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2022 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE STAFF-MONITORED PROGRAM; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA-BISSAU

In the context of the 2022 Article IV Consultation and Third Review Under the Staff Monitored Program, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF following discussions that ended on April 21, 2022, with the officials of Guinea-Bissau on economic developments and policies. Based on information available at the time of these discussions, the Staff Report was completed on June 2, 2022.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Informational Annex**
- A Statement by the Executive Director for Guinea-Bissau.

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

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PRESS RELEASE

PR22/214

IMF Management Completes Third Review of the Staff-Monitored Program and IMF Executive Board Concludes 2022 Article IV Consultation with Guinea-Bissau

FOR IMMEDIATE RELEASE

- Guinea-Bissau's economy has recovered well from the Covid-19 pandemic. Growth is projected to reach 3.8 percent in 2022 supported by a continued strong performance of the cashew sector and a relatively stable political situation.
- The successful completion of the Staff Monitored Program (SMP) reflects the authorities' efforts to sustain strong fiscal management and to build a policy track record for an Extended Credit Facility (ECF) arrangement.
- The authorities recognize that sustained medium-term economic growth would benefit from additional governance reforms and economic diversification. Actions needed include increasing social spending to address human capital needs, improving the regulatory environment, increasing access to financial services, removing infrastructural bottlenecks, and maintaining political stability.

Washington, DC – **June 20, 2022:** IMF Management approved on May 25, 2022 the completion of the third and final review of Guinea Bissau's SMP[1] which was approved on July 19, 2021 to support an ambitious program of reforms aimed at stabilizing the economy, improving competitiveness, and strengthening governance.

The completion of the third and final review of the SMP is based on an overall satisfactory performance of the reform program despite the challenges caused by the COVID-19 pandemic and rising commodity prices associated with the war in Ukraine. Most quantitative targets assessed at end-March 2022 and structural benchmarks were met.

The authorities are committed to pursue fiscal consolidation in line with the 2022 budget objectives to continue securing overall debt sustainability. Combined with the successful conclusion of the SMP, this should provide a strong backing to the authorities' reform program and help catalyzing much-needed donor support. It is also essential to create more room for spending on pro-growth areas such as education, physical infrastructure, and health including vaccination-. The authorities are rightly determined to rein in the wage bill by finalizing the census of the public administration personnel and addressing irregular hiring. It is also necessary to mitigate fiscal risks stemming from state-owned enterprises, which could erode debt sustainability.

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

Further addressing governance vulnerabilities and reducing corruption risks will strengthen economic policy and business confidence**.** Ongoing reforms aim at enhancing public finance transparency, accountability and efficiency through enhanced domestic revenue and expenditure management. A critical governance reform of public finances is the gradual establishment of a Treasury Single Account. The implementation of the amended asset declaration regime once approved by Parliament, and the strengthening of resources for the audit court, the financial intelligence unit and the public procurement authority could also be significant factors in enhancing governance oversight.

On June 17, 2022 the Executive Board of the International Monetary Fund (IMF) also concluded the 2022 Article IV consultation[2] with Guinea-Bissau.

After years of political turmoil and delayed reforms, the authorities started implementing in 2021 an ambitious fiscal consolidation and reform program to ensure debt sustainability, create fiscal space to address developmental needs, and strengthen state capacity.

Following a modest GDP growth of 1.5 percent in 2020, growth is estimated to have accelerated to 5 percent in 2021 on the back of record cashew nut production, public investment in infrastructure, the gradual lifting of COVID containment measures, and an improvement in business confidence associated with a more stable political situation. Average inflation accelerated to 3.3 percent in 2021, reflecting pressures on prices of imported goods, especially food and fuel due to disruptions in global supply chain and increase in maritime transportation costs.

A continued strong performance of the cashew sector and a relatively stable political support a moderate economic recovery this year, partially offsetting the effects of the COVID-19 pandemic and surge in energy and food prices associated with the war in Ukraine. Growth is expected to slow down to about 3.8 percent while average inflation is expected to accelerate to 5.5 percent in 2022, reflecting renewed pressures on prices of imported goods, especially food and fuel. The overall macroeconomic outlook is turning somewhat positive, but risks are tilted to the downside, including those stemming from the impact of the ongoing war in Ukraine, and the upcoming parliamentary elections at the national level.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' implementation of their fiscal consolidation and reform program under the SMP, as well as their successful vaccination campaign, despite challenging conditions. Directors noted the crucial role of the Rapid Credit Facility (RCF) and SDR allocation, underpinned by the SMP, in helping to address the adverse impact of the pandemic, improve spending transparency, and mitigate debt vulnerabilities. They stressed the need to sustain fiscal consolidation and accelerate reforms, including in governance, to promote inclusive growth and diversification.

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[2] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Directors recommended standing ready to implement additional measures should downside risks materialize, including from a protracted pandemic, food inflation, and climate shocks. They welcomed the authorities' request for an ECF arrangement to continue supporting the government's reform program and catalyzing much needed donor support.

Noting the country's debt vulnerabilities, limited fiscal space, and large development needs, Directors stressed the importance of revenue mobilization, non-priority expenditure control, and reliance on grants and highly concessional loans to support social and infrastructure spending. They welcomed in this regard measures to rein in the wage bill and mobilize additional tax revenue, including recent revisions to the general tax code and VAT statute, and the planned removal of distortionary tax exemptions and reform of the income tax regime. Directors encouraged the authorities to continue tax administration and public financial management reforms to underpin the efficient and transparent management of public resources. Strengthening debt management is also important to prevent new arrears accumulation, while improving governance of the utility state-owned enterprise is critical to mitigate fiscal risks.

Directors underlined the importance of fostering financial intermediation to boost growth. To this end, they urged measures to promote financial inclusion and manage banking sector vulnerabilities, including by addressing NPLs and designing a viable disengagement strategy of the large, undercapitalized bank.

Directors called for swift implementation of reforms to enhance the business climate, governance, and transparency. They welcomed the authorities' commitment to publishing audits of pandemic-related spending and public procurement contracts, and the amendment of the legal procurement framework. Directors encouraged the authorities to implement the new asset declaration regime and increase resources for the audit court, financial intelligence unit, and public procurement authority. They also called for strengthening the AML/CFT framework and general data provision.

It is expected that the next Article IV consultation with Guinea-Bissau will be held on the standard 12-month cycle.

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

	2019	2020	2021	2022	2023	2024	2025	2026
			Prel.	Proj.				
National accounts and prices								
Real GDP at market prices	4.5	1.5	5.0	3.8	4.5	5.0	5.0	5.0
Real GDP per capita	2.3	-0.7	2.7	1.5	2.3	2.8	2.9	2.9
GDP deflator	-3.5	-1.0	2.7	2.8	2.8	2.8	2.8	2.8
Consumer price index (annual average)	0.3	1.5	3.3	5.5	4.0	3.0	2.0	2.0
External sector								
Exports, f.o.b. (CFA francs)	-22.7	-15.6	28.4	7.1	9.2	4.3	3.2	3.5
Imports, f.o.b. (CFA francs)	20.5	-9.4	13.3	13.4	1.9	2.4	3.1	4.7
Terms of trade (deterioration = -)	-31.4	-3.7	-6.8	-15.7	6.1	4.8	2.8	2.5
Real effective exchange rate (depreciation = -)	-2.8	2.3	1.4	...	...	...	...	...
Exchange rate (CFAF per US$; average)	585.9	574.8	554.2	...	...	...	...	...
Government finances								
Revenue excluding grants	9.2	-5.5	22.7	4.7	17.0	9.7	9.0	7.3
Expenditure	-2.6	33.8	7.9	-9.9	11.4	4.3	6.0	7.6
Current expenditure	18.7	14.5	3.5	-4.8	6.7	5.4	7.1	7.1
Capital expenditure	-38.5	96.7	16.1	-18.4	20.7	2.5	4.0	8.4
Money and credit								
Domestic credit	13.8	-1.7	18.5	2.3	11.0	11.2	8.1	8.2
Credit to the government (net)	13.8	-19.7	53.4	-8.9	6.6	5.6	-7.3	-8.9
Credit to the economy	13.8	5.9	7.3	7.4	12.8	13.3	13.3	13.0
Net domestic assets	12.0	-13.8	21.0	3.4	16.3	15.8	10.9	10.8
Broad money (M2)	0.3	9.1	7.6	2.7	4.2	4.7	5.7	6.3
Investments and savings								
Gross investment	19.2	20.1	21.6	21.6	23.1	23.4	23.9	24.7
Of which: government investment	3.0	5.8	6.3	4.8	5.4	5.1	4.9	5.0
Gross domestic savings	5.4	5.7	7.5	6.1	9.4	10.7	11.8	12.8
Of which: government savings	-3.5	-7.6	-5.5	-3.1	-2.3	-2.0	-1.6	-1.6
Gross national savings	10.7	17.4	18.4	15.1	18.4	18.9	19.7	20.6
Government finances								
Revenue excluding grants	12.1	11.4	13.0	12.7	13.9	14.1	14.2	14.2
Domestic primary expenditure	13.5	16.0	14.9	14.2	14.3	13.6	13.5	13.7
Domestic primary balance	-1.4	-4.6	-1.9	-1.5	-0.4	0.5	0.7	0.4
Overall balance (commitment basis)								
Including grants	-3.9	-9.6	-5.7	-4.4	-4.0	-3.5	-3.0	-3.0
Excluding grants	-6.7	-13.6	-12.1	-8.4	-8.1	-7.1	-6.6	-6.6
External current account	-8.5	-2.7	-3.2	-6.5	-4.7	-4.5	-4.2	-4.1
Excluding official current transfers	-9.7	-5.8	-6.0	-8.6	-7.3	-6.7	-6.4	-6.3
Stock of public and publicly guaranteed debt[1]	64.0	76.5	78.5	78.4	76.4	73.9	71.2	68.8
Of which: external debt	36.5	40.4	40.1	40.3	37.7	35.4	32.8	30.4
Memorandum items:								
Nominal GDP at market prices (CFAF billions)	870.9	875.2	943.7	1006.5	1081.3	1167.1	1259.8	1359.8
WAEMU gross official reserves (billions of US$)	17.5	21.8	24.5	...	...	...	...	...
(percent of broad money)	34.1	33.2	30.2	...	...	...	...	...

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

[1] Coverage expanded to include legacy arrears.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

June 2, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE STAFF-MONITORED PROGRAM

EXECUTIVE SUMMARY

Context. After years of political turmoil and delayed reforms, the authorities started implementing in 2021 an ambitious fiscal consolidation and reform program to ensure debt sustainability, create fiscal space to address developmental needs and strengthen state capacity. A Rapid Credit Facility (RCF) disbursement of SDR 14.2 million (50 percent of quota) was approved in January 2021 to provide urgent financing to support critical spending in health. A 9-month Staff-Monitored Program (SMP) with three quarterly reviews was approved in July 2021 to support the government's reform program aimed at stabilizing the economy, strengthening governance, and building track record of policy implementation to underpin the authorities' request for an Extended Credit Facility (ECF) arrangement. The August 2021 SDR 27.2 million allocation and the reforms underpinned by the SMP have helped address the adverse impact of the pandemic, improve government spending transparency, mitigate debt vulnerabilities.

Policy challenges: Sustained and inclusive growth will require strengthening governance as well as revenue mobilization to enable priority and infrastructure spending. High levels of non-performing loans and a large undercapitalized bank need to be addressed to bolster financial intermediation. Also, diversification is needed to create job opportunities and reduce reliance on the cashew nut sector.

SMP review. Program performance at end-December 2021 towards establishing a track record was satisfactory. Five out of seven end-December quantitative targets were met. The two QTs of zero ceilings on new domestic and external arrears were missed because of the hiring of irregular workers in the health sector and operational issues in small external debt payments. One out of eleven structural benchmarks (SB) relating to design a credible exit strategy from a large public bank was missed but authorities are committed to completing the design in consultation with the Fund.

Staff views. Staff supports completion of the 2022 Article IV Consultation and the third review under the SMP based on program performance and the polices outlined in the attached Letter of Intent (LOI). The 2022 budget and its execution, and the implementation of the tax reform package approved by parliament supports the envisaged fiscal consolidation path. Downside risks remain, including a more protracted high energy and food prices and pandemic that could trigger social tensions and political instability.

Approved By
Montfort Mlachila (AFR) and Eugenio Cerutti (SPR)

An IMF team consisting of Jose Gijon (Head), Pedro Juca Maciel, Leonardo Pio Perez, Tomas Picca, Harold Zavarce (all AFR), Koon Hui Tee and Paulo Paz (FAD), Patrick Gitton (Resident Representative) and Gaston Fonseca (local economist) held discussions with the authorities. The mission met with H.E. President Sissoco Embaló, Prime Minister Nabiam, Vice-Prime Minister Sambú, the Minister of Finance Fadia, BCEAO National Director Embalo, Minister of Environment and Biodiversity Cassamá, Minister of Energy, Industry and Natural Resources Viegas, Minister of Public administration, Labor, Employment and Social Security Djaló, BCEAO National Director Embaló, President of the Court of Auditors Baldé, Members of the Economic Commission of the National Popular Assembly and High Commission for COVID-19. The team also met with officials from the Ministries of Finance, Economy, the National Institute of Statistics, the National Direction of the BCEAO, the National Institute of Statistics, the Financial Intelligence Unit, and other officials. In addition, the mission met representatives from private sector associations and public sector enterprises, and from key bilateral and international partners. The mission took place during April 5–21, 2022. Mr. Varela (Advisor to the Executive Director, OED) participated in the policy discussions. Fairoza Jaghori (AFR) contributed to the preparation of this report.

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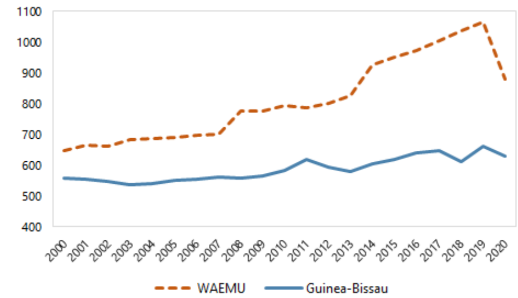
CONTEXT

1. **Guinea-Bissau is a small fragile state facing significant developmental challenges while endowed with abundant natural resources**. The country lags its peers and ranks near the bottom of global key economic and social indicators (Figure 1). Conflict,[1] weak governance, and large infrastructure gaps have constrained development. Poverty, last measured in 2014 at 67.1 percent, is endemic and human capital is weak, with 44 percent of the adult population having not completed primary education. Agriculture accounts for about 45 percent of GDP and the export base is concentrated in unprocessed cashew nuts,[2] making the country highly exposed to weather and commodity price shocks. The country has a privileged geographical location and the highest proportion of natural wealth per capita in West Africa, including agricultural land, fisheries, and forest.

Text Figure 1. Gross National Income Per Capita

(Constant 2015 US$)



Source: World Bank Database

2. **Growth has been low and volatile and food insecurity is significant**. Per capita income is low and has grown on average 0.6 percent annually between 2000 and 2020, making Guinea-Bissau among the poorest countries in SSA (Text Figure 1). It ranks 99 out of 119 in the 2019 Global Hunger Index and large part of the population face undernutrition. The country has the second-highest proportion of undernourished population in West Africa after Liberia (25 percent of the population, Box 1).

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[1] In the last sixty years, conflict includes an eleven-year independence war (1963-74), a civil war (1998–99) and four military coups (1980, 2003, 2011 and 2012). Since independence, there were 16 coup attempts including the most recent one in February 2022. The cost of chronic political instability in terms of GDP per capita lost is estimated between 65 and 90 percent (da Silva Filho, 2015, pp.4-12, SM/15/160).

[2] Raw cashew nuts account for 90-98 percent of total exports.

Box 1. Rising Food Insecurity[1]

The country is experiencing food insecurity despite favorable conditions for higher agricultural output. It ranked 110 out of 135 in the 2021 Global Hunger Index and has made no progress towards achieving Zero Hunger by 2030 (SDG2). It has the second-highest proportion of undernourished population in West Africa after Liberia. The level of food insecurity is particularly high in rural areas: 34 percent of rural population are food insecure during the lean season. During those months (July-September), households' stocks run low, while revenue from the cashew nut campaign[2] dries up.

More than two thirds of the population do not have a healthy diet. A minimum energy diet is unaffordable for more than a quarter of the population (28 percent) estimated by the WFP at US$2.3 per day for an average household of seven people. The cost of a nutritious diet (US$ 4.00) would be unaffordable for about 68 percent of the population. Vulnerable rural households fail to diversify their diet from rice, causing micronutrient deficiencies (Iron, Vitamin A, Zinc).

Maternal and child malnutrition is prevalent. Stunted growth affects 28 percent of children aged 6-59 months, peaking above 30 percent in certain regions (Oio, Bafatá, Gabu). The proportion of children under 2 years old receiving an appropriate diet is extremely low (about 4 percent). Only 32 percent of females aged 15-49 years achieve minimum dietary diversity, while 44 percent suffer from anemia. This negatively impacts labor productivity.

The number of vulnerable households has doubled in one year. In March 2022, the number of households needing immediate assistance reached 131,444 (9.8 percent of people surveyed), while people "under pressure" facing a serious risk of food insecurity reached 349,610 (26.3 percent). The price effect of Ukraine war contributed to the pressure: the country is entirely import-dependent for wheat flour and refined petroleum. WFP's monitoring of 44 local markets indicates an increase by 20 percent of the price of flour between January and March 2022, and by 9 percent, 25 percent and 40 percent for rice, beans and sugar, respectively.

Short term policy responses focus on social transfers and resilience to shocks. The WFP implements a feeding program for 150,000 school children combined with a support to smallholder farmers associations to supply fresh food to schools. It also assists 21,000 children through a stunting prevention program. Other critical policy sides include agricultural resilience to climate shocks, such as costal erosion and recurring flooding, higher market access and upgraded food supply chain services.

A strategy geared towards promoting food security requires a multifold approach. The pandemic has emphasized the need to integrate education, health, food and nutrition strategies to address multidimensional poverty. Various Ministries (Women, Family and Social Solidarity; Agriculture and Rural Development; Health; Interior; Finance) and several international partners (AfDB, FAO, IFAD, UNFPA, UNICEF, World Bank, WFP[3], WHO) work on core aspects of food security. Strong inter-institutional coordination is necessary to strengthen data collection and monitoring tools, better target recipients of social assistance and assess the needed fiscal space while building sustainable food-related infrastructure and logistics.

[1] IMF-World Food Programme (WFP) joint analysis in the context of a pilot collaboration. All data are from WFP.

[2] The cashew nut campaign corresponds to the annual period of harvest and commercialization. Following the raining season, in January and February the cashew trees bloom and the fruit is harvested between April and June. The commercialization typically occurs from April to September. Harvesting cashew is the most dominant economic activity among Bissau-Guinean households. More than 50 percent of households engages in production, processing, or sale of cashew nuts.

[3] WFP Country Strategic Plan 2023-2027.

3. Despite the persistence of the pandemic, Guinea-Bissau has had a period of relative political stability.

- *COVID-19*. By end-April 2022, there were 8,202 confirmed cases and 171 deaths.[3] The authorities have been taking actions to protect the population and limit the economic impact of the pandemic.[4] Measures to contain a fourth wave of infections in January 2022 was successful.
- *Vaccination*. Guinea-Bissau launched a national vaccination program in April 2021. By end-April 2022, about 50 percent of the adult population was vaccinated,[5] placing Guinea-Bissau as among 20 countries in SSA with the highest vaccination rates. Additional donor support is needed to obtain more vaccines and accelerate the vaccine rollout.[6]
- *Political situation*. Guinea-Bissau has enjoyed relative political stability since the appointment of the new government in 2020. However socio-political tensions could arise due to demands for higher public sector salaries, the adoption of new taxes, increases in food and fuel prices, persistent weak governance and corruption, high levels of poverty, and weak public service delivery. A putsch attempt against the government took place in February 2022 which was attributed by the authorities to drug traffickers and corrupt officials. Investigations are ongoing.[7] Next legislative and presidential elections are scheduled for end-2022 and 2024, respectively.

4. However, the global spillovers from the war in Ukraine are having an adverse impact on Guinea-Bissau. Higher food and fuel prices are expected to slow down economic growth, adding inflationary pressures, widening the current account deficit, and weighing on the fiscal position. The authorities are taking policy actions through focalized transfers and transitory tax expenditures on gasoline and key food prices to protect the livelihood of the most vulnerable. Support from international partners may contribute to these mitigation policies while creating conditions to recover from the pandemic and preserving political stability.

5. The authorities are implementing an ambitious reform agenda supported by the SMP to strengthen and foster long-term development. A high wage bill and interest burden combined with relatively low revenue mobilization constrain the infrastructure investment and social spending. Poor governance is holding back private sector investment and donor support to sustain inclusive economic growth. The reform agenda includes securing macroeconomic stability through ambitious fiscal consolidation, preserving debt sustainability, fighting corruption, and improving governance. The authorities are leveraging digitalization to enhance wage bill control and revenue

[3] COVID-19 as reported by the WHO.

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

[5] The target population corresponds to 70 percent the population of at least 18 years of age, or about 700,000 people. By end-April 2022, about 74 of percent of the adult population received at least one shot.

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

[7] Security forces repelled the assault and restored order, leaving eight casualties. ECOWAS denounced the attempted coup and agreed, on February 4, to deploy troops to Guinea-Bissau to help stabilize the country.

mobilization. The 2022 budget and tax reform package approved by parliament supports strong fiscal consolidation. Building on the SMP achievements, ongoing technical assistance (TA), and past Fund advice (Annexes III, IV and V), the Article IV consultation focused on critical medium-term priorities to anchor debt sustainability, macroeconomic stability, and sustain inclusive growth.

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

6. **The economic activity is recovering from the pandemic and inflation increased.** After a modest GDP growth of 1.5 percent in 2020,[8] growth is estimated to have accelerated to 5 percent in 2021 on the back of record cashew nut production, public investment in infrastructure, the gradual lifting of COVID containment measures, and an improvement in business confidence associated with a more stable political situation. Historical record level of cashew nut exports generated a positive impact on fiscal and external accounts, and economic activity (Text Table 1).[9,10] Timely measures to contain several waves of the pandemic mitigated economic activity disruptions including the deployment of the COVID-19 vaccination campaign. However, average inflation accelerated to 3.3 percent in 2021, reflecting pressures on prices of imported goods, especially food and fuel due to disruptions in global supply chain and increase in maritime transportation costs.

Text Table 1. Guinea-Bissau: Macro Performance during the Pandemic

	2019	2020		2021		2022	
	Prel.	Pre-shock[1] proj.	After shock estimates	Pre-shock[1] proj.	After shock proj.	Pre-shock[2] proj.	After shock proj.
Real GDP (percent change)	4.5	4.9	1.5	5.0	5.0	4.0	3.8
GDP deflator (percent change)	-3.5	2.1	-1.0	3.6	2.7	2.8	2.8
CPI inflation, average (percent)	0.3	1.5	1.5	1.8	3.3	2.0	5.5
Current account (percent of GDP)[3]	-8.5	-4.5	-2.7	-4.6	-3.2	-4.3	-6.5
Overall fiscal balance, commitment basis incl. grants (percent of GDP)	-3.9	-5.1	-9.6	-5.1	-5.7	-4.2	-4.4
Total public and publicly guaranteed debt (percent of GDP)	64.0	71.5	76.5	71.1	78.5	78.2	78.4
Memorandum items:							
Nominal GDP (CFAF billion)[4]	871	893	875	972	944	966	1007
Cashew nut export prices (US$ per ton)	1098	1140	1000	1180	1154	1158.8	1159
Cashew export volume (thousands of tons)	196	208	155	214	234	240.0	240

Sources: Guinea-Bissau authorities; and IMF staff estimates and projections.
1/ Projections as of January 2020, before COVID-19 shock.
2/ Projections as of January 2021, before Ukraine war shock.
3/ In 2019 the current account deficit includes the one-off import (3.5 percent of GDP) of a power-generation ship that is anchored off the coast of Bissau and supplies electricity to the city.
4/ Revised figures based on the release of the national account estimates for 2018.

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

[9] Cashew nut exports have contributed to the improvement of the external balance and have provided much needed extra income to at least 500,000 households of poor cashew farmers.

[10] The National Institute of Statistics released the 2018 National Accounts. The real GDP grew 3.8 percent, slightly higher than 3.4 percent from the IMF estimates for the year, and the deflator reached -2.5 percent, compared to -5.2 percent in the previous IMF estimates. As a result, the nominal GDP reached higher level in 2018 and created a higher base effect for the following years.

7. The improved economic situation and progress in revenue mobilization had a positive impact on the fiscal accounts, partially compensating pandemic-related spending pressures. The overall fiscal deficit on commitment basis fell to 5.7 percent of GDP in 2021 from 9.6 percent in 2020. This adjustment reflected the unwinding of pandemic-related effects, greater revenue mobilization and expenditure controls adopted in the 2021 budget (Text Table 2). The January 2021 RCF disbursement contributed 1.1 percent of GDP toward financing needs, the CCRT debt service relief an additional 0.2 percent of GDP, and the August 2021 SDR allocation 2.4 percent of GDP. Other multilateral organizations and bilateral donors stepped in along with the IMF reducing the need for non-concessional regional financing (Table 2b).

8. External current account slightly deteriorated in 2021 despite of a record cashew nut campaign and remittances. Cashew nut exports have increased by 39.9 percent in 2021, compared to 13.2 percent growth of imports, and reduced the trade balance deficit. Workers' remittances reached a historical record level at 7 percent of GDP and contributed to the improvement in the secondary income account.[11] As a result, the current account deficit is estimated to have reached to 3.2 percent of GDP. The August 2021 SDR allocation contributed to closing the external financing gap and enabled the authorities to pay debt service of BOAD —the regional development bank—for 2021 and 2022.

Text Table 2. Guinea-Bissau: Fiscal Performance in 2021
(Percent of GDP)

	SMP Request, Targets	1st and 2nd Review, Targets	3rd Review, Estimates	Difference: 3rd Review vs SMP Request	Difference: 3rd Review vs 1st and 2nd Review
Revenue and grants	**18.5**	**17.9**	**19.3**	**0.8**	**1.5**
Revenue	13.1	12.8	13.0	-0.2	0.2
Of which: Tax revenue	10.1	9.9	9.9	-0.1	0.0
Nontax revenue	2.9	2.9	3.1	0.2	0.2
Grants	5.4	5.1	6.4	1.0	1.3
Expenditure	**23.6**	**22.8**	**25.0**	**1.5**	**2.2**
Expense	15.4	15.5	15.7	0.4	0.3
Of which: Wages and salaries	6.5	6.2	6.2	-0.3	0.0
Net acquisition of nonfinancial assets	8.2	7.4	9.3	1.1	1.9
Overall balance, including grants (commitment)	**-5.0**	**-4.9**	**-5.7**	**-0.6**	**-0.8**
Change in arrears	-1.6	-0.9	-1.0	0.6	-0.1
Overall balance, including grants (cash)	**-6.6**	**-5.8**	**-6.6**	**0.0**	**-0.8**
Domestic primary balance (commitment)	**-1.8**	**-2.0**	**-1.9**	**-0.1**	**0.1**
Domestically financed vaccination expenditure[1]	0.2	0.2	n.a.	n.a.	n.a.
Domestic primary balance (commitment, adjusted)	**-2.0**	**-2.2**	**-1.9**	**0.1**	**0.3**

Sources: Guinea-Bissau Authorities and IMF staff estimation
[1] See TMU paragraph 11

9. The stock of public debt increased slightly despite the improvement of the fiscal position. The stock of public debt increased by 2.0 percent of GDP in 2021 with an increase in

[11] The increase in the remittance's inflows reflect improvements in the collection of information due to the usage of digital technologies and is considered to have a permanent basis effect. In 2021, there was an additional higher inflow associated with the pandemic that is considered transitory.

domestic debt corresponding to the SDR allocation on-lent by the BCEAO. External debt remained broadly stable in 2021 with the pre-payment of debt to BOAD due in 2022 compensating the budget support from the IMF RCF and project financing from the World Bank.[12] The stock of debt is nonetheless projected to begin falling in 2022 and converge to the WAEMU 70 percent of GDP debt ceiling by 2026.

10. Pandemic-related measures implemented by BCEAO, the regional central bank, have contributed to support credit. The liquidity of the banking system has been supported by the accommodative stance of the BCEAO. The banking sector excluding one large undercapitalized bank has adequate capital levels, meeting regional prudential criteria. Credit to the economy grew 7 percent in 2021 after strong pre-pandemic growth, showing that the supportive measures provided by the BCEAO helped the financial system withstand the pandemic shock, avoiding a credit crunch (Table 5). Gross NPLs to total loans remain high but declined in 2021 and are well provisioned. However, the financial situation of the large undercapitalized bank represents an important vulnerability.

11. Five out of seven quantitative targets (QTs) were met (Table 6). The domestic primary balance QT was met, despite higher domestic primary expenditure, largely due to pandemic-related and social priority spending. Social and priority spending exceeded the QT. The QTs on the non-recurrence to contracting (or guaranteeing) new non-concessional debt and non-regularized expenditure (DNTs) were also met. The domestic tax revenue floor QT was met despite lower-than-expected telecom tax collection, supported by robust cashew-related tax revenues. The zero ceilings on new domestic arrears and new external arrears were missed because of the irregular hirings by the health sector and the clearance of small remaining external arrears in November,[13] respectively. Staff identified the accumulation of arrears is a recurring problem in the public administration and advised the authorities to take corrective actions to address the issue (¶19 and ¶30).

12. All but one structural benchmarks (SBs) were met for the third review (Table 7). SBs met included the adoption and publication by the Council of Ministers of a decree to enable the collection and publication of beneficial ownership information of public procurement contracts and the full implementation of the Kontaktu system for electronic filing of tax returns. Moreover, as part of the commitments of the MEFP, the government submitted to parliament a reform of the asset declaration regime. While the authorities have provided a report with a proposed exit strategy from the large undercapitalized bank to the Fund, staff advised to include key financial information and reconsider the viability of the proposed disengagement strategy.

[12] More details in the DSA.

[13] The US$0.5 million external payments arrears identified at end-June have been fully cleared in Q4. The arrears with the Islamic Development Bank were cleared on October 7 while the historical arrears to Libya, including the US$0.34 million incurred during the SMP, were cleared on November 8.

OUTLOOK AND RISKS

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

- *Near-term.*[14] A continued strong performance of the cashew sector and a relatively stable political support a moderate economic recovery this year, partially offsetting the effects of the COVID-19 pandemic and surge in energy and food prices associated with the war in Ukraine. Growth is expected to slow down to 3¾ percent (from 5 percent in 2021) while average inflation is expected to accelerate to 5.5 percent in 2022 (from 3.3 percent in 2021), reflecting renewed pressures on prices of imported goods, especially food and fuel. Growth is supported by a continued strong performance of the cashew sector and a relatively stable political situation.
- *Medium term.* Guinea-Bissau should tap its economic potential—especially in agriculture, tourism, and fisheries, despite effects of the war in Ukraine,[15] through the authorities' sustained sound fiscal management, greater political stability, and donor support catalyzed by IMF engagement (Text Table 3).
  - Growth should accelerate above potential (Box 2) to around 5 percent a year in 2024, supported by continued high cashew prices, structural reforms, greater donor engagement, enhancements in business environment and access to finance which are expected to boost private investment. Higher public investment in key infrastructure and greater state capacity underpinned by governance reforms, will also contribute to sustain growth until 2027 (Box 1). [16]
  - Inflation is expected to accelerate to 5.5 percent in 2022, because of persistent high oil and food prices, and remain above 3 percent until 2024, gradually converging to about 2 percent by 2025 as the pandemic and the security crisis in Europe subsidize.
  - The current account deficit is expected to worsen in 2022-23 reflecting higher import prices and lower private transfers before gradually improving due to sustained fiscal consolidation and more favorable terms of trade.
  - Sustained fiscal consolidation and greater donor support should make the overall fiscal deficit converge to the 3 percent WAEMU criterion by 2025.

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[14] The outlook is based on the pandemic partially subsiding globally and its effects moderating locally after the third quarter of 2021 due to the effectiveness of containment measures and increased access to vaccines.

[15] The conflict in Ukraine is expected to affect the baseline in 2022-23.

[16] Governance reforms are estimated to yield an additional ¾ percentage point in annual *transitional* growth conditional on Guinea-Bissau reaching the average level of SSA countries in terms of the corruption index. In the long-term horizon 2032-47, potential growth is estimated conservatively to converge to about 4 percent.

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

	2022		2023		2024		2025		2026		2027	
	Pre-shock[1] proj.	After shock proj.	Pre-shock[1] proj.	After shock proj.	Pre-shock[1] proj.	After shock proj.	Pre-shock[1] proj.	After shock proj.	Pre-shock[1] proj.	After shock proj.	Pre-shock[1] proj.	After shock proj.
Real GDP (percent change)	4.0	3.8	5.0	4.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
GDP deflator (percent change)	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.9	2.8
CPI inflation, average (percent)	2.0	5.5	2.0	4.0	2.0	3.0	2.0	2.0	2.0	2.0	2.9	2.0
Current account (percent of GDP)	-4.3	-6.5	-4.3	-4.7	-4.2	-4.5	-4.0	-4.2	-4.0	-4.1	-4.0	-4.0
Overall fiscal balance, commitment basis incl. grants (percent of GDP)	-4.2	-4.4	-4.1	-4.0	-3.6	-3.5	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Total public and publicly guaranteed debt (percent of GDP)	78.2	78.4	76.2	76.4	74.0	73.9	71.3	71.2	68.9	68.8	66.8	66.7
Memorandum items:												
Nominal GDP (CFAF billion)[2]	966	1007	1042	1081	1125	1167	1214	1260	1311	1360	1416	1468
Cashew nut export prices (US$ per ton)	1158.8	1159	1194	1194	1229	1229	1254	1254	1279	1279	1305	1305
Cashew export volume (thousands of tons)	240.0	240	245	245	250	250	255	255	260	260	265	265

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

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

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

- *Outlook risks* (Annex I). Downside risks arise from domestic political risks and weak capacity, disappointing cashew nuts exports and the extent of the on-going security crisis in Europe which could impact food and oil prices and donor support. Guinea-Bissau is also subject to severe climate change-related natural disasters. Financial stress in state-owned enterprises and banking fragilities could also generate contingent liabilities and additional fiscal pressures. An eventual failure of the largest SOE to comply with debt service restructuring agreements with local commercial banks could trigger public guarantees. A large domestic bank remains undercapitalized even after a capital injection by the government in 2019 and could require additional public resources. Should downside risks materialize, the authorities are committed to further rationalize non-priority expenditures and domestically financed investment. However narrow margin to react to further deterioration of external conditions may need IFIs' support. To mitigate governance and fragility risks, the authorities are committed to implement the structural reforms discussed below. On the upside, a stronger performance of the cashew sector and a successful vaccination campaign would underpin a faster recovery.

14. Staff shared with the authorities a downside scenario.[17] The scenario combines shocks to growth, remittances, cashew prices, revenue mobilization and the fiscal deficit (Annex II). It shows the importance of implementing the baseline fiscal consolidation to keep the debt dynamic on a downward trend in line with WAEMU convergence criteria and diversifying the economy and exports to mitigate external vulnerabilities. In case risks materialize without further concessional support, the authorities would need to consider additional revenue measures, rationalization of non-essential current spending and delaying lower-priority investment.

Authorities' Views

15. The authorities broadly concurred with staff's assessment of the medium-term outlook and risks. They emphasized that improvements in social and priority spending and infrastructure—including road construction and electricity supply—are fundamental to achieve

[17] Staff made a presentation on the adverse scenario (Annex II), debt sustainability assessment, and Article IV analytical annexes to the Vice-Prime Minister and eight members of the cabinet.

developmental objectives in the medium term. They also highlighted the need to unlock the country's economic potential in rice production, tourism, fisheries, and mining. The authorities acknowledged the risks associated with the export concentration in cashew nut and noted the need to diversify the economy, including by investing in health and education. Regarding the downside scenario (¶14), the authorities acknowledge that implementation of the medium-term fiscal consolidation plan and an economic diversification strategy are needed to ensure macroeconomic stability while facing an uncertain global environment.

Box 2. Potential Output

Guinea-Bissau has been highly exposed to significant economic fluctuations and political instability. The potential output evaluation is relevant for discussions on the medium-term economic outlook as well as impacts of structural reforms on the growth dynamics and development strategies. Staff estimated the potential output based on standard techniques such as Hodrick-Prescott (HP) filter and production function (PF).

The results show the potential GDP growth rate has increased using both methodologies (Figures 1.1 and 1.2). The HP filter approach estimates the potential output has grown since the country's last coup recorded in 2012. The results of the production function approach show more variability, but with an upward trend since 2016. For 2021, the potential GDP growth is estimated at 4.2 percent with the HP filter and 4.5 percent using the PF, respectively. These results should be interpreted with caution due to the degree of uncertainty associated with national accounts revisions in Guinea-Bissau.[1,2]

Ongoing structural reforms strengthening governance, deepening financial inclusion in a stable political environment, may boost potential growth trend on the upside. Empirical evidence suggests GDP growth could accelerate if the country preserves political stability[3] and implement its ambitious governance's reform agenda.[4] Ongoing reforms may, in addition, catalyze donors' support to invest in infrastructure and human capital, supporting authorities' strategy to address the country's vast developmental needs and boosting factor accumulation over the medium term.

Figure 1.1: HP Filter Potential Output Estimates

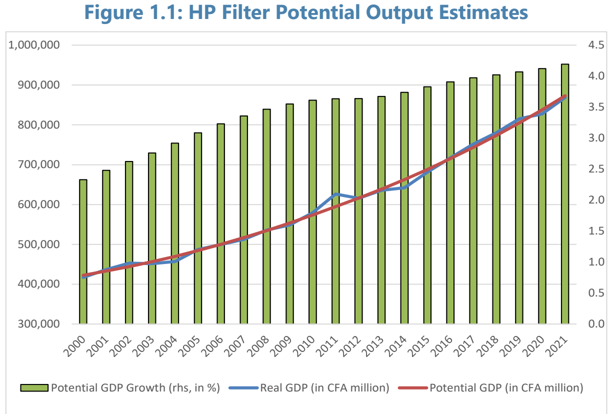
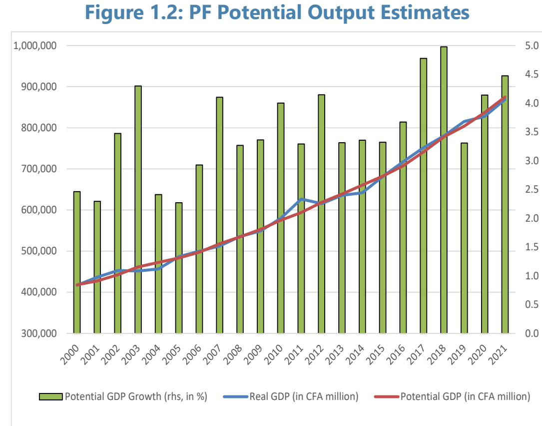


Figure 1.2: PF Potential Output Estimates



[1] The national accounts data from 2019 onwards are not final and therefore subject to future revisions.

[2] The World Bank's potential output estimate for Guinea-Bissau is 4 percent.

[3] Da Silva Filho (2015) the cost in term of annual GDP per capita growth of chronic political instability in Guinea-Bissau is estimated between 3.6 and 4.7 percent points.

[4] Gyimah-Brempong (2002) estimates the impact of a reduction of one unit of the corruption index to be between 0.75 and 0.9 percentage points in GDP growth.

POLICY DISCUSSIONS: CONTINUING REFORMS FOR INCLUSIVE DEVELOPMENT

Policy discussions focused on (i) long-term fiscal sustainability through revenue mobilization, expenditure control, and debt management to foster effective fiscal policy, ensure debt sustainability and create fiscal space supporting priority spending and public investment; (ii) building on the SMP achievements, improving state capacity through governance and anticorruption frameworks reforms, including in key SOEs, to reduce fiscal risks; and (iii) fostering financial intermediation by promoting financial inclusion and managing banking sector vulnerabilities

16. To lift Guinea-Bissau's potential for sustained and inclusive growth, the medium-term policy agenda should focus on improving fiscal and legal capacities while fostering financial intermediation. Strengthening domestic revenue mobilization and effective expenditure management is fundamental to finance the country developmental needs. Efficient allocation of social and priority spending and public goods, such as roads, transport, and power provision would enhance private sector productivity, support job creation, and reduce poverty. Implementing governance and transparency reforms can mitigate corruption risks and attract donor support. In addition, sound and inclusive financial intermediation would boost private-led growth, harnessing the untapped potential in the areas of agriculture, natural resources, and tourism.[18]

A. Creating Fiscal Space and Ensuring Debt Sustainability

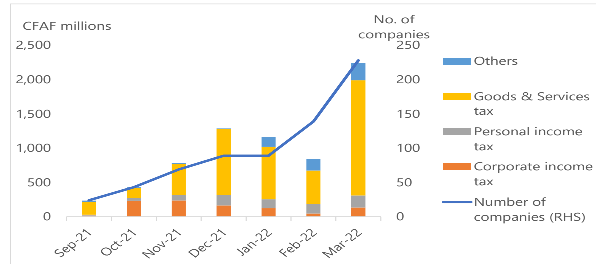
17. Strengthening revenue mobilization and expenditure control are essential to create fiscal space and foster countercyclical fiscal policy.[19] In 2021, measures agreed with the authorities under the SMP enabled a balanced and growth-friendly consolidation strategy, which protected social priority spending and public investment. The domestic primary deficit declined to 1.9 percent of GDP in 2021, from 4.6 percent in 2020, underpinned by significant improvements in revenue mobilization, public financial management (PFM), rationalization of expenditures and avoidance of expensive non-concessional financing.

[18] Annex VII.

[19] Annex VIII.

18. Revenue mobilization. Measures implemented included the new taxes on telecommunications and labor income along with other revenue-enhancing measures have bolstered revenue in 2021.[20] The authorities are also expected to enhance revenue collection with greater tax compliance through the full implementation of a digital tax filling platform (Text Figure 2).

Text Figure 2. Number of Companies and Revenue Collected in Kontaktu System



Sources: Guinea-Bissau authorities and IMF staff estimates

19. Wage bill and expenditure control. Driven by the authorities' commitment and efforts[21] to control the wage bill, it fell by 0.3 percentage points of GDP in 2021. To avoid recurrence in wage arrears, the authorities issued a ministerial order to census the public administration personnel by end-April and dismiss all employees hired irregularly. Moreover, the 2022 budget gives the authority only to the Minister of Finance to confirm the availability of budget allocation for the government ministries to proceed with the hiring process. Staff supports the authorities' expenditure control efforts, especially the wage bill control measures,[22] which also include the deployment of the IMF-supported blockchain-based project (Box 3) to assist in the reconciliation of the personnel and payroll records.[23]

20. Mitigating fiscal risk emanating from state-owned enterprises (SOEs). The authorities are taking steps, with the support of the World Bank, to strengthen the management and oversight of the company's financial situation of the largest SOE, the utility company Electricidade e Aguas da Guinea-Bissau (EAGB). Also, following staff advice, they have renegotiated the fuel supply agreement which will result important savings for EAGB. However, comprehensive reforms are needed to ensure its long-term financial sustainability and limit fiscal risks (Annex IX).[24] IMF will provide TA to enhance fiscal governance and mitigate fiscal risks of SOEs.

[20] Fiscal yields of the new taxes on telecommunications and labor income amounted to 0.3 percent of GDP.

[21] See first review (CR 2021/252, p. 11) for the list of wage bill containment measures implemented.

[22] The authorities requested IMF TA to inform wage bill control policies.

[23] Moreover, despite additional efforts to contain expenditures, the government remains committed to safeguard spending in priority sectors, and not using irregular and improperly documented expenditure (DNTs).

[24] In 2022, the Tribunal de Contas plans to audit the company and publish its assessment. Fiscal risk stemming from EAGB is very high and estimated at about 4.4 percent of GDP.

Box 3. A Blockchain Solution for Wage Bill Management in Guinea-Bissau

An IMF governance technical assistance mission in Guinea-Bissau identified in 2019 key governance vulnerabilities in the wage bill management[1]. A proposal to enhance transparency of the wage bill management leveraging blockchain technology was one of the winning projects of the IMF Anti-Corruption Challenge in 2020.

The project is an innovative approach to fiscal management. The implementation of the prototype started in 2022 at the Ministry of Finance and the Ministry of Public Administration. The solution, which is owned by the authorities, integrates existing databases and information systems and creates a single shared record of truth of employment and expenditure between the two Ministries. It aims at providing visibility into various indicators on a near real-time basis, including budget allocated *versus* executed, the number of people hired, the number of people receiving various components of compensation. It will signal data integrity issues and inconsistencies. The timely availability of reliable data without costly reporting overheads will help make informed decisions, better track utilization of funds and thereby increase transparency and efficiency in the management of the wage bill.

There is scope for scaling-up the solution. With continued ownership of the authorities and the support of international partners, the solution could be extended to the wage bill management of additional Ministries and other public institutions. It could also apply to multiple areas of public financial management such as procurement and various public registries. A successful implementation of this project in Guinea-Bissau would showcase the value of digital solutions for transparent public management in comparable fragile countries. Enhanced transparency and delivery of better societal outcomes could help strengthen trust in public policies.

[1] https://www.imf.org/en/Publications/CR/Issues/2020/06/30/Guinea-Bissau-Technical-Assistance Report-Enhancing-Governance-and-the-Anti-Corruption-49540

2022 Budget Implementation and Medium-Term Fiscal Consolidation Path

21. The authorities remain committed to maintaining the fiscal deficit close to that in the 2022 budget. The domestic primary deficit is projected to be slightly higher by 0.3 percentage points of GDP compared to 2022 budget due to a confluence of exogenous factors. Amid rising global food and energy prices due to the war in Ukraine, the authorities have implemented transitory measures to ease cost-of-living pressures for the population, estimated at 0.3 percent of GDP.[25] In addition, they have increased other expenditure by 0.4 percentage points of GDP. Tax revenue is projected to be lower by 0.2 percentage points of GDP due to lower-than-expected collection in the first quarter of 2022 and tax expenditures on fuel and essential items, which are partially cushioned by higher revenues from higher cashew nuts export prices. The authorities are also rationalizing non-priority spending.

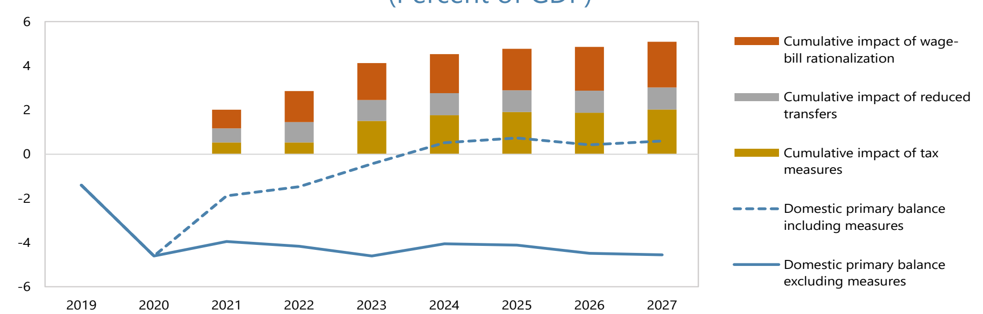
22. The domestic primary deficit is projected at CFAF 14.8 billion in 2022. In the first half of the year, the deficit is projected to worsen to CFAF 18.6 billion and improve toward the target in the second half supported by the measures to improve revenues and expenditure control (LOI Table 3). Staff emphasized that mitigating measures to cope with the cost of living should be transitory,

[25] Fiscal measures to ease cost-of-living pressures in 2022 include: (i) tax expenditures by capping prices on fuel and essential products (i.e., rice, flour and sugar) at 0.2 percent of GDP; and enhancing social protection with transfers to households 0.1 percent of GDP.

supported by rationalization of non-priority spending and focus on targeted transfers to needy households as implemented during the COVID-19 crisis (LOI, Section B).[26]

23. Over the medium-term, staff advised enhancing fiscal management and institutional reforms to strengthen revenue mobilization, PFM and expenditure control to create fiscal space for priority spending and infrastructure. Staff estimates that strengthening revenue mobilization and enhancing PFM and expenditure control (e.g., wage bill control, enhancing SOEs control, reducing non-essential transfers) would create at least 5 percentage points of GDP in fiscal space over the medium term (Text Figure 3). In addition, clearing the stock of domestic arrears will improve trust in the government, reduce procurement costs, and support financial intermediation. Consistent with the authorities' commitment to consolidate and improve medium-term debt sustainability, an annual average of 0.7 percentage points of GDP adjustment in the domestic primary balance (commitment basis) is projected over four years (2022-25), with higher consolidation in 2023 as the transitory measures to ease cost-of-living pressures are phased out.

Text Figure 3. Domestic Primary Balance With and Without Fiscal Measures
(Percent of GDP)



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

24. A balanced and durable growth-supportive fiscal consolidation should be underpinned by governance reforms and the following measures:

- **Enhancing revenue mobilization.** Measures to enhance tax revenue mobilization cover both revenue administration and tax policy reforms, including the broadening of tax bases, simplifying the tax system and strengthening tax administration and compliance. Tax revenues are expected to further increase around 1.4 percentage points of GDP by 2025.[27] In 2022, the authorities have promulgated a tax package to simplify and enhance transparency of the tax system[28] and fully implemented the Kontaktu system for electronic filing of tax returns. Moreover, they are strengthening the collection of the new telecom tax; modernizing the stamp duties and the general exemption regime; and preparing the implementation of the new VAT law in 2023. For the medium-term, the authorities have requested IMF support to undertake a

[26] An audit of the execution of the 2021 budget by the Audit Court will also be carried out in due course.

[27] Tax revenue increased by 2.2 percent of GDP in 2021, compared to 2020 supported by the new taxes on telecommunications and labor income along with other revenue enhancing measures.

[28] It includes the revised tax code and tax penalty regime, the customs code and a new VAT law.

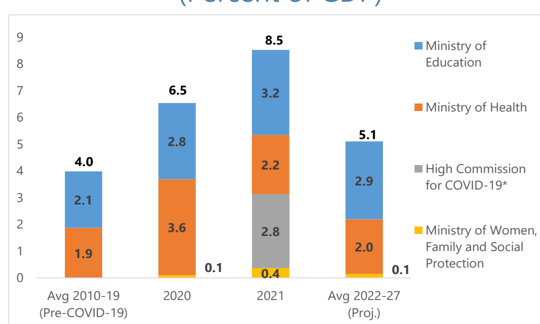
tax reform[29] to improve compliance, reduce administrative costs and the negative impact of the tax system on economic growth.

- **Strengthening PFM and expenditure control.** Wage bill rationalization is critical. [30] Domestic primary expenditures are projected to decline around 1.4 percentage points of GDP by 2025, of which 1 percentage point comes from measures to contain the wage bill. Measures to improve PFM and expenditure control include: (i) strengthening the treasury and cash management function with the implementation of a Treasury Single Account (TSA) and IMF cash management/cash-flow forecasting tool; (ii) continuing efforts to control the public sector wage bill, via implementation of the census of regular employees of the public administration and the IMF-supported blockchain project to reconcile personnel and payroll records, as well as strengthening the wage bill policy with IMF TA support; (iii) strengthening the fiscal oversight of SOEs and mitigating fiscal risk; and (iv) improving public investment management.[31]
- **Enhancing fiscal governance and transparency.** The authorities have made significant progress on governance reforms, meeting all the SMP's targets on governance and transparency reforms (Section B). These reforms have contributed to enhance domestic revenue and expenditure management, supporting fiscal consolidation over the medium term.
- **Implementing TA recommendations (Annex V).** These include (i) enhancing cash management by combining various ministerial accounts into a TSA; (ii) improve the investment planning framework; (iii) strengthen coordination between the tax and customs departments; (iv) streamline tax exemptions and subsidies; (v) review current tax and excise rates; and (vi) enhance debt and arrears management.

25. Safeguarding social and priority spending and public investment. Importantly, the fiscal consolidation strategy protects social priority spending and public investment over the medium term. Social priority spending increased by 2 percentage points of GDP to reach about 8.5 percent of GDP in 2021 (Text Figure 4). Over the medium term, social priority spending is projected to increase by 1.1 percentage points of GDP compared to pre-COVID-19 period (2010-19). In addition, the authorities are undertaking

Text Figure 4. Priority Spending

(Percent of GDP)



Sources: Guinea-Bissau authorities; and IMF staff estimates and projections. The projection for the High Commission for COVID-19 is not available yet.

[29] After the TA provision, the authorities plan to repeal the existing legislation and replace it with new one.

[30] The wage bill consumes 62 percent of the tax revenues in 2021, or 6.2 percent of GDP. It accounted for a sizeable share of the current spending (about 40 percent in 2021) while social and priority spending (encompassing current spending on education, health, and social sectors) is low (8.5 percent of GDP). In addition, domestically financed capital is low (8.1 percent of total capital expenditure).

[31] All these actions will be supported by IMF TA (Annex V).

investment plans to strengthen priority sectors and infrastructure to sustain economic growth.

Medium-Term Financing and Debt

26. The IMF emergency financing, the CCRT debt relief, concessional loans of multilateral institutions, and budget support from a bilateral donor have eased budget financing pressures in 2021. The January 2021 RCF and the current SMP are helping catalyze additional donor support and alleviate financing pressures stemming from reliance on non-concessional lending from BOAD and Treasury issuances in the regional market. The reengagement strategy included joining the Debt Service Suspension Initiative (DSSI) and taking steps towards solving all legacy external arrears.[32] French budget support of €1.3 million was disbursed in October.

27. The government is committed to auditing and starting the clearance of domestic arrears over the medium term. Domestic arrears of CFAF 10.2 billion accumulated in 2019-20 were recognized and paid in 2021. The authorities plan on start clearing the stock of domestic arrears accumulated between 1974 and 1999 in the coming years, amounting to CFAF 14.3 billion. Furthermore, by end-2022, the government intends to determine the true amount of any outstanding arrears through further auditing and verifications,[33] verify full tax compliance of all creditors, and determine net government arrears after correcting for any tax obligations. This will allow the government to decide on a strategy towards clearing all outstanding domestic arrears over the medium term.

28. The SDR allocation helped reduce financing costs and close the 2021 financing gap associated with the emergency response to the pandemic. The authorities used the SDR 27.2 million allocation (about US$38.4 million) to pre-pay non-concessional debt to the regional development bank BOAD, due at end-2021 and in 2022. Staff estimates the debt management operation saved up to CFAF 3.4 billion (0.4 percent of 2021 GDP) on interest payments up to 2026. Staff recommended that any pandemic spending and its financing should be transparently recorded in the budget in accordance with the IMF's Fiscal Transparency Code.

29. Supporting the authorities' fiscal consolidation and preserving debt sustainability may require additional financing needs of 2.2 percent of GDP over the next three years. Staff estimates a financing gap of CFAF 7.7 billion each year—around 0.7 percent of GDP (Tables 2, 3a and 3b). The authorities should seek to cover this financing gap by identifying highly concessional loans catalyzed by fiscal discipline and the track record of policy implementation under the SMP.[34]

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[32] Debt sustainability prospects are expected to improve by transparency and compliance with the ceiling on contracted new debt associated with the IMF Debt Limits Policy (DLP). Guinea-Bissau has legacy external arrears, totaling US$5.7 million at end-2021, to Brazil, Russia, and Pakistan. Negotiations with Brazil have resumed and pending final approval from Brazilian authorities. The authorities are also attempting to resume negotiations with Russia and Pakistan.

[33] In this process, the government also intends to assess the level of outstanding membership fees to international institutions and define a strategy regarding membership cancellation, rescheduling and/or settling of obligations.

[34] Covering this gap with highly concessional loans will reduce the recourse to regional non-concessional financing, reducing the interest expenses by an average of 0.1 percent of GDP over 2022-26.

The fiscal space associated with a lower interest burden could be used to support much-needed investment in infrastructure and priority sectors.

30. Authorities are taking action to strengthen debt management. In the context of the implementation of the legislation approved in June 2021[35] and to avoid coordination problems that led to delays in debt service payments in the past, the Directorate Generals of Treasury and Debt are holding weekly coordination meetings. Biannual meetings of the recently created National Committee of Public Debt started in 2022. This committee also holds extraordinary meetings to discuss any new loan agreements. The authorities are seeking technical assistance from international partners to improve their capacity for debt recording, monitoring and overall debt management. In addition, they will keep publishing annual reports on debt covering debt service, disbursements, and agreements, as well as continue reporting to international debt statistics databases. Staff discussed ways to improve debt management with TA support.

31. Debt classification follows a hybrid approach after the reclassification of the debt to the West African Bank for Development (BOAD) as external. The authorities noted that debt classification in the Debt Sustainability Analysis (DSA) and debt limits will consider debt to BOAD (denominated in CFA francs) as external.[36] However, the classification continues to be currency-based for other creditors because of the challenges in identifying the holders of debt issued in the WAEMU regional market. Considering the importance of this creditor to the country (17 percent of total debt), this reclassification will improve the coverage of debt limits in prospective UCT-quality arrangements.

32. Guinea-Bissau is at a high risk of external and overall debt distress. With the reclassification of BOAD, the share of external debt reaches 40.1 percent of GDP (from 26.7 percent in the July 2021 DSA). The risk of external debt distress is high because the indicators based on the debt-service ratios breach their indicative thresholds under the baseline. Overall risk of debt distress is also high because the PV of public debt relative to GDP remains well above its indicative benchmark throughout the projection period (DSA).

33. Guinea-Bissau's debt is assessed as sustainable in a forward-looking sense based on the authorities' commitment to sound policies supported by strong donor engagement. Guinea-Bissau's supportive regional context[37] reduces medium-term rollover risks associated with

[35] The Council of Ministers approved three decrees: (i) the creation of a National Committee of Debt Policy; (ii) the organization and functioning of the Direção Geral da Dívida Publica; and (iii) the issuance of debt and debt management.

[36] The reclassification of BOAD's debt as external debt is consistent with the Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, which advises using a residency basis. Acknowledging that data constraints in Guinea-Bissau make a full residency-based coverage difficult, adopting the hybrid approach with some regional debt considered external and other domestic based on the challenges in identifying the holders of debt issued in the WAEMU regional market. BOAD's borrowing sources are mostly non-resident and its lending should be treated as external debt.

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

domestic debt, and staff projects a gradual decline of the PV of public debt relative to GDP over the medium term, with the fiscal deficit within 3 percent of GDP and debt below 70 percent of GDP WAEMU convergence criteria. The assessment continues to be contingent on the authorities' commitment to: (i) an ambitious fiscal adjustment strategy; (ii) prudent borrowing policies, including avoiding non-concessional project financing; (iii) enhanced debt management; and (iv) cautious management of the existing loan pipeline and application of assessment procedures based on best international practices to ensure criticality of investment projects. The debt outlook remains vulnerable to a weaker economic recovery and a lack of authorities' adherence to macroeconomic stability and prudent fiscal policies.

Authorities' Views

34. **The authorities concurred with staff's views on the fiscal stance and direction of reforms.** They agreed with the medium-term consolidation trajectory path and would harness the SMP reform momentum. The authorities stressed their strong commitment to fiscal prudence and fiscal sustainability, noting the efforts to achieve the program quantitative targets and the corrective actions and reforms to strengthen revenue mobilization and reign over expenditures including on the wage bill. Also, the authorities agreed that measures to ease cost-of-living should be transitory and targeted at vulnerable households. They underscored that corrective actions and reform will support the execution of the 2022 budget and the 2023 budget formulation in line with the fiscal consolidation needed to put debt in a downward trend and in line with WAEMU convergence criteria by 2025. (LOI ¶5-8).

35. **The authorities are strongly committed to advancing fiscal structural reforms**. They appreciate Fund TA and are committed to implementing the advice received. The authorities intend to modernize and simplify the tax framework by preparing a new law on tax exemptions and allowances for Parliament submission in August 2022 and implementing the VAT and start reviewing the income tax in 2023. On PFM and expenditure control, the authorities are keen to reform the public sector administration including wage bill control and public employment quality, continue progressing towards stablishing a single treasury account. They will enhance SOE supervision and mitigate fiscal risks, with IMF TA support.

B. Structural Reforms Enhancing Governance and Anti-Corruption Frameworks

36. **Efforts to address governance and corruption vulnerabilities in Guinea-Bissau can have a far-reaching impact.** Under the SMP, governance reforms are contributing to enhance domestic revenue and expenditure management to support developmental objectives.[38] Authorities are taking steps to gradually address institutional vulnerabilities and strengthen anti-corruption

[38] The Government of Guinea-Bissau has established a 2019-23 National Development Plan inspired by the 2015–2025 strategy *Terra Ranka* that emphasizes the development of human capital through better education, health services and social protection and governance reforms in the justice, anticorruption, and PFM systems.

practices in the areas of (i) PFM; (ii) wage bill and public administration; (iii) tax policy framework; (iv) tax and customs administration; and (v) anti-corruption and anti-money laundering regimes.

37. The authorities are committed to complete the implementation of the RCF's governance safeguards on COVID-19 spending.[39] An audit of COVID-19 expenses by the Audit Court started in October 2021 at the request of the High Commissioner for COVID-19, covering the period June 2020-August 2021 and expected to be published by end-June 2022. This audit will be complemented by an ex-post independent audit of all COVID-19 expenditures until end-2021 by a reputable third-party auditor[40] who will work jointly with the Audit Court to be published by end-September 2022. Moreover, the government has published financial reports and key information of all crisis-related contracts for the years 2020 and 2021.[41] Furthermore, to legally enable the collection and publication of this beneficial ownership information of all entities awarded public procurement contracts, the government amended the procurement legal framework through a decree-law (SB end-March 2022, LOI ¶5 bullet 2 and Table 6). The government will also publish full text of contracts and ex-post validation of delivery and will start to disclose beneficial ownership information of all companies awarded COVID-19 related contracts as per the amended legal procurement framework this year. Staff encourages continued coordination between the CFE and Registry Office to ensure accuracy of beneficial ownership information.

38. The government met all the SMP's governance and transparency reforms (Annex IV and Table 7).[42] Implementation of the governance and transparency reform adopted is essential in 2022-2023. The mission recommended measures based on IMF TA and the governance diagnostic report[43] in the areas of: (i) expenditure control; (ii) SOEs oversight; (iii) revenue mobilization; and (iv) anti-corruption and anti-money laundering frameworks (Box 4). It will also be essential for the government to take steps to establish clear rules and practices for implementing the strengthened legal framework on anticorruption, including expanding the competencies of institutions responsible for the asset declaration system and the overall leadership of anticorruption efforts. To enhance the institutional capacity of governance and oversight, the government will provide more resources for the Audit Court, CENTIF and the Public Procurement Authority (LOI, ¶7 bullet 7).

[39] COVID-related funds are managed using a dedicated account at the BCEAO. The entire COVID-related spending is an integral part of the State Budget and spending reports are being presented to the National Assembly. See "Guinea-Bissau Request for Disbursement Under the Rapid Credit Facility", IMF Country Report No. 21/29.

[40] The Terms of Reference for hiring a reputable third-party auditor were developed in consultation with LEG and completed end-December 2021. The audit firm was selected in April 2022.

[41] In their webpage, the High Commission has published financial reports that cover the period June 2020 until September 2021 and some crisis-related contracts, including acquisition of vehicles and medical supplies. Staff has reiterated the need to post all the contracts awarded.

[42] For adopted measures to strengthen governance and fight corruption since 2020 see Table Annex IV.

[43] IMF (2019) "Enhancing Governance and the Anti-Corruption Framework: Next Steps".

Box 4: Key Recommendations on Governance and Anti-Corruption Reforms

- *Expenditure control*. Conduct a census of all public employees and retirees (LOI, ¶7 bullet 2). Follow-up up on the implementation of the procedures stated in the "Manual for procedures on public expenditures" developed with IMF TA support (LOI, ¶7 bullet 5). Approve the annual work program of the Inspector General for Finance by supporting staffing and proper allocation of financial resources.
- *SOEs control*. Progressively publish all pending SOE consolidated financial statements and conducts audits by the Tribunal de Contas.
- *Revenue mobilization*. Rationalize tax exemptions and allowances (LOI, ¶7 bullet 5), and consolidate those that remain in a tax statute, the Investment Code or the General exemptions regime. Implement a simplified Customs transit control from the border to Safin, and a physical structure for the inspection of goods imported across the land borders
- *Anti-corruption and anti-money laundering frameworks*. Prioritize the implementation of the recommendations of the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) mutual evaluation report, including additional resources for the CENTIF and designating the AML/CFT supervisory authority over NBFIs and DNFBPs. Implement the decree amending the procurement framework and the revised assets declaration regime law once approved (LOI, ¶5 bullet 2). Land registry fees should be uniform, accessible, and publicly posted. Post all legislation online. Develop plain language guides describing tax, licensing, and other regulatory obligations. Strengthen supervision of preventive AML/CFT measures related to politically exposed persons. Review progress in implementing the recommendations of the Governance Diagnostic Assessment, and establish clear priorities for next steps, including addressing the gaps in Guinea-Bissau criminal legislation in line with the recommendations of United Nations Convention against Corruption review, notably, on criminalization of corruption offenses.

Authorities' Views

39. **The authorities are committed to implement and undertake further governance reforms to increase public policy effectiveness.** They agreed to complete the implementation of the RCF's governance safeguards on COVID-19 spending including the completion of an independent and complementary audit of all related spending until 2021 by the audit court, supported by a third-party auditor in late 2022 (LOI ¶5 and 7). Also, the authorities will implement a ministerial decree amending the legal procurement framework by publishing awarded public contracts and beneficial ownership information in the webpage of the procurement authority. They recognize the need to strengthen the audit court, CENTIF and the public procurement authority to enhance the institutional capacity of governance oversight (LOI ¶7)

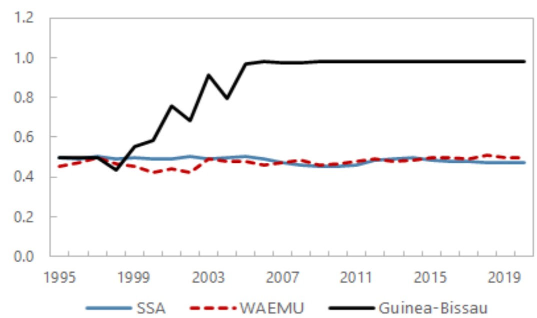
C. The Diversification Challenge

40. **The real effective exchange rate (REER) does not appear overvalued and should not seem to undermine Guinea-Bissau's external competitiveness.** The External Sector Assessment (ESA) points to a position broadly in line with fundamentals (Annex VI). The REER undervaluation is estimated between 7 and 10 percent, but this estimate should be interpreted with caution because of data methodical limitations (Annex VI, ¶5 and ¶6).

41. Output and export diversification would contribute to promote strong and inclusive growth while strengthening Guinea-Bissau's external position. Export diversification declined significantly in the last three decades when cashew nuts production took off which are still exported unprocessed which present 97 percent of total exports with India and Vietnam representing about 80 percent of the exports' market. It mostly replaced rather than added to other production such as rice and groundnuts (Text Figure 5). The decline in diversification is evident across a range of diversification measures that consider the number of products exported, the number of trading partners, and the relative value of exports in different product codes. Export diversification could increase resilience to external shocks (Annex VI), climate change, and boost economic growth (Annex VII). The country can also benefit from the diversification process by moving up the value chain. The introduction of higher value-added products is associated with improvements in productivity and creation of high-skilled jobs.

Text Figure 5. Export Concentration Index

(Higher values=more concentrated)



Sources: Guinea-Bissau authorities and World Bank database.

42. Opportunities for Guinea-Bissau's economic diversification lie in areas related to its abundant natural endowments. Natural resources include bauxite, wood, oil and phosphates, while its coastline is rich in fish and offers attractive touristic destinations. Moreover, the potential for diversification includes the agriculture, the dominant sector of the economy with a large, underutilized potential, together with the unexplored sectors of mining and oil. Development of agriculture would particularly contribute to poverty reduction because it employs about 75 percent of rural households and there is scope to increase value-added in the cashew sector by processing the cashew nut and targeting niche markets, which include social and environmentally responsible businesses.

43. Fostering diversification requires a wide range of reforms. It is critical to address the constraints that have hindered the process, which include prioritizing spending to invest in human capital, improving regulatory system and natural resources tax regimes (Annex VII), and expanding infrastructure projects, especially in the electricity sector where only 33 percent of the population have access to electricity accessibility, one of the lowest in West Africa (Annexes VIII and IX). The country needs to improve its governance framework which continues to lag other countries in the region, and is a source of perpetuating fragility (Annex IV). Moreover, the consolidation of political and macroeconomic stability will also help anchor business confidence, a necessary condition for increasing private investment. In this respect, the 2019 Parliamentary and Presidential elections paved the way to the first peaceful presidential transition in the country's history, and represented a major step towards achieving political stability which could lay the grounds for promoting a major institutional reforms.

Authorities' Views

44. The authorities agreed that economic diversification is crucial for the country's development strategy. They stressed their commitment to take measures to foster diversification and enhance business environment by improving governance standards and stable regulatory framework. They highlighted the urgent need to improve electricity supply and strengthen management of public enterprise, as well as initiatives to encourage promotion of non-cashew agriculture, including mechanisms for helping farmers access inputs and equipment.

D. Fostering Financial Intermediation

45. Addressing NPLs and a successful disengagement strategy with the large undercapitalized bank would support financial stability and intermediation. NPLs have decreased but remain high since 2012. A large part of the NPLs is related to an undercapitalized bank which played an important role in the provision of credit to the private sector, through financing the cashew campaign and bringing financial services to rural areas. Currently, the bank's lending capacity is constrained by high NPLs, negative capital, and limited access to BCEAO refinancing facilities. The bank continues to seek strategic investors with the support of an external consultant.[44] While the authorities have provided a report with a proposed exit strategy from the large undercapitalized bank to the Fund (SB, end-December 2021), staff advised to include key financial information and reconsider the viability of the proposed disengagement strategy.

46. The financial vulnerabilities stemming from the sovereign debt and exchange rate exposures in the banking sector are low. In 2021, the domestic banking sector held 9 percent of its total assets in central and local government debt while their exposure to SOEs was only 2 percent. However, the bank sector exposure to regional securities in local currency was 30 percent of total assets, reflecting the relatively high degree of regional financial integration in the WAEMU area. Most of public sector financial needs are covered through concessional loans from multilateral organizations and the regional market issuances. Private sector credit has been constrained by low returns in the private sector projects due political instability, and weak institutions and governance (Annexes VII and X). Unless these structural constraints are addressed, changes in sovereign WAEMU holdings in Guinea-Bissau's banks should have limited impact in private sector credit. The exchange rate exposure of the banking system is also low due to the CFA franc peg to the Euro and the foreign currency-denominated liabilities account for less than one percent of total liabilities. Moreover, if the situation of the large undercapitalized bank is left unaddressed (¶ 45), risk of hampering the provision of banking services, including credit intermediation, would remain.[45]

[44] About 10 percent of the bank's total NPLs has been recovered.

[45] The bank holds about 40 percent of deposits, provide payroll services to most public servants and employees from other sectors, and has the largest number of branches throughout the country. An eventual resolution of the bank would impact the provision of banking services to the real economy, which would last until those services could be absorbed by the other banks. However, the resolution should not have significant spillover effects undermining the financial stability of the rest of the banking sector.

47. Shallow financial markets and obstacles in key areas limit financial inclusion and development. Access and use of financial services have increased in the last decade fostered by the government's decision to pay salaries only through the banking sector. However, use of financial services remains low, and the stock of credit to the private sector is just 15 percent of GDP at end 2021 (compared with 12 percent of GDP at end-2017), below the WAEMU average of 22 percent of GDP. Strengthening credit information bureau with support of regional authorities would foster financial intermediation in the country. The increasing intermediation of remittances from abroad through mobile phones and the extended use of mobile phone services could be leveraged to increase financial inclusion. Moreover, the country may benefit from agreements with regional partners to boost the development of microfinance in rural areas as well as credit facilities for small- and medium-sized enterprises.

48. Mobile money can contribute to inclusive growth by offering an efficient way to transfer money and save to a previously financially constrained population. It has the potential to fill the gap left by the limited infrastructure of conventional financial services (Annex X). This is even more important in the case of Guinea-Bissau because of the current challenges in the banking sector with high level of NPLs. Despite the significant growth in terms of transactions among individuals, acceptance of mobile money by commercial establishments is still very limited. This situation tends to improve as commercial banks are starting to partner with mobile money operators. Mobile money services can encourage saving behavior of the population and foster formalization of small-scale businesses. Moreover, it can enable small-scale entrepreneurs to use safer and more efficient means of storing and transferring money, and being a source of provision of microcredit, which can help to promote economic growth and development.

Authorities' Views

49. The authorities shared staff's assessment of the need to develop the financial sector, enhance access to credit, and reduce financial sector vulnerabilities. In the context of the report with a proposed exit strategy from the large undercapitalized bank, the government committed to (i) review the document; (ii) implement the recommendations of the Banking Commission; and (iii) request an assessment on the bank's financial position and a full independent audit of NPLs from a third-party auditing firm to be performed by end-August (LOI, ¶10). The regional authorities also committed to request a new assessment of NPLs of the undercapitalized bank by the regional Banking Commission in 2022.

E. Statistical Issues

50. Poor quality and timeliness of economic data due to capacity constraints are significant obstacles to good policymaking. National Accounts data are not timely as the latest definitive estimate of GDP, published by the National Statistical Office, is for the calendar year 2018. Definitive estimates for 2019 and provisional for 2020 are, however, expected to be published this year with the support of IMF TA. Balance of payments data have improved, but some inconsistencies between financial account transactions and IIP data remain. The mission discussed the authorities' plans to produce and improve the statistics. The mission encouraged the authorities to consider implementing the IMF's Enhanced General Data Dissemination System to enhance transparency by publishing data essential for surveillance and supporting statistical development. The authorities are addressing the shortcomings, including with support of IMF TA, and have made a commitment to allocate more resources to strengthen the national statistical system (LOI, ¶7, bullet 8).

F. Other Surveillance Issues

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

STAFF APPRAISAL

52. Despite the persistence of the pandemic, economic activity improved in 2021 but downside risks and long-standing socioeconomic challenges remains. The economic conditions have improved on the back of record cashew nut production, gradual lifting of COVID containment measures, supportive economic policies, and higher business confidence associated with a more stable political environment. However, the surge in international food and energy prices associated with the war in Ukraine raises concerns for the near-term growth and inflation outlook. In 2021, growth accelerated and inflation increased because of price pressures from imported goods while in 2022 both indicators are expected to decelerate with inflation transitorily above the WAEMU convergence criteria. Downside risks include a more protracted pandemic or food inflation that could trigger social tensions and political instability.

53. The authorities deserve credit for a satisfactory SMP performance towards establishing a track record and pursuing fiscal consolidation in 2021-22. Supported by the RCF disbursement, the CCRT debt relief, and the SDR allocation, the authorities have made progress on their reform program securing macroeconomic stability. The overall fiscal deficit including grants was contained to 5.7 percent of GDP in 2021, representing a substantial fiscal adjustment in line with program objectives. Further fiscal consolidation is envisioned in the 2022 budget approved by Parliament in early December, to bring the fiscal deficit down to 4.4 percent of GDP, and gradually converge to the WAEMU regional deficit criteria of 3 percent of GDP by 2025. For the second consecutive year, the budget was submitted by the authorities observing the legal time frame. Parliament also approved in mid-December a tax reform package including a revised general tax code, the tax penalty regime and customs code, together with a modernized VAT Statute. These actions will create fiscal space and catalyze donor support to protect social spending in education, health, and pandemic-related expenditures and to undertake key infrastructure investments.

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

55. Staff recommends the authorities to closely monitor the restructuring of the large undercapitalized bank and implement measures to improve governance and the financial condition of the utility SOE. Staff encourages the authorities make further progress a viable disengagement strategy of the undercapitalized bank by 2024. The authorities should enhance the fiscal oversight of SOEs. In particular, they should closely monitor the power and water utility management and its governance restructuring plan aimed at revamping operations and enhancing financial management controls to ensure financial sustainability and limit fiscal risks. Over the medium term, transition to cleaner energy sources such as hydro-based electricity imports from Guinea and solar and wind energy would reduce costs and carbon emissions.

56. Output and export diversification would contribute to promote strong and inclusive growth while strengthening Guinea-Bissau's external position. The economy is highly dependent on the production and export of cashew nuts and diversification opportunities lie in areas such as agriculture, processing industries, natural resources, and tourism. Staff encouraged authorities to address structural constraints including a challenging business environment, weak governance, infrastructure bottlenecks, and low financial intermediation.

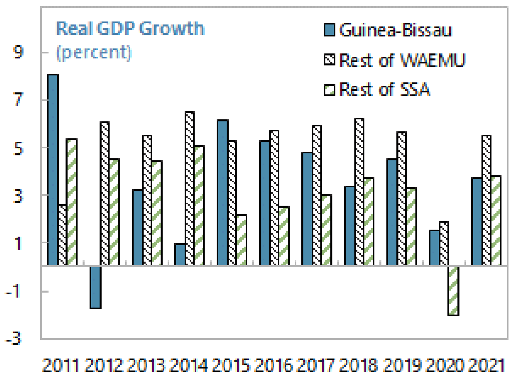
57. Implementation of governance and transparency reforms are key to the success of the authorities' reform agenda. Staff commends the authorities for the implementation PFM strategy to enhance fiscal governance, transparency and accountability including measures to strengthen expenditure control, tax and custom frameworks, the fight against corruption and mitigation of SOEs' risks. Staff welcomes the amendment of the procurement legal framework to ensure full transparency on the awarded public contracts and the submission to Parliament of the Asset Declaration Regime reform in May 2022. Moreover, additional resources to the Audit Court, the Financial Intelligence Unit and the public procurement authority should play a significant role in enhancing governance. Also, staff welcome the full implementation of the Kontaktu tax payment solution to all large tax taxpayers by to end-March 2022.

58. Staff recommends conclusion of the 2022 Article IV consultation, and completion of the third review under the SMP. The recommendation is based on the strong progress made under the program, including meeting structural benchmarks that will enhance governance and future policy implementation. To overcome capacity constraints, the IMF is supporting the authorities' efforts in all policy areas covered by the SMP through tailored TA.

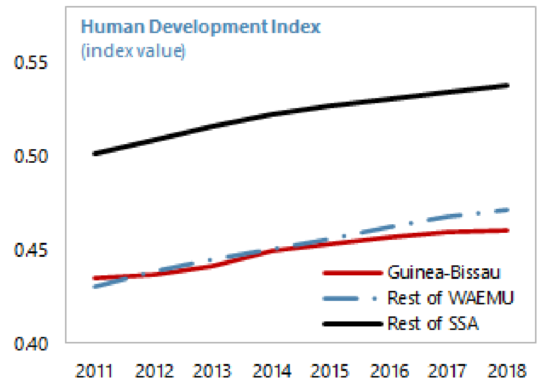
59. It is recommended that the next Article IV consultation with Guinea-Bissau be held on the 12-month cycle.

Figure 1. Guinea-Bissau: Growth and Living Standards

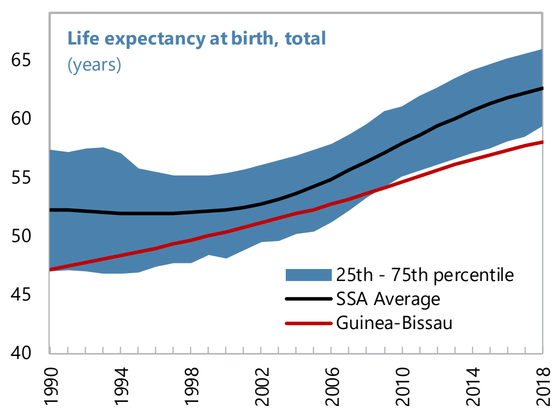
A volatile economic growth compared to its regional peers reflects a long history of political instability…



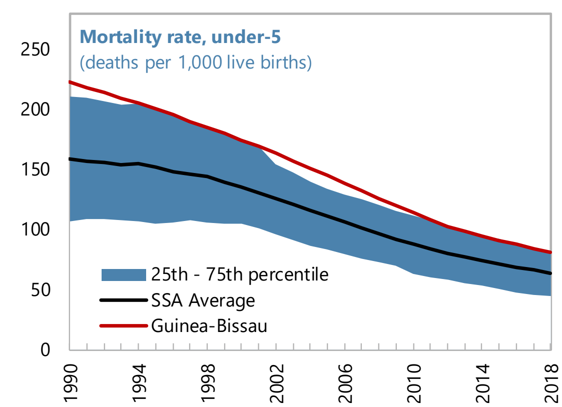
…and economic fragility, which weighs on the population's living standards.



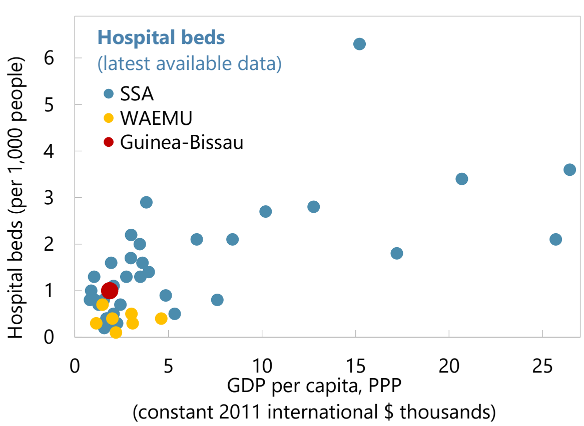
Weak health conditions are evidenced by a significantly lower life expectancy at birth…



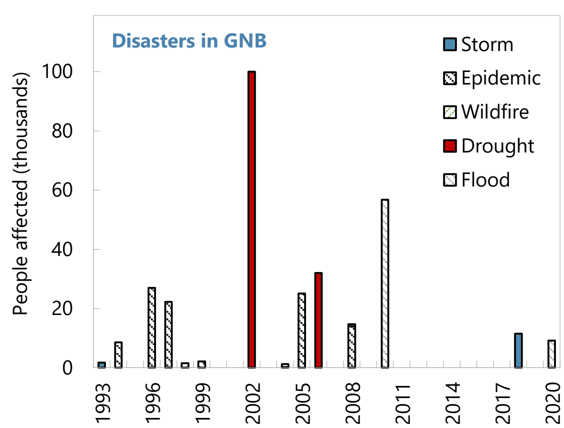
…as well as the higher child mortality rate, both compared to SSA peers.



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



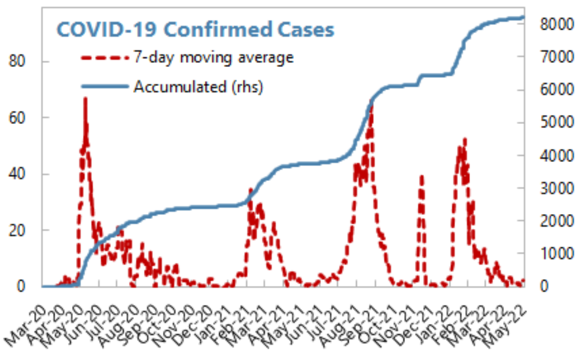
…considering the country's exposure to natural hazard events such as the current year's floods and the pandemic.



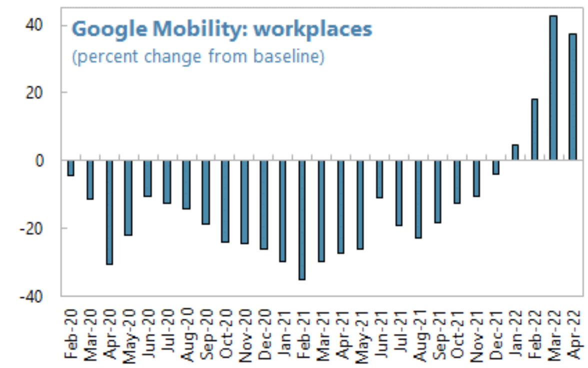
Sources: World Bank, Worldwide Development Indicators; EM-DAT, CRED database; Guinea-Bissau authorities; and IMF staff calculations.

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

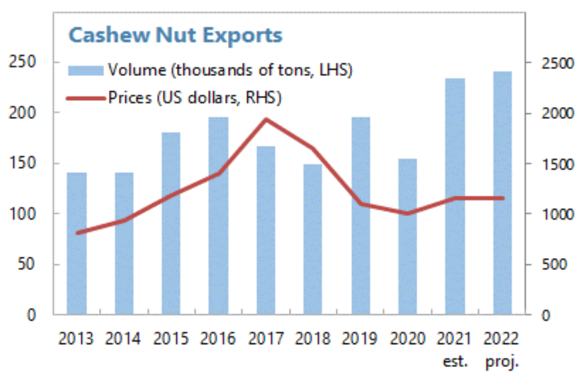
The first COVID-19 cases were reported in end-March 2020 and a fourth wave was controlled…



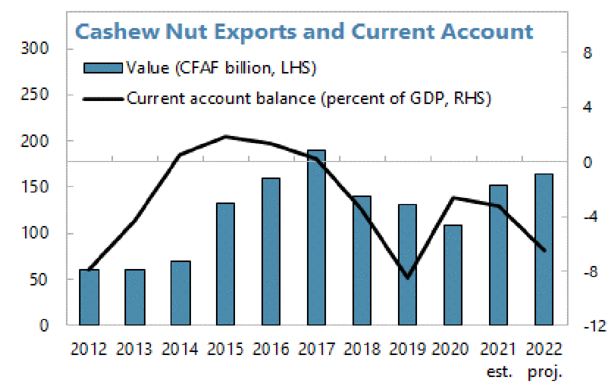
…by the reestablishment of containment and lockdown measures in January 2022.



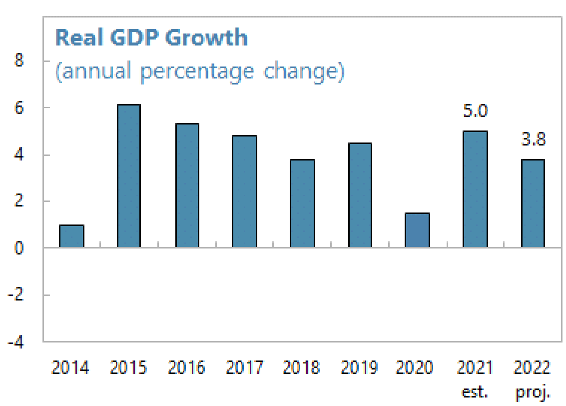
After the delays and weaker demand caused by the pandemic in 2020, cashew nut exports show a significant recovery in 2021…



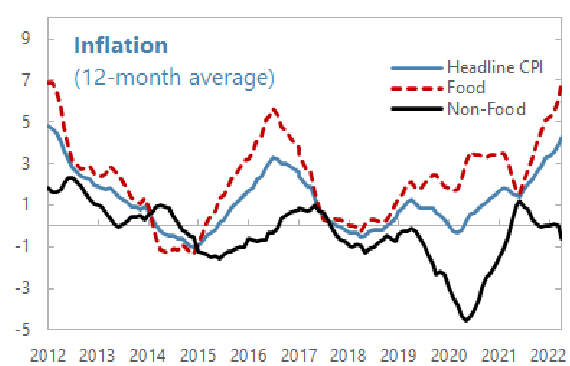
…which helps to narrow the current account deficit, partially reverting the effects of the terms-of-trade shock of 2018-19 followed by the pandemic.



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



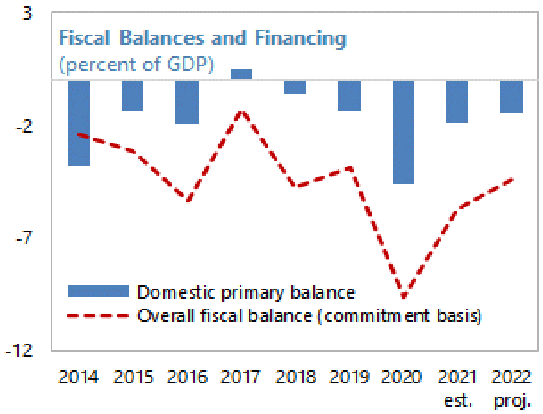
…but inflation remains high due to the price of imported products, mainly food.



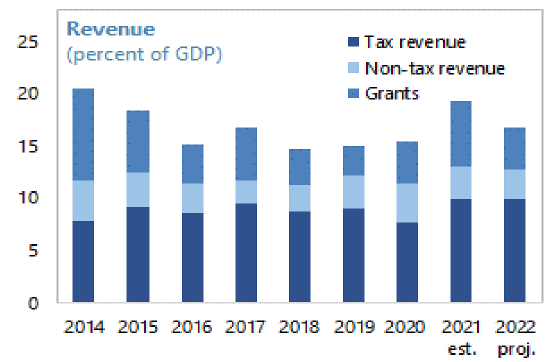
Sources: Google Mobility database, Our World in Data, Guinea-Bissau authorities and IMF staff calculations.

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

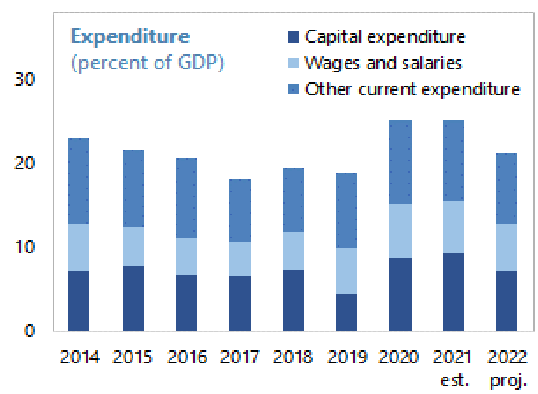
Fiscal consolidation is projected for 2022…



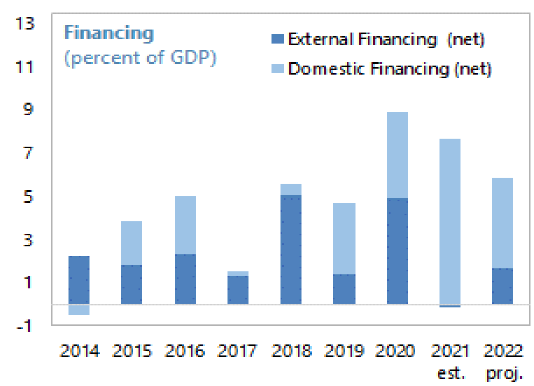
…supported by increased revenues and grants…



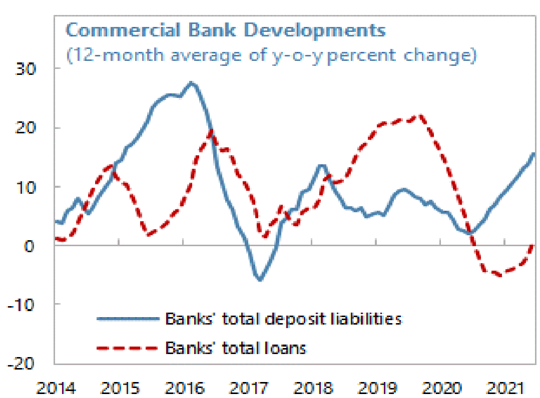
…and contained expenditures…



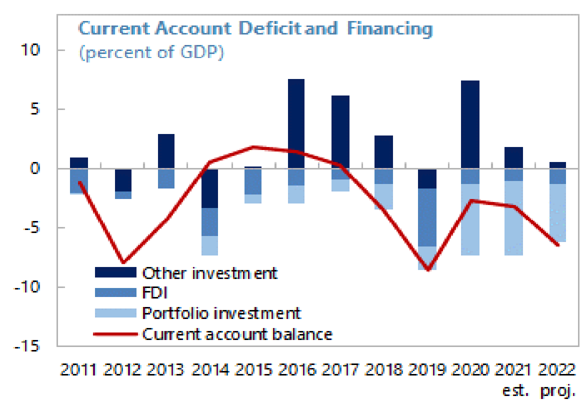
…resulting in reduced need for additional financing, both external and within the region.



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



The current account deficit is projected to remain financed by portfolio investment inflows (mainly treasury securities).



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

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027
			Prel.	Proj.					
	(Annual percent change, unless otherwise indicated)								
National accounts and prices									
Real GDP at market prices	4.5	1.5	5.0	3.8	4.5	5.0	5.0	5.0	5.0
Real GDP per capita	2.3	-0.7	2.7	1.5	2.3	2.8	2.9	2.9	2.9
GDP deflator	-3.5	-1.0	2.7	2.8	2.8	2.8	2.8	2.8	2.8
Consumer price index (annual average)	0.3	1.5	3.3	5.5	4.0	3.0	2.0	2.0	2.0
External sector									
Exports, f.o.b. (CFA francs)	-22.7	-15.6	28.4	7.1	9.2	4.3	3.2	3.5	4.2
Imports, f.o.b. (CFA francs)	20.5	-9.4	13.3	13.4	1.9	2.4	3.1	4.7	4.5
Terms of trade (deterioration = -)	-31.4	-3.7	-6.8	-15.7	6.1	4.8	2.8	2.5	2.0
Real effective exchange rate (depreciation = -)	-2.8	2.3	1.4	...	...	...	...	...	...
Exchange rate (CFAF per US$; average)	585.9	574.8	554.2	...	...	...	...	...	...
Government finances									
Revenue excluding grants	9.2	-5.5	22.7	4.7	17.0	9.7	9.0	7.3	8.9
Expenditure	-2.6	33.8	7.9	-9.9	11.4	4.3	6.0	7.6	8.9
Current expenditure	18.7	14.5	3.5	-4.8	6.7	5.4	7.1	7.1	7.4
Capital expenditure	-38.5	96.7	16.1	-18.4	20.7	2.5	4.0	8.4	11.8
Money and credit									
Domestic credit	13.8	-1.7	18.5	2.3	11.0	11.2	8.1	8.2	7.6
Credit to the government (net)	13.8	-19.7	53.4	-8.9	6.6	5.6	-7.3	-8.9	-10.5
Credit to the economy	13.8	5.9	7.3	7.4	12.8	13.3	13.3	13.0	11.6
Net domestic assets	12.0	-13.8	21.0	3.4	16.3	15.8	10.9	10.8	9.7
Broad money (M2)	0.3	9.1	7.6	2.7	4.2	4.7	5.7	6.3	6.7
	(Percent of GDP, unless otherwise indicated)								
Investments and savings									
Gross investment	19.2	20.1	21.6	21.6	23.1	23.4	23.9	24.7	25.8
Of which: government investment	3.0	5.8	6.3	4.8	5.4	5.1	4.9	5.0	5.1
Gross domestic savings	5.4	5.7	7.5	6.1	9.4	10.7	11.8	12.8	14.2
Of which: government savings	-3.5	-7.6	-5.5	-3.1	-2.3	-2.0	-1.6	-1.6	-1.5
Gross national savings	10.7	17.4	18.4	15.1	18.4	18.9	19.7	20.6	21.8
Government finances									
Revenue excluding grants	12.1	11.4	13.0	12.7	13.9	14.1	14.2	14.2	14.3
Domestic primary expenditure	13.5	16.0	14.9	14.2	14.3	13.6	13.5	13.7	13.7
Domestic primary balance	-1.4	-4.6	-1.9	-1.5	-0.4	0.5	0.7	0.4	0.6
Overall balance (commitment basis)									
Including grants	-3.9	-9.6	-5.7	-4.4	-4.0	-3.5	-3.0	-3.0	-3.0
Excluding grants	-6.7	-13.6	-12.1	-8.4	-8.1	-7.1	-6.6	-6.6	-6.6
External current account	-8.5	-2.7	-3.2	-6.5	-4.7	-4.5	-4.2	-4.1	-4.0
Excluding official current transfers	-9.7	-5.8	-6.0	-8.6	-7.3	-6.7	-6.4	-6.3	-6.2
Stock of public and publicly guaranteed debt[1]	64.0	76.5	78.5	78.4	76.4	73.9	71.2	68.8	66.7
Of which: external debt	36.5	40.4	40.1	40.3	37.7	35.4	32.8	30.4	28.3
Memorandum items:									
Nominal GDP at market prices (CFAF billions)	870.9	875.2	943.7	1006.5	1081.3	1167.1	1259.8	1359.8	1467.8
WAEMU gross official reserves (billions of US$)	17.5	21.8	24.5	...	...	...	...	...	...
(percent of broad money)	34.1	33.2	30.2	...	...	...	...	...	...

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

[1] Coverage expanded to include legacy arrears.

Table 2. Guinea-Bissau: Balance of Payments, 2019–27
(CFAF billions)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
			Prel.	Proj.					
Current Account Balance	-74.4	-23.4	-30.1	-65.3	-50.8	-53.0	-53.0	-56.4	-58.5
Goods and services	-123.3	-120.1	-130.4	-149.1	-141.6	-143.5	-149.2	-158.5	-166.3
Goods	-50.6	-54.8	-43.4	-59.2	-48.0	-45.7	-46.9	-51.5	-54.5
Exports, f.o.b	145.7	123.1	158.0	169.2	184.8	192.7	199.0	206.0	214.6
Of which: cashew nuts	130.7	109.2	152.8	163.7	178.9	186.3	192.0	198.5	206.5
Imports, f.o.b.	-196.4	-177.8	-201.4	-228.4	-232.9	-238.4	-245.8	-257.4	-269.1
Of which: food products	-59.7	-59.1	-59.3	-70.1	-74.6	-78.3	-82.4	-87.0	-90.7
petroleum products	-33.1	-31.1	-32.7	-55.8	-53.2	-50.1	-48.6	-48.2	-48.2
Services	-72.6	-65.3	-87.0	-89.9	-93.6	-97.9	-102.3	-107.0	-111.8
Credit	25.2	10.7	12.0	12.8	13.7	14.8	16.0	17.3	18.7
Debit	-97.8	-76.0	-99.0	-102.7	-107.3	-112.7	-118.3	-124.3	-130.5
Incomes	15.8	14.5	4.7	7.2	4.7	5.3	7.2	9.1	9.6
Credit	24.5	22.5	17.3	22.0	25.0	26.5	28.2	29.6	31.4
Of which: EU fishing compensation	7.6	7.6	8.9	8.8	8.8	8.8	8.8	8.8	8.8
Other license fees	6.8	10.1	4.9	8.2	11.3	12.5	14.0	15.1	16.6
Debit	-8.8	-8.0	-12.6	-14.8	-20.3	-21.1	-21.0	-20.5	-21.8
Of which: government interest	-3.7	-7.7	-10.6	-7.1	-12.9	-13.7	-13.6	-14.6	-16.5
Current transfers (net)	33.1	82.2	95.7	76.6	86.1	85.2	88.9	93.0	98.2
Official	10.0	27.8	26.9	21.0	28.2	25.3	27.0	29.2	32.1
Private	23.1	54.3	68.8	55.7	57.9	59.9	61.9	63.9	66.1
Of which: remittances	21.7	51.8	66.0	52.7	54.8	56.7	58.6	60.4	62.6
Capital account	16.1	6.0	34.8	22.8	19.0	20.2	21.4	22.9	25.0
Of which: official transfers	14.5	5.2	31.6	19.6	15.8	16.8	18.0	19.4	21.4
Financial account	-74.7	0.7	-52.2	-56.5	-31.9	-32.7	-35.7	-40.0	-43.9
FDI	-41.8	-11.9	-10.1	-13.6	-14.6	-15.8	-17.0	-18.4	-19.8
Other investment	-33.0	12.6	-42.1	-42.9	-17.3	-16.9	-18.7	-21.6	-24.0
Official medium- and long-term disbursements	-14.1	-51.3	-24.1	-20.3	-22.1	-23.9	-23.7	-21.3	-23.9
Programs	0.0	-22.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Projects	-14.1	-29.3	-24.0	-20.3	-22.1	-23.9	-23.7	-21.3	-23.9
Amortization	2.1	11.8	25.5	3.5	17.9	18.5	18.0	15.5	17.8
Treasury bills (regional financing)	-18.3	-46.2	-59.3	-48.8	-34.9	-31.5	-37.6	-41.4	-44.6
Commercial bank net foreign assets	-28.1	72.2	-12.5	-7.5	-7.5	-7.5	0.0	0.0	0.0
Other net foreign assets	25.5	26.2	28.2	30.1	29.4	27.5	24.6	25.6	26.6
Errors and Omissions	-3.2	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	13.2	-20.3	57.0	13.9	0.2	-0.1	4.1	6.6	10.4
Financing	-13.2	20.3	-36.7	-21.7	-7.9	-7.6	-4.1	-6.6	-10.4
Net foreign assets excluding IMF (increase -)	-12.0	20.3	-47.9	-20.1	-5.0	-4.4	-1.4	-3.2	-6.6
IMF purchases	0.0	0.0	11.2	0.0	0.0	0.0	0.0	0.0	0.0
IMF repurchases	-1.2	-2.0	-1.6	-1.6	-2.9	-3.2	-2.7	-3.4	-3.8
Grant for debt relief under the IMF CCRT	0.0	2.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	7.8	7.7	7.7	0.0	0.0	0.0
Memorandum items:									
Cashew export quantity (thousands of tons)	196	155	234	240	245	250	255	260	265
Cashew export prices (US$ per ton)	1,098	1,000	1,154	1,159	1,194	1,229	1,254	1,279	1,305
Import volume of goods (annual percentage change)	13.5	-5.1	-2.6	-11.9	7.0	6.1	5.2	6.0	4.6
Oil prices (international, US$ per barrel)	61.4	41.3	69.1	106.8	92.6	84.2	78.5	74.7	72.5
Scheduled debt service									
Percent of exports and service credits	2.8	13.5	20.0	3.6	13.1	13.0	11.6	10.4	11.3
Percent of total government revenue	4.6	18.1	27.7	5.1	17.4	16.4	13.9	12.0	12.6
Current account balance (percent of GDP)	-8.5	-2.7	-3.2	-6.5	-4.7	-4.5	-4.2	-4.1	-4.0
Official transfers (percent of GDP)	2.8	3.8	6.2	4.0	4.1	3.6	3.6	3.6	3.6
WAEMU gross official reserves (billions of US$)	17.5	21.8	24.5	…	…	…	…	…	…
(percent of broad money)	34.1	33.2	30.2	…	…	…	…	…	…

Sources: BCEAO; and IMF staff estimates and projections.

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

	2019	2020	2021		2022	2023	2024	2025	2026	2027
			SMP request	Prel.			Proj.			
Revenue and grants	130.1	134.7	162.0	182.5	168.7	193.8	206.7	224.4	241.1	263.2
Tax revenue	79.1	67.8	87.9	93.5	99.7	117.7	130.1	142.2	153.1	167.4
Nontax revenue	26.5	32.0	27.0	28.9	28.4	32.2	34.5	37.2	39.4	42.3
Grants	24.5	35.0	47.0	60.1	40.5	43.9	42.1	45.0	48.6	53.5
Budget support	1.9	0.0	3.7	1.0	4.9	4.5	0.0	0.0	0.0	0.0
Project grants	22.6	33.0	42.5	57.5	35.6	39.4	42.1	45.0	48.6	53.5
Capital grants from CCRT	0.0	2.0	0.9	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	163.7	219.1	206.1	236.3	213.0	237.4	247.6	262.3	282.2	307.3
Expense	125.2	143.4	134.4	148.5	141.4	150.9	159.0	170.2	182.3	195.7
Wages and salaries	47.5	57.0	56.6	58.2	56.5	57.7	61.2	64.6	68.4	72.5
Goods and services	18.7	25.4	24.4	28.7	26.2	26.7	28.8	31.5	33.8	36.2
Transfers	27.1	27.3	23.6	25.9	24.8	26.4	27.9	30.2	32.5	35.1
Non regularized spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	9.2	13.2	14.1	15.4	14.2	21.2	23.0	23.5	25.6	29.0
Other	22.7	20.5	15.8	20.2	19.7	18.9	18.1	20.4	22.0	23.0
Net acquisition of nonfinancial assets	38.5	75.7	71.7	87.8	71.6	86.4	88.6	92.1	99.9	111.6
Domestically financed	1.8	9.9	10.0	7.1	15.8	24.9	22.5	23.4	30.0	34.2
Foreign financed (including BOAD)	36.7	65.7	61.7	80.7	55.9	61.5	66.1	68.7	69.9	77.4
Overall balance, including grants (commitment)	-33.6	-84.3	-44.1	-53.8	-44.3	-43.5	-40.9	-37.9	-41.1	-44.1
Overall balance, excluding grants (commitment)	-58.1	-119.3	-91.2	-113.9	-84.9	-87.4	-83.0	-82.9	-89.7	-97.6
Change in arrears	0.0	6.5	-13.7	-9.0	-14.7	0.0	0.0	0.0	0.0	0.0
Domestic arrears[1]	-1.8	5.5	-12.3	-8.0	-14.7	0.0	0.0	0.0	0.0	0.0
Accumulation current year	10.4	9.6	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-12.1	-4.1	-12.3	-10.2	-14.7	0.0	0.0	0.0	0.0	0.0
Net external arrears	1.8	0.7	-0.5	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Net BOAD interest arrears	0.0	0.2	-0.9	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancy	-7.4	0.4	0.0	-8.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-41.0	-77.7	-57.8	-71.1	-59.1	-43.5	-40.9	-37.9	-41.1	-44.1
Financing[2]	41.0	77.7	47.0	71.1	51.3	35.8	33.2	37.9	41.1	44.1
Net acquisition of financial assets (- = build up)	-2.4	-28.8	11.1	9.8	0.0	0.0	0.0	0.0	0.0	0.0
Bank deposits	3.0	-12.9	11.1	10.6	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	0.2	-1.8	0.0	-4.1	0.0	0.0	0.0	0.0	0.0	0.0
Local commercial banks	2.8	-11.1	11.1	14.7	0.0	0.0	0.0	0.0	0.0	0.0
Other[3]	-5.4	-15.9	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
of which: Bank recapitalization	-3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	31.4	63.4	30.1	62.7	34.6	31.5	27.8	32.2	35.2	38.0
BCEAO credit	-1.4	-2.8	10.1	30.7	-2.2	-3.4	-3.7	-5.4	-6.2	-6.6
(o/w) IMF	-1.2	-2.0	10.1	9.6	-1.6	-2.9	-3.2	-2.7	-3.4	-3.8
Other domestic (net)	32.8	66.2	20.1	32.0	36.8	34.9	31.5	37.6	41.4	44.6
Local commercial banks	14.5	20.0	-33.3	-27.2	-12.0	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	18.3	46.2	54.6	59.3	48.8	34.9	31.5	37.6	41.4	44.6
Foreign financing (net)	12.0	43.1	5.8	-1.4	16.7	4.3	5.4	5.7	5.8	6.1
Disbursements	14.1	54.9	9.2	24.1	20.3	22.1	23.9	23.7	21.3	23.9
Projects	14.1	32.9	9.2	24.0	20.3	22.1	23.9	23.7	21.3	23.9
Programs	0.0	22.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-2.1	-11.8	-3.4	-25.5	-3.5	-17.9	-18.5	-18.0	-15.5	-17.8
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	10.8	0.0	7.8	7.7	7.7	0.0	0.0	0.0
Memorandum item:										
Domestic primary balance (commitment)[4]	-12.2	-40.3	-15.4	-17.8	-14.8	-4.7	6.1	9.3	5.8	8.7

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

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

[2] Financing is on currency basis.

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

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

Table 3b. Guinea-Bissau: Consolidated Operations of the Central Government, 2019–27

(Percent of GDP)

	2019	2020	2021		2022	2023	2024	2025	2026	2027
			SMP request	Prel.	Proj.					
Revenue and grants	14.9	15.4	18.5	19.3	16.8	17.9	17.7	17.8	17.7	17.9
Tax revenue	9.1	7.7	10.1	9.9	9.9	10.9	11.1	11.3	11.3	11.4
Nontax revenue	3.0	3.7	3.1	3.1	2.8	3.0	3.0	3.0	2.9	2.9
Grants	2.8	4.0	5.4	6.4	4.0	4.1	3.6	3.6	3.6	3.6
Budget support	0.2	0.0	0.4	0.1	0.5	0.4	0.0	0.0	0.0	0.0
Project grants	2.6	3.8	4.9	6.1	3.5	3.6	3.6	3.6	3.6	3.6
Capital grants from CCRT	0.0	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	18.8	25.0	23.6	25.0	21.2	22.0	21.2	20.8	20.8	20.9
Expense	14.4	16.4	15.4	15.7	14.0	14.0	13.6	13.5	13.4	13.3
Wages and salaries	5.5	6.5	6.5	6.2	5.6	5.3	5.2	5.1	5.0	4.9
Goods and services	2.1	2.9	2.8	3.0	2.6	2.5	2.5	2.5	2.5	2.5
Transfers	3.1	3.1	2.7	2.7	2.5	2.4	2.4	2.4	2.4	2.4
Non-regularized spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	1.1	1.5	1.6	1.6	1.4	2.0	2.0	1.9	1.9	2.0
Other	2.6	2.3	1.8	2.1	2.0	1.8	1.6	1.6	1.6	1.6
Net acquisition of nonfinancial assets	4.4	8.6	8.2	9.3	7.1	8.0	7.6	7.3	7.3	7.6
Domestically financed	0.2	1.1	1.1	0.8	1.6	2.3	1.9	1.9	2.2	2.3
Foreign financed (including BOAD)	4.2	7.5	7.1	8.6	5.6	5.7	5.7	5.5	5.1	5.3
Overall balance, including grants (commitment)	-3.9	-9.6	-5.0	-5.7	-4.4	-4.0	-3.5	-3.0	-3.0	-3.0
Overall balance, excluding grants (commitment)	-6.7	-13.6	-10.4	-12.1	-8.4	-8.1	-7.1	-6.6	-6.6	-6.6
Change in arrears	0.0	0.7	-1.6	-1.0	-1.5	0.0	0.0	0.0	0.0	0.0
Domestic arrears[1]	-0.2	0.6	-1.4	-0.8	-1.5	0.0	0.0	0.0	0.0	0.0
Accumulation current year	1.2	1.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-1.4	-0.5	-1.4	-1.1	-1.5	0.0	0.0	0.0	0.0	0.0
Net external arrears	0.2	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net BOAD interest arrears	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancy	-0.8	0.0	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-4.7	-8.9	-6.6	-7.5	-5.9	-4.0	-3.5	-3.0	-3.0	-3.0
Financing[2]	4.7	8.9	5.4	7.5	5.1	3.3	2.8	3.0	3.0	3.0
Net acquisition of financial assets (- = build up)	-0.3	-3.3	1.3	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank deposits	0.3	-1.5	1.3	1.1	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	0.0	-0.2	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Local commercial banks	0.3	-1.3	1.3	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Other[3]	-0.6	-1.8	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
of which: Bank recapitalization	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	3.6	7.2	3.4	6.6	3.4	2.9	2.4	2.6	2.6	2.6
BCEAO credit	-0.2	-0.3	1.2	3.3	-0.2	-0.3	-0.3	-0.4	-0.5	-0.4
(o/w) IMF	-0.1	-0.2	1.2	1.0	-0.2	-0.3	-0.3	-0.2	-0.2	-0.3
Other domestic (net)	3.8	7.6	2.3	3.4	3.7	3.2	2.7	3.0	3.0	3.0
Local commercial banks	1.7	2.3	-3.8	-2.9	-1.2	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	2.1	5.3	6.2	6.3	4.8	3.2	2.7	3.0	3.0	3.0
Foreign financing (net)	1.4	4.9	0.7	-0.1	1.7	0.4	0.5	0.5	0.4	0.4
Disbursements	1.6	6.3	1.1	2.6	2.0	2.0	2.1	1.9	1.6	1.6
Projects	1.6	3.8	1.1	2.5	2.0	2.0	2.1	1.9	1.6	1.6
Programs	0.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.2	-1.3	-0.4	-2.7	-0.4	-1.7	-1.6	-1.4	-1.1	-1.2
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	1.2	0.0	0.8	0.7	0.7	0.0	0.0	0.0
Memorandum item:										
Domestic primary balance (commitment)[4]	-1.4	-4.6	-1.8	-1.9	-1.5	-0.4	0.5	0.7	0.4	0.6

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

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

[2] Financing is on currency basis.

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

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

Table 4. Guinea-Bissau: Monetary Survey, 2019–24[1]

	2019	2020	2021	2022	2023	2024
			Prel.	Proj.		
	(CFAF billions)					
Net foreign assets	217.7	271.5	275.2	281.6	274.3	266.7
Central Bank of West African States (BCEAO)	182.6	164.2	202.4	198.0	187.8	179.4
Commercial banks	35.1	107.3	94.8	87.3	79.8	72.3
Net domestic assets	148.3	127.7	154.5	159.8	185.9	215.2
Credit to the government (net)	58.8	47.2	72.5	66.0	70.4	74.3
BCEAO	42.7	40.2	70.9	76.5	80.9	84.8
Commercial banks	16.2	7.0	-15.2	-15.2	-15.2	-15.2
Credit to the economy	138.9	147.1	157.9	169.6	191.3	216.7
Other items (net)	-49.5	-66.6	-75.8	-75.8	-75.8	-75.8
Money supply (M2)	366.0	399.2	429.7	441.5	460.1	481.9
Currency outside banks	235.3	246.5	251.4	258.3	269.2	281.9
Bank deposits	130.7	152.7	178.3	183.2	191.0	200.0
Base money (M0)	258.7	274.7	311.4	318.2	331.0	349.4
	(Change in percent of beginning-of-period broad money)					
Contribution to the growth of broad money (M2)						
Net foreign assets	-4.1	14.7	0.9	1.5	-1.7	-1.7
BCEAO	3.6	-5.0	9.6	-1.0	-2.3	-1.8
Commercial banks	-7.7	19.7	-3.1	-1.7	-1.7	-1.6
Net domestic assets	4.3	-5.6	6.7	1.2	5.9	6.4
Credit to the central government	2.0	-3.2	6.3	-1.5	1.0	0.9
Credit to the economy	4.6	2.3	2.7	2.7	4.9	5.5
Other items (net)	-2.2	-4.7	-2.3	0.0	0.0	0.0
Memorandum items:						
Broad money (M2, annual percentage change)	0.3	9.1	7.6	2.7	4.2	4.7
Base money (M0, annual percentage change)	4.2	6.2	13.4	2.2	4.0	5.6
Credit to the economy (annual percentage change)	13.8	5.9	7.3	7.4	12.8	13.3
Velocity (GDP/M2)	2.4	2.2	2.2	2.3	2.3	2.4
Money multiplier (M2/M0)	1.4	1.5	1.4	1.4	1.4	1.4

Sources: BCEAO; and IMF staff estimates and projections.

[1] End of period.

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

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

Source: BCEAO.

[1] Excluding tax on banking operations.

Table 6. Quantitative Targets Under the Staff-Monitored Program

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

	2021												
	Jun				Sep				Dec				
	SMP Request	Adjusted Target	Actual	Status	SMP Request	Adjusted Target	Actual	Status	SMP Request	1st & 2nd Review	Adjusted Target	Actual[10]	Status
Quantitative targets[1]													
Total domestic tax revenue (floor)	38.2		42.2	met	62.8		72.3	met	87.9	93.5		93.5	met
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US$ millions)[2]	0.0		0.0	met	0.0		0.0	met	0.0			0.0	met
New external payment arrears (US$ millions, ceiling)[2]	0.0		0.5	not met[8]	0.0		0.5	not met[8]	0.0			0.1	not met[8]
New domestic arrears (ceiling)	0.0		1.1	not met[9]	0.0		1.6	not met[9]	0.0			2.2	not met[9]
Social and priority spending (floor)[3]	27.2		36.4	met	38.7		61.2	met	50.1			79.6	met
Domestic primary balance (commitment basis, floor)[4]	-16.4	-17.7	-18.6	not met	-23.4	-25.4	-13.0	met	-15.4	-18.9	-21.0	-17.8	met
Non regularized expenditures (DNTs, ceiling)	0.0		0.0	met	0.0		0.0	met	0.0			0.0	met
Memorandum items:													
External budgetary assistance (US$ millions)[5]	1.8		0.0	…	1.8		0.0	…	6.9	6.8		2.0	…
Net domestic bank credit to the central government	23.4		11.0	…	53.6		11.2	…	42.2	15.8		26.8	…
Concessional project loans (US$ millions)[6]	9.9		14.0	…	14.9		26.7	…	19.9	19.6		34.3	…
Outstanding stock of government guarantees[7]	10.1		12.5	…	23.1		11.9	…	23.1	10.3		11.6	…

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

[2] These apply on a continuous basis.

[3] Defined as spending by the Ministries of Health, Education and the Ministry of Women, Family and Social Cohesion, and the High Commissioner for COVID-19.

[4] Excludes grants, foreign and BOAD financed capital spending, and interest. To account for domestically financed current expenditures associated to COVID vaccination implementation (TMU paragraph 11), the SMP targets for end-June and end-September (deficits of CFAF 16.4 billion and CFAF 23.4 billion) have been adjusted downwards by CFAF 1.3 billion and CFAF 2.0 billion respectively; and the First Review target for end-Dec (deficit of CFAF 18.9 billion) has been adjusted downwards by CFAF 2.1 billion. The domestically financed current expenditures related to COVID-19 vaccination implementation is CFAF 4.3 billion and exceed the CFAF 2.2 billion programmed. The adjustor of 2.1 billion is applied to the end-2021 DPB target (CFAF -18.9 billion) which yields an adjusted target of CFAF -21.0 billion. The DPB target is met by the outturn of CFAF -17.8 billion. The actual figures for end-June, end-September and end-Dec have been updated to (i) exclude payment of wage arrears incurred in 2019-20 previously accounted in wage expenditures in 2021; and (ii) include wage expenditure for the hiring of irregular workers in the health sector, which will considered as accummulation of new domestic arrears (Footnote 9).

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

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

[7] All guarantees are denominated in CFAF.

[8] Arrears of US$0.34 million to Libya and US$0.11 million to the Islamic Development Bank (IDB) were accumulated for technical reasons. The transfer to Libya was initially rejected due to correspondent banking constraints. The payment to the IDB was delayed due to coordination problems. Residual amounts (less than US$20,000) were due to the African Development Bank. Those payments were executed by end-November. At end-2021, there were remaining arrears of US$0.1 million to the Saudi Fund, fully paid in March 2022. As it is a continuous QT, the status is considered "not met" in December also due the arrears that were fully cleared during 2021Q4.

[9] To improve the delivery of services in the health sector, the Ministry of Health hired irregular workers, amounting to CFAF 3.0 billion in 2021. As the wage payment is only executed in 2022, it will be considered as accummulation of new domestic arrears in 2021.

[10] Based on preliminary data and estimates.

Table 7. Guinea-Bissau: Structural Benchmarks

Measures	Rationale	Date	Current Status
Public Financial Management			
To: (i) continue weekly Treasury Committee meetings without interruptions;	Expenditure control	Continuous	Met
(ii) issue a ministerial order defining a clear criteria for prioritization of cash payments by expenditure category to avoid arrears (restos a pagar) after their due date.	Expenditure control	End-July 2021	Met
Appoint a team in charge of the project of implementing the TSA at the General Directorate of Treasury and Public Accounting (DGTCP) through a DGTCP mission letter. Make compulsory the prior authorization of the Minister of Finance for any opening of a public bank account through a Ministry of Finance decision. Identify all public bank accounts by requesting separately the information from the banks, the sectoral ministries and other public entities.	Expenditure control	End-September 2021	Met
Amend the legal procurement framework to enable the collection and publication of beneficial ownership information of public procurement contracts.	Expenditure control/Anti-corruption	End-March 2022	Met. Implemented with delay.
Issue an executive order to end hiring of irregular employees and enforce control by the financial controller over all public salaries, including employment incentives and the National Assembly salaries, and reconcile the personnel and the payroll records.	Wage bill control	End-December 2021	Met
Revenue Mobilization			
Approve by Council of Ministers, submit to parliament:			
(i) the revised general tax code and the revised tax penalty regime; and	Strengthen tax framework	End-July 2021	Met
(ii) the new VAT bill.	Strengthen tax framework	End-December 2021	Met
Implementation of the Kontaktu system for tax returns filing and electronic payments through e-banking and mobile money:			
(i) pilot phase for a small number of large taxpayers followed by	Increase revenues	End-July 2021	Met
(ii) full implementation.	Increase revenues	End-March 2022	Met
Approve by Council of Ministers, submit to parliament a reviewed customs code.	Strengthen custom framework	End-September 2021	Met
Financial Sector			
Prepare a report with the exit strategy from the undercapitalized systemic bank, including a full financial assessment.	Financial stability	End-December 2021	Not Met

Sources: Guinea-Bissau authorities and IMF staff.

Annex I. Risk Assessment Matrix[1]

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
External Risks			
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space). **Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions.** Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers, which particularly affect LICs and commodity-importing EMs.	High	High / ST • The economy would be hardly hit 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, jeopardizing fiscal consolidation strategy and sustainability. • Balance of payments problems generated by the worsening of the current account.	• Create fiscal space through spending review and tax mobilization for new policies to mitigate supply shocks in the economy. • Prioritize and target public spending towards the most vulnerable people. • Review and reprioritize tax exemptions for programs with higher economic and social impact. • Mobilize additional grants and concessional loans from development partners to cover more persistent external needs.
Widespread social discontent and political instability. Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities).	High	High / ST, MT • Delayed fiscal adjustment. • Limited financing inflows delay investment projects. • Supply disruptions and weaker confidence.	• Enhance targeted social policies and strengthen social safety nets. • Avoid early withdrawal of fiscal and financial incentives supporting households and companies impacted by the pandemic. Improve governance, transparency and accountability and fighting corruption.

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

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
Domestic Risks			
Outbreaks of lethal and highly contagious Covid-19 variants. Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs.	**Medium**	**High / ST** • Outbreaks would have particularly large adverse impact in Guinea-Bissau as the weak health system would not be able to avoid a high human toll of the pandemic. • The economy would be hardly hit by increased disruptions in the cashew trade and business in general.	• Prioritize spending towards health sector and social protection including to accelerate the vaccination roll out. • Mobilize additional grants and concessional loans from development partners to cover more persistent external needs.
Abrupt growth slowdown in China. A combination of extended Covid-19 lockdowns, rising geopolitical tensions, a sharper-than-expected slowdown in the property sector, and/or inadequate policy responses result in a sharp slowdown of economic activity, with spillovers affecting other countries through supply chain disruptions, trade, commodity-price, and financial channels.	**Medium**	**High / ST** • Volatility in cashew nut prices and demand. • Balance of payments problems generated by the worsening of the current or financial accounts.	• Create fiscal space through spending review and tax mobilization for new policies to mitigate shocks in the economy. • Prioritize and target public spending towards the affected sectors. • Mobilize additional grants and concessional loans from development partners to cover more persistent external needs.
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. • Preserve social spending focused on the most vulnerable. • Step up diversification efforts.

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
Banking instability, arising 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.
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.
Geopolitical tensions and deglobalization. Intensified geopolitical tensions, security risks, conflicts, and wars cause economic and political disruptions, fragmentation of the international monetary system, production reshoring, a decline in global trade, and lower investor confidence.	High	High / ST • The economy would be hit by disruptions in the supply chain. • Deterioration in terms of trade. • Increase inflation, food insecurity and poverty. • Balance of payments problems and capital volatility.	• Create fiscal space through spending review and tax mobilization for new policies to mitigate supply shocks in the economy. • Prioritize and target public spending towards the most vulnerable people. • Diversify the economy. • Allocate additional grants and concessional loans to cover external needs.
Natural disasters related to climate change. Higher frequency of natural disasters cause severe economic damage to smaller vulnerable economies and accelerate emigration. Severe events in large economies hitting key infrastructure reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects.	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. Downside Scenario

1. Staff has developed a downside scenario to illustrate the macroeconomic impact of the materialization of risks, including more severe effects from the war in Ukraine.

The scenario assumes:

- Lower growth in the short and medium term due to a more protracted global recovery, prolonged supply chain disruptions and further outbreaks of the pandemic[1].
- Higher current account deficit due to a nominal freeze in remittance inflows in 2022 and 2023, and weaker cashew nut exports.
- Higher fiscal deficit due to lower domestic revenues in tandem with lower economic growth, and higher expenditures associated with transfers to mitigate the negative impact of higher energy prices in 2022 and 2023.

Annex II Text Table 1. Guinea-Bissau: Downside Scenario

	2021	2022		2023		2024		2025		2026	
	Prelim.	Base.	Down.	Base.	Down.	Base.	Down.	Base.	Down.	Base.	Down.
Real GDP Growth (percent)	3.8	3.8	1.5	4.5	3.5	5.0	4.0	5.0	4.5	5.0	4.5
Cashew nut export quantity (thousands of tons)	240	240	220	245	240	250	245	255	250	260	255
Exports, f.o.b. (percent of GDP)	18.4	18.3	17.0	17.7	17.2	17.1	16.7	16.4	16.0	15.7	15.4
External current account (percent of GDP)	-3.1	-5.6	-7.1	-4.8	-5.7	-4.3	-5.3	-3.9	-4.7	-3.8	-4.5
Overall Fiscal balance (percent of GDP)	-5.9	-4.1	-4.9	-4.0	-4.7	-3.5	-3.8	-3.0	-3.3	-3.0	-3.3
Stock of public debt (percent of GDP)	80.7	79.7	82.1	77.7	81.3	75.1	79.5	72.3	77.0	69.7	74.7

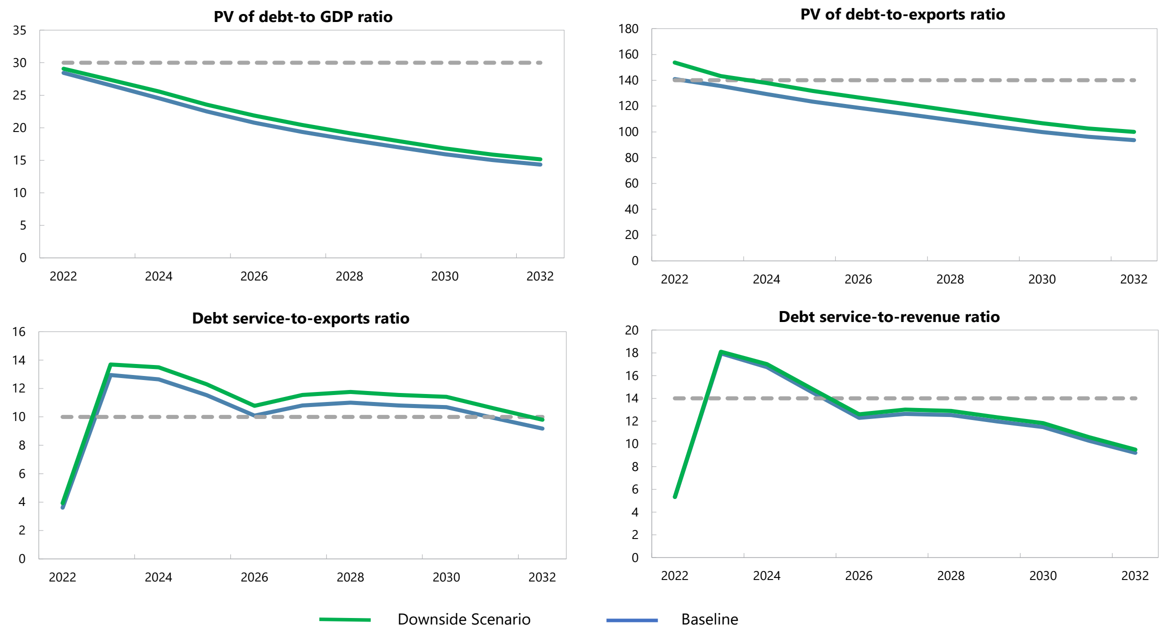
Sources: Guinea-Bissau authorities; and IMF staff estimates and projections.

2. Debt vulnerabilities increased in such a scenario (Text Figure 1)**.** The public debt-to-GDP ratio would remain above 70 percent WAEMU convergence criterion until 2029, delaying convergence by 4 years, but remaining in a downward path. Debt service-to-revenues would increase by 3 percentage points on average. Fiscal deficit would remain above the 3 percent WAEMU convergence criterion throughout the projection horizon.

3. Policy implications. The scenario underscores: (i) the importance of controlling non-priority spending growth and mobilizing domestic revenue to create room for investments and pro-growth expenditure; (ii) the need to follow the medium-term fiscal consolidation strategy to bring the debt-to-GDP ratio firmly on a downward trajectory; and (iii) mitigate external vulnerabilities by diversifying the economy and exports. Against this backdrop, full implementation of the medium-term fiscal consolidation plan and an economic diversification strategy should be the cornerstones to a more resilient macroeconomic stability in the future.

[1] Growth in 2022 has been downgraded to 1.5 percent, to reflect a similar impact as the COVID outbreak in 2020.

Annex II Figure 1. Guinea-Bissau: Downside Scenario and the DSA
(Indicators of Public and Publicly Guaranteed External Debt 2021-2031)



Source: IMF staff calculations

Annex III. Recommendations from the 2017 Article IV Consultation

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

Annex IV. SMP: Achievements on Governance and Anti-Corruption

Main Achievements

1. **During the SMP the government has adopted reforms in governance and transparency to strengthen expenditure control, revenue mobilization and fight against corruption (Table 7).**[1] These reforms cover the following areas:

- *Expenditure control*. The Treasury Committee has continued its weekly meetings without interruption and the other expenditure control measures agreed under the SMP have been adopted.[2] Steps have been taken towards establishing a TSA (SB, end September 2021) and strengthen cash management. IMF TA continues to support the improvement of the treasury and cash management. The Ministry of Finance created a unit within the Directorate General of Treasury that will use the IMF tool. An executive order was issued to end the hiring of employees without contract (SB, end-September 2021) and other order was approved to enforce control by the financial controller over all public salaries and reconcile personnel and payroll records (SB end-December 2021) supported by the blockchain project. The Council of Ministers decided[3] that these measures must be implemented by all public entities whose wages are included in the budget. The government is preparing a ministerial order to enforce normal expenditure execution procedures by requiring certification of goods and services delivery before payment to providers. Spending units must adopt and implement the procedures as stated in the "Manual for procedures on public expenditures" developed with IMF TA support. A pilot in at least five selected line ministries will start at the beginning of 2022. IMF TA has been requested to support the implementation.
- *Public financial management*. Continuous IMF TA has been provided to support the improvement of the treasury and cash management function, including establishing a Treasury Single Account. The Ministry of Finance created a unit within the Directorate General of Treasury to implement the cash management function using the IMF tool.
- *SOEs sector*. The government is preparing a follow-up report on recommendations from previous Tribunal de Contas (TC) audit reports on EAGB to strengthen its management and transparency to be published by end-March 2022. The TC included EAGB in the 2022 plan of audits. IMF TA will support the enhancement of SOEs fiscal oversight and mitigation of fiscal risk.
- *Revenue mobilization*. Parliament approved in December a tax package including the revised tax code and tax penalty regime (SB, end July), the customs code (SB, end-September) and a new

[1] For adopted measures to strengthen governance and fight corruption see Annex IV.

[2] See Staff Report of the First Review of the 2021 SMP, on expenditure control reforms adopted ahead of the deadline agreed with Staff on hiring new employees and the implementation of the Treasury Single Account (TSA).

[3] July 27, 2021 resolution.

VAT law (SB, end-December).[4] To strengthen tax administration, the Kontaktu system is operational to all large taxpayers achieving full implementation. In addition, the government will ensure information exchange between the Directorates General of Taxes (DGCI), Customs (DGA), and Treasury (DGTCP), and the National Institute of Social Security (INSS)[5].

- *Fighting against corruption.* In mid-October 2021, the Council of Ministers mandated Ministers and State Secretaries to abide by the strict observance of the legal framework[6] of assets declaration and interest owned. The Council of Ministers approved and submitted to Parliament the reform of the asset declaration regime supported by IMF TA[7]. The procurement legal framework was ammended with the support of IMF TA to enable the collection and publication of beneficial ownership (BO) information of entities awarded public contracts through a Ministerial Decree approved by the Council of Ministers in February 2022.[8]

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[4] The general tax code and tax penalty regime will strengthen the tax framework, provide a common basis for the administration of all taxes regardless of tax types, and promote fairness and understanding. The VAT will improve the tax framework and broaden the tax base, and the customs code will change traders' behavior and raise customs compliance.

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

[6] Law number 7/99 regulates the declaration of assets and returns including from ownership of propriety, companies, and financial assets by political appointees to public service.

[7] The reform proposal aims to modernize legislation from 1999 by (i) covering all politically exposed persons (PEPs), as defined by the Financial Action Task Force standards and their family members and close associates; (ii) covering assets and interests owned, including those beneficially owned, domestically and abroad (iii) ensuring declarations are publicly available online; and (iv) allowing the imposition of targeted, proportionate, and dissuasive sanctions that are consistently enforced for failure of submission and for submission of false declaration. LEG has reviewed the legislation provided by the authorities and stands ready to begin technical discussions upon confirmation of the authorities' counterparts.

[8] The Council of Minister's Decree (i) a provides definition of BO consistent with the FATF definition, defined as "the individual or individuals who ultimately own or exercise ultimate effective control, directly or indirectly, over entities bidding for public tenders"; (ii) underscores the obligation for all bidding entities in public procurement to submit accurate, complete and up-to-date BO information as part of the bidding process, alongside other bidding documentation; (iii) stipulates applicable sanctions, including under the terms foreseen in the Public Contracts Code, in case of non-compliance with the formalities of identification of the beneficial owner foreseen in the BO Decree; and (iv) requires publication of the name, nationality, and domicile of the beneficial owner of the entity awarded the public procurement contract on the official websites of the Directorate General of Public Procurement and the Public Procurement Regulation Authority.

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 V. Capacity Development Strategy

Context

1. **Guinea-Bissau is a fragile state**. Socio-economic development has historically been held back by political conflict and weak governance (perceived corruption, weak judicial system and law enforcement). With a narrow export base consisting of unprocessed cashew nuts, the country is vulnerable to commodity price shocks and climate change. While poverty is endemic, social priority spending is insufficient and outcomes are often poor. Debt has increased with the need to fill large infrastructure gaps.

2. **The Covid-19 pandemic has underscored the need for capacity development (CD) assistance**. The pandemic has had a significant impact on economic activity and opened up large balance of payments and fiscal gaps. The policy response has been undermined by weak institutional capacity to mobilize additional resources, execute and control expenditures, ensure fiscal governance and transparency, and maintain debt on a sustainable path. The government has thus renewed its demand for TA in these areas.

3. **A nine-month Staff-Monitored Program (SMP) was approved to support the government's reform program in late July.** After a Rapid Credit Facility (RCF) was approved in January to provide urgent financing to support critical spending to fight the pandemic, the SMP has paved the way for a Extended Credit Facility (ECF) negotiation expected for the second half of 2022. Guinea-Bissau's previous ECF expired in July 2019 with the last two reviews uncompleted.

4. **Past substantial TA enabled reforms in core functions by improving the legal framework and the government's operational capacity**. Results have been mixed due to low absorption capacity. Protracted political uncertainty in FY2020 led to a loss of traction in CD engagement but has stepped out in a more stable environment in FY2021. Remote missions during the pandemic have been effective despite some connectivity issues.

Key CD Activities in Recent Years

A. Revenue Administration

5. **Substantial FAD assistance helped strengthen the taxpayer registry, arrears management, audits and IT modernization.** However, political instability and high staff turnover delayed reforms. Five TA missions in FY 2017-19 aimed at strengthening customs procedures. FAD also supports customs as part of a regional three-year project (2020-April 2023) financed by Japan. In FY2020 AFRITAC West (AFW) conducted two visits on customs valuation, the sanctions scheme and reform of custom litigation. TA on valuation of imports was assessed as successful. FAD has worked with Customs to prepare a new Customs Code aligned to ECOWAS, which shall be submitted to Parliament by end-September (part of SMP). It includes the application of deterrent penalties to change traders' behavior and raise compliance.

B. Tax Policy

6. A tax reform was approved in Parliament supported by years of technical assistance and reform efforts[1]. TA mission started in FY2021 to refine and update bills for a new tax code and penalties regime, review the legislation for a modern VAT, and estimate its revenue impacts. The bills were approved by parliament in December 2021 and promulgated in February 2022. Coordination with the World Bank's legislative LTX was essential to prepare the new laws, as well as follow-up FAD STX to help incorporate recent FAD recommendations.

C. Governance Assessment

7. Macro-critical weaknesses in fiscal governance, rule of law, market regulation, anti-money laundering (AML) and anti-corruption were diagnosed by a FAD/LEG mission in FY2020. The authorities welcomed the recommendations and authorized the publication of the report.[2] Seven LEG missions in FY2017-19 aimed at strengthening the financial intelligence unit (CENTIF) and prepared the passing of the WAEMU law on AML/CFT.

D. Public Financial Management

8. Sustained assistance has focus on strengthening public financial management functions. FAD provided ten PFM missions in FY2017-19. They supported the enhancement of budget execution and control to eliminate non-regularized expenditure, operationalize a Treasury Committee and improve the financial management system (SIGFIP) as well as the oversight of the Treasury over line ministries' expenditures. AFW helped drafting a new regulation for ex-ante controls. TA also supported the drafting of the chart of accounts. Two AFW missions in FY2020 assisted with manuals for expenditure and accounting procedures. Only a few of the treasury management recommendations were implemented due to capacity constraints and weak systems. One FY2019 mission made recommendations on public investment management (PIM) and capital budgeting and another in FY2020 focused on the oversight and surveillance of SOEs. Two missions in FY2019-20 focused on macroeconomic programming. TA missions in FY2021-22 included providing support to strengthen cash management and implementing the blockchain-based solution for the public wage bill management.

E. Debt Management

9. Increasing debt management function has been the focus of technical assistance. MCM missions helped drafting a debt management decree, proposed an organizational structure and functional responsibilities of the new Public Debt Directorate and trained its staff. Debt management has been strengthened by the approval by the Council of Ministers of the decrees related to the creation of a National Committee of Debt Policy, the organization and functioning of the General Directorate of Public Debt, and the issuance of debt and debt management.

[1] Following a FY2018 tax policy mission, the Council of Ministers approved a multi-year tax reform plan. A new general taxation law and a new taxation infringement law were passed by the Parliament in 2018 but were never promulgated.

[2] The action plan is being implemented gradually and informed the current SMP structural benchmarks.

F. Bank Restructuring

10. Assisting authorities to mitigate baking vulnerabilities has been an area of TA. MCM also assisted with the restructuring and resolution of two problem banks with an overhang of non-performing loans. As a result, one of the banks is now compliant with prudential norms, while the larger one remains undercapitalized.

G. Statistics

11. TA has focused on building capacities to improve core statistics. In 2019, the National Statistics Institute released rebased GDP data for 1997-2017 and implemented SNA2008 with AFW support (six missions in FY 2017-19). In April and September 2021, TA missions supported the estimations of the annual national accounts for 2018 and 2019, and a mission in December 2021 also reviewed the conditions to introduce quarterly GDP. The mission recommended to develop more high-frequency indicators and to produce timely annual national accounts. A new rebasing project is also being considered by the authorities. However, limited resources remain an issue for the National Statistical Institute. Progress towards the compilation of Government Finance Statistics (GFS) includes a government financial operations table (TOFE) consistent with regional directives, despite source data problems. Yearly GFS TA missions during 2019–21 further supported authorities' efforts to gradually adopt the GFSM 2001/2014 for the general government, but some data gaps (mainly on extrabudgetary units, the social security fund, and local governments) remain to be addressed. The balance of payments JSA/AFR project ended in April 2020 after four missions. The BCEAO implemented a large majority of the TA recommendations. The last FY2020 mission focused on improving source data, the compilation and dissemination of high frequency data, and staff training. A balance of payments mission in March 2022 assisted in the development of data sources and estimation techniques for the compilation of balance of payments and international investment position (IIP) for 2018-20.

CD Strategy and Priorities

12. The COVID-19 pandemic has underscored the need for continued CD assistance to the workstreams below, with the overall objective of improving fiscal governance and debt sustainability. Modernization of support functions such as IT systems has become an urgent need as it will provide the basis to implement sustained reforms and adjustment. Over the medium-term, natural resources taxation and climate change mitigation are critical. This strategy meets the authorities' demands for assistance and is aligned with the governance commitments of the 2021 RCF and the policy priorities of the current SMP.

Priorities	Objectives	Challenges
Revenue Administration and Tax policy	Strengthen RA management and governance arrangements. Implement the 2018 tax reform plan.	Ongoing capacity constraints (fragile institutions, high staff turnover, lack of basic equipment, weak institutional and policy coordination); political instability and pervasive rent seeking.
Public Financial Management	Strengthen governance, execution, and control. Implement a Treasury Single Account. Wage bill control. Enhance social spending. Strengthen the surveillance of State-owned Enterprises (SOEs). Improve public investment management.	
Debt Management	Improve the monitoring and reporting of domestic and external debt. Support the preparation of annual borrowing plans with fiscal projections and debt sustainability objectives.	
Enhance Governance and the Anti-Corruption Framework	Amend the legal procurement framework to enable the collection and publication of beneficial ownership information of entities awarded public contracts; review of the asset declaration regime and support the implementation of the RCF's governance safeguards.	
Financial Crisis Management	Enforce compliance with prudential norms. Support the implementation of resolution frameworks.	Coordination with the BCEAO and the regional Banking Commission.
National Accounts Statistics and Government Finance Statistics	Timely publication of the national accounts, also including the compilation of quarterly data, and strengthen Government Finance Statistics data.	Capacity constraints.

Engagement Strategy

13. Engagement with the authorities. Absorptive capacity is constrained by insufficiently trained staff, undefined work procedures and changing policy priorities. The authorities thus prefer TA delivered by long-term resident advisors fluent in Portuguese as well as hands-on training. While remote missions during the Covid-19 pandemic face the challenge of inadequate IT systems, the current period of political stability is an opportunity for sustained buy-in. To regain traction, a limited set of practical and actionable recommendations from past CD missions will be shared with new members of the Executive. Other more medium-term priorities (natural resource taxation, climate change) require raising awareness.

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

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

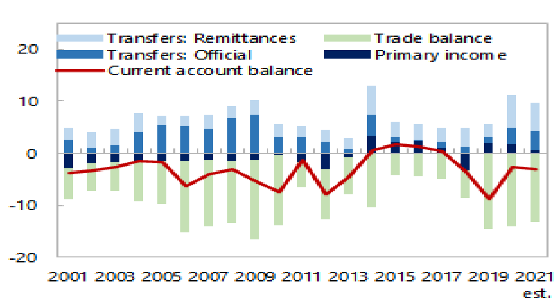
Annex VI. External Stability Assessment

The recent improvement in the current account deficit, estimated at 3.2 percent of GDP in 2021 and 2.7 percent in 2020, contrasts with the sharp deterioration observed in 2019, when the external deficit recorded 8.5 percent of GDP[1]. The real effective exchange rate appreciated in 2021, but has remained broadly stable over the past decade, anchored by the CFA franc's peg to the euro. While the EBA-lite CA and REER models indicate a moderately stronger position than the economic fundamentals imply, GNB is at high risk of external debt distress. The country's external position is considered to be broadly in line with fundamentals and desired policies based on the ongoing fiscal consolidation strategy to mitigate the risk of debt distress in the context of the WAEMU fixed exchange rate regime. Guinea-Bissau's external sector remains vulnerable to a range of risks and reducing vulnerabilities to external shocks will require increased export diversification, which in turn will depend on reforms to improve public sector governance and business environment.

External Sector Developments

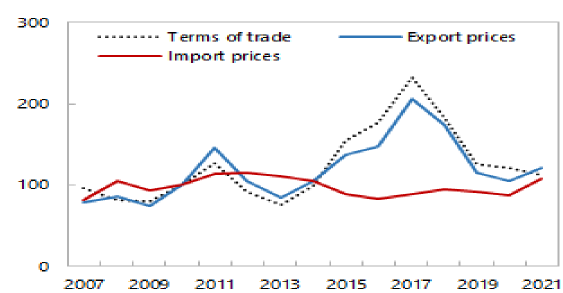
1. **Guinea-Bissau's external position has recently improved.** The current account moved from a deficit of 8.5 percent of GDP in 2019 to a deficit averaging 2.9 percent of GDP in 2020–21. The movement reflects an ongoing fiscal consolidation strategy to address country's high level of debt and the risk of debt distress, increase in official transfers and remittances inflows during the Covid-19 pandemic[2], lower volume of imports due to containment measures and the strong recovery in the cashew nut sector production and exports which reached their highest historical levels.

Figure 1. Current Account Developments
(Percent of GDP)



Sources: Guinea-Bissau authorities; IMF staff calculations.

Figure 2. Export, Import Prices and Terms of Trade
(Index, 2010=100)



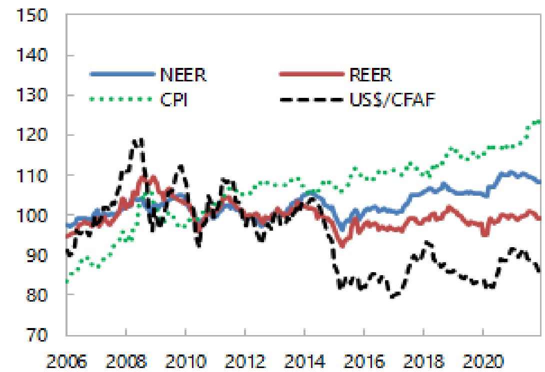
[1] The deterioration is explained mainly by the significant decline of the raw cashew nuts price. However, there was also an important one-off effect of the power ship import that supplies electricity to Bissau. The ship belongs to a Turkish company and has its value estimated at CFAF 29.25 billion (about 3.6 percent of 2019 GDP). The same amount was registered in the financial account as FDI inflow. This procedure follows the recommendation of the technical assistance missions on external accounts that took place in Bissau in April 2019 and February 2020.

[2] The increase in the remittance's inflows reflect mainly improvements in the collection of information due to the usage of digital technologies and is considered to have a permanent basis effect. In 2021, there was an additional higher inflow associated with the pandemic that is considered transitory. To compensate this transitionary effect, an adjustor has been applied in CA approach.

2. Despite a deterioration in the terms of trade due to a sharp increase in food and fuel imports prices, the current account deficit improved underpinned by an ambitious fiscal consolidation strategy, larger cashew nuts exports and higher remittances. The overall fiscal deficit reduced from 9.6 percent of GDP in 2020 to 5.7 percent in 2021, representing one of the largest fiscal consolidations in SSA in 2021 and contributing to the reduction of the current account deficit. The trade balance has improved on the back of the cashew nut export volumes, which increased by 22.5 percent,[3] thereby compensating for the negative impact of higher import prices on subdued volumes.[4] The country's external position is highly dependent on the cashew nut sector, which represents 97 percent of total export, and remains vulnerable to a range of risks such as international price fluctuations, as well as to weather conditions.

Figure 3. Exchange Rates and Prices

(Index, 2010 = 100)



Sources: Guinea-Bissau authorities; IMF staff calculations.

3. With the CFA franc pegged to the euro, the Real Effective Exchange Rate (REER) has remained broadly stable since 2010. REER movements in Guinea-Bissau tend to follow those in the nominal effective exchange rate (NEER), since the inflation differential with trading partners is relatively small. The REER has appreciated by about 4 percent since 2019 but remains approximately at the same level of 2010.

Assessment Using the EBA-Lite Methodology

5. EBA-lite methodologies converge on their diagnostic for the real exchange rate. Two regression-based approaches were used to assess exchange rate misalignment: the current account (CA) and the real exchange rate (REER) approaches. The CA and REER approaches are based on panel regressions that generate estimated "norms" consistent with fundamentals and desired policies. [5]

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[3] Export volumes reached 234 thousand tons in 2021, compared to 196 thousand tons in 2019.

[4] Export prices declined by 1 percent since 2019, against an increase of 10 percent for imports.

[5] The REER approach is based on a fitted value for the real effective exchange rate as a function of a set of economic variables that cause persistent deviations from long-run purchasing power parity, such as terms of trade, productivity, aid, and remittances. The CA approach is based on a fitted value for the current account stance instead, and the set of explanatory variables include, for example, the cyclically adjusted fiscal balance. Under this approach, once the current account gap is calculated, the elasticity of the current account to the real exchange rate is applied to obtain the real exchange rate gap.

External Sector Assessment Results[1]		
Methodology	CA gap (Percent GDP)	REER gap (percent)
EBA-Lite Current account (CA) approach	1.6	-9.6
EBA-Lite Real Effective Exchange Rate (REER) approach	1.2	-7.1
Note: A positive CA gap and a negative REER gap indicate undervaluation.		
1/ Based on the EBA-lite 3.0 methodology		

6. **An application of the EBA-lite methodologies suggests a currency undervaluation.** These estimates should be interpreted with caution. Data for Guinea-Bissau, including balance of payments statistics, are associated with a high degree of uncertainty, and are subjected to significant reviews. In addition, by relying on coefficients estimated for a large panel of countries, the CA and REER models do not fully capture the implications of Guinea-Bissau's high dependence on cashew sector or that it is a member of a currency union with a fixed exchange rate to the Euro.

A. CA Approach

Guinea-Bissau: Model Estimates for 2021 (in percent of GDP)[1]

	CA model	REER model
CA-Actual	**-3.2**	
Cyclical contributions (from model) (-)	-0.1	
COVID-19 adjustor (-) 2/	1.2	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.2	
Adjusted CA	**-4.0**	
CA Norm (from model) 3/	**-5.7**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-5.7**	
CA Gap	**1.6**	**1.2**
o/w Relative policy gap	3.2	
Elasticity	-0.17	
REER Gap (in percent)	**-9.6**	**-7.1**

1/ Based on the EBA-lite 3.0 methodology

2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0.45 percent of GDP) and remittances (0.73 percent of GDP).

3/ Cyclically adjusted, including multilateral consistency adjustments.

7. Based on this methodology, Guinea-Bissau's current account position in 2021 is moderately stronger than its fundamentals and desired policies. The current account benchmark implied (CA Norm) is -5.7 percent. The actual current account balance registered a deficit of 3.2 percent of GDP in 2021 and, applying the correction of cyclical contributions and conflicts estimated effects, the Adjusted CA deficit is at 4.0 percent. The implied misalignment of the current account is 1.6 percent of GDP, implying 9.6 percent undervaluation of the REER with an elasticity of the current account to movements in the real exchange rate of -0.17 (Tokarick, 2010).[6]

B. REER Approach

8. The REER approach focuses directly on the exchange rate as the dependent variable. It is a reduced form model (based on the REER regression from the EBA-lite toolkit) and estimates a fitted value for the real effective exchange rate as a function of a set of economic variables that cause persistent deviations from long-run purchasing power parity, such as terms of trade, productivity, aid, and remittances. Guinea-Bissau's REER is estimated to be undervalued by 7.1 percent in 2021.

9. The country's external position is regarded to be broadly in line with fundamentals and desired policies. While the EBA-lite, CA, and REER models indicate a moderately stronger position than the economic fundamentals imply, GNB is at high risk of external debt distress. This judgment is based on the impact of the ongoing fiscal consolidation strategy to mitigate the risk of debt distress and ensure debt sustainability in the context of the WAEMU currency area and its fiscal convergence framework.

Figure 4. Current Account (%GDP): Actual, Fitted, and Norm

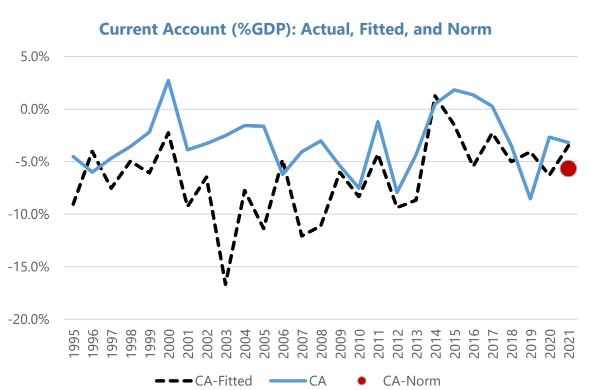
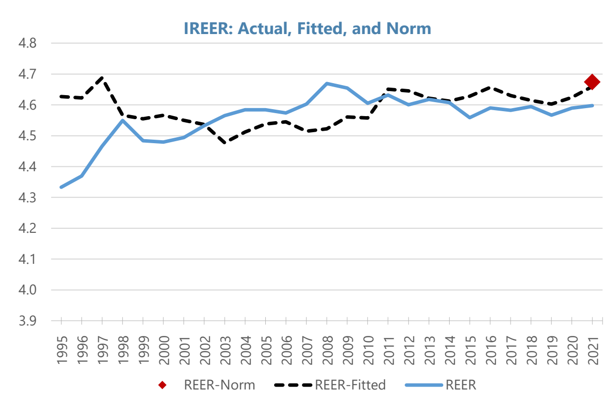


Figure 5. IREER: Actual, Fitted, and Norm



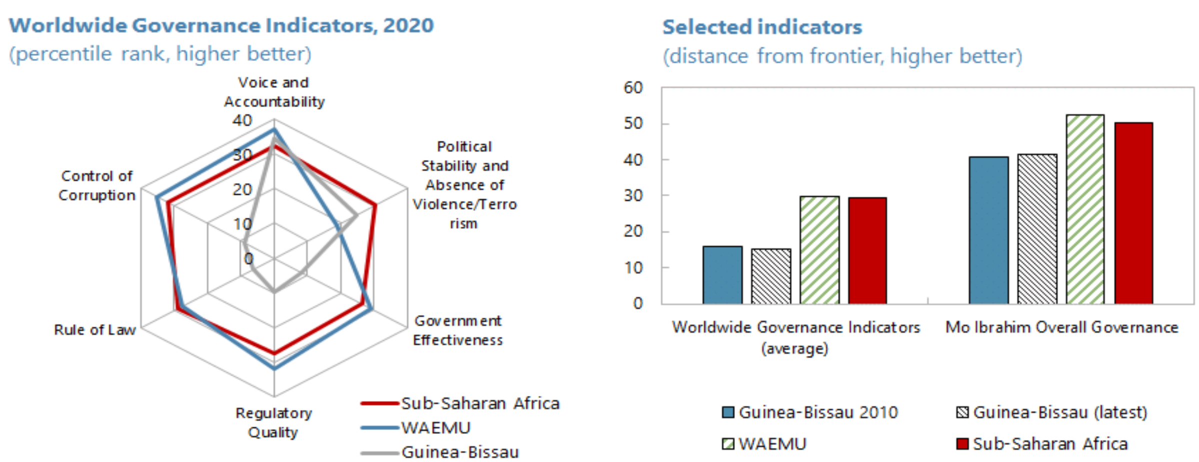
[6] Stephen S. Tokarick (2010), A Method for Calculating Export Supply and Import Demand Elasticities, IMF Working Paper, No. 10/180.

Structural Competitiveness

10. Output and export diversification will be critical to durably strengthening Guinea-Bissau's external position. Over the past two decades, Guinea-Bissau has become increasingly dependent on cashew nuts, which are still exported unprocessed. Diversification would increase resilience to external shocks and boost economic growth. Progress in this area will depend on maintaining a foundation of macroeconomic and political stability, amplifying infrastructure projects, especially on the electricity sector (Annex IX), prioritizing public spending on education and healthcare, and making the business environment more conducive to private investment.

11. Guinea-Bissau's governance indicators continue to lag that of other countries in the region. The Worldwide Governance Indicator reveals the challenging situation of Guinea-Bissau in governance standards. Compared to WAEMU and other Sub-Saharan Africa, the country has poor indicators on control of corruption, rule of law, government effectiveness and regulatory quality. Poor governance perpetuates fragility, and the SMP has established important governance reform benchmarks on asset declaration regime, declaration of beneficial ownership on public procurement process and improvement in auditing process. The authorities have implemented important measures and the performance of the program has been satisfactory (Annex IV).

Figure 6. Guinea-Bissau: Governance Indicators



Sources: World Governance Indicators; Mo Ibrahim Index of African Governance.

Conclusion

12. The country's external position is regarded to be broadly in line with fundamentals and desired policies, and the country's external sector remains vulnerable to a range of risks. While the EBA-lite CA and REER models indicate a moderately stronger position than the economic fundamentals imply, Guinea-Bissau is at high risk of external debt distress. The external assessment is based on the ongoing fiscal consolidation strategy to mitigate the risk of debt distress in the context of the WAEMU fixed exchange rate regime. The governance reform implementation is critical to any development strategy to the country overcoming fragility. Moreover, the high export concentration in cashew nuts and dependence on imported food and fuel leave the country vulnerable to international price fluctuations, as well as to weather conditions, posing risks to food security and external stability.

Annex VII. Diversification: Long Term Trends, Areas of Potential[1]

Guinea-Bissau is highly dependent on the production and export of cashew nuts, which leaves the country highly exposed to fluctuations in international prices and local weather conditions. Output and export diversification can contribute to higher and more sustainable growth. Opportunities lie in a range of areas such as agriculture, natural resources, and tourism. Taking advantage of these opportunities requires addressing constraints that have hindered diversification to date. Actions include addressing human capital needs, improving the regulatory environment, encouraging financial deepening, removing infrastructural bottlenecks, and consolidating political stability.

1. Guinea-Bissau is highly dependent on the production and export of cashew nuts, which leaves the country highly exposed to international prices and local weather conditions. More than 50 percent of households are thought to be engaged in production, processing, or sale of cashew nuts. Cashew nuts have over recent years accounted for about 90 percent of total exports. In addition, as almost the totality of cashew nuts is exported unprocessed, the destination of exports is highly concentrated, with India accounting for more than 70 percent of exports. Changes in this segment of the international cashew market, due to players that have increased their processing capacity, while potentially contributing to sustain international prices of raw cashew nuts in the medium term, have added considerable volatility in recent years, directly affecting Guinea-Bissau's terms of trade.[2]

2. Indicators suggest that both export diversification and export quality have declined in Guinea-Bissau. Export diversification declined significantly during the 1990s when cashew production took off, as it mostly replaced rather than added to other production such as rice and groundnuts. The decline in diversification is evident across a range of diversification measures that consider the number of products exported, the number of trading partners, and the relative value of exports in different product codes. While the quality of Guinea-Bissau's cashew nuts is high, the fact that they are mostly exported unprocessed reduces the relative value in addition to limiting the number of export partners. The decline in diversification contrasts to the rest of WAEMU where the degree of diversification has been broadly unchanged over time.

3. Diversification could contribute to higher and more sustainable growth in Guinea-Bissau. As discussed in IMF (2017), economies at early stages of development benefit significantly from export diversification. By widening the range of exports, the economy increases its resilience to external shocks, reducing output volatility, and is able to sustain a higher rate of growth. If the diversification process includes moving up the value chain, the introduction of higher value-added products is associated with improvements in productivity and creation of high-skilled jobs.

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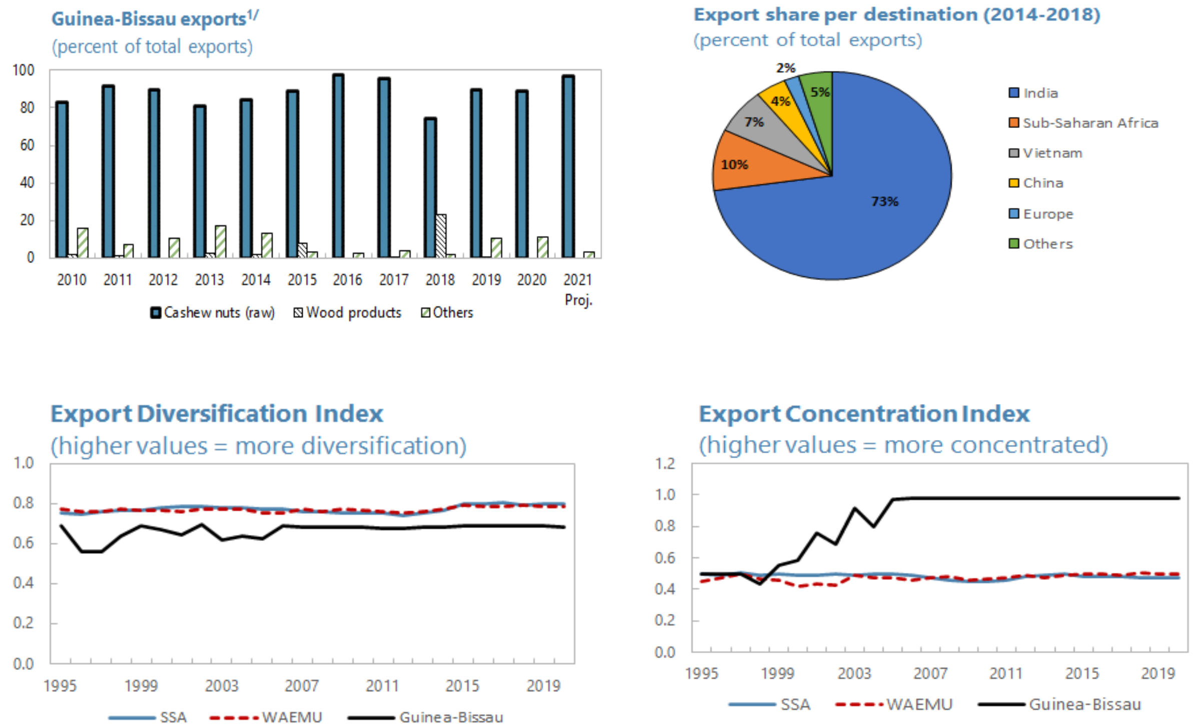
[1] Prepared by Leonardo Pio Perez.

[2] Vietnam has emerged recently as an alternative destination after the significant increase in the country's processing capacity.

Figure 1. Export Diversification and Concentration



Source: World Bank Database.; Guinea-Bissau authorities.
Note The diversification index indicates whether the structure of exports or imports by product of a given country or country group differs from the world pattern. The product concentration index shows how exports and imports of individual countries or country groupings are concentrated on a few products or otherwise distributed in a more homogeneous manner among a series of products.

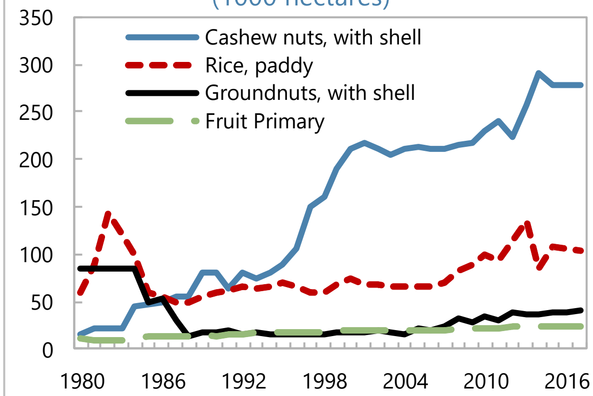
4. **Opportunities for Guinea-Bissau's economic diversification lie in a range of areas.** Natural resources include bauxite, wood, oil and phosphate, while its coastline is rich in fish and offers an attractive touristic destination. The fisheries sector has a great potential but currently modestly contributes to the national economy and exports as it is mostly explored by European vessels that pay a license fee to operate in Guinea-Bissau's waters. Tourism can be promoted by taking advantage of the country's natural biodiversity, especially the Bijagós Islands, which can become a prominent ecotourism destination. Guinea-Bissau's agriculture sector operates below its potential, as its forests are mostly exploited informally. The following sections highlight the potential in agriculture, the dominant sector of the economy, and the virtually unexplored sectors of mining and oil.

Agriculture

5. Guinea-Bissau has large underutilized agricultural potential. The growth of cashew production to a large extent replaced rather than added to other production. For example, the country used to be a net exporter of rice but production currently corresponds to only some 40 percent of domestic consumption, using only about 30 percent of the land suitable for rice cultivation. The country's favorable climate and its substantial water and arable land resources offer potential for a range of crops. By exploring those characteristics, the country could expand the range of cultivated crops, reducing the dependency on cashew. Options include a diverse range of cereals, cash crops, fruits and tubers.

Figure 2. Area Harvested

(1000 hectares)



Source: FAOSTAT (2019).

6. Development of agriculture would contribute to poverty reduction since around 75 percent of rural households work in agriculture. Diversifying agricultural income would mitigate the risks faced by both the country and its farmers due to the high concentration on cashew. To increase production, infrastructural deficiencies would have to be addressed, such as irrigation systems to reduce the dependency on rainfall. Additional bottlenecks include an outdated land management system, which results in unclear land rights; limited access to inputs and technology to support production; and limited market information, which is exacerbated by low levels of organization among farmers.

7. In the short term, there is also significant scope for increased value-added in the cashew sector. Guinea-Bissau's organically produced cashew nuts are prized for their quality in international markets. The country could take advantage of it and increase the value-added of its cashew kernels by targeting niche markets, which include social and environmentally responsible businesses that focus on consumers willing to pay a premium for products that can ensure sustainable benefits. However, by lacking the processing capacity and exporting almost all of the nuts in raw form, the country misses out on the higher prices paid for processed kernels and remains exposed to the relatively uncertain and limited market for unprocessed cashew nuts, which is limited to a small number of purchasing countries. The government has an important role in supporting private agricultural investment by improving infrastructure (water, electricity, connectivity) and access to markets, which could generate incentives to move up the value chain.

Mining

8. Guinea-Bissau's endowment of natural resources includes unexplored deposits of phosphates and bauxite. Although the existence of those deposits has been known since the 1970s, exploration has been precluded by infrastructure concerns, low international prices and political instability. The extraction of those resources, with appropriate environmental consideration, would significantly contribute to export diversification and has the potential to significantly increase the country's GDP and fiscal revenue.

9. Planned investment in phosphates would have large implications on the overall economy. A $200 million (12 percent of GDP in 2021) mining project located in Farim (120 km northeast of Bissau) aims to explore an extensive 100 million tons geological deposit of phosphate. The deposit is easily accessible, entailing for low-cost production. After concluding feasibility studies and environmental and social impact assessments, the international mining company in charge of the project is currently building installations to lodge workers and resettle the local population. However, capital investment financing has been delayed due to pending revisions to the project's mining agreement, which were required to ensure its compliance with national and regional laws. Although still uncertain, if it goes ahead full steam, the country's exports could potentially increase by more than 50 percent in just a few years.[3]

Oil

10. Interest in the offshore oil exploration in Guinea-Bissau waters increased after the significant oil discovery in Senegal in 2014. Three offshore blocks in Guinea-Bissau waters, licensed for exploration under the Sinapa and Esperança permits, have similar geological settings with the ones that host the Senegalese oilfields. The prospects for viable oil exploration in area are regaining strength after the minor oil discoveries in 2004 in the Sinapa permit area, which were never commercially explored.

11. The first deep-water exploration well offshore Guinea-Bissau is expected to be drilled in 2022[4]. After the review of the blocks, conducted in 2017, two prospects—Atum and Anchova—were considered for drilling. The best estimate of prospective resources is of 472 million barrels.[5] In the same year, the joint venture responsible for the operation negotiated the license terms with the National Oil Company of Guinea-Bissau (Petroguin) and was granted a three-year extension of the exploration period, up to November 2020. The exploration well is then expected to be drilled within this licensing period.

[3] Estimates in World Bank Group (2015) suggest that the Farim project could increase GDP by 8 to 16 percent and fiscal revenues by about 50 to 80 percent during the exploration years.

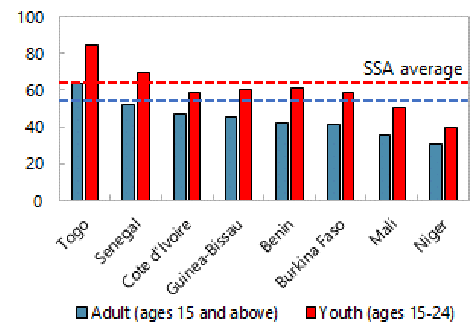
[4] According to independent Norwegian oil and gas exploration company PetroNor E&P, a full-cycle Africa-focused independent oil and gas exploration and production business, drilling for Blocks 2 and 4A & 5A offshore Guinea-Bissau under the Sinapa and Esperança Licenses will take place.

[5] The term "best estimate" refers to the amount associated with a 50-percent probability of being exceeded.

A. Addressing the Constraints that Hinder Diversification

12. A history of political instability and corruption prevented the materialization of many development opportunities. Since the independence, the country has struggled to secure stable governance and leadership. Recurrent changes in government have limited the development of Guinea-Bissau's institutional capacity. The peaceful conduct of both Parliamentary and Presidential elections in 2019 and the chance of having the first president to step down after completing his mandate represent a major step towards achieving political stability, which would lay the grounds for promoting a major institutional consolidation in the country.

Figure 3. Literacy Rate
(Percent of people)



Source: World Development Indicators.

13. An inadequate educational system limits the built of human capital. Education is central to development by promoting the capacity to acquire and transmit new knowledge, be able to utilize new technologies as well as to think and innovate. According to latest data, even though the literacy rate in Guinea-Bissau is in line with most WAEMU countries, it is around 15–20 percentage points lower than averages for Sub-Saharan Africa and low-income countries. Poverty and food insecurity are among the many factors behind limited access to school and reduced primary school completion rates. The educational system can benefit from grants and technical support provided by internationally financed educational programs to change this scenario, promoting actions such as improving the nutritional value of school meals and implementing a program of cash transfers to households.

14. An unclear regulatory environment precludes private-sector development and discourages entrepreneurial activity. Running a business is complicated by the lack of clear information, both for businesspeople and for public officials involved. Different officials often require different documentation and different fees, which are not transparently levied. The complexity and opacity of the regulatory environment, including in the area of trade, creates significant incentives for corruption of public officials and, more generally, hinders private business. To tackle these issues, authorities would need to develop communication channels to better disseminate information and receive feedback from the public.

B. Final Considerations

15. The exploration of natural resources must be guided by policies to guarantee sustainable natural resource management. Natural resources are essential for the livelihoods of local communities and a potential source of increased fiscal revenue. Guinea-Bissau's natural resource base is being rapidly depleted due to inappropriate activities,[6] which adds to its

[6] Those include charcoal making, slash-and burn agriculture, cashew plantation, and illegal logging and fishing.

vulnerability to climate change and natural disasters. Current fishing practices, for example, are unsustainable and threaten the long-term viability of its marine resources, which is evidenced by declining catches.[7] The depletion of these resources, combined with rising dependency on cashew significantly harms the country's outlook.

16. It is essential to implement a natural resource tax regime that guarantees that the country is compensated with an adequate level of revenues. The fiscal regime should be structured to secure a reasonable minimum share of revenue from the start of the production and provide a fair and efficient sharing of the profits between the investor and the government over the life of the project, including adequate safeguards against profit-shifting. The quick implementation of a resource profits tax to the mining sector, for example, would reach these objectives and avoid the complex administrative and legislative process associated with the replacement of the current antiquated income tax system.

17. Output and export diversification are important components of Guinea-Bissau's development agenda. Options to diversify include developing the country's agricultural potential, exploring its natural resources, and promoting tourism. To create conditions to explore these opportunities, it is critical to address the constraints that have hindered the process to date, which include low human capital, weak regulatory environment, and infrastructural bottlenecks. The consolidation of political and macroeconomic stability will also help anchor business confidence, a necessary condition for increasing private investment.

[7] Fishing licenses account for 10 percent of domestic revenue but, given limited government capacity for monitoring fishing activity and enforcing compliance with access rules, under-reporting of catches is widespread.

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Annex VIII. Assessing Fiscal Stance and Economic Cycles in Guinea-Bissau[1]

This note assesses the fiscal stance by estimating the cyclically adjusted primary balance and analyzing its relationship with the output gap. While results have to be interpreted with caution due to data quality issues, preliminary findings suggest some degree of countercyclicality of fiscal policy since 2000. While the country has weak fiscal institutions, these results could be associated with: (i) an expansionary fiscal stance during crises that have afflicted Guinea-Bissau because it had access to financing from the WAEMU regional market, and (ii) the role of supporting counter-cyclical fiscal policies of IMF lending.

1. **The objective of this note is to assess the fiscal stance in Guinea-Bissau by estimating the cyclically adjusted primary balance and its relationship with the output gap.** Assessing fiscal stance based on the adjusted cyclical fiscal balances improves the government's capacity to manage budget policies effectively, coordinate macroeconomic policies to smooth economic cycles, and protect long-term fiscal sustainability. While prudent macroeconomic management would require countries to implement neutral to countercyclical fiscal policy, fiscal policies in low income and developing countries tends very often to intensify economic cycles . Procyclical policies occur when governments need to implement contractionary fiscal policy by cutting spending or raising taxes during crises to deal with financing constraints. Conversely, during upswings, when financial conditions ease, governments are more willing to increase spending financed by higher cyclical revenues, creating risks to the medium-term sustainability of public finance.

2. **The study applied three methodologies to estimate the potential output and elaborated a sensitivity analysis of the revenue-to-GDP elasticity.** The potential output was estimated by the linear trend, Hodrick-Prescott (HP) filter, and the production function methodologies (Figure 3).[2] The production function output gap estimate is close to the HP filter results. The study adopted the HP filter due to its better comparability and simplicity.[3] The sensitivity analysis of the revenue-to-GDP elasticity suggests the variability of the parameter does not significantly affect the results (Figure 4). This result is mainly explained by the low share of revenue to GDP. The study has used elasticity equal to one for the revenue-to-GDP, and zero for expenditure as it has not identified social programs (e.g., automatic stabilizers) that would be negatively correlated with the economic cycle.[4]

[1] Prepared by Pedro Jucá Maciel, Koon Hui Tee and Harold Zavarce.

[2] The production function was estimated using the perpetual inventory method for the capital stock and national accounts data for gross investment and an annual depreciation rate at 5 percent. For the initial capital stock and labor values, the study used the Penn World Table database.

[3] The study incorporated data for the six following projected years to avoid the HP filter methodology end-point bias problem. For reference, see Bornhorst et al (2011).

[4] Social safety net is undeveloped in Guinea-Bissau and further analysis may evaluate the need to incorporate an elasticity parameter to the cyclically adjusted expenditure.

Figure 1. Guinea-Bissau: Output Gap 2000-2021
(in percent of potential GDP)

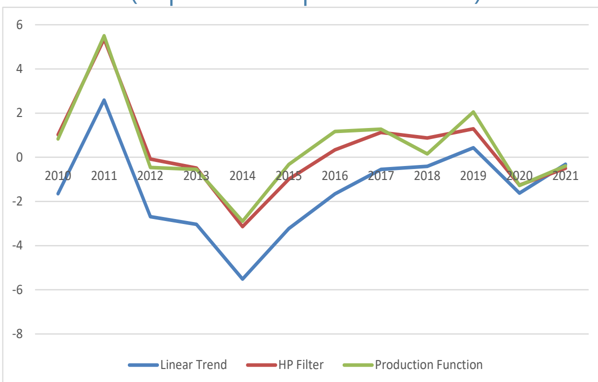
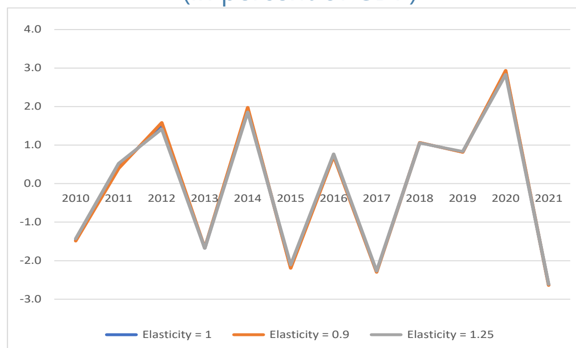


Figure 2. Guinea-Bissau: Revenue-to-GDP Elasticity Sensitivity on Fiscal Impulse 2000-2021
(in percent of GDP)



3. **Preliminary findings suggest some degree of countercyclicality of the fiscal policy in Guinea-Bissau since 2000.** While results have to be interpreted with caution due to weak economic and fiscal data quality for Guinea-Bissau[5], the analysis of the fiscal impulse and the change in the output gap suggests a negative relationship.[6] From 2000 to 2021, the data reveals the fiscal policy in Guinea-Bissau was countercyclical in 14 years, procyclical in 7 years and neutral in one year. The fiscal stance was estimated based on the cyclically adjusted domestic primary balance, and the output gap followed the (HP) filter methodology.[7]

Figure 3. Guinea-Bissau: Output Gap, Change in Output Gap and Fiscal Impulse 2000-2021
(In percent of potential GDP)

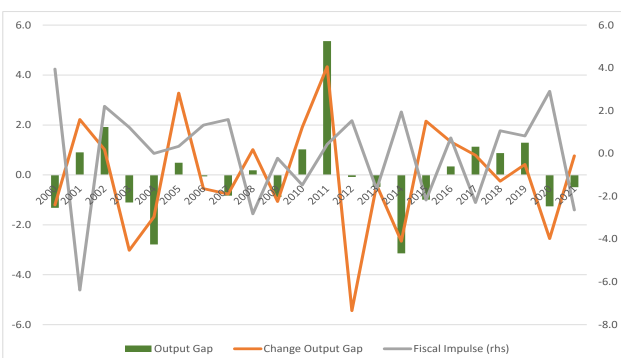
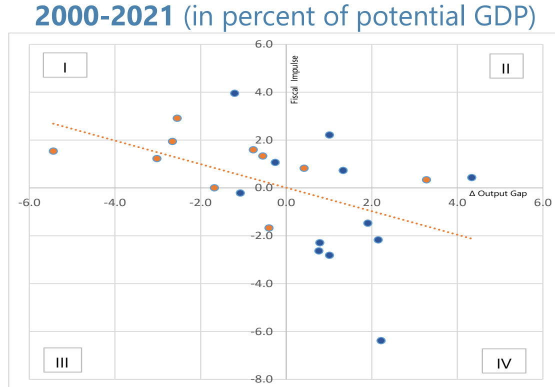


Figure 4. Guinea-Bissau: Fiscal Impulse (y-axis) and Change in Output Gap (x-axis) 2000-2021 (in percent of potential GDP)



[5] The national accounts data from 2019 onwards are not final and therefore subject to future revisions. IMF TA is providing technical support to the National Statistics Institute to finalize the national accounts data until 2020 in the first semester of 2022.

[6] The main preliminary results are presented in Table 1, Figures 1 and 2. Fiscal time series cover the period of 2000 to 2021, and the output gap from 1997 to 2021.

[7] For reference, see Fedelino et al (2009) and IMF (2010).

Table 1. Guinea-Bissau: Cyclically Adjusted Fiscal Balance
(In percent of GDP)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Headline Fiscal Indicators												
Revenues 1/	18.3	16.0	10.9	10.7	20.5	18.3	15.2	16.8	14.7	14.9	15.4	19.3
Domestic Primary Revenues 2/	9.7	9.6	8.6	7.5	11.7	12.4	11.4	11.8	11.2	12.1	11.4	13.0
Of which: cashew nut related revenues (directly)	0.6	0.8	0.7	0.9	0.8	1.2	1.3	1.1	1.1	1.3	0.8	1.4
Other	8.6	6.3	2.3	3.2	8.8	5.9	3.7	5.0	3.5	2.8	4.0	6.4
Expenditure	18.5	17.3	13.0	12.4	23.0	21.5	20.5	18.1	17.7	18.2	23.2	24.9
Domestic Primary Expenditure	10.8	10.8	11.7	9.0	15.5	13.8	13.4	11.3	11.8	13.5	16.0	14.9
Other	7.7	6.6	1.2	3.4	7.5	7.7	7.2	6.8	5.8	4.7	7.2	10.1
Domestic Primary Balance	**-1.1**	**-1.1**	**-3.1**	**-1.5**	**-3.8**	**-1.4**	**-1.9**	**0.5**	**-0.6**	**-1.4**	**-4.6**	**-1.9**
Overall Balance	**-0.2**	**-1.4**	**-2.1**	**-1.7**	**-2.4**	**-3.2**	**-5.3**	**-1.3**	**-3.0**	**-3.2**	**-7.8**	**-5.6**
Cyclically Adjusted Fiscal Indicators												
Cyclicaly Adjusted Revenues	18.1	15.1	10.9	10.8	21.2	18.5	15.1	16.6	14.6	14.7	15.6	19.4
Cyclicaly Adjusted Domestic Primary Revenues	9.6	9.2	8.6	7.5	12.1	12.6	11.4	11.6	11.1	12.0	11.5	13.0
Cyclicaly Adjusted Expenditure	18.5	17.3	13.0	12.4	23.0	21.5	20.5	18.1	17.7	18.2	23.2	24.9
Cyclicaly Adjusted Domestic Primary Expenditure	10.8	10.8	11.7	9.0	15.5	13.8	13.4	11.3	11.8	13.5	16.0	14.9
Cyclicaly Adjusted Domestic Primary Balance	**-1.2**	**-1.6**	**-3.1**	**-1.5**	**-3.4**	**-1.2**	**-2.0**	**0.3**	**-0.7**	**-1.6**	**-4.5**	**-1.8**
Cyclicaly Adjusted Overall Balance	**-0.4**	**-2.2**	**-2.1**	**-1.6**	**-1.8**	**-3.0**	**-5.4**	**-1.5**	**-3.1**	**-3.4**	**-7.6**	**-5.5**
Fiscal Impulse with elasticity equal 1, 3/	**-1.5**	**0.4**	**1.5**	**-1.7**	**1.9**	**-2.2**	**0.7**	**-2.3**	**1.1**	**0.8**	**2.9**	**-2.6**
Elasticity = 0.9	-1.5	0.4	1.6	-1.7	2.0	-2.2	0.7	-2.3	1.1	0.8	2.9	-2.6
Elasticity = 1.25	-1.4	0.5	1.4	-1.7	1.9	-2.1	0.8	-2.3	1.1	0.8	2.8	-2.6
Memorandum items:												
Output Gap (in percent)	**1.0**	**5.4**	**-0.1**	**-0.5**	**-3.1**	**-1.0**	**0.3**	**1.1**	**0.9**	**1.3**	**-1.3**	**-0.5**
Real economic growth	**5.6**	**8.1**	**-1.7**	**3.3**	**1.0**	**6.1**	**5.3**	**4.8**	**3.8**	**4.5**	**1.5**	**5.0**
Real potential economic growth	**3.6**	**3.6**	**3.6**	**3.7**	**3.7**	**3.8**	**3.9**	**4.0**	**4.0**	**4.1**	**4.1**	**4.2**

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

1/ Includes grants

2/ Comprises tax and non-tax revenues

3/ Defined as the change in the cyclicaly adjusted primary domestic (positive means expansionary policies)

4. These results could be associated with the access to financing from the WAEMU regional market and the role of supporting countercyclical fiscal policies with IMF programs and emergency facilities. Despite having weak fiscal institutions, the government implemented an expansionary fiscal stance during many crises that afflicted Guinea-Bissau (Figures 3 and 4). This result could be associated with access to financing from the WAEMU regional market, benefiting from the condition of being a small country in the region.[8] Additionally, the study observed the role in supporting the counter-cyclical fiscal policies with IMF lending, aiming towards the WAEMU fiscal convergence criteria.[9] In Figure 4, the years that the country had IMF lending are in blue and observations of countercyclical fiscal policy during economic expansions (fourth quadrant) are associated with IMF lending. This practice may also helped to create fiscal space to implement expansionary policies during the recessions.

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[8] Guinea-Bissau's GDP represents less than 1 percent of the total Waemu region.

[9] WAEMU's regional macroeconomic surveillance framework includes convergence criteria mainly related to fiscal variables and centered around an overall central government maximum deficit at 3 percent of GDP and public debt ceiling at 70 percent of GDP. Additionally, the second order convergence criteria are a limit of the wage bill that cannot exceed 35 percent of the tax revenue, and a floor of tax revenue at 20 percent of GDP.

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Annex IX. Electricity Supply and Fiscal Risks in Guinea-Bissau[1]

Limited electricity supply has long been one of the main bottlenecks to Guinea-Bissau's growth and development. Electricity costs have been a significant burden to Electricidade e Aguas da Guinee Bissau (EAGB), the national utility company. While the recent substitution of the diesel-based power generation source by a heavy fuel oil (HFO) power ship has improved electricity supply and reduced costs, it is a temporary solution until other strategic projects are implemented. Fiscal risk from EAGB is significant, and comprehensive reforms are critical to improve EAGB's financial and operational performance, enhance fiscal governance and enable Guinea-Bissau to transit to cleaner and more affordable energy sources.

Overview of Electricity Supply in Guinea-Bissau

1. **Limited and unreliable electricity supply has long been one of the main bottlenecks to Guinea-Bissau's growth and development.** Across Sub-Saharan Africa, lack of access to electricity imposes significant constraints on economic growth, provision of public services, and quality of life, as well as on adoption of new technologies in various sectors such as education, agriculture, and finance.[2] While Guinea-Bissau has made some progress in enhancing access to electricity in recent years, the country's electricity accessibility remains among the lowest in West Africa (Figure 1 and 2). Moreover, the transmission grid is highly concentrated in the capital city Bissau, where electricity access rate is around 56 percent. By contrast, only 15 percent of the rural population has access to electricity and rely on local diesel generators. Still, where access is available, high electricity tariffs weigh on businesses and population, who also have to cope with frequent blackouts.

Figure 1. Access to electricity in Guinea-Bissau, 2016-2020
(Percent of population)

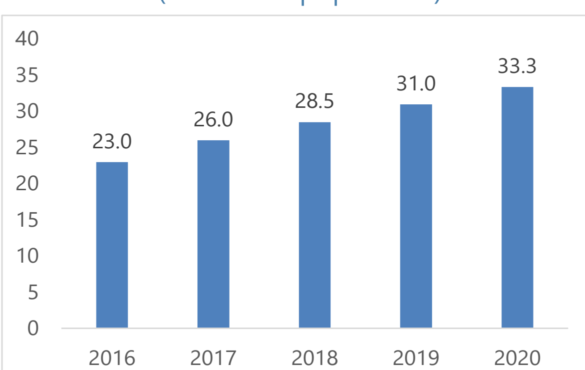
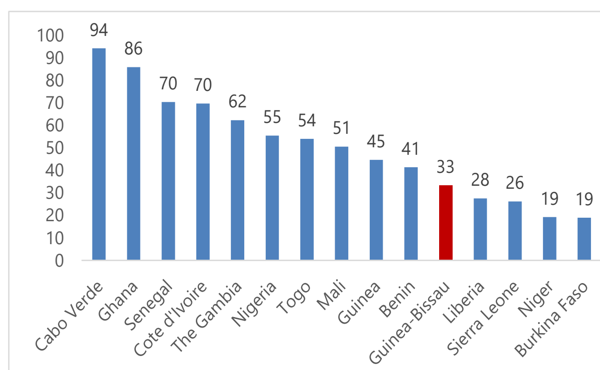


Figure 2. Access to electricity in West Africa, 2020
(Percent of population)



Source: World Development Indicators

2. **The provision of electricity has been constrained by the underperformance of EAGB.** The national grid is fragmented between Bissau, which benefits from a distribution network of 10 kV

[1] Prepared by Koon Hui Tee, Felipe Bardella, Leonardo Pio Perez, Harold Zavarce and Pedro Jucá Maciel.
[2] See IRENA and AfDB (2022), Blimpo and Cosgrove-Davies (2019) and Hafner et.al (2018) for discussion of the key challenges of the electricity sector and impact on economic growth and development in Africa.

and stable power supply, and several poorly performing and costly isolated systems in interior cities, e.g., Bafata and Gabu. EAGB has historically faced considerable performance challenges and has been unable to secure the efficient operation of electricity generation assets and fuel supply chain management. For example, in 2014, the World Bank financed two heavy fuel oil (HFO) generators for EAGB with a total capacity of 5 MW, but both broke down shortly after commissioning; and EAGB's inability to afford costly diesel purchases led to recurrent electricity supply crises, such as a 5-day blackout in May 2018, and frequent blackouts of 4 to 12 hours a day in Bissau.[3]

3. While the substitution of the diesel-based power generation source by the HFO power ship in February 2019 has significantly improved electricity supply, challenges remain. The 17–30 MW HFO power ship, from the Turkish company Karpowership (KP)[4], anchored close to Bissau's coast, has replaced the 15 MW diesel generators in operation since 2014.[5] In addition to increasing electricity supply, the new generator reduced fuel costs and eliminated fuel theft.[6] However, the generation cost in Guinea-Bissau remains much higher than the SSA average. In face of the challenge of depending on a single costly generation source, the power purchase agreement (PPA) contract represents another temporary solution while strategic projects to promote low-cost electricity are implemented.

Fiscal Risk Stemming from EAGB Has Elevated

4. Electricity costs represent a significant burden to EAGB, which has to cover the gap between supply costs and tariff revenues. The burden of a costly energy generation source is aggravated by the operational problems of EAGB, such as considerable network losses and a low bill collection rate.[7] In addition, energy tariffs which are already high compared to regional peers also weigh on EAGB's financial performance, as revenues collected do not fully cover current expenses, let alone to finance the necessary investments on low-cost energy generation.

5. Based on preliminary risk assessment using tools developed by the IMF, EAGB poses a significant fiscal risk.[8] Application of the IMF's SOE Health Check Tool (HCT) based on latest

[3] See World Bank (2020) for discussion of the key issues and challenges of the electricity sector in Guinea-Bissau.

[4] Karpowership company serves several countries in Africa including Gambia, Mozambique, Senegal, Sierra Leone and Sudan.

[5] Urgency was due to successive delays to start the construction of a 15 MW HFO power plant in the city of Bor, with financing from the BOAD, which has barely started to date.

[6] The electricity supply cost decreased from US$0.60/kWh to US$0.42/kWh with the replacement of diesel by HFO generation (see next paragraph) but remains higher than the average tariff of US$0.38/kWh (World Bank, 2020).

[7] Bill collection rate of 68 percent and total network losses of 33 percent (aging infrastructure and illegal connections).

[8] The IMF's SOE Health Check Tool (HCT), recently developed by the Fiscal Affairs Department, offers authorities and IMF staff a standardized methodology to assess risks from SOEs, with the goal of improving oversight and fiscal risk management. It provides a starting point for SOE vulnerability assessment and can be complemented by more in-depth analysis of the underlying drivers of financial performance. The tool standardizes inputs, calculations and outputs. Key outputs include a risk rating of SOEs based on financial ratios for profitability, solvency, and liquidity; financial information and ratios of individual SOEs and the SOE sector in aggregate; as well as inputs for the compilation of a public sector balance sheet.

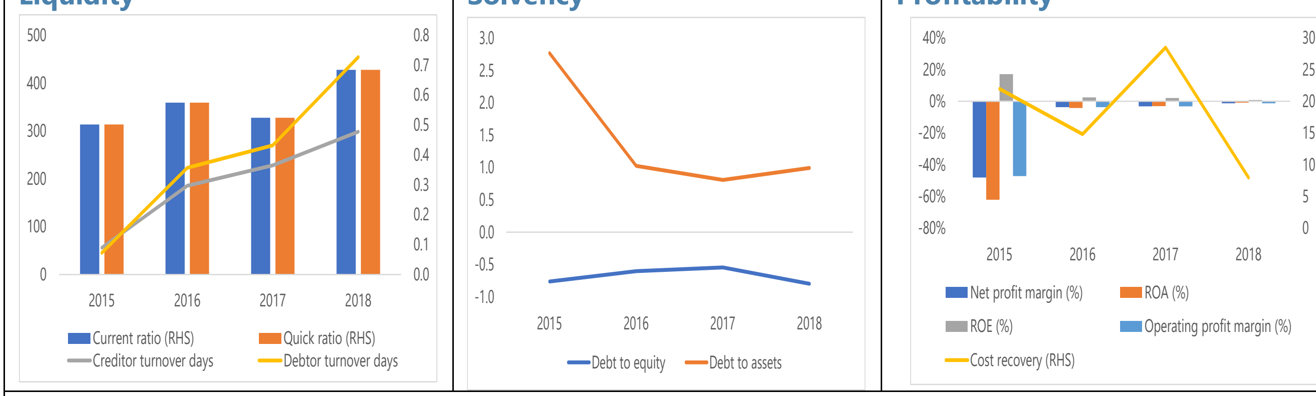
available financial information[9] provided by EAGB over the period 2016-2018 suggests that it is a substantial source of fiscal risk. Most of the liquidity and solvency indicators suggest very high risks (Text Figure 1). All profitability indicators show high/very high risks, except for the cost recovery indicator.[10] The trend in fiscal risk ratings were broadly similar when analyzed over the period 2015-18 (Figure 3). The SOE HCT findings are in line with the IMF TA (2019) on supervision of SOEs in which EAGB stands out as one of the biggest sources of fiscal risks.

Text Figure 1. Risk ratings of EAGB, 2018

Liquidity indicators		Solvency indicators		Profitability indicators	
Current ratio	Very High Risk	Debt to equity	Very High Risk	Operating profit margin (%)	Very High Risk
Creditor turnover days	Very High Risk	Interest coverage	Very High Risk	ROE (%)	Very High Risk
Debtor turnover days	Very High Risk	Debt to assets	High Risk	Net profit margin (%)	High Risk
Quick ratio	Moderate Risk			ROA (%)	High Risk
				Cost recovery	Very Low Risk
Overall risk rating					
Very High Risk					

Figure 3. EAGB's financial performance, 2015-18

Liquidity **Solvency** **Profitability**



Source: IMF staff estimates based on IMF SOE HCT and Guinea-Bissau authorities

6. Fiscal risks from EAGB have increased recently because of rising energy prices and higher energy invoices. Increases in energy cost without commensurate increase in revenues, could lead to significant increases in government deficits and debt liabilities, and a deterioration of public sector net worth for several reasons:

- Government support to EAGB in the form of recapitalizations, and financial support can increase public debt. Prior to 2021, EAGB's significant annual deficits have been partially financed by government subsidies.[11] In 2019, for example, the government transferred CFAF 7.9 billion (about 1 percent of GDP) to EAGB, in addition to previously budgeted payments. Recently, rising global

[9] These financial statements are not public nor audited yet. Financial statements from 2019 onwards are not available.

[10] This issue will be assessed in an upcoming IMF technical assistance (TA) mission on SOE supervision.

[11] Under the Staff-Monitored Program, the government has stopped providing transfers to EAGB in 2021.

energy prices amid the war in Ukraine and payment to KP for higher energy supply[12], have worsened EAGB's deficit and liquidity constraints (Figure 4). Revenues generated are not expected to cover fixed costs, particularly payment of energy invoices.

- The size of liabilities in EAGB and interest burden need to be monitored closely. Fiscal risk of EAGB, comprising of annual deficit and accumulated debts[13], is significant at around 4.4 percent of GDP (Figure 5) or about 45 percent of tax revenue. Importantly, interconnectedness within the public sector and massive disruption in electricity supply can lead to systemic issues such as widespread damage in economic activity and macroeconomic instability.

Figure 4. Annual deficit of EAGB
(CFAF billion)

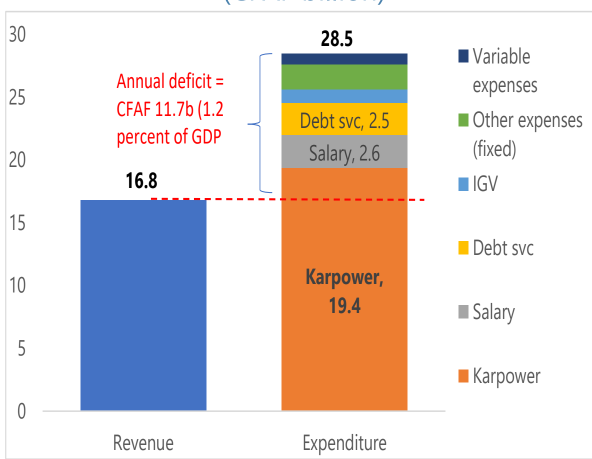
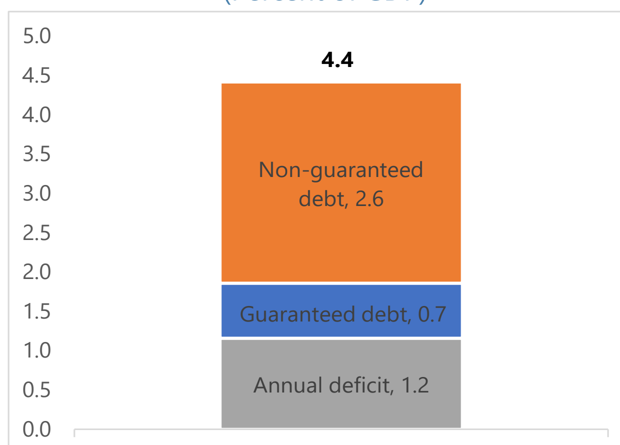


Figure 5. Fiscal risk of EAGB
(Percent of GDP)



Source: IMF staff estimates (based on 30MV production in January 2022); and Guinea-Bissau authorities

Multi-Pronged Policies Are Needed

7. Immediate policy priority should aim at ensuring financial sustainability of EAGB and mitigating fiscal risk. Following staff advice, the authorities have renegotiated the PPA contract[14] , which will result important savings for EAGB. They also are taking steps, with the support of the World Bank, to strengthen the management and oversight of EAGB's financial situation**.** While this is an important immediate step to mitigate annual deficit and fiscal risk, comprehensive reforms are needed to improve the financial and operational performance as well as fiscal oversight of EAGB.

8. Increasing revenues, containing current expenditures as well as management of arrears are key to enhancing financial performance and long-term sustainability of EAGB. Customer management and revenue collection could be improved by installing more pre-paid electricity

[12] The PPA contract was updated in end-2020 to provide electricity for 30MV in 2022. However, as the demand for electricity is currently estimated at around 21 MV, EAGB is paying for excess surplus of electricity supply.

[13] The guaranteed debt of EAGB is included in the baseline scenario of the DSA; while the non-guaranteed debt is in the contingent liability shock scenario.

[14] The renegotiation of the PPA to 24 MW (to allow for some peak demand) is crucial as it could potentially lower the annual deficit by up to 26 percent.

meters as well as securing more large industry customers. Current expenditure could be reduced by facilitating the retirement of eligible staff[15] and containment of wage bill. In addition, EAGB needs to honor its payment obligations in a timely manner to avoid accumulation of arrears.

9. Operational performance could be enhanced with management reforms. According to assessments by the World Bank, the disappointing operational performance of EAGB, which is significantly below regional standards, is mainly due to poor management. The World Bank, through the Emergency Water and Electricity Services Upgrading Project (PUASEE), provided critical support to EAGB's governance and management reform. The first step was the revision of its statute by the Council of Ministers in January 2019, which ensured compatibility with the standards of the Organization for the Harmonization of Business Law in Africa (OHADA).[16] It was followed by appointment of a board of directors, deemed to be a stable and highly qualified management team able to conduct the initiatives to ensure the desired medium and long-term results and avoid the political interference that has long affected EAGB's management. However, the management function and reforms have been disrupted with the onset of the COVID-19 pandemic. It is important to continue with management reforms to improve operational performance.

10. Strengthening the fiscal oversight of EAGB would bolster fiscal governance and transparency. EAGB's audited financial statements and annual report, including data on performance, subsidies, public service obligations, and quasi-fiscal activities, should be published on a timely and regular basis. As highlighted in IMF (2019), the authorities should set up a dedicated financial supervision unit for SOEs and fund it with resources and effective powers for its operation. In addition, systematic use of the HCT could provide timely assessment of risks from SOEs and improve oversight and fiscal risk management. Following IMF TA in 2021, Carbo Verde recently fully incorporated the HCT tool in their annual publication of risk analysis processes for all SOEs to strengthen the analysis of SOE performance and fiscal risk assessment.[17] To this end, IMF will be providing TA support to the Ministry of Finance in Bissau on the supervision of SOEs and assessment of fiscal risks in June 2022.

11. Lastly, over the medium term, transition to cleaner energy sources such as hydro-based electricity imports from Guinea and solar and wind energy would be crucial. Guinea-Bissau is part of a large regional plan to distribute hydroelectric power, the Gambia River Basin Development Organization (OMVG) project,[18] which provides an opportunity to achieve universal access to electricity in Guinea-Bissau, lower the average generation costs and diversify its sources of electricity. In addition, scaling-up the country's solar potential through private sector participation will be transformational for the local economy. For the OMVG project, the country will benefit from the

[15] According to the World Bank (2020), a group of EAGB staff are working beyond their retirement age. However, they are still on EAGB's payroll due to the company's debts towards the National Institute of Social Security, which do not allow them to benefit from a pension.

[16] OHADA is an initiative which provides a uniform legal and regulatory framework for accounting standards, arbitration, commercial law, company and insolvency law, and transactions secured by collateral.

[17] In Ministério das Finanças e do Fomento Empresarial (2021) published in April 2022.

[18] In addition to Guinea-Bissau, the OMVG includes Gambia, Guinea-Conakry and Senegal.

construction of a power transmission line that will transport energy from hydroelectric power plants located in the Gambia River Basin region as well as the construction of four high-voltage substations in Guinea-Bissau (Mansoa, Bissau, Bambadinca and Saltinho). An extended distribution network, part of an ECOWAS regional access project approved in 2018, will bring energy from those substations to the population. The African Development Bank will also finance an electricity transmission loop that will link Bissau and other urban centers to the OMVG grid. However, the OMVG project has been delayed until around 2023-24. In this context, the government would need to implement a national electrification strategy to address all the key aspects of investment planning, institutional and contracting arrangements, and required financing and regulations.

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Annex X. Mobile Money and Financial Inclusion in Guinea-Bissau[1]

Mobile money use has started to gain steam in Guinea-Bissau. It has the potential to fill the gap left by the limited infrastructure of conventional financial services. This is even more important in the case of Guinea-Bissau because of the current challenges in the banking sector, with high level of NPLs and a large under-capitalized bank. Despite the significant growth in terms of transactions among individuals, acceptance of mobile money by commercial establishments is still very limited. This situation tends to improve as commercial banks are starting to partner with mobile money operators. The popularization of mobile money services can encourage saving behavior of the population and foster formalization of small-scale businesses.

1. Mobile money can contribute to inclusive growth by offering an efficient way to transfer money and save to a previously financially constrained population.[2] Mobile money represents a low-cost solution that can promote financial inclusion by reaching population groups in remote areas of the country where traditional bank penetration is not economically viable. It is particularly important to Guinea-Bissau, where most of economic activity, including bank branches, is concentrated in the capital Bissau and rural areas are characterized by low income and low populational density and where access is logistically difficult. An expansion of the banking sector in Guinea-Bissau is constrained partly due to the high level of NPLs and a large undercapitalized bank (¶ 31).

2. Mobile money use has started to gain steam in Guinea-Bissau. Preliminary numbers indicate a 71 percent increase in the number of mobile money accounts in 2018 compared to the previous year. Considering only active accounts (with at least one transaction in a period of 90 days), the number more than doubled in the same comparison. The total number of transactions reached 2 million in 2018, more than three times the previous year, corresponding to a total value of around 15 billion FCFA (1.9 percent of GDP).[3]

3. Mobile money has the potential to fill the gap left by the limited infrastructure of conventional financial services. The number of mobile cellular subscriptions more than doubled since 2010, reaching 83 percent of the population. The number of mobile money accounts corresponds to 53 percent of the number of mobile phone subscriptions, which is lower than the WAEMU average of 54 percent, suggesting a significant catch up. Comparatively, only 27 percent of adults have a deposit with a commercial bank, and there are only 3 commercial bank branches per

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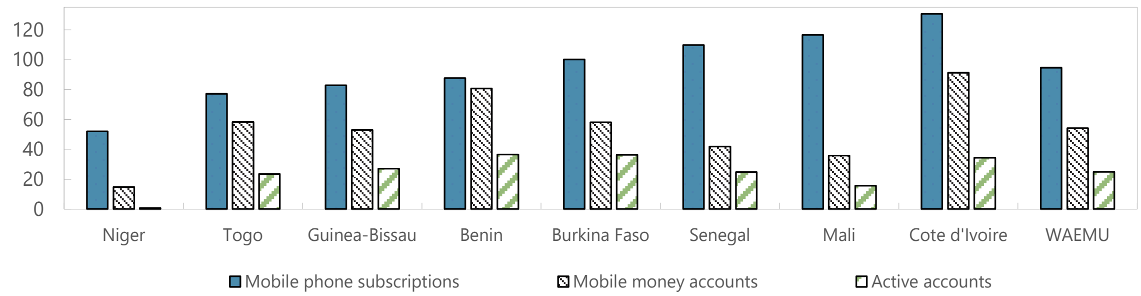
[1] Prepared by Leonardo Pio Perez.

[2] See Jack and Suri (2014) on the benefits of mobile money on risk sharing and consumption.

[3] Those numbers also include transactions between mobile money account holders and non-holders—who must go to a point of service in order to send or receive money—but those correspond to less than 5 percent of the total, in terms of both number and total value of the transactions.

100,000 adults.[4] Also, the number of active mobile money points of service reached 491 in 2017, whereas the number of commercial bank branches was around 30.

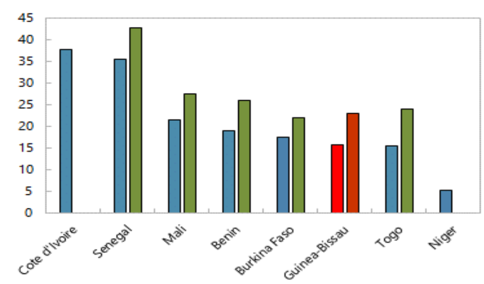
Figure 1. Mobile Phone Subscriptions and Mobile Money Accounts - 2019
(Per 100 people)



Source: World Development Indicators and Financial Access Survey.

4. **Mobile money has been a viable alternative to formal financial services in fragile states.** Whereas conventional banks' mobile applications require a smartphone with access to the internet, mobile money just requires a regular mobile phone subscription. In a country like Guinea-Bissau, in which only around 22.9 percent of the population has access to the internet— one of the lowest rates in the WAEMU after Burkina Faso—mobile money can reach even the most vulnerable. Population of rural areas, where commercial banks do not find it profitable to open branches, are expected to highly benefit from it.

Figure 2. Individuals using the internet
(% of population, 2018 and 2020)



Source: World Development Indicators.
Note: 2018 includes all countries (blue), 2020 only the ones avaiable (green)

5. **Despite the significant growth in terms of transactions among individuals, acceptance of mobile money by commercial establishments in Guinea-Bissau is still very limited.** The number of businesses registered to make transactions has been increasing, but only four have shown any activity in 2018. Facing this scenario, some clients without a conventional bank account started to use mobile money for savings purpose. Despite not paying any interest on their balances, mobile money accounts provide security. This situation tends to increase the demand for the points of service as customers are required to cash out for their basic purchases.

6. **This situation may change as commercial banks are starting to partner with mobile phone operators to offer services such as direct transfers between conventional and mobile money accounts.** Telecom firms are the main operators of mobile money in Guinea-Bissau. Both mobile phone operators—MTN and Orange[5]—offer mobile money services, but they are not

[4] Based on the World Development Indicators, last data for 2017.

[5] The South African multinational MTN launched MTN Mobile Money in Guinea-Bissau in 2010. The French multinational Orange launched Orange Money later, in 2017.

interconnected, which means that a direct transfer between accounts from one to the other is not possible.[6] Although the connection with banks may only be relevant for a very small part of the households, the ones with access to both conventional banking and the internet, it is expected to help commercial establishments manage their cash flow, which could then lead to a higher acceptance of mobile money as a means of payment.

7. The popularization of mobile money services can encourage saving behavior of the population as well as foster formalization of small-scale businesses. Experience of other countries shows that the introduction of mobile banking can enhance financial literacy of the population and allow for consumption smoothing by risk sharing across individuals. It can also enable small-scale entrepreneurs to use safer and more efficient means of storing and transferring money. Mobile money can also be a means for the provision of microcredit, which can help promote economic growth and development.[7]

[6] In such case, the customer needs to go to a point of service in order to cash out and then make a deposit with the other operator.

[7] Lashitew, Tulder, Liasse (2019).

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Appendix I. Letter of Intent

Bissau, April 27, 2022

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

Madame Managing Director,

1. **The third review of the Staff Monitored Program (SMP), approved in July 2021, has supported policy implementation and reforms while facing the pandemic.** After years of political turmoil and delayed reforms, the government started implementing in 2021 an ambitious fiscal consolidation program to ensure debt sustainability while creating fiscal space to address developmental needs. The Rapid Credit Facility (RCF) disbursement of SDR 14.2 million (50 percent of quota) approved in January 2021 provided urgent financing to support critical spending on health. The 9-month SMP with three quarterly reviews was key to support the government's reform program aimed at stabilizing the economy, strengthening governance, and building a sound track record of policy implementation toward an Extended Credit Facility (ECF) arrangement, which we look forward to negotiating in the second semester of 2022. In addition, the August 2021 SDR 27.2 million allocation and the reforms underpinned by the SMP contributed addressing the adverse impact of the pandemic, improve government spending transparency, and mitigate debt vulnerabilities.

2. **However, the global spillovers from the war in Ukraine are having an adverse impact on Guinea-Bissau.** In the coming months, higher food and basic staples, and fuel prices are expected to slow down economic growth, add inflationary pressures, widen the current account deficit, and weigh on the fiscal position. Protecting the livelihood of the most vulnerable requires additional policy actions through targeted transfers and temporary tax expenditures on gasoline prices. With support from the Fund and other international partners, our policies aim to mitigate these effects while creating conditions to recover from the pandemic.

3. **The continuity of the policies under the SMP will support the recovery from the pandemic while preserving macroeconomic stability despite the uncertain global environment.** Encouraged by the containment of successive COVID waves and the ongoing recovery, we are focusing our efforts on effective policy implementation to create fiscal space to support priority spending and revamp public infrastructure while strengthening macroeconomic stability and securing debt sustainability. We are confident that these policies will create the basis to support inclusive growth and catalyze resources from international donors to back our national development plan.

Recent Macroeconomic Developments

4. Guinea-Bissau's economic performance strengthened in 2021.

- In 2021, real GDP growth is estimated to have rebounded to 5 percent on the back of record cashew nut production, public investment, the gradual lifting of COVID containment measures, and an improvement in business confidence associated with a more stable political situation. Timely measures to contain several waves of the pandemic mitigate economic activity disruptions including the deployment of the COVID-19 vaccination campaign. By end-March 2022, about 50 percent of the adult population was fully vaccinated and 76 of percent received at least one shot.
- The trade balance improved on the back of a record cashew nut campaign. Cashew nut exports increased by 39.9 percent in 2021 and the trade deficit is estimated to reach 13.8 percent of GDP. As a result, the current account deficit is estimated at 3.2 percent of GDP. The August 2021 SDR allocation enabled the government to pay non-concessional debt service for 2021 and 2022.
- The improved economic situation and progress in revenue mobilization had positive impact on fiscal accounts, partially compensating pandemic-related spending pressures. The overall fiscal deficit on commitment basis, fell to 5.7 percent in 2021 from 9.6 percent of GDP in 2020. This adjustment reflected the unwinding of pandemic-related effects, greater revenue mobilization and expenditure controls adopted in the 2021.
- The accommodative stance of BCEAO, our regional central bank, has contributed to support credit and liquidity of the banking system during the COVID-19 crisis. Excluding one large undercapitalized bank, the banking sector has adequate capital levels, meeting regional prudential criteria. Credit to the economy grew about 7 percent in 2021, showing that the supportive measures provided by the BCEAO helped the financial system withstand the pandemic shock, avoiding a credit crunch. Gross NPLs to total loans remain high but declined in 2021.

Policies for 2022 and the Medium-term

5. We remain strongly committed to the policy objectives described in our letter of intent for the second review. These include:

- **Fiscal policy.** The budget for 2022 execution is in line with the SMP macroframework. We are enhancing revenue mobilization, rationalizing expenditures including wage bill, and re-allocating resources to support priority spending. Also, we are committed to enforcing tax collections, exercise strict control on budgetary execution avoiding accumulation of arrears and authorize external borrowing consistent with debt sustainability. To strengthen debt management and improve the efficiency of future government spending, we are implementing a Treasury Single Account and reviewing the debt management framework, the wage bill policy, public investment management and SOEs supervision with technical assistance from the World Bank and the IMF. We will observe the legal time frame for budget submission to Parliament in 2023.
- **Governance reforms.** We are committed to completing the implementation of the RCF's

governance safeguards on COVID-19 spending. The objective of these governance and transparency measures is to ensure effective budgetary allocations related to COVID-19 and consistent with the commitments of the RCF disbursed in January 2021. This entails the completion of an independent audit of COVID-19 spending by the audit court, supported by a third-party auditor. The related report will be published along with regular expenditure reports, procurement contracts including the names of the entities awarded public procurement contracts and related beneficial ownership information, as well as ex-post reports on validation of delivery of goods and services. To legally enable the collection and publication of this beneficial ownership information of entities awarded public procurement contracts, we amended the procurement legal framework through a decree-law in the first quarter of 2022. The Council of Ministers also approved the proposal to reform the asset declaration regime to fight corruption and submitted it to parliament for consideration in April. IMF technical assistance supported the work in both areas, and we will ensure that reforms consistent with IMF TA recommendations.

6. Our immediate focus is to mitigate the adverse impact of the war in Ukraine while addressing domestic shocks to revenue mobilization and mitigating the fiscal risks. While there is significant uncertainty about the duration of the war, our preliminary assessment is that pace of economic growth will slow down this year, inflation will rise temporarily given the passthrough of higher imported food and fuel prices. Given the dependency of power generation on fuel, improving the economic efficiency of the electricity company is warranted. In addition, lower-than-expected revenue mobilization in the telecom tax and custom collections which have been undermined by implementation constraints and disruptions in maritime shipping services respectively. All of this requires policy actions:

- In the near term, we will seek to cushion the effects of these shocks by: (i) reallocating non-priority spending toward household's support measures, (ii) generating savings in the execution of the wage bill by conducting a census of public employment; (iii) modifying the telecom tax, and (iv) enhancing land border custom procedures. Compared to 2022 Budget, the deficit may increase up to 0.3 percent of GDP but we will ensure that the debt-to-GDP ratio remains at sustainable and manageable level. The government will aim to achieve the quarterly path of fiscal aggregates shown in Table 3 and introduce corrective actions if necessary.
- The government will continue taking steps towards mitigating fiscal risks by strengthening the management of the electricity company *Electricidade e Aguas da Guinea-Bissau* (EAGB) by revamping operations and enhancing financial controls, aiming to enhance revenues, reduce costs and avoid accumulation of arrears.
- We will prepare and submit to Parliament in November the 2023 budget proposal in line with the SMP objectives. We are committed to narrow the domestic primary deficit to 0.4 percentage points of GDP through strong revenue mobilization on the back of improved revenue administration, reinforced expenditure control, and prudent debt management. Our goal is maintaining a strong track record to request an Extended Credit Facility (ECF) arrangement this year.

7. Despite these challenges, we are strongly committed to advance structural reforms and strengthen resilience of the economy. We aim to gradually reduce the fiscal deficit to place the debt-to-GDP ratio on a declining path and below 70 percent in the medium-term to meet the WAEMU convergence criteria and mitigate debt vulnerabilities. To ensure medium-term fiscal sustainability and create space for higher capital and social spending, this year we plan this year:

- Prepare with IMF assistance, the implementation of the VAT in 2023, draft and approve in cabinet a new law on tax exemptions and allowances for Parliament submission in August 2022 and continue strengthening revenue administration through digitalization, including the integration between DGCI, DGA and DGTCP.
- Rein over wage bill by finalizing the census of the public administration personnel in July, and addressing the situation of employees hired irregularly and ghost workers and deploying the IMF-supported blockchain project to reconcile personnel and payroll records. IMF TA has been requested to support the implementation and wage bill policy.
- Continue improving the treasury and cash management function, including by making progress towards establishing a Treasury Single Account and implementing the cash management function.
- Prepare a ministerial order to enforce normal expenditure execution procedures by requiring goods and services delivery certification before payment to providers.
- Adopt and implement the procedures by spending units as stated in the "Manual for procedures on public expenditures" developed with IMF TA support.
- Publish awarded public contracts and its beneficial ownership information on the official websites of the Directorate General of Public Procurement and the Public Procurement Regulation Authority implementing the relevant Ministerial Decree.
- Strengthen resources for the audit court, CENTIF and the public procurement authority to enhance the institutional capacity of governance oversight.
- Strengthen, with donor support, the national statistics system to enhance policy planning and implementation.

8. Supporting our fiscal consolidation strategy and preserving debt sustainability may require additional financing needs of 2.2 percent of GDP over the next three years. We estimate a financing gap of CFAF 7.7 billion each year—around 0.7 percent of GDP. The government will seek to cover this financing gap by identifying highly concessional loans catalyzed by fiscal discipline and the track record of policy implementation under the SMP and the budget execution in 2022.

Program Performance

9. We met all but two end-December quantitative targets (QTs, Table 1). The domestic primary balance QT was met, despite higher domestic primary expenditure, largely due to pandemic-related and social priority spending. Social and priority spending exceeded the QT. The non-recurrence to contracting (or guaranteeing) new non-concessional debt and non-regularized expenditure (DNTs) QTs are also expected to be met. The domestic tax revenue floor was met despite lower-than-expected telecom tax collection, supported by robust cashew-related tax revenues. The zero ceiling on new domestic arrears and new external arrears was missed because of the irregular hirings by the health sector and the clearance of small remaining external arrears in November[1]. We have taken corrective actions to avoid incurring wage arrears (¶17).

10. We met all but one structural benchmark (SBs, Table2). SBs met included the amendment by decree-law of the procurement legal framework to enable the publication of beneficial ownership information and the full implementation of the Kontaktu system for electronic filing of tax returns. In addition, as part of the commitments of the MEFP, the government submitted to parliament a reform of the asset declaration regime. While we provided a report with a proposed exit strategy from the large undercapitalized bank to the Fund, IMF staff advised us to include key financial information and reconsider the viability of the proposed disengagement strategy. In this context, the government will (i) implement the recommendations of the Banking Commission; and (ii) request an assessment on the bank's financial position and a full independent audit of NPLs from a third-party auditing firm to be performed by end-August.

11. Based on our performance, we request the completion of the third review of the SMP. The government stands ready to undertake any further measures to achieve the 2022 budget targets, if necessary, in close consultation with the IMF staff. We will provide timely information for monitoring economic developments and implementing policies defined by our economic program, or upon staff request. In line with our commitment to transparency, we authorize the IMF to publish this Letter of Intent and the Staff Monitored Program Report.

Yours sincerely,

João Alage Mamadú FADIA

/s/
Minister of Finance
Guinea-Bissau

[1] The US$0.5 million external payments arrears identified in end-June have been fully cleared in Q4. The arrears with the Islamic Development Bank were cleared on October 7 while the historical arrears to Libya, including the US$0.34 million incurred during the SMP, were cleared on November 8.

Table 1. Quantitative Targets (QTs) Under the Staff-Monitored Program

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

	2021												
	Jun				Sep				Dec				
	SMP Request	Adjusted Target	Actual	Status	SMP Request	Adjusted Target	Actual	Status	SMP Request	1st & 2nd Review	Adjusted Target	Actual[10]	Status
Quantitative targets[1]													
Total domestic tax revenue (floor)	38.2		42.2	met	62.8		72.3	met	87.9	93.5		93.5	met
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US$ millions)[2]	0.0		0.0	met	0.0		0.0	met	0.0			0.0	met
New external payment arrears (US$ millions, ceiling)[2]	0.0		0.5	not met[8]	0.0		0.5	not met[8]	0.0			0.1	not met[8]
New domestic arrears (ceiling)	0.0		1.1	not met[9]	0.0		1.6	not met[9]	0.0			2.2	not met[9]
Social and priority spending (floor)[3]	27.2		36.4	met	38.7		61.2	met	50.1			79.6	met
Domestic primary balance (commitment basis, floor)[4]	-16.4	-17.7	-18.6	not met	-23.4	-25.4	-13.0	met	-15.4	-18.9	-21.0	-17.8	met
Non regularized expenditures (DNTs, ceiling)	0.0		0.0	met	0.0		0.0	met	0.0			0.0	met
Memorandum items:													
External budgetary assistance (US$ millions)[5]	1.8		0.0	…	1.8		0.0	…	6.9	6.8		2.0	…
Net domestic bank credit to the central government	23.4		11.0	…	53.6		11.2	…	42.2	15.8		26.8	…
Concessional project loans (US$ millions)[6]	9.9		14.0	…	14.9		26.7	…	19.9	19.6		34.3	…
Outstanding stock of government guarantees[7]	10.1		12.5	…	23.1		11.9	…	23.1	10.3		11.6	…

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

[2] These apply on a continuous basis.

[3] Defined as spending by the Ministries of Health, Education and the Ministry of Women, Family and Social Cohesion, and the High Commissioner for COVID-19.

[4] Excludes grants, foreign and BOAD financed capital spending, and interest. To account for domestically financed current expenditures associated to COVID vaccination implementation (TMU paragraph 11), the SMP targets for end-June and end-September (deficits of CFAF 16.4 billion and CFAF 23.4 billion) have been adjusted downwards by CFAF 1.3 billion and CFAF 2.0 billion respectively; and the First Review target for end-Dec (deficit of CFAF 18.9 billion) has been adjusted downwards by CFAF 2.1 billion. The domestically financed current expenditures related to COVID-19 vaccination implementation is CFAF 4.3 billion and exceed the CFAF 2.2 billion programmed. The adjustor of 2.1 billion is applied to the end-2021 DPB target (CFAF -18.9 billion) which yields an adjusted target of CFAF -21.0 billion. The DPB target is met by the outturn of CFAF -17.8 billion. The actual figures for end-June, end-September and end-Dec have been updated to (i) exclude payment of wage arrears incurred in 2019-20 previously accounted in wage expenditures in 2021; and (ii) include wage expenditure for the hiring of irregular workers in the health sector, which will considered as accummulation of new domestic arrears (Footnote 9).

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

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

[7] All guarantees are denominated in CFAF.

[8] Arrears of US$0.34 million to Libya and US$0.11 million to the Islamic Development Bank (IDB) were accumulated for technical reasons. The transfer to Libya was initially rejected due to correspondent banking constraints. The payment to the IDB was delayed due to coordination problems. Residual amounts (less than US$20,000) were due to the African Development Bank. Those payments were executed by end-November. At end-2021, there were remaining arrears of US$0.1 million to the Saudi Fund, fully paid in March 2022. As it is a continuous QT, the status is considered "not met" in December also due the arrears that were fully cleared during 2021Q4.

[9] To improve the delivery of services in the health sector, the Ministry of Health hired irregular workers, amounting to CFAF 3.0 billion in 2021. As the wage payment is only executed in 2022, it will be considered as accummulation of new domestic arrears in 2021.

[10] Based on preliminary data and estimates.

Table 2. Structural Benchmarks

Measures	Rationale	Date	Current Status
Public Financial Management			
To: (i) continue weekly Treasury Committee meetings without interruptions;	Expenditure control	Continuous	Met
(ii) issue a ministerial order defining a clear criteria for prioritization of cash payments by expenditure category to avoid arrears (restos a pagar) after their due date.	Expenditure control	End-July 2021	Met
Appoint a team in charge of the project of implementing the TSA at the General Directorate of Treasury and Public Accounting (DGTCP) through a DGTCP mission letter. Make compulsory the prior authorization of the Minister of Finance for any opening of a public bank account through a Ministry of Finance decision. Identify all public bank accounts by requesting separately the information from the banks, the sectoral ministries and other public entities.	Expenditure control	End-September 2021	Met
Amend the legal procurement framework to enable the collection and publication of beneficial ownership information of public procurement contracts.	Expenditure control/Anti-corruption	End-March 2022	Met. Implemented with delay.
Issue an executive order to end hiring of irregular employees and enforce control by the financial controller over all public salaries, including employment incentives and the National Assembly salaries, and reconcile the personnel and the payroll records.	Wage bill control	End-December 2021	Met
Revenue Mobilization			
Approve by Council of Ministers, submit to parliament:			
(i) the revised general tax code and the revised tax penalty regime; and	Strengthen tax framework	End-July 2021	Met
(ii) the new VAT bill.	Strengthen tax framework	End-December 2021	Met
Implementation of the Kontaktu system for tax returns filing and electronic payments through e-banking and mobile money:			
(i) pilot phase for a small number of large taxpayers followed by	Increase revenues	End-July 2021	Met
(ii) full implementation.	Increase revenues	End-March 2022	Met
Approve by Council of Ministers, submit to parliament a reviewed customs code.	Strengthen custom framework	End-September 2021	Met
Financial Sector			
Prepare a report with the exit strategy from the undercapitalized systemic bank, including a full financial assessment.	Financial stability	End-December 2021	Not Met

Sources: Guinea-Bissau authorities and IMF staff.

Table 3. Quantitative Targets for Budget Execution in 2022
(Cumulative from beginning of calendar year to end of month indicated, CFAF billion, unless otherwise indicated)

	2022			
	Mar	Jun	Sep	Dec
Total domestic tax revenue (floor)	17.0	45.6	75.5	99.7
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US$ millions)[1]	0.0	0.0	0.0	0.0
New external payment arrears (US$ millions, ceiling)[1]	0.0	0.0	0.0	0.0
New domestic arrears (ceiling)	0.0	0.0	0.0	0.0
Social and priority spending (floor)[2]	12.2	25.1	38.2	51.4
Domestic primary balance (commitment basis, floor)[3]	-17.1	-18.6	-13.2	-14.8
Non regularized expenditures (DNTs, ceiling)	0.0	0.0	0.0	0.0

[1] These apply on a continuous basis.

[2] Defined as spending by the Ministries of Health, Education and the Ministry of Women, Family and Social Cohesion, and the High Commissioner for COVID-19. Preliminary figures. The figures do not include the High Commission for COVID-19 as the projections are still pending.

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

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

June 2, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE STAFF-MONITORED PROGRAM—INFORMATIONAL ANNEX

Prepared By	The African Department (In Consultation with Other Departments)

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FUND RELATIONS

(As of April 30, 2022)

Membership Status
Joined: March 24, 1977; Article VIII

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	28.40	100.00
Fund Holdings of currency (Exchange Rate)	24.32	85.64
Reserve Tranche Position	4.11	14.46
SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	40.82	100.00
Holdings	59.60	145.99
Outstanding purchases and Loans:	**SDR Million**	**Percent Quota**
RCF Loans	16.33	57.50
ECF Arrangements	16.19	57.00

Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jul 10, 2015	Jul 09, 2019	22.72	17.04
ECF	May 07, 2010	May 06, 2013	22.37	15.12
ECF[1/]	Dec 15, 2000	Dec 14, 2003	14.20	5.08

Outright Loans:

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Jan 25, 2021	Jan 27, 2021	14.20	14.20
RCF	Nov 03, 2014	Nov 12,2014	3.55	3.55

Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2022	2023	2024	2025	2026
Principal	2.02	3.82	4.12	3.41	4.26
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	2.02	3.82	4.12	3.41	4.26

[1/] Formerly PRGF.
[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	Enhanced
Commitment of HIPC assistance	Framework
Decision point date	Dec 2000
Assistance committed by all creditors (US$ Million) [3/]	421.70
Of which: IMF assistance (US$ million)	11.91
(SDR equivalent in millions)	9.20
Completion point date	Dec 2010
Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	9.20
Interim assistance	1.56
Completion point balance	7.64
Additional disbursement of interest income [4/]	0.23
Total disbursements	9.43

Implementation of Multilateral Debt Relief Initiative (MDRI):

MDRI-eligible debt (SDR Million) [5/]	0.51
Financed by: MDRI Trust	0.00
Remaining HIPC resources	0.51

Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
December 2010	N/A	0.51	0.51

[3/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[4/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[5/] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Catastrophe Containment and Relief (CCR) Trust[6/]:

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Apr 13, 2020	1.08	1.08
N/A	Oct 02, 2020	1.36	1.36
N/A	Apr 01, 2021	1.12	1.12
N/A	Oct 06, 2021	0.60	0.60
N/A	Dec 15, 2021	0.28	0.28

[6/] As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessments:

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

Exchange Rate Arrangement

The exchange rate arrangement of the West African Economic and Monetary Union (WAEMU) is a conventional peg. Guinea-Bissau participates in the WAEMU and has no separate legal tender. The common currency, the CFA franc, is pegged to the euro at the rate of €1 = CFAF 655.957. The Monetary Cooperation Agreement between the WAEMU member countries and France was concluded December 4, 1973. It was maintained after the French franc was replaced by the euro by the European Commission decision of November 23, 1998. The Monetary Cooperation Agreement is based on three pillars: (1) a common issuing institution, (2) fixed parity with the euro, and (3) a guarantee of unlimited convertibility. Guinea Bissau accepted the obligations of Article VIII, Sections 2, 3, and 4 with effect from January 1, 1997.. The exchange system is free from multiple currency practices and exchange restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation

Guinea-Bissau is on the 12-month consultation cycle. The last Article IV consultation discussions with Guinea-Bissau were held in Bissau, September 20–October 3, 2017. The staff report was discussed by the Executive Board and the consultation was concluded on December 11, 2017.

Technical Assistance (2017-2022)			
Department	**Type of Assistance**	**Time of Delivery**	**Purpose**
West AFRITAC	Short-term expert	February 2017	Government finance statistics
FAD	Short-term expert	March 2017	Tax administration
FAD	Staff	March 2017	Tax administration
FAD	Staff	April 2017	Tax administration
FAD	Short-term expert	April 2017	Revenue administration
West AFRITAC	Short-term expert	May 2017	National Accounts
West AFRITAC	Short-term expert	August 2017	Balance of Payments Statistics
LEG	Short-term expert	September 2017	AML/CFT FIU
FAD	Short-term expert	November 2017	Revenue administration
West AFRITAC	Short-term expert	November 2017	Government finance statistics
FAD	Short-term expert	January 2018	Tax administration compliance risk
FAD	Staff	January 2018	Revenue administration
West AFRITAC	Short-term expert	February 2018	Government finance statistics
FAD	Short-term expert	February 2018	Tax administration, IT systems
FAD	Staff	March 2018	Tax Policy
FAD	Staff	March 2018	Budget Execution and control
LEG	Short-term expert	March 2018	AML/CFT FIU
West AFRITAC	Short-term expert	March 2018	Balance of Payments Statistics
MCM	Staff	March 2018	Bank Restructuring
West AFRITAC	Short-term expert	April 2018	Tax administration large payers' compliance
West AFRITAC	Short-term expert	June 2018	Debt management framework
West AFRITAC	Short-term expert	June 2018	Real sector statistics, National accounts
West AFRITAC	Short-term expert	July 2018	Tax Administration processes
LEG	Short-term expert	August 2018	AML/CFT FIU Supervision
FAD	Staff	Sep 2018	Customs administration diagnostic
West AFRITAC	Short-term expert	November 2018	Government finance statistics
West AFRITAC	Short-term expert	November 2018	Real sector statistics, National accounts
FAD	Staff	January 2019	Tax reform strategy, modernization of the DGCI and revenue mobilization
FAD	Staff	March 2019	Capital expenditure budgeting and SOEs oversight
West AFRITAC	Short-term expert	March 2019	Balance of Payments Statistics

Technical Assistance (2017-2022)			
Department	**Type of Assistance**	**Time of Delivery**	**Purpose**
West AFRITAC	Short-term expert	May 2019	Expenditure Control
West AFRITAC	Short-term expert	June 2019	Macro-Fiscal Modelling
FAD	Staff	July 2019	Surveillance SOEs
West AFRITAC	Short-term expert	August 2019	Real sector statistics, National accounts
West AFRITAC	Short-term expert	August 2019	Customs Administration
LEG	Short-term expert	August 2019	AML/CFT, Training
FAD	Staff	September 2019	Governance
FAD	Staff	September 2019	Tax Policy, VAT modernization
FAD	Staff	March 2020	Tax Administration
FAD	Staff	June 2020	Customs administration
FAD	Staff	September 2020	Tax Bills
FAD	Staff	November 2020	Customs Administration
West AFRITAC	Short-term expert	November 2020	Single Treasury Account
West AFRITAC	Short-term expert	November 2020	Real sector statistics, National Accounts
FAD	Staff	January 2021	Tax Administration, Kontaktu
West AFRITAC	Short-term expert	March 2021	Real sector statistics, National Accounts
West AFRITAC	Short-term expert	September 2021	Real sector statistics, National Accounts
West AFRITAC	Short-term expert	October 2021	Medium-Term Macro-Fiscal Framework
FAD	Staff	September 2014	Tax administration
West AFRITAC	Short-term expert	September 2021	Government finance statistics
West AFRITAC	Short-term expert	September 2021	Government finance statistics
West AFRITAC	Short-term expert	November 2021	Customs procedures
West AFRITAC	Short-term expert	November 2021	Single Treasury Account
West AFRITAC	Short-term expert	November 2021	Debt management
FAD	Staff	November 2021	Public Investment Management
FAD	Short-term expert	November 2021	Customs Code Review
LEG	Staff	January 2022	Procurement Framework Review
LEG	Staff	February 2022	Asset Declaration Regime Reform
FAD	Staff	February 2022	Customs exemptions
FAD	Staff	February 2022	Tax Bill Package
West AFRITAC	Staff	March 2022	Debt Management
FAD	Short-term expert	April 2022	Revenue Administration, Kontaktu and Telecom Tax

Resident Representative

The Resident Representative in Senegal also covered Guinea-Bissau from September 1997 through July 2007. Mr. Gitton has been the Resident Representative in Guinea-Bissau since August 2019.

Table 1. Guinea-Bissau: Arrangements with the IMF, 1984–2022			
Arrangement	**Date Approved**	**Amount Approved**	**Remarks**
First credit tranche purchase	August 27, 1984	SDR 1.875 million	
Structural Adjustment Facility	October 14, 1987	SDR 5.25 million	2nd annual arrangement delayed; no 3rd annual arrangement.
Enhanced Structural Adjustment Facility	January 18, 1995	SDR 10.5 million	Arrangement increased by SDR 1.05 million (10 percent of quota) with 3rd annual arrangement.
Emergency post-conflict assistance	September 14, 1999	SDR 2.13 million	
Emergency post-conflict assistance	January 7, 2000	SDR 1.42 million	
Poverty Reduction and Growth Facility	December 15, 2000	SDR 14.2 million	PRGF elapsed without completion of a review.
Emergency post-conflict assistance	January 10, 2008	SDR 1.77 million	
Emergency post-conflict assistance	May 20, 2009	SDR 1.77 million	
Extended Credit Facility	May 7, 2010	SDR 22.365 million	The arrangement elapsed on May 6, 2013.
Rapid Credit Facility	November 3, 2014	SDR 3.55 million	
Extended Credit Facility	July 10, 2015	SDR 17.04 million	The arrangement elapsed on July 10, 2019.
Rapid Credit Facility	Jan 25, 2021	SDR 14.20 million	

WORLD BANK GROUP RELATIONS

1. **Guinea-Bissau joined the World Bank in 1977, three years after independence.** The first operation was approved in 1979 for a road construction and restoration project. Since then, the International Development Association (IDA) has approved 48 projects for Guinea-Bissau amounting to about US$750.6million.

2. **The World Bank Group's Country Partnership Framework (CPF) for Guinea-Bissau, covering FY2018-21, is the first full country strategy since 1997. It was revised through the Program Learning Review (PLR) exercise in 2021.** The PLR extends the CPF through June 2023 and adjusts the CPF framework to give more time for projects to manifest results. In addition, the extension allows to account for client-driven changes to programming, better align the CPF to the new National Development Plan (2020 -2023), the revised IDA19 (and advanced IDA20) cycle, and the country's political cycle. The focus areas of the revised CPF program are expand economic opportunities and enhance resilience and bolster human capital through improved education, health and social protection. Revisions to the CPF address key aspects of fragility, such as weak governance, social exclusion exacerbated by limited state presence and services in rural areas, and inadequate management of natural capital amid threats from disasters and climate change. Operationally, the PLR's adjustments respond to delays in the health and education projects, dropped regional projects, and COVID-19 portfolio impacts. Gender and governance continue permeating each objective as cross-cutting themes. The PLR approved by the WB Board on July 27, 2021 has six objectives (see table below).

Revised CPF Framework

CPF Focus Area 1. ***Expand economic opportunities and enhance resilience***	**CPF Focus Area 2.** ***Bolster human capital through improved education, health, and social protection***
Objective 1. Improve rural infrastructure and services for inclusive growth **Objective 2.** Improve management of coastal areas and natural capital **Objective 3.** Strengthen agriculture and agribusiness to improve livelihoods and food security	**Objective 4.** Increase access to and quality of primary education **Objective 5.** Increase access to quality health services for COVID-19 and maternal and child health **Objective 6.** Strengthen social safety nets

3. The PLR was an opportunity to take stock of lessons on how the WBG can work more effectively in Guinea-Bissau's fragile and politically volatile climate, and where the WBG should direct resources to maximize poverty reduction and promote relief and recovery from the pandemic. Key lessons include a sustain regular high-level dialogue, a focus on simple designs and realistic targets, systematically integrate into projects client capacity-building components, and reinforce the FCV-sensitive approach across the CPF portfolio. This FCV-sensitive approach is expected to span a longer time horizon as the WBG works to prepare the next CPF. In the unique context of Guinea-Bissau, the WBG will consider the following over the short and longer term: adopting a conflict filter/peace lens to relevant projects; building capacities on environmental and social safeguards; exploring greater results-based financing; and considering the Geo-Enabling Initiative for Monitoring and Supervision (GEMS) or third-party monitoring as tools to strengthen monitoring of the portfolio, implement safeguard mechanisms, and/or integrate citizen engagement. Currently, GEMS tool is being deployed in Guinea-Bissau portfolio including technical support to Project Implementation Units.

4. Under IDA 19 (the 19th replenishment of International Development Association (IDA) resources for FY2019–21) the national allocation for Guinea-Bissau is US$ 91 Million. The PLR plans to use selective use of IDA19 facilities and will seek to mobilize funds through the various facilities under the IDA-IFC-MIGA Private Sector Window (PSW), namely the blended finance facility, the risk mitigation facility and/or the local currency finance facility. In addition to potential financing from IDA Regional Integration Window (RIW).

A. Lending Program

5. The current active World Bank portfolio totals US$329.31 million and is comprised of seven national IDA operations for a net committed amount of US$135.31 million (of which US$61.87 million remain undisbursed), four regional IDA operations of US$194 million (of which US$81.42 million undisbursed), and one trust fund operation in the education sector (US$2.65 million). Water & Energy projects represent 56 percent of investments, followed by Human Development (24 percent), Digital Development (11 percent), Transport (5 percent) and Agriculture & Food (4 percent). The World Bank is also supporting non-lending technical assistance activities in Guinea-Bissau, including through a Public Expenditure Review (PER), and a Debt Management Facility (DeMPA). The Bank launched an updated Systematic Country Diagnostic (SCD) in January 2022 expected to be presented to the Board in December 2022.

6. IFC's activities have focused on providing advisory services to support access to finance and to improving the investment climate, jointly with the World Bank, especially on enhancing the cashew-value chain. IFC has no investment exposure in Guinea-Bissau but has recently been requested to support the Government with the privatization of GuineaTel/GuineaTelecom. MIGA is not active in the country.

AFRICAN DEVELOPMENT BANK GROUP RELATIONS

1. From the approval of the first project to the country in 1976, to April 2022, the African Development Bank (AfDB) had approved 58 operations for Guinea-Bissau, for a net commitment of UA 351.36 million (about CFAF 485.72 billion). 33 percent of these operations have been in the social sector, 25 percent in infrastructure, 23 percent in agriculture and 19 percent in the multi-sector. As of March 2022, the active portfolio comprises twelve ongoing projects (national and regional) representing a total net amount of UA 94.89 million, and a disbursement rate of 32 percent.

A. Lending Program

2. During the period January 2015–December 2021, the Board approved the 2015-2019 Country Strategy, extended to 2021, based on two priorities: *(i) Strengthening the governance and foundations of the state*; and ii) *Developing infrastructure for inclusive growth*. Under the first pillar, the Bank approved the Emergency Economic and Financial Reform Support Programme (PUAREF - UA 5m); the Economic and Financial Management Support Project (PARGEF - UA 5m), and the Justice Sector Institutional Capacity-Building Support Project (PARCI-SJ - UA 1.25m). Under the second pillar, The Bank approved operations to improve infrastructure, such as the OMVG Energy Project (UA 4.5 m); the Bissau City Power Supply Improvement Project (PASEB - UA 13.3 m), the Project for the Development of the Electric Distribution System in Bissau, in coordination with PASEB (UA 20 m), and the Boké-Quebo road improvement project (UA 23.45 m).

3. The Bank also approved operations in the agricultural sector initially not programmed: the Rice Value Chain Development Project in the Bafata and Oio Regions (PDCV-Riz) (UA 4.22 m) in 2017 and the Project to Support Value Chain and Entrepreneurship in Rural and Agricultural Sectors (PACVEAR) (UA 9.56 m) in 2019. The Bank also approved three preparatory studies using its trust funds: (i) the study on preparation of the Saltinho hydropower station (UA 0.7 m); (ii) the study on the launching of the cotton-textile sector (UA 0.36 m); and (iii) the feasibility study on the construction of the deepwater port in Buba (UA 1.44 m).

4. This period was marked by the approval of three emergency operations. These are (i) the emergency assistance to support Guinea-Bissau preparedness and response plan to fight the Zika virus outbreak in 2016 (UA 0.72 m); (ii) the emergency assistance for the fight against armyworm invasion in 2018 (UA 0.72 m); (iii) the project to support the fight for the Covid-19 pandemic (UA 6.85 m) to strengthen the control and prevention mechanisms and support community-based engagement against the Covid-19 pandemic.

B. Non-Lending Program

5. During the 2015-2021 period, more activities were implemented than initially planned. The African Legal Support Facility (ALSF) reviewed three mining contracts already concluded with various private companies in the phosphate, bauxite, and heavy sands sectors. ALSF also provided assistance in the negotiation and successful restructuring and reduction (by 90%) of outstanding debt to a bilateral creditor, thus generating savings of USD 45 m for the country. The impact of the Covid-19 pandemic triggered the study "Covid-19 Socio-Economic Impact Analysis for Guinea-Bissau", discussed in partnership with other development partners and published by UNDP. The Fragility and Resilience Assessment was finalized in 2020, jointly with the World Bank. The Bank also published a policy brief providing contributions to the reform in the Constitution on fiscal management.

6. The Bank new strategy preparation for the 2022-2026 period is ongoing. The Country Diagnostic Note was published in 2021, highlighting the need for continued infrastructure investment and economic diversification. Planned economic and sector studies include a private sector profile and an updated country gender profile. The Bank has no operations with the private sector and had planned support to improve SMEs' capacity and access to finance under the Lusophone Compact initiative.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance. Due to capacity constraints, shortcomings are most serious in the national accounts and balance of payments. The authorities are addressing the shortcomings, including with support of IMF technical assistances, and have made a commitment to allocate more resources to strengthen the National Institute of Statistics' capacity, such as staffing constraints and IT equipment.
National Accounts: The authorities compile and publish annual GDP series with base year 2015 and following the recommendations of the System of National Accounts 2008. National Accounts data are not timely as the latest estimate of GDP, as published by the National Statistical Office (NSO), is for the calendar year 2018. Definitive estimates for 2019 and provisional for 2020 are, however, expected to be published this year. Quarterly estimates of GDP are not compiled, but the authorities are working to develop quarterly estimates with the support of AFRITAC West, as well as start developing a project to rebase the GDP time series.
Price Statistics: The consumer price index (CPI) is compiled using the harmonized methodology of the West African Economic and Monetary Union (WAEMU) countries. Current CPI weights are outdated, and the WAEMU countries are in process of updating index weights using expenditure data collected from households in 2019. As part of this update, index compilation methods will be updated to better reflect standards and best practice described in the 2020 CPI Manual.
Government Finance Statistics (GFS): Under the West AFRITAC work program, GFS technical assistance missions usually visit Guinea-Bissau once a year. The last mission of October/November 2021 delivered a *GFSM 2014* workshop to the Ministry of Economy and Finance and stressed the need to: expand coverage of GFS compiled and disseminated to include the social security unit and local governments; compile and disseminate high-frequency and timely GFS and public sector debt statistics (PSDS); and initiate regular reporting of annual *GFS 2014* data to the IMF and PSDS data to the World-Bank/IMF PSDS database. A technical assistance diagnostic mission visited Guinea-Bissau during April/May 2022 to review the current status of PSDS compilation and strengthen capacity for improved and regular dissemination of PSDS data.
Monetary and Financial Statistics (MFS): Monthly MFS for Guinea-Bissau are compiled by the Guinea-Bissau national branch of the BCEAO and reported to the IMF Statistics Department (STA) by the BCEAO Headquarters. In August 2016, the BCEAO completed the migration of Guinea-Bissau's MFS to the standardized report forms for the central bank and other depository corporations. Through the BCEAO, Guinea-Bissau reports data on several indicators of the IMF Financial Access Survey, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goal.
Financial Sector Surveillance: With technical assistance from STA, the BCEAO finalized the development of FSIs for deposit-takers for Guinea-Bissau in 2018. The BCEAO has used FSIs for its internal purpose, but has not granted approval to publish the data on the IMF's FSI website.

<table>
<tr><td colspan="2">External Sector Statistics (ESS): Guinea-Bissau moved to BPM6 methodology for both balance of payments and international investment position (IIP) statistics in September 2013, reviewing back series from 2007. Balance of payments data are weak, mostly due to substantial unrecorded trade and inconsistencies between financial account transactions and the position data in the IIP. The large number of small-scale operators, a large informal sector, and institutional weaknesses hamper the data collection. In the second semester of each year, the WAEMU countries reconcile their regional cross-border transactions data to incorporate unrecorded transactions. While no external debt data are published by the MEF, stock and flow data are regularly produced and transmitted to the BCEAO. The implementation of the International Transactions Reporting System (ITRS) should improve balance-of-payments source data as well as their periodicity (from an annual to a quarterly periodicity). Guinea-Bissau participates in the Coordinated Direct Investment Survey (CDIS). Staff shortage remains a crucial risk for the implementation of the improvement agenda.</td></tr>
<tr><td colspan="2">II. Data Standards and Quality</td></tr>
<tr><td>Guinea-Bissau has participated in the Enhanced General Data Dissemination System (e-GDDS, which superseded GDDS) since November 2001 but has yet to publish data under the e-GDDS through a National Summary Data Page. Metadata for all data categories and plans for improvement need to be updated.</td><td>No data ROSC is available.</td></tr>
</table>

Guinea-Bissau: Table of Common Indicators Required for Surveillance					
	Date of latest observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Feb 2022	Mar, 2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec 2021	Feb, 2022	M	M	M
Reserve/Base Money	Dec 2021	Feb, 2022	M	M	M
Broad Money	Dec 2021	Feb, 2022	M	M	M
Central Bank Balance Sheet	Dec 2021	Feb, 2022	M	M	M
Consolidated Balance Sheet of the Banking System	Dec 2021	Feb, 2022	M	M	M
Interest Rates[2]	Dec 2021	Feb, 2022	M	M	M
Consumer Price Index	Jan 2022	Feb, 2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Dec 2021	Feb, 2022	M	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Dec 2021	Feb, 2022	M	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec 2021	Feb, 2022	M	Q	Q
External Current Account Balance	2020	Nov, 2021	A	A	A
Exports and Imports of Goods and Services	2020	Nov, 2021	A	A	A
GDP	2018	April, 2019	A	A	A
Gross External Debt	Dec 2021	Feb, 2022	M	Q	Q
International Investment Position[6]	2020	Nov, 2021	A	I	I

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D), Monthly (M), Quarterly (Q), Annually (A), Irregular (I).

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

June 2, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE STAFF-MONITORED PROGRAM—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]

Guinea-Bissau: Joint Bank-Fund Staff Debt Sustainability Analysis	
Risk of external debt distress	*High* [2]
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgment	*No*

Guinea-Bissau's risks of both external and overall debt distress remain high, in line with the July 2021 DSA.[3] GDP growth accelerated in 2021 on the back of the gradual lifting of COVID containment measures and the record high cashew nut production, with positive spillover effects to the fiscal and external accounts. The macroeconomic outlook underpinning the DSA assumes a gradual economic recovery by 2024, after the effects of the war in Ukraine wane out. Sustained growth in the medium-term is supported by the rebound of international cashew markets, favorable terms of trade, a more stable socio-political environment, and the ongoing governance and structural reforms. The baseline assumes that the fiscal consolidation efforts will ensure convergence to the regional convergence criterion of 3 percent of GDP by 2025, which creates fiscal space for higher social spending and steady growth-enhancing public investment. The ratio of public debt to GDP increased in 2021 but it is projected to stabilize in 2022 and start declining in 2023 towards the WAEMU 70 percent of GDP debt ceiling by 2026. Risks include an adverse political scenario, limited capacity, weaker cashew nuts exports, spillovers from on-going international crisis, volatile global food and oil prices, and climate change-related natural disasters. Financial stress in state-owned enterprises and banking fragilities arising from

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[1] The previous DSA was dated July 19, 2021 (IMF Country Report No. 21/172) and accompanied the Guinea-Bissau's Nine-Month Staff-Monitored Program (SMP) request.

[2] Guinea-Bissau's debt-carrying capacity is classified as weak based on the Composite Indicator (CI) score of 2.66, calculated based on the April 2022 WEO and the 2020 World Bank Country Policy and Institutional Assessment (CPIA).

[3] Differently from the July 2021 DSA, the high risk of debt distress for both external and overall public debt is now solely based on the mechanical rating.

high NPLs and undercapitalization of a systemically important bank could generate additional outflows adding to fiscal and public debt pressures.

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

This conclusion is contingent on the authorities' continued commitment to an ambitious, yet feasible, fiscal adjustment aiming to bring the fiscal deficit within the 3 percent of GDP WAEMU convergence criterion by 2025. This fiscal adjustment was supported by the Fund's Staff Monitored Program (SMP) which is expected to underpin the authorities' request for an Extended Credit Facility (ECF), and help catalyze multilateral grants and concessional financing. The downward trend of the baseline debt indicators would further improve with full multilateral donor re-engagement and a reprofiling of debt obligations to highly concessional terms. The 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. Data limitations preclude the inclusion of state-owned enterprises (SOEs) (Text Table 1). In general, SOEs are not likely to represent a major contingent public liability. A notable exception is the electricity and water utility EAGB, which has non-publicly guaranteed debts estimated at 2.5 percent of GDP. The DSA includes only the utility's debts guaranteed by the government (additional 0.8 percent of GDP).[4]

2. Debt classification follows a hybrid approach after the reclassification of the debt to the West African Bank for Development (BOAD) as external.[5] Differently from previous Guinea-Bissau's DSA, debt denominated in CFA francs to BOAD, amounting to 13.5 percent of GDP at end-2021, is classified as external whereas the remaining debt sources will continue to follow a currency-based classification.[6] This reclassification will improve the coverage of debt limits in prospective UCT programs, under the IMF Debt

[4] The government guaranteed loans to EAGB of CFAF 5.8 billion (8 years) in 2020 and CFAF 1.6 billion (5 years) in 2021 as part of debt service restructuring agreements with local commercial banks. EAGB has been strictly complying with the debt amortization schedule.

[5] The reclassification of BOAD as external explains the shift of external debt with respect to the previous DSA in Figure 3.

[6] Debt in CFAF to BOAD has also been treated as domestic debt for Benin, Cote d'Ivoire, Senegal and Togo. For those countries, the classification of the BOAD debt will be revised in line with the LIC DSF guidance in the context of upcoming Article IV or new program discussions. It was already treated as external debt for Burkina Faso, Mali and Niger. Regarding the regional treasury securities, data constraints on WAEMU's secondary market trading make a full residency-based coverage challenging.

Limits Policy and the IDA's Sustainable Development Finance Policy (SDFP) of the World Bank. Following this approach, debt issued in CFA francs in the regional market remains treated as domestic for the purpose of this DSA. The stock of such treasury securities (held by both local and regional banks) at end-2021 was CFAF 193.3 billion, equivalent to 53.4 percent of domestic debt or 20.5 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.** In the context of the implementation of three decrees approved in June 2021,[7] the Directorate Generals of Treasury and Debt are holding weekly coordination meetings. Biannual meetings of the recently created National Committee of Public Debt will start in 2022. The World Bank is supporting EAGB on implementing a Management Improvement Plan and a financial restructuring plan. It is expected that both will yield by end-2022 a more accurate assessment of the utility's stock of debt upon which consider the extension of DSA debt coverage. The authorities' efforts to improve debt recording and data coverage expansion are supported by IMF TA[8] and the FY22 PPAs under the IDA's SDFP.

BACKGROUND

4. **Guinea-Bissau's public debt rose to 78.5 percent of GDP in 2021.** The ratio of public debt to GDP increased by an estimated 2 percentage point with respect to 2020. This increase was observed on the domestic debt side and is mostly explained by the resources of the special SDR allocation on-lent by the BCEAO which is treated as domestic debt. External debt remained broadly stable in 2021 as a large part of those on-lent resources was allocated to pre-pay non-concessional external debt to BOAD due in 2022, which offset the budget support from the IMF RCF and project financing from the World Bank. The main holders of Guinea-Bissau's external debt are BOAD and the World Bank. On the domestic side, government financing has relied on the regional treasury market (Text Table 2 and Debt Holder Profile Table in Annex 1). Part of the resources raised on the regional market allowed for the payment of domestic expenditure

[7] In June 2021 the Council of Ministers approved decrees related to: (i) the creation of a National Committee of Debt Policy; (ii) the organization and functioning of the Direção Geral da Dívida Publica; and (iii) the issuance of debt and debt management.

[8] IMF STA has planned two technical assistance missions during 2022–23.

arrears accumulated in 2019-20, but recognized in 2021 (1.1 percent of GDP).[9] The stock of debt also reflects the authorities' efforts to resolve legacy external arrears following IMF/WB advice. In the case of Angola, the debt stock at end-2020 was adjusted from US$32.9 million to US$49.1 million, an increase of 1 percent of GDP, after a rescheduling agreement was reached in July 2021.

Text Table 2. Guinea-Bissau: Total Public Debt

	2019 Act.	2020 Act.	2021 Prel.	2022 Proj.	2019 Act.	2020 Act.	2021 Prel.	2022 Proj.
	(Billions of CFAF)				*(Percent of GDP)*			
Central Government Debt	**557.3**	**669.6**	**741.0**	**788.9**	**64.0**	**76.5**	**78.5**	**78.4**
External	**318.0**	**353.6**	**378.8**	**405.2**	**36.5**	**40.4**	**40.1**	**40.3**
Multilateral	249.6	282.7	303.3	330.1	28.7	32.3	32.1	32.8
IMF	18.5	15.8	26.4	32.8	2.1	1.8	2.8	3.3
IDA	67.4	78.0	97.9	105.1	7.7	8.9	10.4	10.4
BOAD	117.1	138.6	122.0	133.0	13.4	15.8	12.9	13.2
AfDB	22.4	22.5	27.7	29.2	2.6	2.6	2.9	2.9
Others (IDB, BADEA, IFAD, etc)	24.3	27.8	29.3	30.1	2.8	3.2	3.1	3.0
Bilateral	68.4	70.9	75.5	75.1	7.9	8.1	8.0	7.5
Paris Club	2.0	1.9	2.0	2.0	0.2	0.2	0.2	0.2
Non-Paris Club[1]	66.3	69.1	73.5	73.1	7.6	7.9	7.8	7.3
of which Legacy Arrears [2]	22.8	29.5	3.3	3.3	2.6	3.4	0.3	0.3
Domestic	**239.3**	**316.0**	**362.2**	**383.7**	**27.5**	**36.1**	**38.4**	**38.1**
Local Banking System	143.7	162.8	156.7	144.1	16.5	18.6	16.6	14.3
BCEAO	110.3	109.5	130.5	130.0	12.7	12.5	13.8	12.9
Loans local commercial banks	20.9	33.2	12.0	-	2.4	3.8	1.3	-
Treasury Securities held by local banks	12.5	20.2	14.2	14.2	1.4	2.3	1.5	1.4
Treasury Securities held by regional banks	73.7	119.9	179.2	227.9	8.5	13.7	19.0	22.6
Payment Arrears	18.0	22.7	14.7	-	2.1	2.6	1.6	-
Guarantees	3.9	10.6	11.6	11.6	0.4	1.2	1.2	1.2

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

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

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

5. **The special SDR allocation contributed to reduce financing costs and close the 2021 financing gap associated with the emergency response to the pandemic.** In line with the WAEMU-wide agreement, the BCEAO on-lent the counterpart of the SDR allocation.[10] Despite being treated as domestic debt, the DSA calculates the present value of the loan to incorporate its highly concessional nature, which reduces its initial impact on the DSA's assessment of the overall risk of debt distress.[11] The concessional terms of the on-lending operation provided an alternative to more

[9] Starting in 2023 and in consultation with IMF staff, the authorities plan to securitize a remaining amount of CFAF 12.6 billion of historical domestic arrears that were already audited and recognized. They also requested World Bank support to audit the remaining stock of domestic arrears.

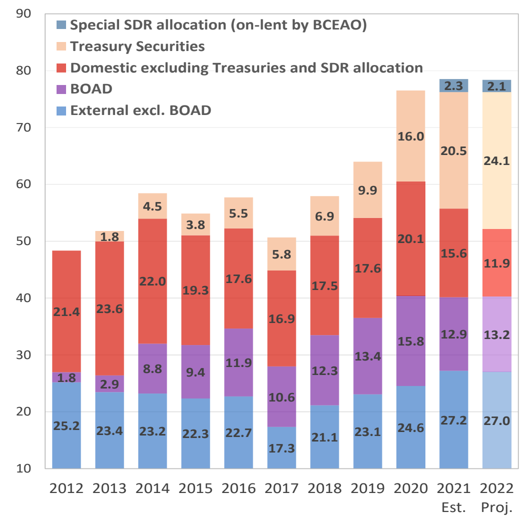
[10] The end-August SDR 27.2 million allocation was transferred by the BCEAO, as a currency repo operation of CFAF 21.6 billion (2.4 percent of GDP) with 20-year maturity and a single bullet payment at end-period. With an interest rate fixed at 0.05 percent, this operation is equivalent to a loan with 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. See Annex IV in CR 21/252 for additional explanations.

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

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.[12] The remaining amount added to the January 2021 RCF to finance the emergency response to the pandemic.

6. Non-concessional domestic borrowing slightly decreased in 2021 after the significant increase observed in 2020 to finance the response to the pandemic (Text Table 2). Excluding the SDR allocation, which was on-lent in concessional terms, central government domestic debt amounted to 36.1 percent of GDP at end-2021, unchanged from the level at end-2020. The largest source of net borrowing was Treasury securities, the stock of which rose by 4.5 percentage points of GDP, with the bulk purchased by commercial banks from elsewhere in the WAEMU region.

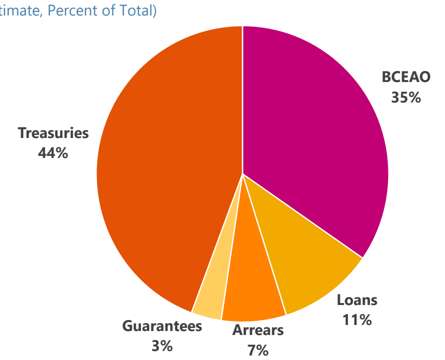
Public Debt Stock
(Percent of GDP)



Sources: Guinea-Bissau authorities and IMF staff calculations.

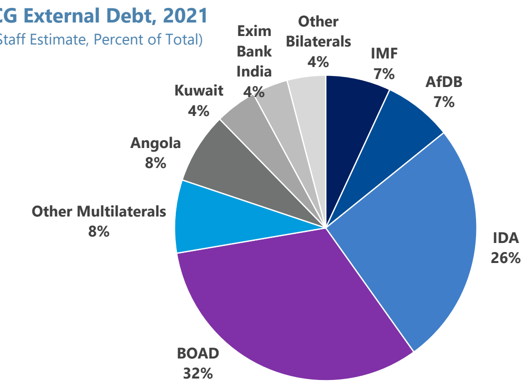
7. External borrowing remained broadly stable with an increase in concessional sources compensated by the pre-payment of non-concessional debt to BOAD. Debt to BOAD decreased by 2.9 percentage points of GDP in 2021 whereas more concessional external borrowing increased by 2.6 percentage points, helping preserve investment. Since 2017, the World Bank has been the main source of concessional financing, promoting large regional telecommunications and energy projects as well as national projects to support rural transportation.[13] Altogether, multilaterals held 80 percent of Guinea-Bissau's external debt at end-2021. The remaining external debt was bilateral,

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



Sources: Guinea-Bissau authorities and IMF staff calculations.

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



Sources: Guinea-Bissau authorities and IMF staff calculations.

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[12] 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.

[13] World Bank national operations also include projects to support food security, improve health service delivery, enhance the quality of education, and boost social safety nets. These operations are all in grants, given Guinea-Bissau's classification as IDA-only country at high risk of debt distress (red light country).

mainly to non-Paris Club creditors, including legacy arrears that the authorities have been actively seeking to resolve. In July 2021, an agreement was reached with Angola, the main creditor in this context, bringing the stock of legacy arrears to 0.4 percent of GDP at end-2021, from 3.5 percent in the previous year.[14]

8. Debt service has significantly increased in 2021 due to the pre-payment of debt to BOAD and payment of domestic arrears. The ratio of debt service to revenue excluding grants increased from 78.7 percent in 2020 to 101 percent in 2021, of which 9.7 percent of revenues corresponds to the debt service to BOAD originally due in 2022. Additionally, payment of domestic arrears accumulated in 2019-20 represented 8.3 percent of revenues (4.2 percentage points above the corresponding amount in 2021). The Catastrophe Containment and Relief Trust (CCRT) grant helped alleviate the debt service burden, amounting to 1.3 percent of revenues.[15] The authorities requested by end-2020 and again in 2021 to join the Debt Service Suspension Initiative (DSSI). Even without any debt suspension, debt sustainability prospects are expected to be enhanced through the commitment to limit non-concessional borrowing to levels agreed under IMF programs and the World Bank's SDFP and to disclose all public sector financial commitments involving debt.[16]

BASELINE SCENARIO

9. Compared to the last DSA (July 2021) the macroeconomic assumptions underlying the projections have been adjusted to reflect domestic developments and the impact of the Ukraine conflict. The main changes include an upward revision on GDP growth in 2020 and 2021, due to a significant increase in cashew nut production—Guinea-Bissau's main export product, reaching record high levels, with positive spillover effects on the fiscal and external accounts (Text Table 3). Long-run macroeconomic assumptions reflect a lower potential growth based on recent estimations. The main macroeconomic assumptions are as follows:

- **Real GDP growth.** After a modest GDP growth of 1.5 percent in 2020, growth is estimated to have accelerated to 5 percent in 2021 on the back of record high cashew nut production, public investment in critical externally financed infrastructure, the gradual lifting of COVID containment measures, and an improvement in business confidence associated with a more stable political situation. Growth is projected to decelerate to 3¾ percent in 2022, due to the effects of the conflict in Ukraine, mainly transmitted through higher energy prices, and then gradually accelerate to 5 percent by 2024

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

[15] A new rescheduling agreement is expected to be signed with Libya in 2022, to cover the remaining US$4.9 million from the 2018 agreement, which was paid until June 2021.

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

supported by higher cashew nut export prices and volumes driven by a recovery in global trade, and a more stable political situation,[17] with structural reforms and stronger business environment expected to support private investment growth. In the long term, growth converges to the potential rate of 4 percent.[18]

- **Inflation.** Average price inflation reached 3.3 percent in 2021 reflecting pressures on prices of imported goods, especially food and oil. In 2022, average inflation is expected accelerate and remain above the 3 percent convergence WAEMU criteria until 2023, reflecting persistent inflationary pressures due to supply chain disruptions and impact of the security crisis in Europe.

Text Table 3. Guinea-Bissau: Key Macroeconomic Projections
(percent of GDP, unless otherwise indicated)

	2020	2021 Prel.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	Long Term[1]
Real GDP growth (percent)									
Previous DSA	-1.4	3.3	4.0	5.0	5.0	5.0	5.0	5.0	5.0
Current DSA	1.5	5.0	3.8	4.5	5.0	5.0	5.0	5.0	4.2
CPI inflation (percent)									
Previous DSA	1.5	1.9	2.0	2.0	2.0	2.0	2.0	2.9	2.9
Current DSA	1.5	3.3	5.5	4.0	3.0	2.0	2.0	2.0	2.0
Primary fiscal balance									
Previous DSA	-7.8	-3.4	-2.7	-2.1	-1.6	-1.0	-0.9	-0.9	-0.8
Current DSA	-8.1	-4.1	-3.0	-2.1	-1.5	-1.1	-1.1	-1.0	-0.7
Overall fiscal balance (commitment)									
Previous DSA	-9.5	-5.0	-4.6	-4.2	-3.6	-3.0	-3.0	-3.0	-3.0
Current DSA	-9.6	-5.7	-4.4	-4.0	-3.5	-3.0	-3.0	-3.0	-3.0
Tax revenues									
Previous DSA	8.2	10.1	10.5	10.8	11.0	11.1	11.1	11.2	12.0
Current DSA	7.7	9.9	9.9	10.9	11.1	11.3	11.3	11.4	12.4
Domestic primary expenditures									
Previous DSA	16.2	14.9	14.9	14.7	14.0	13.7	13.7	13.7	14.5
Current DSA	16.0	14.9	14.2	14.3	13.6	13.5	13.7	13.7	14.4
Non-interest current account balance									
Previous DSA	-7.2	-7.4	-4.3	-3.6	-3.6	-3.4	-3.2	-3.4	-3.1
Current DSA	-1.8	-2.1	-5.8	-3.5	-3.4	-3.1	-3.1	-2.9	-3.1
External debt									
Previous DSA[2]	42.2	42.4	39.5	36.1	33.1	30.4	28.1	26.0	18.3
Current DSA	40.4	40.1	40.3	37.7	35.4	32.8	30.4	28.3	20.8
Domestic debt									
Previous DSA[2]	37.1	35.9	38.0	39.6	40.6	40.7	40.7	40.7	38.3
Current DSA	36.1	38.4	38.1	38.7	38.5	38.4	38.4	38.4	39.8

Source: Bissau-Guinean authorities and staff estimates.

[1] Covers the period 2028-42 for current DSA, and 2027-41 for the previous DSA (CR 21/172 of July 19, 2021).

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

- **Fiscal deficit.** The overall deficit (commitment basis) of the central government is projected at 4.4 percent in 2022, 1.3 percentage points lower than 2021, and is expected to converge to 3 percent of GDP by 2025, the WAEMU regional target. Amid rising global food and energy prices due to the war in Ukraine, the authorities have implemented temporary measures to ease cost-of-living pressures for the population, estimated at 0.3 percent of GDP.[19] Consistent with the authorities' commitment to consolidate and improve medium-term debt sustainability, an annual average of 0.7 percentage points of GDP adjustment in the domestic primary balance (commitment basis)[20] is projected over four years (2022-25), with higher consolidation in 2023 as the transitory measures to ease cost-of-living pressures are phased out. Measures to enhance revenue mobilization and public financial management (PFM)

[17] There was a failed attempted coup in February 2022. While investigations are being conducted to establish responsibilities, there were no further consequences for the political situation as the cabinet members remain in office and the electoral agenda remains in place.

[18] Potential growth is estimated at around 4-4.5 percent based on standard techniques used by the IMF and the World Bank including among others the HP filter and the production function. In addition, empirical analyses (see "The Costs of Fragility in Guinea-Bissau: Chronic Political Instability" da Silva Filho, 2015, IMF SM/15/160 and "Corruption, economic growth, and income inequality in Africa", Gyimah-Brempong Journal of Economics of Governance 3(3):183-209, 2002) find that political stability, and sustained structural and governance reforms could temporarily yield an additional ¾-1 percentage point in annual potential growth conditional on Guinea-Bissau reaching the average level of SSA countries in terms of the corruption index.

[19] Fiscal measures to ease cost-of-living pressures in 2022 include: (i) tax expenditures by capping prices on fuel and essential products (i.e., rice, flour and sugar) at 0.2 percent of GDP; and enhancing social protection with transfers to households 0.1 percent of GDP.

[20] The domestic primary balance is calculated by removing grants and foreign financed capital spending from the primary balance.

and expenditure control would underpin a growth-friendly and quality fiscal consolidation. Staff estimates that strengthening revenue mobilization and enhancing PFM and expenditure control (e.g., wage bill control, enhancing SOEs supervision, reducing non-essential transfers) would create at least 5 percentage points of GDP in fiscal space over the medium term.

- **Revenues.** Tax revenues increased by 2.2 percentage points of GDP in 2021 compared to 2020, and are expected to further increase around 1.4 percentage points by 2025. Measures to enhance tax revenue mobilization cover both revenue administration and tax policy reforms, including the broadening of tax bases, simplifying the tax system and strengthening tax administration and compliance. Progress since the beginning of 2022 includes: simplification and transparency of tax system with the promulgation of a tax package in April 2022 (including the revised tax code and tax penalty regime, the customs code and a new VAT law); and full implementation of the Kontaktu system for electronic filing of tax returns in 2022. Additional actions are planned for the short-term, including: strengthening the collection of the new telecom tax; modernization of the Stamp Duties and the General Exemption Regime; and implementation of VAT. For the medium-term, the authorities have requested support to undertake a repeal and replace income tax reform that would enhance compliance, lower administrative costs and reduce the negative impact of the tax system on economic growth.

- **Expenditures.** Domestic primary expenditures declined by 1.2 percentage points of GDP in 2021 compared to 2020, and are expected to further declined around 1.4 percentage points of GDP by 2025, of which 1 percentage point comes from the wage bill. Measures to improve PFM and expenditure control include: (i) strengthening the treasury and cash management function with the implementation of a Treasury Single Account (TSA) and IMF cash management/cash-flow forecasting tool;[21] (ii) continuing efforts to control the public sector wage bill, via implementation of the census of regular employees of the public administration and the IMF-supported blockchain project to reconcile personnel and payroll records,[22] as well as strengthening the wage bill policy with IMF TA support; [23]; (iii) strengthening the fiscal oversight of SOEs and mitigating fiscal risk;[24] and (iv) improving public investment management.[25]

- **Safeguarding social and priority spending and public investment.** The fiscal consolidation strategy protects social priority spending and public investment over the medium term. Social priority spending increased by 2 percentage points of GDP to reach about 8.5 percent of GDP in 2021. Over the medium term, social priority spending is projected to increase by 1.1 percentage points of GDP compared to pre-COVID-19 period (2010-19). In addition, the authorities are undertaking investment plans to strengthen priority sectors and infrastructure to sustain economic growth. Domestically financed

[21] Continuous IMF TA has been provided in these areas. The Ministry of Finance created a unit within the Directorate General of Treasury to implement the cash management function using the IMF cash management tool.

[22] Moreover, despite additional efforts to contain expenditures, the government remains committed to safeguard spending in priority sectors, and not using irregular and improperly documented expenditure (DNTs).

[23] The authorities requested IMF TA to inform wage bill control policies.

[24] IMF TA on enhancement of SOE supervision will be launched in June 2022.

[25] Supported by IMF TA, this will strengthen the institutional processes for vetting investment projects (cost-benefit analysis) and laying the foundations for a medium-term expenditure framework.

investment spending is projected to increase by 1.6 percentage points of GDP by 2027, compared to 2021.

- **Fiscal governance and transparency.** The authorities have made significant progress on governance reforms, meeting all the SMP's targets on governance and transparency reforms. These reforms have contributed to enhance domestic revenue and expenditure management, supporting fiscal consolidation over the medium term. In the first quarter of 2022, the Council of Ministers adopted a decree amending the legal procurement framework to allow for the collection and publication of beneficial ownership information of all entities awarded public contracts. Moreover, the adoption of the new asset declaration regime by the Parliament, and additional resources to the Audit Court, the Financial Intelligence Unit and the public procurement authority should play a significant role in enhancing fiscal governance.
- **Current account deficit.** The non-interest current account deficit is estimated to have remained broadly stable in 2021 and is projected to widen to 5.8 percent of GDP, mostly reflecting higher import prices and lower private transfers. Improvements in the trade balance will contribute to the convergence to around 3 percent of GDP by 2025.

10. Public debt to GDP is expected to decline in 2022 with lower net domestic and external borrowing. The stock of domestic debt is projected to drop by 0.3 percentage points of GDP. The authorities will continue to seek financing through treasury bill issuances. As a result, the stock of securities (held by local and regional commercial banks) is projected to further grow by 3.6 percentage points of GDP. On the other hand, the stock of other domestic debt sources is expected to fall in 2022. Debt to the regional central bank (BCEAO), loans from local commercial banks and domestic payment arrears are projected to jointly drop by 3.8 percentage points of GDP. The stock of external debt is projected to stabilize.

11. The DSA assumes that authorities will implement a prudent borrowing strategy and medium-term investment-related borrowing is projected to prioritize concessional financing. Given the large pipeline of contracted yet undisbursed investment project loans, bringing down public debt would require downsizing some projects. Contracting of new loans is expected to be constrained during this period. Gross annual project disbursements from loans and grants are assumed to finance 80 percent of capital expenditure, which is expected to average 7.5 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, project financing is expected to be provided mainly by multilateral external creditors on grant or concessional terms. Borrowing from BOAD, which is almost entirely non-concessional, is projected to decline significantly. The

Text Table 4. Guinea-Bissau: 2022 Borrowing Plan

PPG external debt contracted or guaranteed	Volume of new debt in 2022[1] (US$ million)	Present value of new debt in 2022[1] (US$ million)
Sources of debt financing	**75.3**	**44.4**
Concessional debt[2]	75.3	44.4
Multilateral debt	75.3	44.4
Uses of debt financing	**75.3**	**44.4**
Education	17.0	8.7
Energy	42.5	27.6
Roads	15.8	8.1

Source: Guinea-Bissau authorities and IMF staff estimates.
1/ Contracting and guaranteeing of new debt excluding IMF. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
2/ Debt with a grant element of at least 35 percent.

baseline assumes strengthened investment planning and execution to ensure value for money and better alignment with the budget process. Non-investment related financing needs are assumed to be filled in the medium term mostly by Treasury securities with longer maturities, with interest rates projected at 5.8 percent for 3-year bond and 6.3 percent for 5-years bond, in line with the trend of improving financing conditions shown by auction results since 2017. The authorities expect to cover a projected financing gap of around 0.7 percent of GDP in 2022-24 by mobilizing highly concessional loans catalyzed by fiscal discipline and a strong track record of policy implementation under the SMP.

12. **The macroeconomic scenario is broadly realistic.** The non-interest current account deficit in 2022-27 is projected to contribute to external debt accumulation, in line with the past five years dynamics. This driver of debt is expected to be offset by sustained growth, increased reliance on already committed grants (captured in the residual)[26] and more favorable price developments (Figure 3).[27] It is assumed that multilateral donors will prioritize grants disbursements considering the structural fragility of the country, its large development needs, and limited access to alternative sources as well as progress in fiscal consolidation and governance. The dynamics of total public debt are dominated by developments of the primary fiscal balance and real GDP growth. Both factors are expected to have a greater debt-containment effect than in the past, due to increased authorities' commitment to fiscal and governance reforms, as well as a stable political environment more conductive to growth. The projected 3-year adjustment in the primary deficit is marginally larger than the 25th percentile observed in historical data from LICs with Fund-supported programs (Figure 4), which is consistent with the authorities' commitment with continued fiscal consolidation during the expected transition from the SMP to a financial program. Actual fiscal results are however highly volatile in Guinea-Bissau.[28] The deceleration of real GDP growth in 2022 is consistent with fiscal multipliers (Figure 4). The recovery projected for 2023, in turn, is in line with a small fiscal multiplier 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.[29]

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TEST SCENARIOS

13. **Guinea-Bissau is assessed to have weak debt carrying capacity, unchanged from the July 2021 DSA.** The Composite Indicator (CI) score for Guinea-Bissau is 2.66, based on data on macroeconomic

[26] The residual is also affected by the financing from treasury securities in the regional market, which are considered domestic debt in the DSA.

[27] Compared to the July 2021 DSA, the trajectory of gross nominal PPG external debt is higher due to reclassification of debt to BOAD as external debt.

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

[29] There is a risk of a more significant impact of the fiscal adjustment on growth, despite reduced impacts in the past, considering that most of the prospective fiscal adjustment is on the revenue side, while the fixed exchange rate would typically imply higher multipliers.

indicators from the April 2022 WEO and from the 2020 Country Policy and Institutional Assessment (CPIA) of the World Bank (Text Table 5).

Text Table 5. Guinea-Bissau: Debt Carrying Capacity and Thresholds

Country	Guinea-Bissau
Country Code	654
Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak	Weak	Weak
	2.66	2.65	2.54

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

Source: IMF staff estimates.

14. The magnitude of the combined contingent liability shock has been increased (Text Table 6). This DSA runs a stress test with a contingent liability shock of 11.5 percent of GDP.[30] The shock reflects the potential fiscal costs of operational losses of the electricity utility (EAGB), contingent liabilities linked with increased public guarantees and the possibility of the domestic arrears being larger than what is already included in the debt stock (1.4 percent of GDP at end-2021). The shock also captures the potential liabilities related to the possible recapitalization needs of a large bank that does not meet the WAEMU's minimum capital requirements.[31] 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.

[30] Breakdown: EAGB debt (2.5 percent), domestic arrears (2 percent) and bank recapitalization (2 percent).

[31] There is high uncertainty around the estimates of the potential liabilities associated with the bank due to critical inadequacies in the availability of information needed to gauge the bank's true financial condition, including its portfolio composition, sectoral asset quality, profitability drivers, and viability.

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	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	6.5	Increased from 2 to 6.5 to reflect potential liabilities linked to public guarantees, bank recapitalisation needs, EAGB debt and domestic arrears.
4	PPP	35 percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		11.5	

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

15. A tailored adverse commodity price stress test was designed to reflect Guinea-Bissau's vulnerability to cashew price fluctuations. In line with the July 2021 DSA, it shows the debt sustainability prospects after a hypothetical 15 percent fall in cashew export prices in the first year of projection (Figure 1). Following a significant terms-of-trade shock in 2018-19, cashew nut prices fell by an additional 9 percent amid the global slowdown in 2020. The shock reverts the price recovery observed in 2021.

EXTERNAL DSA

16. Guinea-Bissau's risk of external debt distress remains high, in line with the July 2021 DSA. With the reclassification of BOAD debt as external, the share of external debt reaches 40.1 percent of GDP at end-2021. The external debt indicators based on PV ratios remain below the relevant indicative thresholds throughout the projection period (2022–42) under the baseline scenario (except for one breach of the PV of debt-to-exports ratio in 2022). However, the indicators based on the debt-service ratios breach their indicative thresholds under the baseline, which imply a mechanical 'high' rating (Figure 1 and Table 3).[32]

17. The four external debt burden indicators breach their threshold under the sensitivity analysis. For the PV debt-to-GDP ratio, the most extreme shock is a combination shock. For the two export-related indicators, the most extreme shock is a shock to exports, but sustained breaches also occur for the combination shock (Table 3). Overall, these results point to potential vulnerabilities under adverse conditions, including a slower global recovery that would hit Guinea-Bissau's main export markets. A key difference between the baseline and the historical scenario is that the baseline scenario reflects fiscal consolidation and governance reforms implemented in the context of the SMP and a successful reengagement with international donors.

OVERALL RISK OF PUBLIC DEBT DISTRESS

18. Guinea-Bissau's overall risk of debt distress is assessed as high. The PV of total public debt-to-GDP ratio is above its indicative benchmark (35 percent) through 2042, a substantial and prolonged breach (Table 4 and Figure 2). Moreover, the medium-term increase in debt service up to 76 percent of revenues

[32] In line with the July 2021 DSA, alternative scenarios include a tailored export shock in which the 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 scenario results in an annual drop of 8.6 percent in exports both in 2023 and 2024 (as opposed to 5.8 percent average export growth in the baseline).

and grants in 2028 from 67 percent in 2021 despite the projected increase in revenues calls for efforts, as intended by the authorities, to seek debt reprofiling and take advantage of lower interest rates for new borrowing whenever market conditions allow.

19. **Public debt sustainability is vulnerable to a commodity price shock.** For this shock, the PV of debt-to-GDP ratio reaches 80 percent in 2031 and keeps rising, and the debt service-to-revenue ratio reaches 105 percent in 2028 before stabilizing at around 90 percent. The vulnerability to commodity price shocks follows from the very high concentration of the export base in unprocessed cashew nuts.

RISK RATING AND VULNERABILITIES

20. **Public debt is considered sustainable on a forward-looking sense based on expected strong macroeconomic policies which will boost growth and ensure sound fiscal policy, facilitated by Guinea Bissau's membership of the currency union.** The country's external debt burden indicators are consistent with sustainability in the sense of a following a downward trend over the medium-term, but the PV of total public debt-to-GDP shows large and prolonged breaches of its indicative benchmark. Nonetheless, the country benefits from financial and technical support from the regional institutions and debt markets and larger regional currency union members with stronger debt carrying capacity.[33] The supportive WAEMU context bolsters the country's capacity to carry domestic/regional debt beyond what is captured by the standard composite indicator. Taking this into consideration underpins the conclusion that Guinea-Bissau's public debt is sustainable on a forward-looking basis contingent on the authorities' commitments in the context of an engagement with the Fund and other development partners, together with the assumption (see below) that policies are in place that would put debt on a robust downward trajectory.[34]

21. **Under staff's baseline scenario, Guinea-Bissau's public debt is brought back to a sustainable path, with overall public debt falling to 70 percent of GDP, the regional convergence criteria, by 2026.** If the policy agenda is successfully executed, and barring a more protracted pandemic and/or longer war in Ukraine, total public debt would decline steadily from 78.5 percent of GDP estimated at end-2021 to 68.8 percent of GDP by 2026.

22. **Achieving the baseline projection will require significant policy actions underpinned by a Fund-supported program and strong multilateral donor engagement.** Key policy actions include (i) continued fiscal consolidation efforts including revenue enhancement measures, containing current spending below nominal GDP growth, and strong implementation of growth-enhancing reforms; (ii) prudent borrowing policies, including avoidance of non-concessional project financing, in line with the DSSI commitments; (iii) enhanced debt management, with more rigorous compilation and monitoring of

[33] WAEMU currency union regional institutions manage both the debt issued by Guinea-Bissau in the regional sovereign treasury securities market (*UMOA-Titres*) as well as the debt held by the central bank (BCEAO). These two components account for 93 percent of Guinea-Bissau's domestic debt at end-2021. Moreover, Guinea-Bissau's borrowing through WAEMU sovereign securities market is expected to account for an insignificant share of available regional financing to the 8 countries in this currency union.

[34] The downward trajectory of debt is robust to an alternative scenario with growth converging to 4 percent.

debt, 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 significant scaling up of grants by multilateral institutions; and (ii) a reprofiling of selected debt obligations to extend maturities and reduce interest rates.

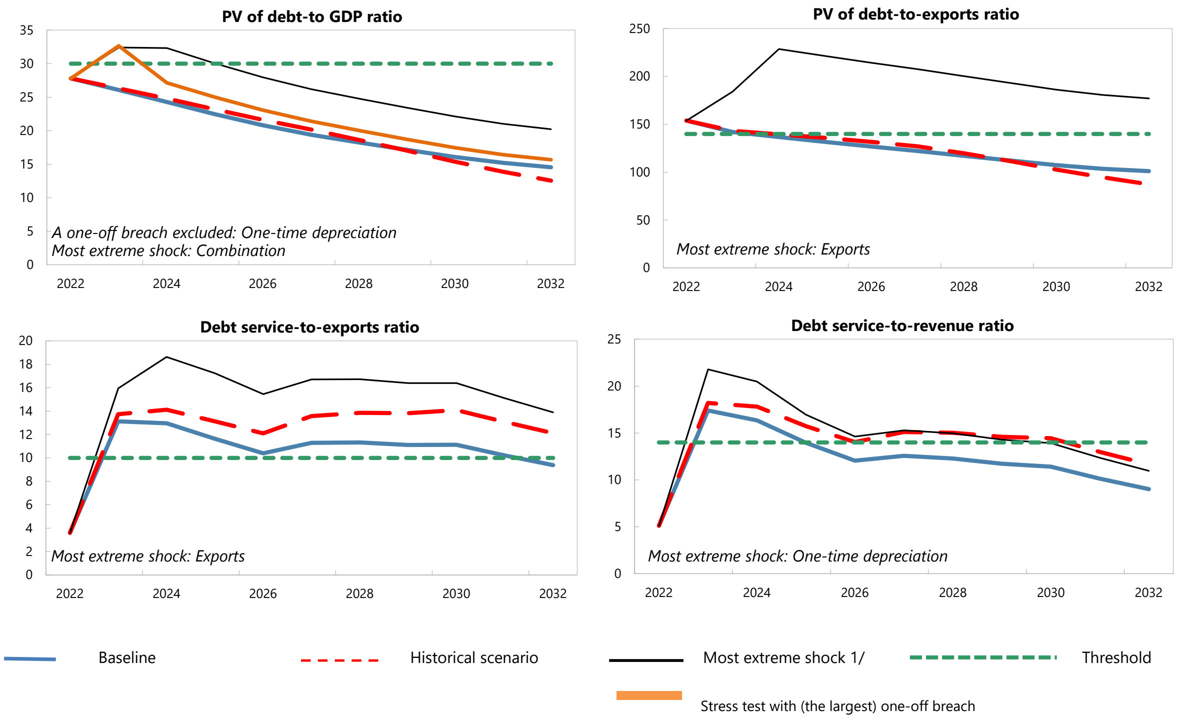
23. The authorities have undertaken measures to improve debt management. The Council of Ministers in July 2021 approved decrees related to the creation of a National Committee of Debt Policy and the organization and functioning of the Debt Directorate. The authorities use the Debt Management and Financial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

24. There are significant downside risks to the baseline scenario. Strong and sustained political commitment is needed to deliver the envisaged medium-term fiscal adjustment embedded in the DSA. The debt outlook remains highly vulnerable to a weaker economic recovery, adverse terms-of-trade and export shocks as well as the materialization of contingent liabilities (as coverage of public debt is limited) and a relapse into socio-political turmoil. If realized, all these downside risks could lead to higher external and public debt burden indicators and increased risk of accumulation of arrears. It is also contingent on limited impact of the pandemic with its effects mitigated by a relatively high vaccination rate. Risks also arise from volatile global food and oil prices, including the effects of a protracted political security crisis in Europe, and climate change-related natural disasters. Financial stress in state-owned enterprises and banking fragilities could generate contingent liabilities adding to fiscal pressures. If these risks materialize, social tensions could increase, triggering political instability that may constrain the fiscal adjustment and increase debt vulnerabilities.

AUTHORITIES' VIEWS

25. The authorities broadly concur with staff's views on debt sustainability and the recommendations. They agree that debt sustainability depends crucially on sound macroeconomic policies including a strong and sustained fiscal consolidation. They emphasized (i) their commitment to a sustained fiscal consolidation path and to limit non-concessional borrowing and (ii) that the pace of public investment would be determined by careful consideration of the project's critical contribution to growth, and alignment with the budget process, with improved coordination among the different agencies involved through the Debt Committee. The authorities recognize the risks to the debt outlook and expect that the satisfactory performance during the Staff-Monitored Program (SMP) has paved the way to the authorities' request for an arrangement under the Extended Credit Facility (ECF). Finally, based on a WAEMU position, the authorities support a classification of BOAD debt on currency basis.

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



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

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

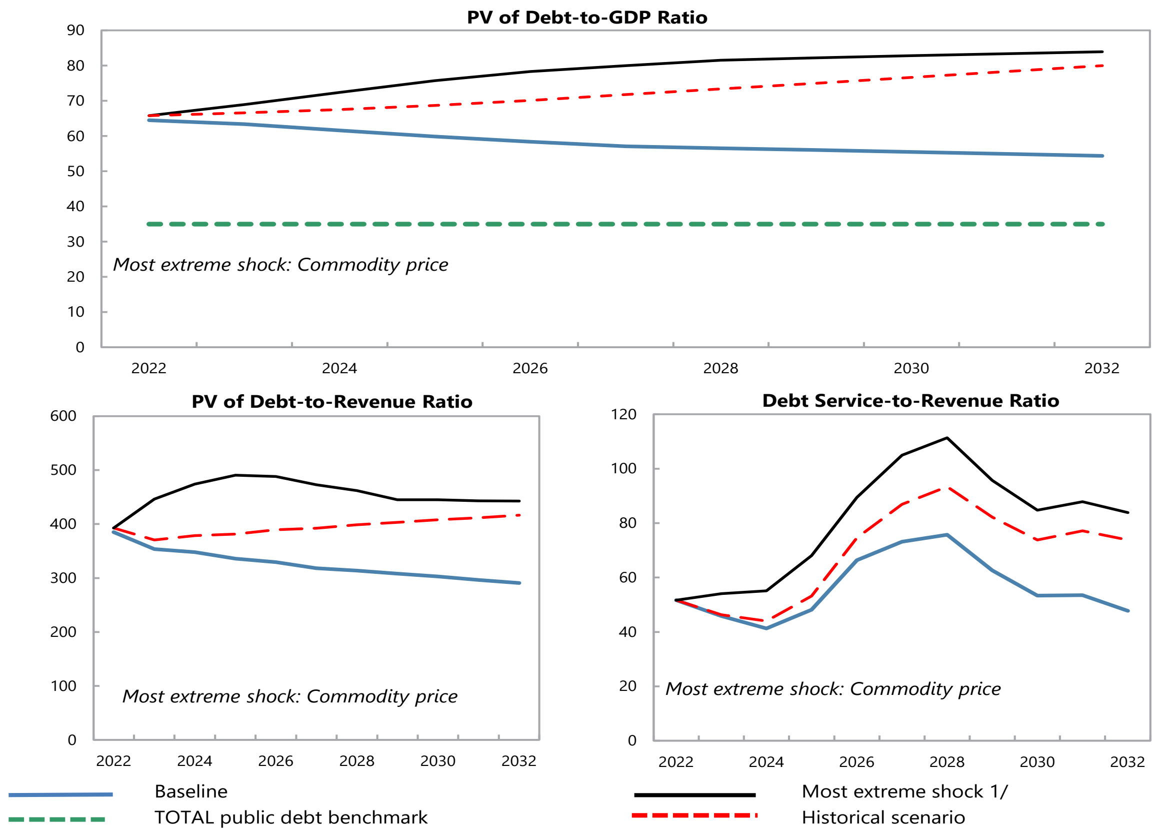
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace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

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

Sources: Country authorities; and staff estimates and projections.

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

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



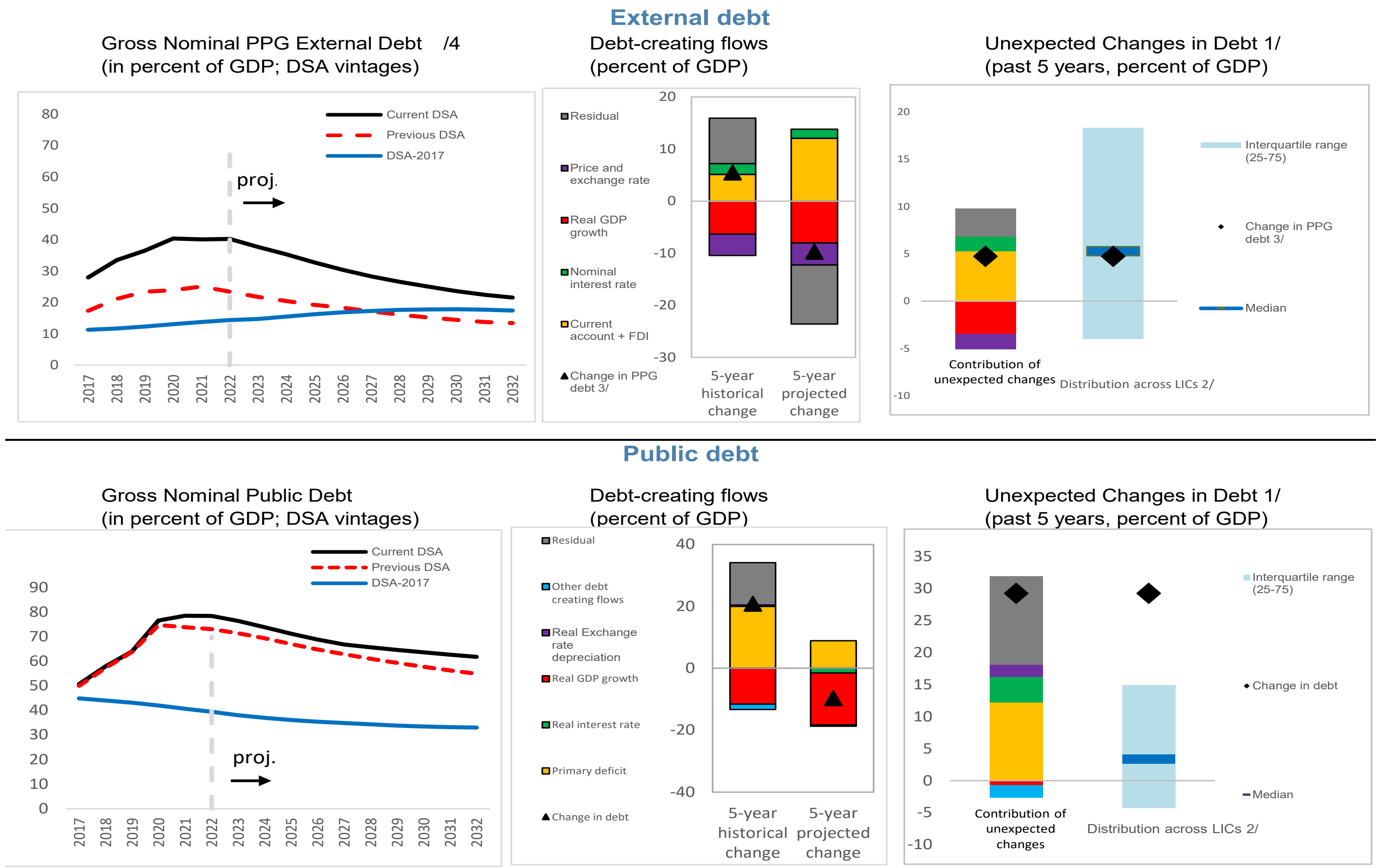
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	17%	17%
Domestic medium and long-term	62%	62%
Domestic short-term	20%	20%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	29	30
Avg. grace period	6	10
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.7%	3.7%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.1%	3.1%

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

Sources: Country authorities; and staff estimates and projections.

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

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



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

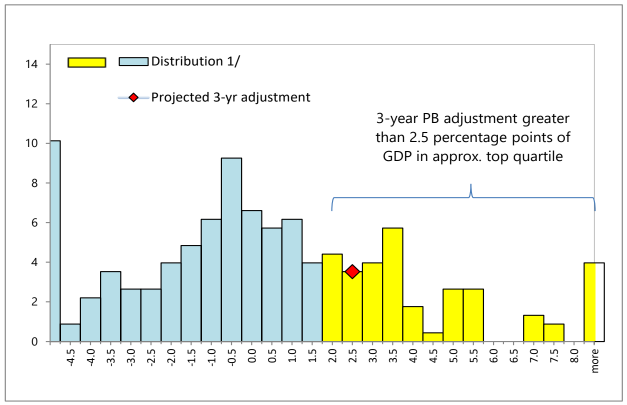
2/ Distribution across LICs for which LIC DSAs were produced.

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.

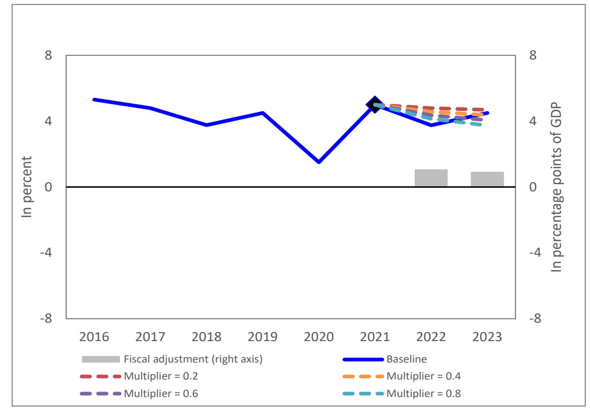
Figure 4. Guinea-Bissau: Realism tools

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



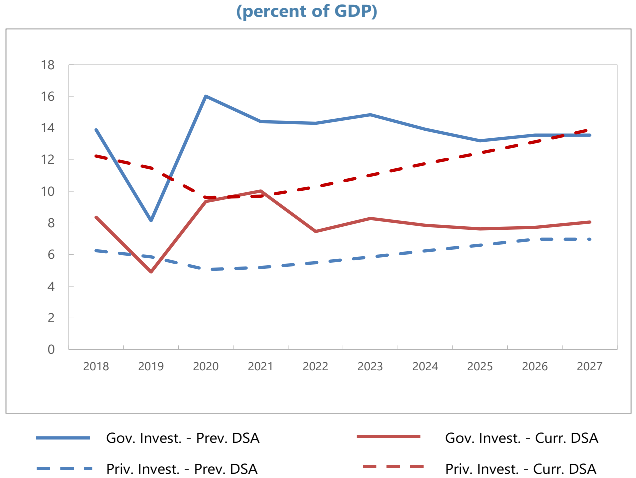
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

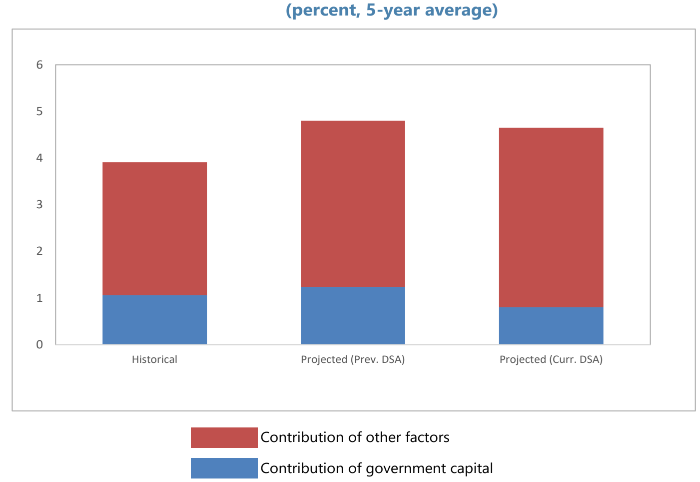
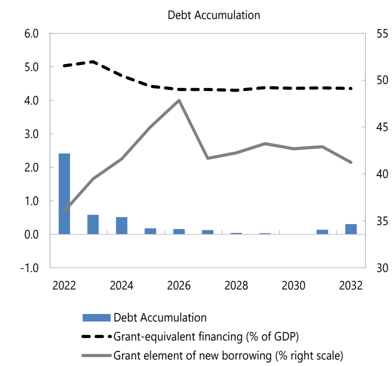


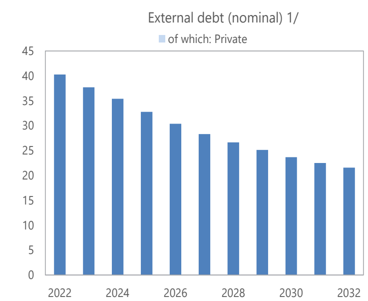
Table 1. Guinea-Bissau: External Debt Sustainability Framework, Baseline Scenario, 2019–42

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	36.5	40.4	40.1	40.3	37.7	35.4	32.8	30.4	28.3	21.6	18.3	32.6	29.5
of which: public and publicly guaranteed (PPG)	36.5	40.4	40.1	40.3	37.7	35.4	32.8	30.4	28.3	21.6	18.3	32.6	29.5
Change in external debt	3.0	3.9	-0.3	0.1	-2.6	-2.3	-2.6	-2.4	-2.1	-0.9	-0.1		
Identified net debt-creating flows	5.1	0.1	-2.6	3.1	1.0	0.7	0.5	0.5	0.4	1.2	1.2	-0.5	1.0
Non-interest current account deficit	8.1	1.8	2.1	5.8	3.5	3.4	3.1	3.1	2.9	3.3	3.0	2.2	3.4
Deficit in balance of goods and services	14.2	13.7	13.8	14.8	13.1	12.3	11.8	11.7	11.3	11.4	9.6	8.8	12.0
Exports	19.6	15.3	18.0	18.1	18.4	17.8	17.1	16.4	15.9	14.4	12.2		
Imports	33.8	29.0	31.8	32.9	31.5	30.1	28.9	28.1	27.2	25.8	21.8		
Net current transfers (negative = inflow)	-3.8	-9.4	-10.1	-7.6	-8.0	-7.3	-7.1	-6.8	-6.7	-6.1	-4.9	-5.6	-6.8
of which: official	-1.1	-3.2	-2.8	-2.1	-2.6	-2.2	-2.1	-2.1	-2.2	-2.2	-1.9		
Other current account flows (negative = net inflow)	-2.2	-2.5	-1.6	-1.4	-1.6	-1.6	-1.7	-1.7	-1.8	-1.9	-1.6	-1.0	-1.7
Net FDI (negative = inflow)	-4.8	-1.4	-1.1	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.8	-1.4
Endogenous debt dynamics 2/	1.8	-0.3	-3.6	-1.4	-1.2	-1.3	-1.3	-1.2	-1.1	-0.7	-0.5		
Contribution from nominal interest rate	0.2	0.6	0.6	0.1	0.5	0.4	0.3	0.3	0.3	0.2	0.2		
Contribution from real GDP growth	-1.6	-0.5	-1.8	-1.5	-1.7	-1.7	-1.6	-1.5	-1.4	-0.9	-0.7		
Contribution from price and exchange rate changes	3.1	-0.3	-2.5	...	...	...	...	...	...	...	...		
Residual 3/	-2.1	3.7	2.4	-2.9	-3.5	-3.1	-3.1	-2.9	-2.5	-2.2	-1.4	2.1	-2.7
of which: exceptional financing	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	25.5	27.8	26.1	24.3	22.5	20.8	19.4	14.6	12.3		
PV of PPG external debt-to-exports ratio	...	...	141.7	153.8	141.9	136.6	131.6	126.8	122.1	101.0	100.5		
PPG debt service-to-exports ratio	3.1	14.1	19.5	3.6	13.1	13.0	11.6	10.4	11.3	9.4	7.2		
PPG debt service-to-revenue ratio	5.0	18.9	27.1	5.1	17.4	16.4	13.9	12.0	12.6	9.0	5.5		
Gross external financing need (Million of U.S. dollars)	58.5	39.2	76.7	86.9	85.1	88.0	83.7	82.7	86.1	118.0	165.3		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.5	1.5	5.0	3.8	4.5	5.0	5.0	5.0	5.0	4.5	4.0	3.3	4.6
GDP deflator in US dollar terms (change in percent)	-8.5	0.9	6.5	-3.2	4.3	4.2	3.8	3.5	2.8	2.0	2.0	0.8	2.3
Effective interest rate (percent) 4/	0.7	1.6	1.8	0.3	1.3	1.3	1.1	1.1	1.1	1.2	1.3	1.1	1.1
Growth of exports of G&S (US dollar terms, in percent)	-24.8	-20.2	31.8	0.8	10.6	5.9	4.5	4.5	4.5	4.5	4.3	4.4	4.9
Growth of imports of G&S (US dollar terms, in percent)	7.6	-12.1	22.7	3.8	4.2	4.6	4.7	5.5	4.7	5.3	3.7	5.9	5.0
Grant element of new public sector borrowing (in percent)	...	...	...	36.0	39.5	41.6	45.0	47.9	41.7	41.2	38.9	...	42.2
Government revenues (excluding grants, in percent of GDP)	12.1	11.4	13.0	12.7	13.9	14.1	14.2	14.2	14.3	15.0	16.1	11.1	14.2
Aid flows (in Million of US dollars) 5/	65.8	156.3	151.9	84.9	95.2	96.2	106.1	117.1	118.8	162.1	277.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	5.0	5.2	4.7	4.4	4.3	4.3	4.4	4.2	...	4.5
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	73.9	75.5	74.9	81.0	84.1	82.0	82.5	81.6	...	80.6
Nominal GDP (Million of US dollars)	1,487	1,523	1,703	1,710	1,863	2,039	2,221	2,413	2,605	3,584	6,467		
Nominal dollar GDP growth	-4.4	2.4	11.8	0.4	9.0	9.4	8.9	8.7	7.9	6.6	6.1	4.2	7.0
Memorandum items:													
PV of external debt 7/	...	...	25.5	27.8	26.1	24.3	22.5	20.8	19.4	14.6	12.3		
In percent of exports	...	...	141.7	153.8	141.9	136.6	131.6	126.8	122.1	101.0	100.5		
Total external debt service-to-exports ratio	3.1	14.1	19.5	3.6	13.1	13.0	11.6	10.4	11.3	9.4	7.2		
PV of PPG external debt (in Million of US dollars)			434.6	475.7	485.7	495.2	498.8	502.3	505.4	521.6	795.8		
(PVt-PVt-1)/GDPt-1 (in percent)				2.4	0.6	0.5	0.2	0.2	0.1	0.3	0.7		
Non-interest current account deficit that stabilizes debt ratio	5.1	-2.1	2.3	5.7	6.1	5.7	5.8	5.5	4.9	4.2	3.2		

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





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

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

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

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

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	**64.0**	**76.5**	**78.5**	**78.4**	**76.4**	**73.9**	**71.2**	**68.8**	**66.7**	**61.8**	**57.1**	**59.4**	**68.5**
of which: external debt	**36.5**	**40.4**	**40.1**	**40.3**	**37.7**	**35.4**	**32.8**	**30.4**	**28.3**	**21.6**	**18.3**	**32.6**	**29.5**
Change in public sector debt	6.1	12.5	2.0	-0.1	-2.0	-2.5	-2.7	-2.4	-2.1	-0.9	-0.4		
Identified debt-creating flows	**4.0**	**7.3**	**3.2**	**-0.1**	**-2.0**	**-2.5**	**-2.7**	**-2.4**	**-2.1**	**-0.9**	**-0.4**	**1.3**	**-1.5**
Primary deficit	**2.8**	**8.1**	**4.1**	**3.0**	**2.1**	**1.5**	**1.1**	**1.1**	**1.0**	**0.7**	**0.5**	**3.3**	**1.3**
Revenue and grants	14.9	15.4	19.3	16.8	17.9	17.7	17.8	17.7	17.9	18.7	19.8	**15.7**	**18.0**
of which: grants	2.8	4.0	6.4	4.0	4.1	3.6	3.6	3.6	3.6	3.7	3.6		
Primary (noninterest) expenditure	17.7	23.5	23.4	19.8	20.0	19.2	19.0	18.9	19.0	19.4	20.2	**19.0**	**19.3**
Automatic debt dynamics	**1.2**	**-2.0**	**-1.0**	**-3.1**	**-4.1**	**-4.0**	**-3.8**	**-3.5**	**-3.1**	**-1.6**	**-0.9**		
Contribution from interest rate/growth differential	-1.3	0.4	-4.5	-4.8	-3.5	-3.5	-3.3	-3.1	-2.9	-1.2	-0.5		
of which: contribution from average real interest rate	1.2	1.4	-0.8	-2.0	-0.2	0.1	0.2	0.3	0.4	1.5	1.7		
of which: contribution from real GDP growth	-2.5	-0.9	-3.6	-2.8	-3.4	-3.6	-3.5	-3.4	-3.3	-2.7	-2.2		
Contribution from real exchange rate depreciation	2.5	-2.4	3.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**1.2**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.2**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**2.1**	**5.2**	**-1.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2.1**	**-0.2**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**63.7**	**64.5**	**63.4**	**61.6**	**59.9**	**58.4**	**57.1**	**54.3**	**51.2**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**329.3**	**385.0**	**353.6**	**348.0**	**336.1**	**329.3**	**318.3**	**290.8**	**259.0**		
Debt service-to-revenue and grants ratio 3/	**54.7**	**58.9**	**67.3**	**51.7**	**45.8**	**41.3**	**48.2**	**66.4**	**73.2**	**47.7**	**43.8**		
Gross financing need 4/	10.9	18.3	17.2	11.7	10.3	8.8	9.7	12.9	14.2	9.6	9.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.5	1.5	5.0	3.8	4.5	5.0	5.0	5.0	5.0	4.5	4.0	**3.3**	**4.6**
Average nominal interest rate on external debt (in percent)	0.7	1.6	1.7	0.4	1.3	1.3	1.1	1.1	1.1	1.2	1.3	**1.1**	**1.1**
Average real interest rate on domestic debt (in percent)	6.4	4.4	0.2	0.7	1.3	1.4	1.4	1.5	1.8	3.3	3.9	**-0.5**	**2.1**
Real exchange rate depreciation (in percent, + indicates depreciation)	8.0	-6.6	9.2	...	...	...	...	...	...	...	...	**1.6**	**...**
Inflation rate (GDP deflator, in percent)	-3.5	-1.0	2.7	2.8	2.8	2.8	2.8	2.8	2.8	2.0	2.0	**2.4**	**2.4**
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.7	34.6	4.5	-12.4	5.8	1.0	3.5	4.5	5.5	5.1	4.0	**9.6**	**3.0**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-3.3	-4.4	2.1	3.1	4.1	4.0	3.8	3.5	3.1	1.6	0.9	**-1.9**	**2.8**
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		

Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

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

(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	PV of debt-to GDP ratio										
Baseline	28	26	24	22	21	19	18	17	16	15	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	28	26	25	23	22	20	19	17	15	14	13
B. Bound Tests											
B1. Real GDP growth	28	28	27	25	23	22	21	19	18	17	16
B2. Primary balance	28	26	25	23	22	20	19	18	17	17	16
B3. Exports	28	28	29	27	25	24	23	21	20	19	18
B4. Other flows 3/	28	29	**30**	28	26	25	23	22	21	20	19
B5. Depreciation	28	**33**	27	25	23	21	20	19	17	16	16
B6. Combination of B1-B5	28	**32**	**32**	**30**	28	26	25	23	22	21	20
C. Tailored Tests											
C1. Combined contingent liabilities	28	27	26	24	22	21	20	19	18	18	17
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	28	26	25	23	22	20	18	17	15	14	13
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
	PV of debt-to-exports ratio										
Baseline	**154**	**142**	137	132	127	122	117	112	107	104	101
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**154**	**143**	140	136	132	127	120	112	103	95	87
B. Bound Tests											
B1. Real GDP growth	**154**	**142**	137	132	127	122	117	112	107	104	101
B2. Primary balance	**154**	**144**	**141**	136	132	128	125	121	116	113	112
B3. Exports	**154**	**184**	**229**	**221**	**214**	**208**	**200**	**193**	**186**	**181**	**177**
B4. Other flows 3/	**154**	**160**	**171**	**165**	**160**	**156**	**150**	**145**	**140**	136	134
B5. Depreciation	**154**	**142**	122	117	112	108	103	98	93	89	87
B6. Combination of B1-B5	**154**	**183**	**160**	**190**	**183**	**178**	**171**	**165**	**159**	**154**	**151**
C. Tailored Tests											
C1. Combined contingent liabilities	**154**	**148**	**144**	139	135	133	130	126	121	119	118
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	**154**	**142**	**140**	136	130	124	117	108	100	93	87
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	4	**13**	**13**	**12**	**10**	**11**	**11**	**11**	**11**	**10**	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	4	**14**	**14**	**13**	**12**	**14**	**14**	**14**	**14**	**13**	**12**
B. Bound Tests											
B1. Real GDP growth	4	**13**	**13**	**12**	**10**	**11**	**11**	**11**	**11**	**10**	9
B2. Primary balance	4	**13**	**13**	**12**	**10**	**11**	**11**	**11**	**11**	**10**	10
B3. Exports	4	**16**	**19**	**17**	**15**	**17**	**17**	**16**	**16**	**15**	**14**
B4. Other flows 3/	4	**13**	**13**	**12**	**11**	**12**	**12**	**12**	**12**	**11**	10
B5. Depreciation	4	**13**	**13**	**11**	**10**	**11**	**11**	**11**	**11**	10	9
B6. Combination of B1-B5	4	**15**	**16**	**15**	**13**	**14**	**14**	**14**	**14**	**13**	**12**
C. Tailored Tests											
C1. Combined contingent liabilities	4	**13**	**13**	**12**	**11**	**11**	**12**	**11**	**11**	**11**	10
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	4	**13**	**13**	**12**	**11**	**12**	**12**	**12**	**12**	**11**	10
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
	Debt service-to-revenue ratio										
Baseline	5	**17**	**16**	14	12	13	12	12	11	10	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	5	**18**	**18**	**16**	**14**	**15**	**15**	**15**	**14**	13	12
B. Bound Tests											
B1. Real GDP growth	5	**18**	**18**	**16**	14	**14**	14	13	13	11	10
B2. Primary balance	5	**17**	**16**	**14**	12	13	12	12	12	10	9
B3. Exports	5	**18**	**17**	**15**	13	13	13	13	12	11	10
B4. Other flows 3/	5	**17**	**17**	**15**	13	13	13	12	12	11	10
B5. Depreciation	5	**22**	**20**	**17**	**15**	**15**	**15**	**14**	14	12	11
B6. Combination of B1-B5	5	**19**	**19**	**17**	**14**	**15**	**15**	14	13	12	11
C. Tailored Tests											
C1. Combined contingent liabilities	5	**17**	**17**	**14**	12	13	13	12	12	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	5	**22**	**21**	**18**	**15**	**15**	14	12	12	11	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, 2022–32

(In percent)

	Projections 1/										
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
PV of Debt-to-GDP Ratio											
Baseline	**65**	**63**	**62**	**60**	**58**	**57**	**57**	**56**	**55**	**55**	**54**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**66**	**67**	**68**	**69**	**70**	**72**	**73**	**75**	**77**	**78**	**80**
B. Bound Tests											
B1. Real GDP growth	**66**	**69**	**73**	**72**	**72**	**72**	**73**	**74**	**74**	**75**	**76**
B2. Primary balance	**66**	**68**	**69**	**67**	**65**	**64**	**63**	**62**	**61**	**61**	**60**
B3. Exports	**65**	**65**	**66**	**64**	**62**	**61**	**60**	**60**	**59**	**58**	**58**
B4. Other flows 3/	**65**	**67**	**68**	**66**	**64**	**62**	**62**	**61**	**60**	**60**	**59**
B5. Depreciation	**66**	**69**	**66**	**63**	**60**	**57**	**56**	**54**	**53**	**51**	**50**
B6. Combination of B1-B5	**66**	**66**	**66**	**63**	**61**	**60**	**59**	**59**	**58**	**57**	**57**
C. Tailored Tests											
C1. Combined contingent liabilities	**66**	**75**	**73**	**71**	**69**	**67**	**66**	**65**	**64**	**63**	**62**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**66**	**69**	**72**	**76**	**78**	**80**	**82**	**82**	**83**	**83**	**84**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	385	354	348	336	329	318	314	308	303	296	291
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	393	370	379	381	389	392	399	403	408	412	416
B. Bound Tests											
B1. Real GDP growth	393	380	402	397	397	392	395	395	396	395	395
B2. Primary balance	393	377	390	377	369	356	349	342	335	327	320
B3. Exports	385	363	373	360	352	340	335	329	323	316	309
B4. Other flows 3/	385	372	382	368	360	348	343	336	330	322	316
B5. Depreciation	393	394	377	357	343	325	314	303	292	280	270
B6. Combination of B1-B5	393	367	372	353	345	334	329	322	316	309	303
C. Tailored Tests											
C1. Combined contingent liabilities	393	419	411	397	389	373	366	358	351	342	334
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	393	446	474	490	488	473	462	445	445	443	442
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	52	46	41	48	66	73	76	63	53	54	48
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	52	46	44	53	75	87	93	82	74	77	74
B. Bound Tests											
B1. Real GDP growth	52	48	46	56	77	87	93	81	71	73	69
B2. Primary balance	52	46	46	55	70	84	92	70	58	61	58
B3. Exports	52	46	41	49	67	74	76	63	54	54	48
B4. Other flows 3/	52	46	42	49	67	74	76	63	54	54	48
B5. Depreciation	52	46	44	49	66	72	74	62	53	53	47
B6. Combination of B1-B5	52	45	42	51	68	74	82	66	56	55	52
C. Tailored Tests											
C1. Combined contingent liabilities	52	46	57	54	71	106	91	71	59	72	60
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	52	54	55	68	89	105	111	96	85	88	84
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Annex I. Debt Holder Profile Table

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

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(In US$ million)	*(Percent of total debt)*	*(Percent of GDP)* [5]	*(In US$ million)*			*(Percent of GDP)*		
Total	1,277.0	100.0	78.5	142.5	147.3	122.1	8.4	8.6	6.6
External	652.8	51.1	40.1	61.1	11.2	44.3	3.6	0.7	2.4
Multilateral creditors[2]	522.6	40.9	32.1	57.6	8.4	40.9	3.4	0.5	2.2
IMF	45.5	3.6	2.8						
World Bank	168.7	13.2	10.4						
AfDB	47.7	3.7	2.9						
BOAD	210.2	16.5	12.9						
Other Multilaterals	50.5	4.0	3.1						
o/w: Islamic Development Bank	21.8	1.7	1.3						
BADEA	9.7	0.8	0.6						
Bilateral Creditors	130.2	10.2	8.0	3.6	2.8	3.4	0.2	0.2	0.2
Paris Club	3.4	0.3	0.2	0.0	-	0.1	0.0	-	0.0
o/w: Brazil	1.9	0.2	0.1						
Russia	1.5	0.1	0.1						
Non-Paris Club	126.7	9.9	7.8	3.6	2.8	3.3	0.2	0.2	0.2
o/w: Angola	49.1	3.8	3.0						
Kuwait	28.9	2.3	1.8						
Domestic	624.2	48.9	38.4	81.4	136.1	77.8	4.8	8.0	4.2
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Regional T-bills	333.1	26.1	20.5	-	88.4	76.5	-	5.2	4.1
BCEAO	224.9	17.6	13.8	1.3	1.3	1.3	0.1	0.1	0.1
Loans local commercial banks[3]	40.8	3.2	2.5	61.7	21.4	0.0	3.6	1.3	0.0
Payment Arrears	25.4	2.0	1.6	18.3	25.0	-	1.1	1.5	-
Memo items:									
Collateralized debt[4]	0	0.0	0.0						
Contingent liabilities	20.0	1.6	1.2						
Public guarantees	20.0	1.6	1.2						
Nominal GDP	1,702.8			1,702.8	1,710.1	1,863.3			

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

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

3/ Including public guarantees.

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

5/ Calculated based on the amounts in CFA francs.

Statement by Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Lopes Varela on Guinea-Bissau
June 17, 2022

INTRODUCTION

Our Bissau-Guinean authorities would like to express their appreciation to the IMF's Executive Board, Management, and Staff for the constructive engagement and continued support. The policy dialogue has helped design sound fiscal and debt management policies–notably to provide additional fiscal space to address priority and development needs–and address institutional capacity challenges. The engagement has critical for Guinea-Bissau to weather the impact of the pandemic and alleviate debt vulnerabilities. The authorities remain committed to consolidating the recent progress achieved under the Staff-Monitored Program (SMP) and welcome the comprehensive assessment of the country's economy during the Article IV consultations. They broadly concur with the main policy recommendations, which are rightly focused on maintaining long-term fiscal sustainability, enhancing state capacity, fostering financial intermediation, and promoting economic diversification.

RECENT ECONOMIC DEVELOPMENTS, PERFORMANCE UNDER THE SMP ARRANGEMENT, AND OUTLOOK

Recent Developments

Since 2021, the authorities have embarked on a bold fiscal consolidation and reform agenda under the SMP. During this program, they have managed to preserve macroeconomic stability while weathering the impact of the pandemic. As a result, many indicators suggest that economic recovery has taken hold since 2021. Cashew production and exports have seen record performance, business confidence has improved with a more favorable political environment, public investment in infrastructure has increased, and containment measures have been gradually lifted. These, coupled with a successful vaccination campaign, have led to an estimated growth rate of 5 percent for 2021 compared to 1.5 percent in 2020. Inflation is expected to have increased to about 3.3 percent, mainly on the back of the global rise in food and fuel prices.

The strong economic recovery and the authorities' efforts in revenue mobilization and spending restraint caused the overall fiscal deficit on a commitment basis to drop significantly to 5.7 percent of GDP in 2021 against 9.6 percent in 2020. External support and grants increased substantially, thanks to the disbursement under the Rapid Credit Facility (RCF), debt service relief under the Catastrophe Containment and Relief Trust (CCRT), the SDR allocation, and support from multilateral and bilateral partners moved by the SMP. Regarding the external sector, the current account deficit is projected to have increased to about 3.2 percent of GDP, notwithstanding record cashew nut exports and remittances.

Public sector debt rose slightly (by 2 percent of GDP) at the end-2021, mainly due to the increase in domestic debt associated with the SDR allocation on-lent by the central bank BCEAO. In contrast, the external debt was stable given the authorities' commendable move of pre-paying with SDR resources the debt due in 2022 to the regional development bank, BOAD. Public debt is expected to take a downward path from 2022 onwards and drop below the WAEMU ceiling criterion of 70 percent of GDP by 2026.

Against the backdrop of the accommodative stance of the BCEAO, the banking system has enjoyed comfortable liquidity and capital levels in line with the regional prudential criteria, except for one undercapitalized bank. On the lending activity, bank credit increased by 7 percent while non-performing loans (NPLs)—while still elevated—declined in 2021and are better provisioned.

Performance under the SMP

Progress under the SMP program was broadly satisfactory despite a challenging external and domestic environment. Most of the quantitative indicators for 2021 were largely met apart from the zero ceilings on new domestic arrears and new external arrears. Both were missed at the end of 2021. The latter was not observed due to technical problems and correspondent banking constraints, which were later addressed.

Regarding structural measures, the authorities consider having met all benchmarks, whereas one, the report with an exit strategy from the undercapitalized systemic bank. The authorities vehemently disagree with staff's status and emphasize that a comprehensive exit strategy plan was produced and sent to staff in a timely manner before December. The fact that staff would have wanted some additional information in the exit strategy plan report during the mission in April does not mean it was not submitted on time.

Other structural benchmarks met include key institutional, legal, and operational measures in the area of public financial management, including the amendment of the legal procurement framework for the collection and publication of beneficial ownership information of public procurement contracts, and the issuance of an executive order to stop the hiring of irregular employees, strengthen the role of the financial controller, and rationalize payroll bill. On revenue mobilization measures, the authorities have submitted to the Parliament a revised general tax code and tax penalty regime, and a new VAT bill, and fully implemented the Kontaktu system for tax returns filling and electronic payments.

Outlook and Risks

Looking forward, the authorities share the view that the economic outlook foreseen over the near and medium-term remains positive, with a moderate and sustained growth of 3.75 percent and 5 percent, respectively. This outlook is predicated on continued positive developments in the cashew sector, structural reforms, improved business environment, and greater access to financing. Nonetheless, the authorities are mindful of downside risks, notably stemming from prolonged pandemic and high food and energy prices. They reiterate their strong commitment and urgency to leverage the country's economic potential by stepping up their economic diversification efforts to reduce reliance on cashew.

POLICIES AND REFORMS FOR 2022 AND THE MEDIUM-TERM

Leveraging on the gains obtained under the SMP, the Bissau-Guinean authorities will pursue their ambitious fiscal and structural reform agenda. They are committed to remaining on a fiscal sustainability path, addressing state capacity constraints, and promoting financial intermediation.

Fiscal Reforms and Debt Policy

To mitigate the effects of the global increase in food and energy prices and maintain social cohesion, the authorities have put in place transitory supportive fiscal measures of around 0.3 percent of GDP. Notwithstanding, despite the challenging external and domestic environment, the authorities will implement the fiscal consolidation measures and the tax reform set out in the 2022 budget. They reaffirm their determination to take further expenditure containment measures, notably on non-priority spending and domestically financed projects, as needed, to achieve the fiscal deficit target of 4.4 percent of GDP and gradually move towards the WAEMU regional deficit ceiling of 3 percent by 2025.

On the revenue side, the revised general tax code, tax penalty regime and customs code, and modernized VAT statute have been critical to increasing domestic revenue mobilization and broadening fiscal space. On the spending side, the authorities are working with the IMF to implement blockchain technology to monitor and report funds spent under the wage bill across Ministries. This will complement their efforts to contain the payroll bill through record reconciliation.

On other structural fiscal reforms, the telecommunication and labor income taxes, and the full implementation of the digital tax filling platform are already bearing fruits and will play a key role in improving tax compliance and helping expand government revenue.

On the PFM front, strengthening the management and oversight of the utility company Electricidade e Aguas da Guinea-Bissau (EAGB), with World Bank' support, is at the forefront of the authorities' efforts to mitigate fiscal risks and keeping spending under control. Reforms taken include the recently renegotiated fuel supply agreement and the appointment by the Prime Minister of an experienced senior Treasury official as Government Commissioner to the EAGB. His mission is to put the EAGB's liabilities in a more sustainable position and to improve its financial management. Those operational reforms should make the company profitable, self-sufficient, efficient, and functional. In addition, the implementation of the Treasury Single Account (TSA) and the IMF's cash management and cash flow forecasting tools are progressing. The authorities are very appreciative of the Fund, World Bank, and other partners for their continued technical support.

Regarding debt, the authorities note that country's debt was assessed as sustainable in a forward-looking sense but at high risk of external debt distress under the debt sustainability analysis (DSA). The reclassification of the BOAD debt (denominated in CFA francs) from domestic to external debt contributes to this assessment. The Bissau-Guinean authorities strongly disagree with such reclassification. The authorities reiterate their strong commitment to bringing public debt below the WAEMU convergence threshold of 70 percent of GDP over the medium-term. To achieve this goal, they will complement their fiscal adjustment and reform strategy with prudent borrowing practices that imply no use of non-concessional project financing. Furthermore, efforts to enhance debt management will continue.

Strengthening Governance and the Fight against Corruption

Governance and transparency reforms committed by Guinea-Bissau to benefit from the RCF have been largely met. The Audit Court and Inspection General concluded the audit for the pandemic-related spending covering June 2020-August 2021, which is expected to be published by June 2022. The authorities have selected in April 2022 a reputable third-party auditor firm, which will work jointly with the Audit Court to conduct an ex-post independent audit covering the period until December 2021. The audit results will be published by September 2022.

Furthermore, the authorities are stepping up efforts to meet international standards in governance and transparency, including publishing financial reports and critical information on all pandemic-related contracts for 2020 and 2021. In addition, the submission to Parliament of the Asset Declaration Regime reform in May 2022 and the amendment of the procurement framework will help to disclose all beneficial ownership information of companies awarded COVID-19 contracts. The authorities remain committed to tackling the remaining governance weaknesses. In this regard, they intend to clear rules and practices for implementing the strengthened legal framework on anti-corruption and provide more resources for the functioning of the Audit Court, the financial intelligence unit (CENTIF), and the Public Procurement Authority.

Enhancing the Financial Sector

The authorities are determined to ensure that Guinea Bissau's financial system remains resilient and compliant with regulatory and regional standards. In this context, they will review the proposed exit strategy from the large undercapitalized bank, and request an assessment of the bank's financial position and a full independent audit of NPLs from a third-party auditing firm to be performed by end-August. Regarding the large undercapitalized bank, it is the authorities' firm intention to forcefully implement any recommendation that the regional banking supervisory commission deems appropriate to address the issue. The authorities recognize the need to boost financial intermediation to create a conducive environment for private-led growth. In this regard, they will step up their actions in strengthening the credit information bureau with the support of regional authorities and will encourage banks' efforts to use more mobile money services and other mobile phone services.

Promoting Economic Diversification

The authorities are cognizant that promoting stronger, more sustainable, and more inclusive growth will require diversifying the country's output and exports. Steps will be taken to underpin their economic transformation agenda by investing more in human capital, improving the regulatory system and tax regimes for natural resources sector, and expanding infrastructure projects, particularly in the energy sector. They will also focus on enhancing the business environment and promoting non-cashew agriculture.

CONCLUSION

Our Bissau-Guinean authorities remain committed to pursuing fiscal prudence and advancing reforms to overcome many challenges facing the economy. To preserve fiscal and debt sustainability, they will continue to build on recent achievements under the SMP, notably on the revenue and fiscal structural reforms fronts. Their efforts will also focus on implementing financial measures with the assistance of the WAEMU banking commission to maintain stability in the financial sector. The authorities will also step up structural reforms toward enhancing governance and transparency, the state capacity, fostering financial intermediation, and diversifying the economy.

Considering the above and the authorities' noteworthy achievements under the program, we would appreciate Directors' support for the completion of the 2022 Article IV consultation and completion of the third review under the SMP.