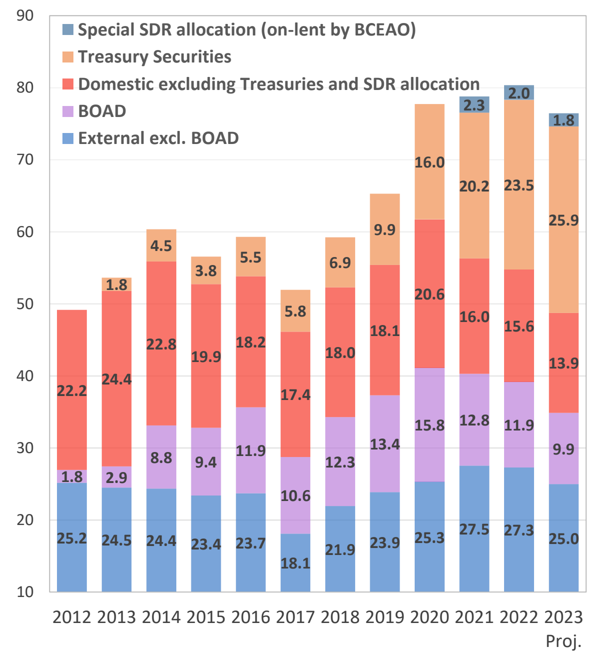
[2] Non-Paris Club: Angola, Exim Bank of India, Kuwait, Libya, Pakistan, Saudi Fund, Exim Bank of Taiwan Province of China.

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.[9] 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

[9] 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.

debt distress.[10] 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 regional market. The authorities used most of those resources to pre-pay non-concessional debt to BOAD, due at end-2021 and in 2022.[11] 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. Financing needs were mainly covered by higher reliance on the regional market in 2022 (Text Table 2). Central government domestic debt amounted to 41.2 percent of GDP at end-2022. The largest source of net borrowing was Treasury securities, the stock of which rose by 3.3 percentage points of GDP between 2021 and 2022, with the bulk purchased by local commercial banks and financial institutions from elsewhere in the WAEMU region.

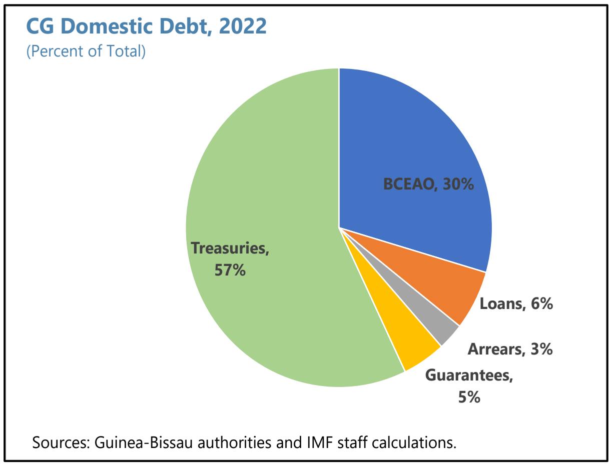
7. External borrowing declined in 2022 with the pre-payment of non-concessional debt to BOAD, improved control on non-concessional external borrowing and lower project loans disbursements. Debt to BOAD decreased by 0.9 percentage points of GDP in 2022, and the World Bank has been the main source of new concessional financing, promoting large regional telecommunications and energy projects as well as national projects to support rural transportation.[12] Altogether, multilaterals held 80 percent of Guinea-Bissau's external debt at end-2022. 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.[13]

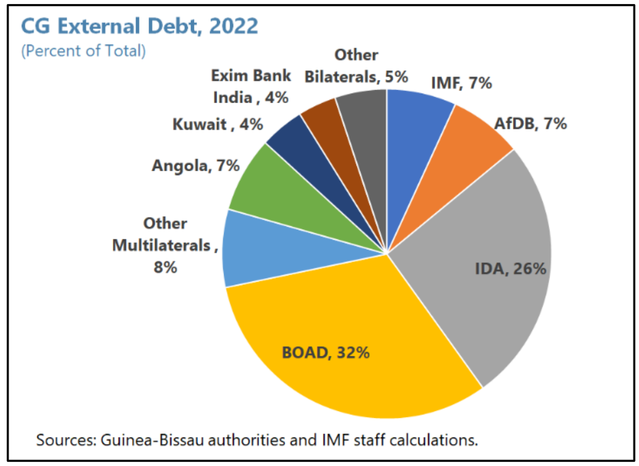
[10] In general, domestic debt is treated in nominal terms in the DSA.

[11] 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.

[12] Additional World Bank financing includes projects to support food security, improve health service delivery, enhance the quality of education, and boost social safety nets. These operations are all grants, consistent with the country's debt risk rating.

[13] Guinea-Bissau had legacy external arrears totaling US$5.7 million at end-2022, to Brazil, Russia, and Pakistan. The authorities reached an agreement with Russia to cancel the debt (US$1.5 million). Negotiations with Brazil (US$1.9 million) are pending final approval from the Brazilian parliament. Since November 2021, requests have been sent to Pakistan (US$2.2 million) to attempt resolving remaining external arrears. This DSA includes some conservative repayment assumptions that will be revised once rescheduling agreements are reached.





8. Debt service to revenue excluding grants decreased to 64 percent in 2022 affected by the pre-payment to BOAD in 2021. Additionally, payment of domestic arrears in 2022 represented 5.2 percent of revenues, mostly related to the settlement of cross-arrears due to government suppliers. 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 IDA's SDFP and to disclose all public sector financial commitments involving debt.[14] The materialization of efforts to enhance domestic revenue mobilization, outlined in paragraph 10, is also expected to improve debt service-to-revenue ration over the medium-term.

9. Strong regional institutions provide support to Guinea-Bissau's debt management capacity. WAEMU currency union regional institutions, which have stronger capacity, 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 87 percent of Guinea-Bissau's domestic debt at end-2022. 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.[15]

MACROECONOMIC ASSUMPTIONS

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 January 2023 (Text Table 3) include a downward adjustment in real GDP growth in 2023, higher inflation and a worsened external imbalance in the near term. The main baseline macroeconomic assumptions are as follows:

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

[15] Guinea-Bissau represented only 2 percent of the total regional issuances in 2022.

- **Real GDP growth.** After a strong GDP growth recovery of 6.4 percent in 2021, growth has moderated to 4.2 percent in 2022 due to delayed cashew exports, which were partially compensated by strong growth of agricultural production and private sector investments. The projection of real GDP Growth in 2023 has been revised downwards to 4.2 percent, reflecting the negative impact of declining income from cashew sales on consumption.[16] However, increased subsistence farming, supported by good rainfall and high private investments, which include those in the energy sector, will have a positive effect on growth. In the medium term, growth will be supported by the normalization of cashew exports, and a more stable political context, with structural reforms such as enhancing public financial management, revenue mobilization, anti-corruption and rule of law, and stronger business environment expected to support private investment growth. Long-term growth is projected at 4.1 percent, in line with the economy's growth potential[17] and reflective of the impact of structural reforms to strengthen governance and public sector efficiency and improve the business environment – including through better access to electricity which should contributed to improved productivity.

- **Inflation.** Average inflation reached 7.9 percent in 2022 reflecting pressures on prices of imported goods, especially food and oil. In 2023, average inflation is expected to reach 8.0 percent. This is substantially above the 3 percent convergence WAEMU criteria, reflecting persistent inflationary pressures due to supply chain disruptions and food inflation, particularly the surge of international rice prices.[18]

Text Table 3. Guinea-Bissau: Key Macroeconomic Projections

(Percent of GDP, Unless Otherwise Indicated)

	2021	2022	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	Long Term[1]
Real GDP growth (percent)									
Previous DSA	6.4	3.5	4.5	5.0	5.0	5.0	5.0	4.5	4.2
Current DSA	6.4	4.2	4.2	5.0	5.0	5.0	5.0	4.5	4.1
CPI inflation (percent)									
Previous DSA	3.3	7.8	5.0	3.0	2.0	2.0	2.0	2.0	2.0
Current DSA	3.3	7.9	8.0	3.0	2.0	2.0	2.0	2.0	2.0
Primary fiscal balance									
Previous DSA	-4.0	-4.2	-1.7	-1.0	-0.9	-0.9	-0.8	-0.8	-0.7
Current DSA	-4.3	-4.7	-3.2	-1.0	-0.8	-0.8	-0.7	-1.3	-0.4
Overall fiscal balance (commitment)									
Previous DSA	-5.6	-5.5	-3.9	-3.2	-3.0	-3.0	-3.0	-3.0	-3.0
Current DSA	-5.9	-6.1	-5.6	-3.5	-3.0	-3.0	-3.0	-3.0	-2.9
Tax revenues									
Previous DSA	9.8	9.5	9.9	10.2	10.5	10.7	11.0	10.9	12.4
Current DSA	9.8	9.3	9.6	9.7	10.2	10.5	10.8	10.9	12.1
Domestic primary expenditures									
Previous DSA	14.7	14.9	12.9	12.4	12.6	12.8	12.9	12.9	14.4
Current DSA	14.7	15.0	14.4	13.1	12.3	12.6	12.7	12.8	13.6
Non-interest current account balance									
Previous DSA	-2.1	0.3	-5.2	-3.5	-3.3	-3.2	-3.0	-2.9	-3.1
Current DSA	0.3	-8.9	-7.6	-3.7	-3.7	-3.3	-3.0	-2.8	-2.7
External debt									
Previous DSA[2]	40.0	41.2	38.4	36.1	34.1	31.6	29.4	27.8	20.8
Current DSA	40.3	39.2	34.9	33.3	31.6	29.5	27.5	25.9	19.6
Domestic debt									
Previous DSA[2]	38.9	39.7	39.8	39.3	38.6	38.6	38.5	39.0	39.8
Current DSA	38.5	41.2	41.6	40.7	40.0	39.9	39.8	39.8	40.5

Source: Bissau-Guinean authorities and staff estimates.

[1] Covers the period 2029-43 for current DSA, and 2028-42 for the previous DSA.

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

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[16] The disparity in growth estimate for 2023 between World Bank Macro Poverty Outlook for the 2023 Annual Meetings (AM23 MPO; (2.8 percent) and WEO (4.2 percent) primarily stem from the timing of forecasts (MPO using uses half year data vs while the WEO is more recent), and assumptions on developments in the cashew sector and the contributions of subsistence farming to growth. The lower growth rate does not materially alter the result of the DSA.

[17] Potential growth is estimated at around 4.1 percent based on standard techniques such as the Hodrick-Prescott Filter and estimation using an aggregate production function. These estimates use historical data of the existing drivers of the economy: subsistence agriculture, cashew nut sector and commerce.

[18] The WAEMU's CFA is pegged to the euro, which is expected to appreciate by 3.3 percent against the US dollar in 2023.

- **Fiscal deficit.** Overall fiscal deficit worsened to 6.1 percent in 2022. However, the overall fiscal deficit in 2023 is expected to decline to 5.6 percent of GDP, supported by higher revenues and budget support. Notably, the tax collection by the Directorate-General for Taxes and Duties (DGCI) has overperformed the target by CFAF 1.3 billion through June 2023, excluding cashew-related taxes. DGCI's professionalization through redeployment of unqualified managers and implementation of the reform action plan will reinforce this positive trend. Moreover, wage bill spending is projected to decline nominally by 11 percent, decreasing from 6.2 percent of GDP to 4.9 percent, as the new government continues to support existing corrective actions, including total freezing of new hirings, capping salary expenses for key ministries, and maintaining streamlined advisor positions in high offices.[19] Budget support is projected to be higher, supported by bilateral and multilateral donors amid catalytic effects of the ECF arrangement.
- 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 0.9 percentage points of GDP adjustment in the domestic primary balance (on a commitment basis) is projected over three years (2023-26).[20] A balanced and durable growth-supportive fiscal consolidation would be supported by following measures:
    - **Enhancing revenue mobilization.** Tax revenues are expected to increase by around 0.9 percentage points between 2023 and 2026. 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. To further accelerate revenue mobilization and modernize the tax regime, the authorities will continue facilitating DGCI's professionalization, streamline tax exemptions for imported goods, and 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 (TA) of the IMF.[21] Tax enforcement has been one of the DGCI's weakest links. Out of 149 large taxpayers, only 9 taxpayers were audited in the first half of 2023, recovering little amount, and no audit was undertaken between July-September. The authorities will reactivate the tax audit program by auditing 50 large taxpayers. To improve revenue generation from natural resources and its transparency, the authorities will prepare an action plan to develop a registry of resource rights holders and undertake diagnosis of the fiscal regime for natural resources (SB, end-June 2024) with IMF TA support.
    - **Strengthening PFM and expenditure control.** The government is committed to decreasing domestic primary expenditures by around 1.8 percentage points of GDP between 2023 and 2026, of which 0.2 percentage points come from wage bill management measures. In 2024,

[19] About 51 positions were reduced at Presidency, the Prime Minister's Office, the Presidency of the Parliament, the Presidencies of the Supreme and Audit Courts, and Prosecutor's Office.

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

[21] For details of the VAT reform, please see IMF Country Report No. 22/196, Annex IV.

the significant fiscal consolidation reflects the combination of revenue mobilization, control of the wage bill and rationalization of discretionary spending, including one-off expenditures incurred in 2023. The 2022 FAD wage bill management mission provided additional reform options for wage bill management while protecting priority social spending.[22] To address any wage bill overrun, the government has taken a series of corrective actions since 2022.[23] They have also undertaken additional containment measures in 2023, including conducting new census of public administration and redistribution of staff workload in the Ministry of Education – the ministry with the largest number of civil servants. The authorities will improve the new census process by requring the line ministries to validate and sign off the census results. Biometric devices will be also rolled out to the line ministries participating in the new census, after the pilot at the Ministry of Economy and Finance (MoEF). In addition, the authorities have also strengthened expenditure controls through reintroduction of commitment control process. In particular, the Technical Committee of Arbitration of Budgetary Expenditure (COTADO), which was resumed in September 2023, strictly controls all commitments of discretionary expenditure and its decisions are scrutinized by the highest level of government to provide the political backing. They have implemented reforms to reconcile the personnel and the payroll records[24], enhance the treasury and cash management function with the implementation of a Treasury Single Account (TSA) and execute 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 the main sources of fiscal risks.[25] To mitigate imminent fiscal risks, EAGB completed the installation of 32,700 pre-paid electricity meters in just five months, which have increased its monthly revenue from CFAF 1.5 billion to 1.9 billion. EAGB has remained current with payments to Karpower since April 2023 and is purchasing additional 40,000 prepaid meters, which will cover most of residential clients who have post-paid meters. The OMVG project, which connects Bissau to a hydropower plant in Guinea-Conakry, is nearly completed and will reduce power purchase costs substantially. However, a transitional period is needed before switching the source of power from Karpower to the OMVG, because the "Ring Line" Project financed by AfDB is yet

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

[23] These measures included: (i) the dismissal of irregular hirings; (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.

[24] 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.

[25] 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). Their guaranteed debt is included in the DSA and amount of non-guaranteed debt is negligible. For example, apart from guaranteed debt, the APGB's balance sheet for 2021 had only non-debt liabilities (tax arrears and unverified payables).

to complete a transmission line that connects the OMVG terminal and the distribution grid. Meanwhile, the government will continue renegotiation with Karpower. The Audit Court is making progress in auditing the power purchase contract and addendums. The government will continue to pursue accountability for any irregularities in the addendum process after terminating its power supply from Karpower.

- **Safeguarding social and priority spending and investment.** The authorities are committed to safeguarding social and priority spending as well as public investment over the medium term. During 2023-28, social and priority spending is projected to increase by 0.6 percentage points of GDP compared to pre-COVID-19 period (2010-19). Public investment is projected to average around 7.3 percent of GDP per annum during 2023-28, 1.4 percentage points higher than pre-COVID-19 period (2010-19). Notably, domestically financed capital expenditure is projected to be higher than historical average, underpinned by the fiscal space created.

11. Current account deficit. The non-interest current account deficit reached 8.9 percent of GDP in 2022 and is projected to narrow to 7.6 percent of GDP for 2023, will remain higher than under the previous DSA. The recent deterioration of the current account mostly reflects significant terms of trade shocks arising from declining international cashew prices, which negatively affected the campaign for 2023 and caused the significant delay in export, and higher fuel and food import prices, particularly surge of international rice prices due to supply shocks and rice export restrictions in South Asia. In the medium-term, the current account deficit is expected to improve gradually due to sustained fiscal consolidation and more favorable terms of trade.

12. Public debt to GDP is expected to decrease by 3.9 percentage points in 2023 due to a lower fiscal deficit, appreciation of the domestic currency and higher nominal GDP. The stock of domestic debt is projected to increase by 0.4 percentage points of GDP compared to 2022. 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 grow further by 2.4 percentage points of GDP. The stock of other domestic debt sources is expected to fall in 2023. Debt to the regional central bank (BCEAO), loans from local commercial banks and domestic payment arrears are projected to jointly drop by 0.5 percentage points of GDP. The stock of external debt is projected to decrease by 4.3 percentage points of GDP, mostly driven by a concentrated debt repayment schedule in 2023, particularly with BOAD, and a revaluation effect from the stronger domestic currency.

Text Table 4. Guinea-Bissau: Borrowing Plan

PPG external debt contracted or guaranteed	Volume of new debt[1]		Present value of new debt[1]	
	2023 (US$ million)	2024[2] (US$ million)	2023 (US$ million)	2024[2] (US$ million)
Sources of debt financing	**32.7**	**38.9**	**21.2**	**26.4**
Concessional debt[3]	32.7	38.9	21.2	26.4
Multilateral debt	32.7	38.9	21.2	26.4
Uses of debt financing	**32.7**	**38.9**	**21.2**	**26.4**
Urban Infrastructure	12.3	14.2	8.0	9.7
Agriculture	20.4	24.7	13.2	16.8

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/ Preliminary data.

3/ Debt with a grant element of at least 35 percent.

REALISM OF THE BASELINE ASSUMPTIONS

13. The DSA assumes that authorities will implement a prudent borrowing strategy and medium-term investment-related borrowing is projected to prioritize concessional financing. Contracting of new loans is expected to be constrained with the fiscal consolidation strategy under the ECF. Gross annual project disbursements from loans and grants are assumed to be between 60 and 72 percent of capital expenditure, which is expected to average 5.1 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. The share of credits from the Fund, World Bank, and African Development Bank in total external public debt is estimated at 42 percent in 2022. While the share of all multilateral creditors in total external public debt is relatively high (80 percent in 2022), past reliance on non-concessional borrowing from the BOAD, which is the largest holder of external public debt, will be reduced significantly in the medium-term. The World Bank and the IMF will be supporting the authorities with the preparation of a MTDS through technical assistances. Borrowing from BOAD is projected to decline significantly driven by the debt repayment schedule concentrated in the period of 2023-2025. 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 (on average 3.8 years) are expected to fill most non-investment-related financing needs in the medium-term (2024 onwards), thus helping to mitigate refinancing risks. In 2023, interest rates are projected to increase to 8.0 percent for bonds with maturities of one to three years, and to 8.3 percent for bonds with maturities of four to seven years. These interest rates reflect the effect of the recent tightening of financial conditions in the WAEMU.[26]

14. The macroeconomic scenario is broadly realistic. The non-interest current account deficit in 2023-27 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 grants (captured in the residual of the drivers of debt dynamics in Figure 3)[27] 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.

15. 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

[26] In addition, interest rates on short-term T-bills are projected to increase to 7.7 percent in 2023, 7.0 percent in 2024 and 6 percent from 2025 onwards. Long-term bonds (4-7 years) are assumed to provide funding for over 50 percent of the financing gap during the medium term (2023-2025), followed by medium term bonds (1-3 years) accounting for 32 percent of the financing.

[27] For 2018-2022, the reclassification of BOAD debt from domestic to external accounts for the large unexplained increase in external debt (Figure 3). 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.

deficit is marginally larger than the 25th percentile observed in historical data from low-income countries (LICs) with Fund-supported programs (Figure 4), 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.[28] Real GDP growth is projected at 4.2 percent in 2023 consistent with a small fiscal multiplier (Figure 4), as presumed by a high import content of government spending and evidenced by essentially zero correlation between real GDP growth and changes in the fiscal primary balance since 2010.

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TEST SCENARIOS

16. **Guinea-Bissau is assessed to have weak debt carrying capacity, unchanged from the January 2023 DSA.** The Composite Indicator (CI) score for Guinea-Bissau is 2.55, based on data on macroeconomic indicators from the October 2023 WEO and from the 2022 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

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.503	0.96	38%
Real growth rate (in percent)	2.719	4.486	0.12	5%
Import coverage of reserves (in percent)	4.052	39.591	1.60	63%
Import coverage of reserves^2 (in percent)	-3.990	15.674	-0.63	-25%
Remittances (in percent)	2.022	4.69	0.09	4%
World economic growth (in percent)	13.520	2.889	0.39	15%
CI Score			2.55	100%
CI rating			Weak	

17. **The magnitude of the combined contingent liability shock is standard** (Text Table 6). This DSA runs a stress test with an additional contingent liability shock of 5.2 percent of GDP instead of the default values.[29] 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),

[28] 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 2018-2022 period, residuals, were also a large contributor to the unexpected increase in public debt (Figure 3). 2018 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.

[29] Breakdown of the shocks: bank recapitalization (2 percent), EAGB debt (1.2 percent) and potential domestic arrears (2 percent).

contingent liabilities linked with increased public guarantees, and the possibility of the domestic arrears being larger than what is already included in the debt stock (1.1 percent of GDP at end-2022).[30] 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) 1/	2 percent of GDP	3.2	Increased from 2 to 3.2 to reflect EAGB non-guaranteed debt (1.2 percent) and potential domestic arrears (2 percent).
4	PPP	35 percent of PPP stoc	0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	7	Increased by 2 percent to reflect potential liabilities linked to bank recapitalisation needs.
	Total (2+3+4+5) (in percent of GDP)		10.2	

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

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

18. Guinea-Bissau's risk of external debt distress remains high, as in the January 2023 DSA. The external debt-to-GDP indicator based on PV ratios remain below the relevant indicative thresholds throughout the projection period (2023–43) under the baseline scenario. However, the PV of debt-to-exports ratio remains above the threshold until 2027, a deterioration relative to the previous DSA. While the indicator debt-to-revenue ratio improves slightly, the debt-service-to-export ratio significantly deteriorates from the January 2023 DSA due to the protracted effects of the recent negative shock of the cashew nut exports. As in the previous DSA, the indicators breach their indicative thresholds under the baseline, which implies a mechanical 'high' risk rating (Figure 1 and Table 3).[31] That said, since Guinea-Bissau is in a currency union with FX reserve pooling, the effective impact of these indicators is rather limited.

19. The adverse commodity price stress test was designed to reflect Guinea-Bissau's vulnerability to cashew price fluctuations. The analysis shows the debt sustainability prospects after a hypothetical 25 percent fall in cashew export prices in the first year of the projection (Figure 1). This stress test is based on historical volatility of the cashew nut price.[32]

B. Public Debt Sustainability Analysis

[30] These supplier's arrears, which have been outstanding for several decades, necessitated a prolonged audit and verification process. Efforts are currently underway by the authorities to devise strategies for the timely liquidation of the arrears in the foreseeable future.

[31] 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 2024 and 2025 (as opposed to 5.8 percent average export growth in the baseline).

[32] In the last ten years, 25 percent shock is roughly one standard deviation of the cashew nut price.

20. 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 2033, a substantial and prolonged breach (Table 4 and Figure 2).[33] Moreover, debt service as a percentage of revenues and grants increases to 88 percent in 2028 impacted by the need to roll over costly short-term debt from regional market, and then begins a declining trajectory reaching 54 percent in 2033. 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.

21. Public debt sustainability is vulnerable to a commodity price shock. After a 25 percent drop in cashew prices, the present value of the debt-to-GDP ratio reaches 73 percent in 2031 stabilizing at this value, and the debt service-to-revenue ratio reaches 112 percent in 2028 before stabilizing at around 81 percent.

CONCLUSIONS

22. 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 the indicative benchmarks and threshold respectively. 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.

23. 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 2026. If the policy agenda is successfully executed and barring an unexpected external shock, total public debt would decline from 80.4 percent of GDP estimated at end-2022 to 65.7 percent of GDP by 2028.

24. 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 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

[33] Under the most extreme (commodity price) shock, (equivalent to a one SD shock to the cashew price) the PV of debt-to-GDP ratio increases to 74 percent in 2033, and the PV of debt-to-revenue increases to 469 percent in 2026. The impact of the most extreme shock on debt service-to-revenue increases this ratio from 55 percent in 2023 to 112 percent in 2028.

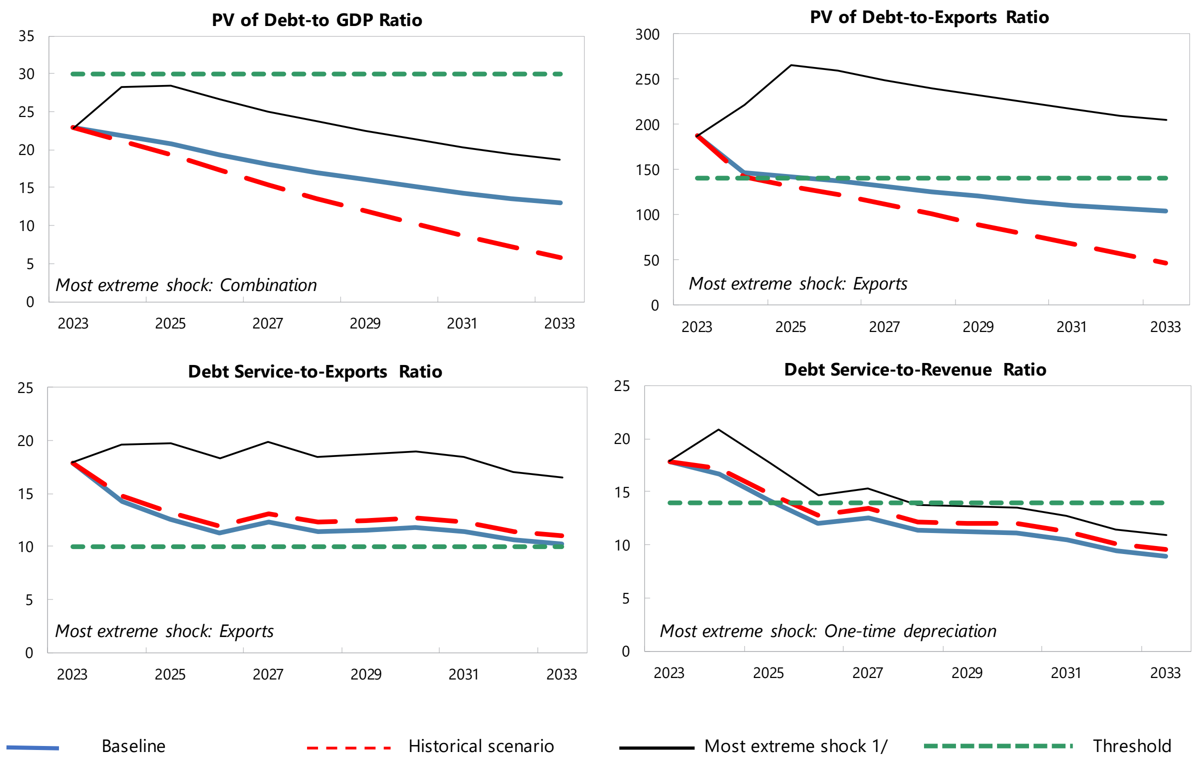
reforms; (ii) prudent borrowing policies, including the avoidance of non-concessional project financing; (iii) enhanced debt management, with more rigorous compilation and monitoring of debt statistics, upgraded procedures and publication of regular debt reports to improve transparency; and (iv) improved 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.

25. 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. Since the January 2023 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. Risks also arise from disappointing cashew exports due to lower prices or climate events, high global food and oil prices, including the effects of a protracted political security crisis in Europe and the Middle East, 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

26. 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 the continued satisfactory performance during the Extended Credit Facility (ECF) will contribute to mitigate the country's high risk of debt distress.

Figure 1. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2023–33[1]



Customization of Default Settings	Size	Interactions
Standardized Tests	Yes	
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	Yes	Yes
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.

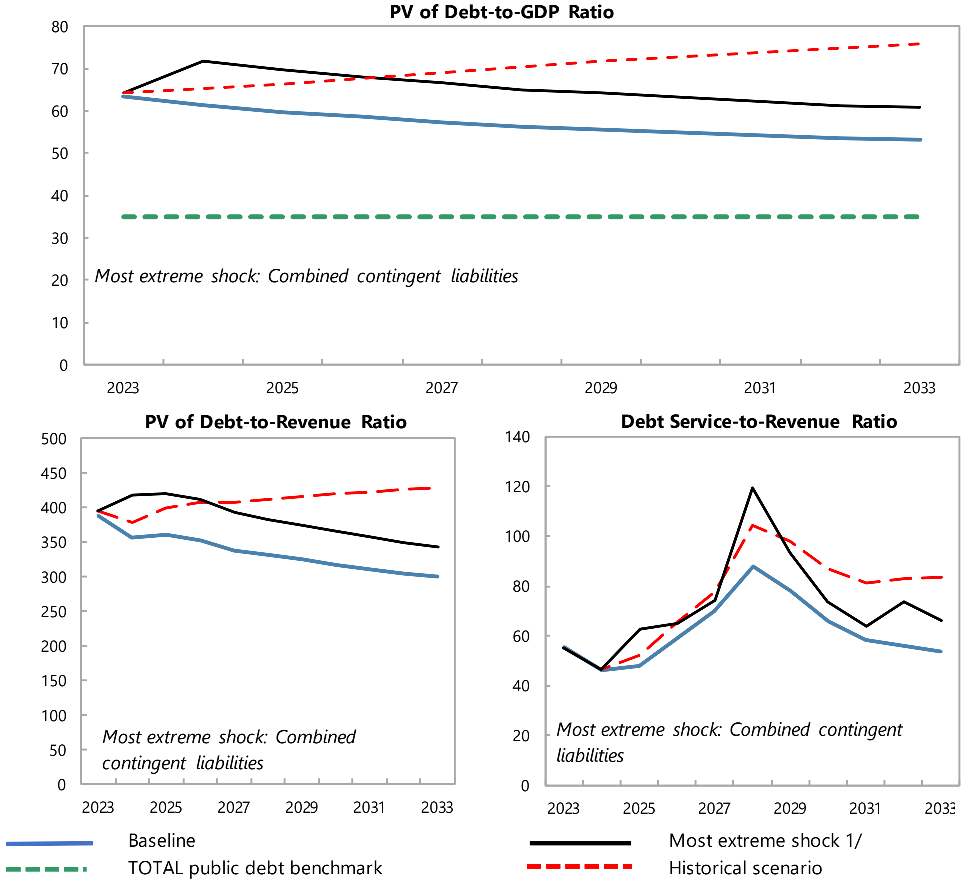
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace 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 2033. 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, 2023–33



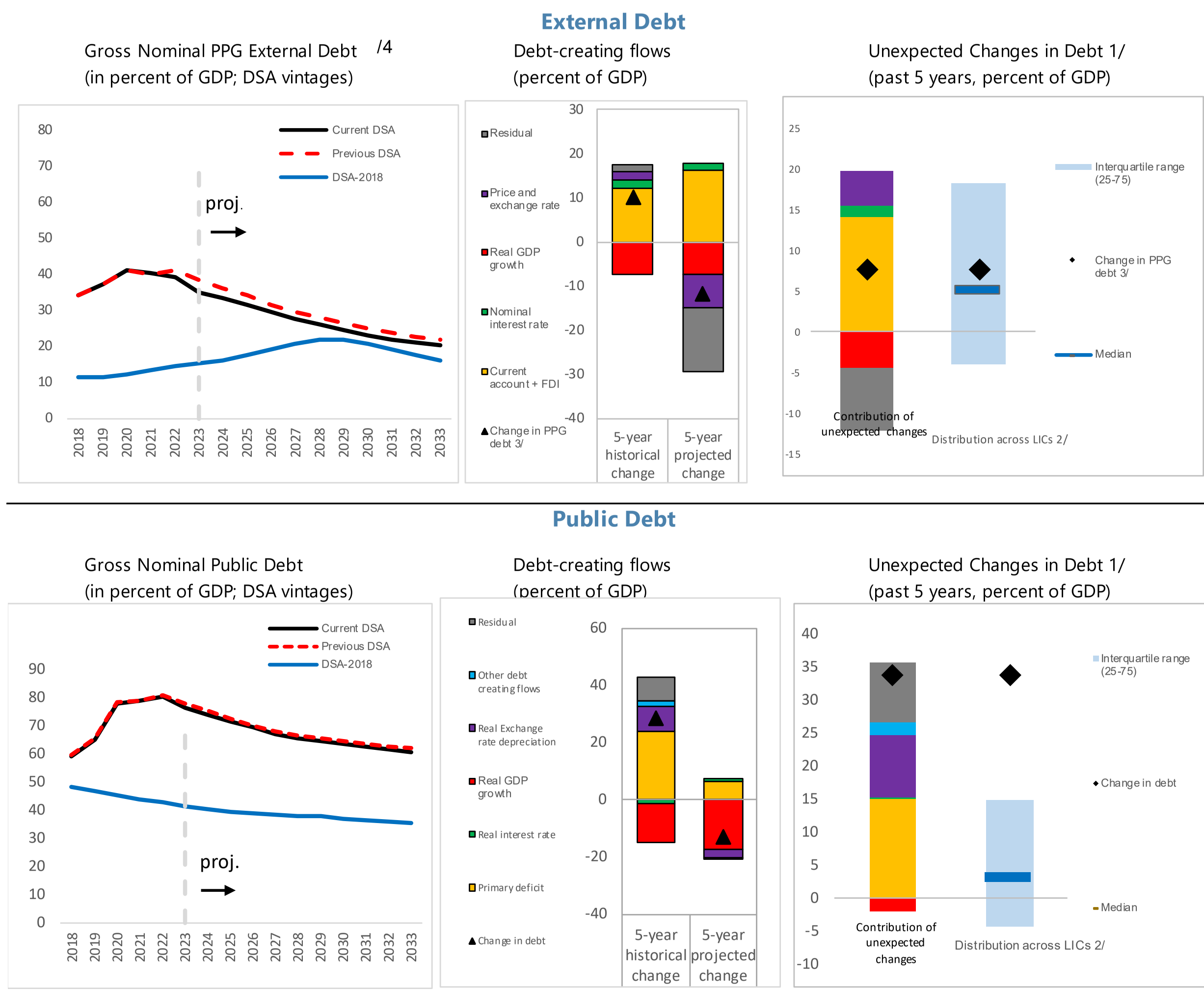
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	17%	17%
Domestic medium and long-term	63%	63%
Domestic short-term	20%	20%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
Avg. maturity (incl. grace period)	29	30
Avg. grace period	6	10
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.8%	3.8%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.4%	3.4%

* 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 2033. 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 3. Guinea-Bissau: Drivers of Debt Dynamics–Baseline Scenario



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

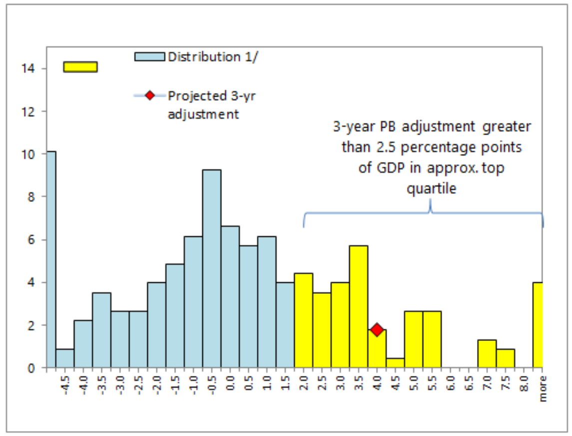
2/ Distribution across LICs for which LIC DSAs were produced.

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.

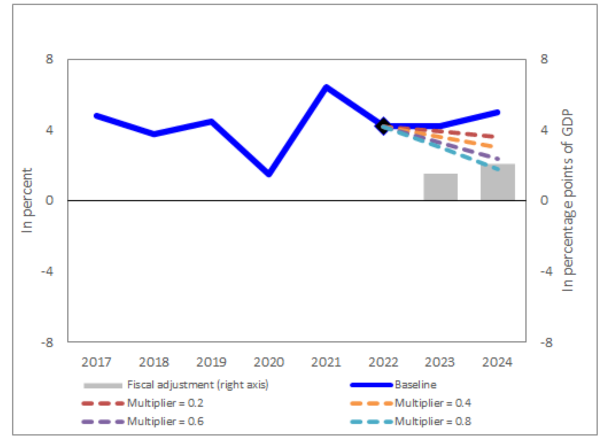
Figure 4. Guinea-Bissau: Realism Tools

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



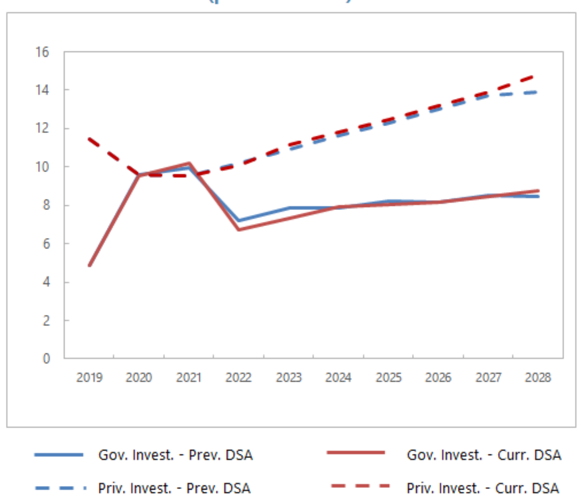
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

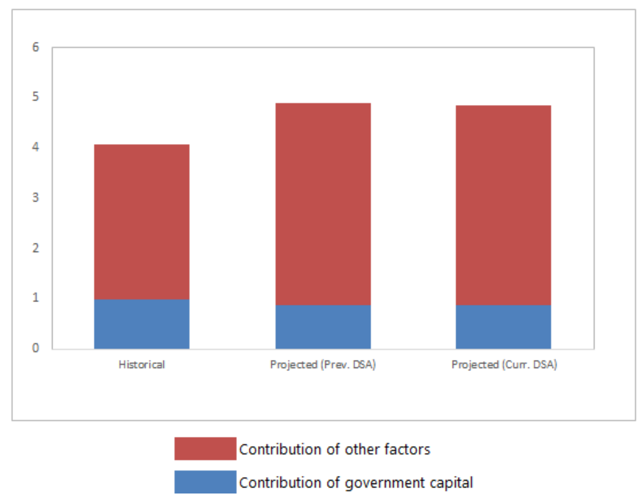
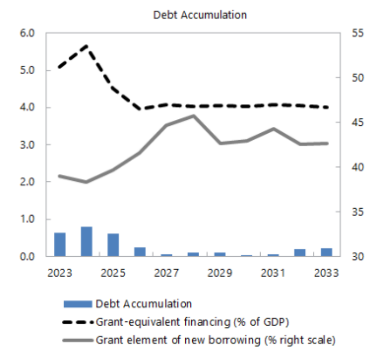


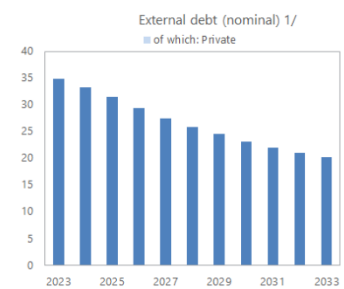
Table 1. Guinea-Bissau: External Debt Sustainability Framework, Baseline Scenario, 2020–43

(In percent of GDP, unless otherwise indicated)

(In percent of GDP, unless otherwise indicated)	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	41.1	40.3	39.2	34.9	33.3	31.6	29.5	27.5	25.9	20.2	17.6	34.6	26.7
of which: public and publicly guaranteed (PPG)	41.1	40.3	39.2	34.9	33.3	31.6	29.5	27.5	25.9	20.2	17.6	34.6	26.7
Change in external debt	3.8	-0.8	-1.1	-4.3	-1.5	-1.8	-2.1	-1.9	-1.6	-0.8	-0.2		
Identified net debt-creating flows	0.0	-5.5	8.3	5.2	1.6	1.5	1.2	1.0	1.0	1.3	1.3	-1.0	1.6
Non-interest current account deficit	1.7	-0.3	8.9	7.6	3.7	3.7	3.3	3.0	2.8	2.7	2.6	2.0	3.5
Deficit in balance of goods and services	13.6	10.6	17.7	16.9	13.4	12.4	11.7	11.4	10.9	9.8	7.6	9.2	11.6
Exports	15.3	19.4	15.4	12.3	14.9	14.6	14.1	13.8	13.6	12.5	10.7		
Imports	28.9	30.0	33.1	29.2	28.3	27.0	25.9	25.2	24.5	22.3	18.3		
Net current transfers (negative = inflow)	-9.4	-8.8	-7.7	-8.1	-8.4	-7.4	-7.1	-6.9	-6.6	-5.5	-3.8	-5.7	-6.8
of which: official	-3.2	-2.6	-1.9	-2.7	-3.2	-2.3	-2.0	-2.1	-2.0	-2.0	-1.6		
Other current account flows (negative = net inflow)	-2.5	-2.1	-1.2	-1.3	-1.3	-1.3	-1.4	-1.5	-1.5	-1.5	-1.2	-1.5	-1.4
Net FDI (negative = inflow)	-1.4	-1.0	-0.9	-1.4	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-1.8	-1.0
Endogenous debt dynamics 2/	-0.3	-4.2	0.3	-1.0	-1.2	-1.2	-1.2	-1.1	-0.9	-0.6	-0.5		
Contribution from nominal interest rate	0.6	0.6	0.2	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2		
Contribution from real GDP growth	-0.5	-2.3	-1.7	-1.4	-1.6	-1.5	-1.5	-1.4	-1.2	-0.8	-0.7		
Contribution from price and exchange rate changes	-0.3	-2.5	1.9	...	...	...	...	...	...	...	...		
Residual 3/	3.8	4.7	-9.4	-9.5	-3.1	-3.3	-3.3	-3.0	-2.6	-2.0	-1.4	2.4	-3.3
of which: exceptional financing	-0.2	-0.2	0.0	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	...	...	25.8	22.9	21.8	20.7	19.4	18.1	17.0	12.9	11.4		
PV of PPG external debt-to-exports ratio	...	...	167.6	186.9	146.3	141.3	137.0	130.7	125.2	103.6	105.9		
PPG debt service-to-exports ratio	14.1	17.8	5.3	17.9	14.2	12.6	11.3	12.3	11.4	10.3	7.4		
PPG debt service-to-revenue ratio	18.9	27.1	6.8	17.9	16.7	14.2	12.1	12.6	11.4	9.0	5.1		
Gross external financing need (Million of U.S. dollars)	37.5	37.3	150.8	166.1	106.0	107.5	99.9	103.6	100.5	123.6	181.8		
Key macroeconomic assumptions													
Real GDP growth (in percent)	1.5	6.4	4.2	4.2	5.0	5.0	5.0	5.0	4.5	4.0	4.0	4.1	4.6
GDP deflator in US dollar terms (change in percent)	0.9	6.5	-4.5	10.7	3.6	3.1	3.0	2.4	2.4	2.0	2.0	1.1	3.2
Effective interest rate (percent) 4/	1.6	1.7	0.4	1.2	1.2	1.0	0.9	1.0	1.1	1.1	1.3	1.2	1.1
Growth of exports of G&S (US dollar terms, in percent)	-20.2	44.0	-21.1	-8.1	32.3	6.5	4.4	5.1	5.0	4.7	3.0	8.1	6.3
Growth of imports of G&S (US dollar terms, in percent)	-12.4	17.8	9.7	1.7	5.6	3.4	3.5	4.8	3.8	4.2	3.2	8.8	4.1
Grant element of new public sector borrowing (in percent)	...	...	...	39.0	38.3	39.7	41.6	44.7	45.8	42.7	40.1	...	42.2
Government revenues (excluding grants, in percent of GDP)	11.4	12.8	11.8	12.3	12.7	13.0	13.3	13.5	13.6	14.4	15.6	11.4	13.5
Aid flows (in Million of US dollars) 5/	156.3	156.3	96.5	100.0	112.3	103.1	107.4	119.6	128.9	166.9	281.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	5.1	5.6	4.5	4.0	4.1	4.0	4.0	3.9	...	4.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	75.7	75.7	76.3	82.0	82.8	83.3	82.4	81.7	...	80.9
Nominal GDP (Million of US dollars)	1,523	1,725	1,718	1,982	2,156	2,335	2,525	2,715	2,905	3,978	7,178		
Nominal dollar GDP growth	2.4	13.3	-0.4	15.4	8.8	8.3	8.1	7.5	7.0	6.1	6.1	5.2	8.0
Memorandum items:													
PV of external debt 7/	...	...	25.8	22.9	21.8	20.7	19.4	18.1	17.0	12.9	11.4		
In percent of exports	...	...	167.6	186.9	146.3	141.3	137.0	130.7	125.2	103.6	105.9		
Total external debt service-to-exports ratio	14.1	17.8	5.3	17.9	14.2	12.6	11.3	12.3	11.4	10.3	7.4		
PV of PPG external debt (in Million of US dollars)			442.9	453.9	469.9	483.2	488.9	490.2	493.1	514.6	815.4		
(PVt-PVt-1)/GDPt-1 (in percent)				0.6	0.8	0.6	0.2	0.1	0.1	0.2	0.6		
Non-interest current account deficit that stabilizes debt ratio	-2.1	0.6	10.0	11.9	5.3	5.5	5.4	5.0	4.4	3.5	2.8		

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.

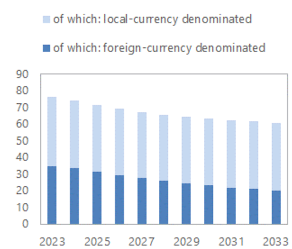
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Guinea-Bissau: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–43
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	77.7	78.8	80.4	76.5	74.1	71.5	69.3	67.3	65.7	60.8	55.7	63.9	67.0
of which: external debt	41.1	40.3	39.2	34.9	33.3	31.6	29.5	27.5	25.9	20.2	17.6	34.6	26.7
Change in public sector debt	12.4	1.1	1.6	-3.9	-2.4	-2.5	-2.2	-2.0	-1.6	-0.7	-0.4		
Identified debt-creating flows	6.8	2.9	0.8	-3.9	-2.4	-2.5	-2.2	-2.0	-1.6	-0.7	-0.4	0.9	-1.8
Primary deficit	8.1	4.3	4.7	3.2	1.0	0.8	0.8	0.7	0.7	0.4	0.3	3.6	0.9
Revenue and grants	15.4	19.1	15.2	16.3	17.2	16.6	16.6	16.9	17.0	17.7	18.9	16.1	17.1
of which: grants	4.0	6.3	3.4	4.0	4.5	3.6	3.3	3.4	3.4	3.4	3.3		
Primary (noninterest) expenditure	23.5	23.4	19.9	19.5	18.3	17.4	17.4	17.6	17.7	18.2	19.2	19.7	18.0
Automatic debt dynamics	-2.1	-2.1	-4.5	-7.1	-3.4	-3.3	-3.0	-2.7	-2.3	-1.1	-0.7		
Contribution from interest rate/growth differential	0.4	-5.7	-6.9	-4.8	-3.2	-3.0	-2.8	-2.6	-2.1	-0.7	-0.4		
of which: contribution from average real interest rate	1.3	-1.0	-3.7	-1.5	0.5	0.6	0.6	0.7	0.8	1.7	1.8		
of which: contribution from real GDP growth	-1.0	-4.7	-3.2	-3.2	-3.6	-3.5	-3.4	-3.3	-2.9	-2.4	-2.2		
Contribution from real exchange rate depreciation	-2.4	3.6	2.3	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.8	0.7	0.6	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)	0.8	0.3	0.6	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	5.6	-1.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.4	-0.2
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	65.6	63.3	61.5	59.8	58.5	57.2	56.2	53.3	49.5		
PV of public debt-to-revenue and grants ratio	...	...	430.0	387.8	356.9	360.6	352.9	338.4	330.6	300.4	262.2		
Debt service-to-revenue and grants ratio 3/	58.9	67.7	49.8	55.3	46.3	48.0	58.9	70.0	87.8	53.8	45.6		
Gross financing need 4/	17.9	17.9	12.9	12.2	9.0	8.7	10.6	12.5	15.6	10.0	8.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	1.5	6.4	4.2	4.2	5.0	5.0	5.0	5.0	4.5	4.0	4.0	4.1	4.6
Average nominal interest rate on external debt (in percent)	1.6	1.6	0.4	1.2	1.2	1.0	0.9	1.0	1.1	1.1	1.3	1.2	1.1
Average real interest rate on domestic debt (in percent)	4.4	0.2	-3.6	-1.6	2.2	2.3	2.4	2.5	2.6	3.7	4.2	-0.9	2.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-6.6	9.5	6.5	...	...	...	...	...	...	...	...	2.0	...
Inflation rate (GDP deflator, in percent)	-1.0	2.7	7.3	7.2	3.1	2.8	2.8	2.8	2.8	2.0	2.0	3.1	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	34.6	5.6	-11.0	1.8	-1.5	-0.3	5.1	6.3	4.9	4.4	4.1	11.3	3.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-4.3	3.2	3.1	7.1	3.4	3.3	3.0	2.7	2.3	1.1	0.7	0.7	2.7
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, 2023–33

(In percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
					PV of debt-to GDP ratio						
Baseline	23	22	21	19	18	17	16	15	14	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	23	21	19	17	15	14	12	10	9	7	6
B. Bound Tests											
B1. Real GDP growth	23	23	23	21	20	18	17	16	15	15	14
B2. Primary balance	23	22	22	20	19	18	18	17	16	15	15
B3. Exports	23	24	26	24	23	21	20	19	18	18	17
B4. Other flows 3/	23	25	27	25	24	22	21	20	19	18	18
B5. Depreciation	23	27	23	21	20	18	17	16	15	14	14
B6. Combination of B1-B5	23	28	28	27	25	24	23	21	20	19	19
C. Tailored Tests											
C1. Combined contingent liabilities	23	23	22	20	19	19	18	17	16	16	15
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	23	22	21	20	18	17	16	15	13	12	12
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	**187**	**146**	**141**	137	131	125	120	115	111	107	104
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**187**	**142**	131	122	111	100	90	78	67	57	47
B. Bound Tests											
B1. Real GDP growth	**187**	**146**	**141**	137	131	125	120	115	111	107	104
B2. Primary balance	**187**	**149**	**148**	**144**	138	135	132	128	124	121	120
B3. Exports	**187**	**222**	**266**	**259**	**249**	**240**	**232**	**224**	**217**	**210**	**205**
B4. Other flows 3/	**187**	**169**	**182**	**178**	**171**	**165**	**160**	**155**	**150**	**145**	**142**
B5. Depreciation	**187**	**146**	124	120	113	108	104	99	94	90	87
B6. Combination of B1-B5	**187**	**228**	**175**	**230**	**221**	**213**	**207**	**199**	**193**	**187**	**183**
C. Tailored Tests											
C1. Combined contingent liabilities	**187**	**152**	**149**	**145**	139	137	133	129	125	123	121
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	**187**	**146**	**144**	**140**	133	126	119	112	104	98	93
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	**18**	**14**	**13**	**11**	**12**	**11**	**12**	**12**	**11**	**11**	**10**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**18**	**15**	**13**	**12**	**13**	**12**	**12**	**13**	**12**	**11**	**11**
B. Bound Tests											
B1. Real GDP growth	**18**	**14**	**13**	**11**	**12**	**11**	**12**	**12**	**11**	**11**	**10**
B2. Primary balance	**18**	**14**	**13**	**11**	**12**	**12**	**12**	**12**	**12**	**11**	**11**
B3. Exports	**18**	**20**	**20**	**18**	**20**	**18**	**19**	**19**	**18**	**17**	**17**
B4. Other flows 3/	**18**	**14**	**13**	**12**	**13**	**12**	**12**	**13**	**12**	**11**	**11**
B5. Depreciation	**18**	**14**	**13**	**11**	**12**	**11**	**11**	**11**	**11**	**10**	10
B6. Combination of B1-B5	**18**	**18**	**18**	**16**	**18**	**16**	**17**	**17**	**16**	**15**	**15**
C. Tailored Tests											
C1. Combined contingent liabilities	**18**	**14**	**13**	**11**	**12**	**12**	**12**	**12**	**12**	**11**	**11**
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	**18**	**14**	**13**	**12**	**13**	**12**	**12**	**12**	**12**	**11**	**11**
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	**18**	**17**	**14**	12	13	11	11	11	10	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**18**	**17**	**15**	13	13	12	12	12	11	10	10
B. Bound Tests											
B1. Real GDP growth	**18**	**17**	**15**	13	14	12	12	12	11	10	10
B2. Primary balance	**18**	**17**	**14**	12	13	12	11	11	11	10	9
B3. Exports	**18**	**17**	**15**	13	13	12	12	12	11	10	10
B4. Other flows 3/	**18**	**17**	**15**	13	13	12	12	12	11	10	10
B5. Depreciation	**18**	**21**	**18**	**15**	**15**	14	14	14	13	11	11
B6. Combination of B1-B5	**18**	**18**	**17**	**14**	**15**	13	13	13	12	11	10
C. Tailored Tests											
C1. Combined contingent liabilities	**18**	**17**	**14**	12	13	12	11	11	11	10	9
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	**18**	**20**	**17**	**15**	**15**	13	12	12	11	10	9
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, 2023–33

(In percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	**63**	**62**	**60**	**59**	**57**	**56**	**56**	**55**	**54**	**54**	**53**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2	**64**	**65**	**66**	**68**	**69**	**70**	**72**	**73**	**74**	**75**	**76**
B. Bound Tests											
B1. Real GDP growth	**64**	**66**	**68**	**67**	**67**	**66**	**67**	**67**	**67**	**67**	**68**
B2. Primary balance	**64**	**67**	**69**	**68**	**66**	**65**	**64**	**63**	**62**	**61**	**61**
B3. Exports	**63**	**64**	**65**	**63**	**62**	**61**	**60**	**59**	**58**	**58**	**57**
B4. Other flows 3/	**63**	**65**	**66**	**64**	**63**	**62**	**61**	**60**	**59**	**59**	**58**
B5. Depreciation	**64**	**65**	**62**	**60**	**57**	**55**	**54**	**52**	**51**	**49**	**48**
B6. Combination of B1-B5	**64**	**64**	**64**	**61**	**60**	**58**	**57**	**56**	**56**	**55**	**54**
C. Tailored Tests											
C1. Combined contingent liabilities	**64**	**72**	**70**	**68**	**67**	**65**	**64**	**63**	**62**	**61**	**61**
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	**64**	**66**	**67**	**69**	**71**	**72**	**73**	**73**	**73**	**73**	**74**
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	388	357	361	353	338	331	325	318	311	305	300
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2	394	378	399	407	407	412	416	419	422	425	429
B. Bound Tests											
B1. Real GDP growth	394	377	400	398	387	384	383	380	378	376	376
B2. Primary balance	394	387	418	409	392	382	373	364	356	348	341
B3. Exports	388	370	390	381	365	356	349	342	334	327	322
B4. Other flows 3/	388	376	397	388	371	362	356	348	340	333	328
B5. Depreciation	394	387	381	366	344	330	319	307	295	284	275
B6. Combination of B1-B5	394	377	387	369	353	343	336	327	318	311	306
C. Tailored Tests											
C1. Combined contingent liabilities	394	417	421	411	394	382	374	365	357	348	342
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	394	426	456	469	454	444	433	417	414	411	411
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	55	46	48	59	70	88	78	66	58	56	54
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2	55	47	52	65	78	104	98	87	81	83	84
B. Bound Tests											
B1. Real GDP growth	55	48	52	65	77	98	90	79	72	70	70
B2. Primary balance	55	46	55	69	75	104	100	77	65	67	68
B3. Exports	55	46	48	60	71	88	79	66	59	56	54
B4. Other flows 3/	55	46	48	60	71	88	79	66	59	56	54
B5. Depreciation	55	46	49	58	69	85	76	65	58	55	53
B6. Combination of B1-B5	55	45	48	63	71	88	86	69	59	56	58
C. Tailored Tests											
C1. Combined contingent liabilities	55	46	63	65	74	119	93	73	64	74	66
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	55	52	59	75	87	112	104	90	82	81	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.

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, 2022-24[1/]

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In US$ million)	*(Percent of total debt)*	*(Percent of GDP)* [5]	*(In US$ million)*			*(Percent of GDP)*		
Total	1,387.0	100.0	80.4	129.7	177.8	130.7	7.5	9.0	6.1
External	676.4	48.8	39.2	13.9	43.5	45.1	0.8	2.2	2.1
Multilateral creditors[2]	541.8	39.1	31.4	10.9	39.7	41.1	0.6	2.0	1.9
IMF	40.5	2.9	2.3						
World Bank	190.6	13.7	11.0						
AfDB	53.8	3.9	3.1						
BOAD	205.6	14.8	11.9						
Other Multilaterals	51.3	3.7	3.0						
o/w: Islamic Development Bank	21.9	1.6	1.3						
BADEA	9.4	0.7	0.5						
Bilateral Creditors	134.6	9.7	7.8	3.0	3.8	4.0	0.2	0.2	0.2
Paris Club	9.8	0.7	0.6	0.3	0.5	1.3	0.0	0.0	0.1
o/w: Brazil	1.9	0.1	0.1						
Russia	1.5	0.1	0.1						
Non-Paris Club	124.8	9.0	7.2	2.7	3.3	2.7	0.2	0.2	0.1
o/w: Angola	49.1	3.5	2.8						
Kuwait	28.9	2.1	1.7						
Domestic	710.5	51.2	41.2	115.8	134.2	85.6	6.7	6.8	4.0
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	405.8	29.3	23.5	83.6	126.9	63.2	4.9	6.4	2.9
BCEAO	209.8	15.1	12.2	1.2	1.2	1.2	0.1	0.1	0.1
Loans local commercial banks[3]	75.2	5.4	4.4	20.3	4.4	4.4	1.2	0.2	0.2
Payment Arrears	19.7	1.4	1.1	10.7	1.7	16.7	0.6	0.1	0.8
Memo items:									
Collateralized debt[4]	0	0.0	0.0						
Contingent liabilities	32.2	2.3	1.9						
Public guarantees	32.2	2.3	1.9						
Nominal GDP	1,717.8			1,717.8	1,981.6	2,156.1			

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the
2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor
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, Executive Director for Guinea-Bissau, Mr. Matungulu, Alternate Executive Director for Guinea-Bissau and Mr. Lopes Varela, Advisor to the Executive Director for Guinea-Bissau

November 29, 2023

INTRODUCTION

On behalf of the Bissau-Guinean authorities, we thank the Executive Board and Management for their continuous support in promoting macroeconomic stability, growth, and development in Guinea-Bissau. We also appreciate the open and honest policy discussions held with the authorities, and staff's steadfast and priceless efforts in helping the country tackle the complex economic challenges it faces.

Guinea-Bissau's authorities are strongly committed to ensuring political stability and undertaking determined growth-supporting economic reforms. Following a period of political instability, Guinea-Bissau transitioned smoothly to an opposition-led government in August this year. This demonstrates the country's commitment to unwavering socio-political stability. Importantly, the new government has already taken significant steps to secure economic stability as well, ensure debt sustainability, and protect vulnerable populations, even amidst a challenging external environment which translates into severe terms-of-trade shocks, tighter financial conditions, and higher food prices. Despite these external pressures and heightened global uncertainty, the new authorities are firmly dedicated to their policy and reform agenda supported by the IMF under the Extended Credit Facility (ECF) arrangement. However, the increased balance-of-payment needs stemming from the deterioration of the external sector induces the authorities to request an augmentation of access under the arrangement. They look forward to continued support from the Fund and other development partners.

PROGRAM PERFORMANCE

Despite the difficult domestic and external environment, program performance in the period under review was satisfactory as significant efforts were made towards the end-June program targets. Four of the eight quantitative performance criteria have been met and all but one structural benchmarks observed. The missed quantitative targets were related to minimum tax revenue mobilization and wage bill ceiling (unmet by small margins), domestic budget balance, and the ceiling on external arrears. Underpinning factors include lower-than-expected cashew revenue, lower savings from the census of public workers in 2022, overrun on other current expenditures, and delayed external debt service payments. The government has taken corrective measures, including stepped-up efforts to enhance revenue collection and compliance (i.e., the DGCI's professionalization), strengthen expenditure controls, and ensure timely debt service payments. The only structural benchmark for June that was not met relates to the approval of the medium-term human resources plan, which has been postponed to March 2024 to align it with the 2024 budget.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Recent Developments

Recent growth performance and projections have been impacted by the unfavorable global economic environment while inflation is rising and the external position weakening. Economic growth for 2023 is projected at 4.2 percent, lower than the earlier anticipated 4.5 percent, due to reduced earnings from the cashew exports, even though there has been a rise in overall agricultural production and private investments. Rising food prices and ongoing disruptions in the global rice market are driving inflation up, with the estimated average inflation projected at 8 percent. Against the background of declining terms of trade stemming notably from the fall in cashew nut export prices and increased imported food and fuel imports, the current account deficit is expected to increase by 1.9 percentage points of GDP in 2023 compared to an estimate of 6.9 percent of GDP at the time of the second review.

The authorities are taking bold steps to rationalize spending and strengthen fiscal sustainability. They have committed to stay the course with the program goals on tax revenue and wage bill for December 2023. To that end, the authorities have notably cut monthly discretionary spending by about 20 percent of levels recorded in recent months, which has helped contain expenditure overruns. These measures, along with the tax administration improvements achieved and the rigorous implementation of the authorities' "no new hiring" policy, should help reduce the budget deficit by 0.9 percent of GDP in the last months of the year, limiting the primary budget deficit to 2.2 percent of GDP in 2023 against 3.1 percent of GDP in 2022. Going forward, perseverance in the implementation of these positive changes will underpin the anticipated improvements in the fiscal position and sustain the country's drive to medium-term fiscal and overall macroeconomic stability.

The banking sector has significantly improved in 2022, with all banks now meeting the regional prudential requirements and maintaining adequate capital levels, except for one undercapitalized bank. The government's prompt resolution of cross-arrears with debtors of the undercapitalized bank has led to a remarkable drop in the gross non-performing loans (NPLs) ratio, from 19.4 percent in 2021 to 10.4 percent in 2022. Furthermore, financial vulnerabilities due to sovereign debt and unfavorable exchange rate developments are now minimal, which testifies to increased market stability. These accomplishments highlight the authorities' commitment to preserving financial stability and upholding adequate financial regulatory requirements.

Outlook and Risks

The authorities concur with the staff's assessment of the economic outlook. The economy is expected to grow by 5 percent annually on average over the medium term, on the assumptions of a recovery in cashew exports, increased donor engagement, and better governance policies. Inflation should stabilize at 2 percent, while the current account deficit is anticipated to narrow in keeping with the fiscal consolidation efforts in train and improvements in the terms of trade.

The authorities are aware of the potential risks stemming from trade fluctuations, unpredictable weather patterns, and tightening financial conditions in the region. These risks could significantly impact food prices thereby heightening food insecurity risks; lower foreign financial inflows; and undermine financial stability. To mitigate related effects, the authorities have committed to step up fiscal consolidation efforts—notably through containing expenditures—and cover financing needs with mostly concessional resources.

POLICIES AND REFORMS FOR 2024 AND THE MEDIUM-TERM

The government is cognizant of the importance of taking bold steps to secure fiscal consolidation while providing space for higher social and development spending. To achieve these twin goals, they aim to boost revenue mobilization, improve spending efficiency, strengthen fiscal governance and transparency while addressing energy and banking sector vulnerabilities. Decisive policy actions in these critical areas will help ensure debt sustainability and pave the way for more robust and inclusive growth.

Fiscal Reforms and Debt Policy

Fiscal consolidation will gain momentum in the coming year, with the draft 2024 budget in line with important program parameters. The domestic primary balance is expected to improve by a hefty 1.8 percentage points of GDP in 2024, reflecting enhanced revenue mobilization efforts, tighter wage bill controls, and continuing rationalization of non-priority expenditure. The authorities will remain steadfast with these fiscal measures in the period ahead, aiming to reduce the overall budget deficit and public debt below the WAEMU thresholds of 3 percent and 70 percent of GDP, respectively, by 2025 and 2026.

To achieve the above fiscal goals, the authorities are taking measures to strengthen revenue mobilization and improve tax enforcement. Critical such actions in the revenue 3 agencies include the introduction of performance evaluation systems to identify underperforming managers and replace them with new ones selected through public tender. Work is also ongoing to improve tax enforcement by auditing some large taxpayers selected on a risk basis. The authorities are appreciative of the Fund's technical assistance in tax administration and revenue agencies management.

On expenditure and public financial management, the authorities are taking further measures to contain spending, reduce wage bill growth, and improve civil servant personal management. The Technical Committee of Arbitration of Budgetary Expenditure (COTADO) has been crucial in rationalizing non-priority expenditure, with the Prime Minister providing ex-post scrutiny to ensure its continuity. The authorities plan to eliminate ghost workers and generate significant savings in the wage bill through a new census of public workers. Furthermore, the completion of the pilot phase of the IMF-supported blockchain project this year and its rollout to other ministries by 2024 will significantly enhance public wage management. Additionally, the authorities are taking steps to promote economic diversification and ensure quality public service delivery by improving expenditure efficiency, allocating more resources to non-wage expenditure, introducing sustainable agricultural input support, and enforcing fiscal transparency and accountability.

Despite facing high risk of debt distress, Guinea-Bissau's debt remains sustainable, thanks to the authorities' commitment to sound policies and strong donor engagement. The stock of public and publicly guaranteed debt is anticipated to decline to 76.5 percent of GDP in 2023 against 80.4 percent in 2022. Despite this improvement, the authorities are aware that there is no room for complacency; they will continue to comply with the program QPC of a zero ceiling on new non-concessional borrowing, in line with their external borrowing plan, to ensure that debt ratios continue improving. The authorities will also rely to the extent possible on concessional resources as part of their overall financing strategy.

Mitigating Fiscal Risks

The new government is taking decisive steps to restore the financial viability of the public utility company EAGB. They have installed over 32,700 pre-paid electricity meters in just five months, which has resulted in a significant increase in EAGB's monthly revenue and helped the company meet its bill payment obligations to its energy supplier. The government plans to install an additional 40,000 pre-paid meters in various parts of the country in the period ahead. Moreover, the regional hydropower project (OMVG) is nearing completion, which will help reduce power purchase costs. Still, the authorities recognize that more must be done to complete the "Ring Line" Project and are taking all necessary measures to that effect. In the context of the electricity sector reforms, the government is renegotiating the country’s contract with the energy supplier with legal and technical assistance from the World Bank. The authorities are carrying out an audit of power purchase transactions under the contract and have committed to holding relevant managers accountable for uncovered irregularities and abuses.

Strengthening Governance and the Fight against Corruption

The new government is fully committed to prioritizing transparency, anti-corruption, and rule of law reforms. The Audit Court recently published the High Commissioner for COVID-19 audit report on its website, and it is making great strides in auditing COVID-19 related transactions of other entities. Additionally, the Directorate-General of Public Tenders (DGCP) is expanding its disclosure of beneficial ownership information to all public contracts through participation in the COTADO. With technical assistance from the Fund, the authorities will be able to enhance their AML/CFT efforts per the revised action plan based on the 2023 WAEMU AML/CFT Law. The authorities are mindful that lack of infrastructure is a challenge for the justice sector. Therefore, the 2024 budget has prioritized the construction of minimum infrastructure to maintain the sector's operation, which is a step in the right direction. The authorities are confident that with the support of partners, especially the IMF, they will be able to make significant progress in this critical area.

Enhancing the Integrity of the Financial Sector

The new government is making progress in disengaging from the undercapitalized bank. The authorities are pursuing the sale of the government stake to a strategic investor who will recapitalize the bank to meet relevant regulatory standards. The investor has expressed renewed interest, and the final terms of the proposed arrangement have been agreed upon. The proposal will soon be submitted for evaluation by the WAEMU Regional Banking Commission. If the sale falls through, the government stands ready to follow any recommendation deemed necessary by the Banking Commission. In addition, they will request an assessment of the bank's financial position and a full independent audit of the loan portfolio. The government will then prepare a report with a viable plan to ensure the bank is either recapitalized, resolved, or liquidated.

CONCLUSION

The new government is taking significant steps towards reinforcing political stability and strengthening fiscal sustainability by enforcing the rule of law, introducing critical tax and spending measures, as well as enhancing transparency and accountability in public resources management. The government is also making progress in mitigating fiscal risks. With support from partners, the authorities are confident that they will gradually but steadfastly achieve their goals under the ECF-supported program in an environment of increased financing needs. Against this background and considering the authorities' broadly satisfactory program performance and the measures they have taken to address identified weaknesses in program implementation, we would appreciate Executive Directors' support for the completion of the third review under Guinea-Bissau's ECF-supported program and for the authorities' request for an augmentation of access. We also call for Directors' support of waiver of nonobservance of performance criteria and revision of a performance criterion.