



GUINEA-BISSAU

February 2021

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA-BISSAU

In the context of the Request for Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 25, 2021, following discussions that took place from November 30–December 4, 2020, with the officials of Guinea-Bissau on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on January 11, 2021.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- **Informational Annex** prepared by the IMF staff.
- 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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Washington, D.C.



IMF Executive Board Approves a US\$20.47 Million Emergency Assistance for Guinea-Bissau to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- *The IMF approved the disbursement of US\$20.47 million under the Rapid Credit Facility (RCF) to help Guinea-Bissau meet urgent balance of payments and fiscal needs stemming from the COVID-19 pandemic.*
- *The IMF assistance will help support critical spending in health, social protection and investment to underpin the recovery as well as catalyze additional donor resources.*
- *The authorities have responded quickly to a very severe shock, scaling up health-related spending, deploying containment and mitigation measures, along with a commitment to enhanced transparency.*

Washington, DC – January 25, 2021: The Executive Board of the International Monetary Fund (IMF) approved a disbursement under the [Rapid Credit Facility \(RCF\)](#) equivalent to SDR 14.2 million (about US\$20.47 million, or 50 percent of quota) to help Guinea-Bissau meet urgent balance of payments and fiscal needs stemming from the COVID-19 pandemic.

The pandemic has had a significant impact on Guinea-Bissau's economy. It has disrupted economic activity and led to a deterioration in the external and fiscal position as a result of the lower external demand for cashew nuts and the domestic measures to contain the spread of the disease. The effects of these shocks are expected to persist in 2021, reflecting the need to sustain imports for essential consumption and investment to strengthen health sector capacities and infrastructure, which was further weakened by severe floods in September.

To alleviate the impact of the pandemic and preserve macroeconomic stability, the government has taken several actions to increase health spending, strengthen social protection to the most vulnerable and support the economically relevant cashew sector. The regional central bank, the Central Bank of West African States (BCEAO) for the West African Economic Monetary Union (WAEMU) has taken preemptive steps to better satisfy banks' demand for liquidity and mitigate the negative impact of the pandemic on economic activity. The weakened macroeconomic outlook has created urgent external and fiscal financing needs. The IMF financial support will contribute toward fulfilling the much-needed increase in health spending, social protection and investment to underpin the recovery.

Following the Executive Board discussion, Mr. Tao Zhang, IMF Deputy Managing Director and Acting Chair, made the following statement:

“Guinea-Bissau has been significantly affected by the COVID-19 pandemic, which has disrupted economic activity and led to a deterioration in the external and fiscal positions. The authorities’ immediate priority has been to limit the impact of the pandemic and preserve macroeconomic and financial stability. Health spending was increased, and measures to protect the most vulnerable and support the agricultural sector are being implemented.

“Financial support from the international community is required, including under the IMF’s Rapid Credit Facility (RCF), as well as debt service relief previously approved under the Catastrophe Containment and Relief Trust. Guinea-Bissau’s participation in the G20 Debt Service Suspension Initiative would also provide additional resources.

“Given Guinea-Bissau’s limited fiscal space and debt vulnerabilities, emergency assistance should be mostly in the form of grants and highly concessional loans. As the pandemic eases, the authorities are committed to put in place a fiscal consolidation program to ensure debt sustainability while addressing the country’s vast developmental needs.

“The authorities are committed to reinforcing fiscal governance and transparency to ensure that the emergency RCF financing is spent appropriately. They will publish bi-monthly reports on pandemic-related expenditures and information on public procurement contracts and undertake an independent ex-post audit of crisis-mitigation spending. The authorities are also committed to pursuing their reform agenda and their engagement with the IMF through a staff-monitored program to build a sound track record toward a possible Extended Credit Facility arrangement.”



GUINEA-BISSAU

January 11, 2021

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. Guinea Bissau is a fragile state with a long history of political instability. Poverty is high with about 67 percent of the population living below the poverty line of US\$1.90 per day. The economy relies heavily on the production and exports of unprocessed cashew nuts, making most households highly vulnerable to cashew nut price shocks and climate change risks.

Impact of COVID-19. The macroeconomic impact of the pandemic is severe. Negative growth of 2.4 percent is expected in 2020, compared to 4.5 percent expansion in 2019. This reflects the collapse of the international cashew nuts prices, sharply lower FDI, and the impact of the domestic containment and lockdown measures on consumption and investment, aggravated by severe floods. In 2020, together with the need for higher spending for health and social support, this has opened large balance of payments and fiscal gaps of 7.5 percent and 8.8 percent of GDP, respectively, which will be partly covered by resorting to expensive non-concessional borrowing on the regional market. The effects of the pandemic and flooding are expected to persist in 2021, reflecting the need to sustain imports for essential consumption and investment to recover health sector capacities and infrastructure affected by flooding. While there is a high degree of uncertainty, staff estimates the external and fiscal financing gaps at about 5.0 and 4.5 percent of GDP respectively in 2021.

Request for Rapid Credit Facility (RCF). If not addressed, the urgent balance of payments needs caused by the pandemic aggravated by recent severe floods which have impacted key agricultural crops would result in an immediate and severe economic disruption. The authorities are seeking assistance under the RCF for SDR 14.2 million (50 percent of quota) in the form of budget support in 2021. The proposed access would cover 25 percent and 27 percent of the estimated BOP and fiscal gaps in 2021, respectively, with the remaining gap expected to be filled by other development partners who are responding strongly in support of Guinea Bissau's needs. Guinea-Bissau's debt is assessed to be sustainable in a forward-looking sense based on the authorities' commitment to sound policies in the context of a timely transition to a Staff Monitored Program (SMP) to be followed by an Extended Credit Facility (ECF) arrangement, which would contribute to mobilize suitable financing.

Policy response. The authorities estimate that CFAF 43.1 billion (5.2 percent of GDP) for 2020 and CFAF 13.8 billion (1.6 percent of GDP) for 2021 are needed for the health sector, assistance to vulnerable households, and underpinning economic recovery, requiring financial support from multilateral donors and international community including the RCF. In response to the 2019 IMF Technical Report on Governance and Anti-Corruption, they are already taking steps to reinforce fiscal governance and transparency to ensure the additional budgetary allocations under the RCF are spent appropriately and are committed to gradually bring the fiscal deficit and debt ratio within the 3 percent and below 70 of GDP respectively, in line with the WAEMU convergence criteria over the medium-term.

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

Approved By
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An IMF team consisting of Jose Gijon (Head), Elena Arjona Perez, Leonardo Pio Perez, Harold Zavarce (all AFR), Paul Elger (FAD), Patrick Gitton (Resident Representative) and Gaston Fonseca (local economist) held discussions by teleconferences with the Bissau Guinean authorities led by Finance Minister Fadia and other senior government officials on November 30–December 4, 2020. Mr. Varela (Advisor to the Executive Director, OED) participated in policy discussions.

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CONTEXT

1. Guinea-Bissau is a fragile state with vast long-standing challenges. Poverty is high with about 67 percent of the population living below the poverty line of US\$1.90 per day. Guinea Bissau ranks 178 out of 189 countries on the UN Human Development Index (2019). The economy heavily relies on the production and exports of unprocessed cashew nuts, making most households highly vulnerable to cashew nut price shocks and climate change risks, and hence food insecurity. High levels of corruption, weaknesses in the rule of law, judicial system and law enforcement, as well as transnational organized crime including drug trafficking add up to the country's multifold challenges and to a long history of political instability and fragility. A weak business environment has held back private sector investment and economic diversification.

2. The outbreak of the pandemic coincided with a period of political uncertainty that followed the December 2019 presidential elections. The first COVID-19 cases were reported on March 24 and rapidly increased in the following weeks, reaching 2,456 cases and 45 deaths on January 3, 2021. President Embalo appointed a new Prime Minister and government to address the impact of the pandemic and reengage with the international donor community. In April the Economic Community of West African States (ECOWAS) officially recognized President Embalo's victory, confirmed in September by a Supreme Court's decision which ended the electoral dispute. The international community welcomed the resolution of the political impasse and supported the ECOWAS recommendations.

3. Prior to the pandemic, the economy was projected to recover from a severe terms of trade shock. In 2018-19 the international price of unprocessed cashew nuts, the main export product, declined by 44 percent. In 2020, output growth was projected to accelerate to 4.9 percent supported by a strong cashew campaign and benefiting from a recovery in cashew nut prices. The current account deficit was projected to narrow to 4.5 percent of GDP, with the improvement in the terms of trade partly offset by an increase in imports associated with investment projects and expanding economic activity. The overall fiscal cash deficit was projected to narrow to 5.4 percent of GDP in 2020, as a projected recovery in capital spending was partly paid for by higher project grants, and current spending was projected to decline reflecting the one-off nature of the election expenditures in 2019. Public debt was projected to peak in 2020 and stabilize at about 71.5 percent of GDP before starting a gradual decline.

IMPACT OF THE COVID-19 PANDEMIC AND OUTLOOK

4. The macroeconomic impact of the pandemic is projected to be large (Text Table 1). Economic activity will contract and the external and fiscal positions will deteriorate as a result of the lower external demand for cashew nuts and the domestic measures to contain the spread of the disease, aggravated by severe floods in September. High spending pressures related to health and social measures, combined with lower revenues, generated a significant increase in the fiscal deficit in 2020.

Text Table 1. Guinea-Bissau: Revised Macroframework

	2019	2020		2021		2022	
	Est.	Pre-shock ¹	After shock	Pre-shock	After shock	Pre-shock	After shock
Real GDP (percent change)	4.5	4.9	-2.4	5.0	3.0	5.0	4.0
GDP deflator (percent change)	-3.5	2.1	0.1	3.6	3.0	3.2	2.8
CPI inflation, average (percent)	0.3	1.5	1.5	1.8	2.0	2.0	2.0
Current account (percent of GDP) ²	-8.6	-4.5	-10.1	-4.6	-6.4	-4.6	-5.4
Overall fiscal balance, cash basis incl. grants (percent of GDP)	-4.9	-5.4	-10.0	-5.3	-5.7	-5.2	-3.6
Total public debt (percent of GDP)	66.9	71.5	78.4	71.1	78.4	71.1	76.7
<i>Memorandum items:</i>							
Nominal GDP (CFAF billion)	843	893	824	972	874	1053	935
Cashew nut export prices (US\$ per ton)	1098	1140	1000	1180	1100	1221	1155
Cashew export volume (thousands of tons)	196	208	140	214	189	221	202

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

- Economic activity.** GDP is projected to contract by 2.4 percent in 2020, compared to 4.9 percent growth in the pre-shock scenario. The containment and lockdown measures imposed by the State of Emergency declared on March 28, followed by the State of Calamity declared on September 9 deeply weighed on employment, consumption and investment. Border closures and limited circulation delayed the launch of the 2020 cashew campaign, severely impacting the agriculture sector, which employs 70 percent of the labor force. Severe floodings also disrupted economic activity. Average price inflation is projected to accelerate to 1.5 percent from 0.3 percent in 2019 reflecting pressures on prices of goods affected by disruptions to international trade partially offset by weaker demand.
- External sector.** The pandemic has given rise to urgent balance of payments (BOP) needs (Text Table 2). In 2020, after excluding additional financing in response to the pandemic, staff estimates a deterioration in the overall balance of payments position by about 8.3 percentage points of GDP relative to the pre-shock projection.¹ The trade deficit is expected to widen to 17.7 percent of GDP driven by a 22 percent decline in cashew nut exports, a result of the delayed cashew campaign and lower demand from key trading partners, contributing to widen the current account deficit to 11 percent of GDP.² Furthermore, delays in investment projects are expected to reduce FDI and other capital inflows. A financing gap estimated at CFAF 61.4 billion (7.5 percent of GDP), is expected to be covered by grants and loans from international financial institutions (IFIs) and additional financing from regional commercial banks.

¹ Comparing an estimated financing gap of 7.5 with a pre-shock excess of financing of 0.8 (Text Table 2).

² The balance of payments numbers reported here and in Text Table 2 exclude the additional financing obtained in response to the COVID-19 pandemic, thus differing from the figures reported in Text Table 1 and Table 2.

Text Table 2. Guinea-Bissau: Projected External Financing Requirements

	2020				2021	
	Pre-shock (est. January 2020)		Current projections		Current projections	
	CFAF billion	% of GDP	CFAF billion	% of GDP	CFAF billion	% of GDP
Current Account Balance¹	-40.4	-4.5	-90.7	-11.0	-72.0	-8.2
Trade balance	-104.1	-11.7	-146.1	-17.7	-129.4	-14.8
Exports of goods and services	171.4	19.2	118.6	14.4	146.1	16.7
of which: cashew nuts	138.8	15.5	102.0	12.4	122.0	14.0
Imports of goods and services	275.5	30.9	264.7	32.1	275.4	31.5
of which: food products	60.9	6.8	46.6	5.7	51.8	5.9
petroleum products	31.8	3.6	29.1	3.5	29.9	3.4
Incomes	17.5	2.0	14.1	1.7	12.0	1.4
Current transfers	46.2	5.2	41.4	5.0	45.3	5.2
of which: remittances	32.8	3.7	28.0	3.4	30.7	3.5
Capital and financial accounts¹	47.4	5.3	29.3	3.6	28.0	3.2
of which:						
Net foreign direct investments	13.4	1.5	7.0	0.8	13.0	1.5
Official net borrowing	62.9	7.0	61.5	7.5	28.4	3.3
MLT disbursements	28.3	3.2	22.8	2.8	12.0	1.4
MLT amortizations	-13.9	-1.6	-9.8	-1.2	-5.7	-0.7
Net regional financing ²	48.5	5.4	48.5	5.9	22.2	2.5
Financing gap (excess of financing -)	-7.0	-0.8	61.4	7.5	44.1	5.0
Additional financing sources						
IMF (net)	-1.8	-0.2	0.0	0.0	9.5	1.1
Disbursements (RCF)	0.0	0.0	0.0	0.0	10.8	1.2
Repayments	-1.8	-0.2	-1.7	-0.2	-1.5	-0.2
Grant for debt relief under the CCRT ³	...	...	1.7	0.2	0.2	0.0
World Bank	...	...	8.3	1.0	7.5	0.9
Grants	...	...	0.3	0.0	6.2	0.7
Loans	...	...	8.0	1.0	1.3	0.2
Other IFIs	...	...	37.9	4.6	10.2	1.2
BOAD	...	...	21.7	2.6	...	...
AfDB	...	...	...	...	9.3	1.1
IDB	...	...	8.6	1.0	...	...
Other grants	...	...	7.5	0.9	1.0	0.1
Additional regional financing	...	...	24.9	3.0	...	...
Net foreign assets excluding IMF (increase -)	-5.3	-0.6	-9.6	-1.2	6.0	0.7
Residual financing gap	0.0	0.0	0.0	0.0	10.8	1.2

Sources: BCEAO; and IMF staff projections.

1/ Exclude additional financing sources listed in the lower part of the table, thus differing from figures reported in Text Table 1 and Table 3.

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

3/ Includes amounts approved by the Executive Board on April 13 and October 5, 2020.

5. An urgent BOP need of CFAF 44.1 billion, 5 percent of GDP, is expected to remain in 2021. The effects of the pandemic and flooding are expected to persist in 2021, reflecting the need to sustain imports for essential consumption such as food³ and medicines, and for capital and

³ The increased importance of cashew production over time mostly replaced rather than added to other agricultural production such as rice and groundnuts creating vulnerabilities for food security.

intermediate goods to recover health sector capacities and infrastructure, mainly roads, affected by flooding. The combined effect of a partial recovery in cashew nut export prices and volumes and the heavy reliance on imports for basic needs and investment, limit the scope for a rapid BOP adjustment.

6. The international community is expected to support the country to closing the projected BOP gap (Text Table 2). The proposed disbursement under the RCF (see ¶17 for the determination of access) will cover about 25 percent of the projected BOP gap. Other multilateral organizations and bilateral donors are expected to step-in along with IMF support. These would reduce the need for expensive regional financing or off-set projected loss in reserves.

7. The outlook is highly uncertain and subject to significant downside risks (RAM, Annex I). The outlook is based on the pandemic subsiding globally and locally by mid-2021. A deeper or more prolonged outbreak globally and its further spread in Guinea-Bissau would have large adverse social and economic impact, reflected in a high human toll and increased supply disruptions. On the external front risks include an unexpected downside shift in the pandemic causing a weaker than projected recovery of international cashew nut prices - hampering economic recovery and further reducing government revenues, and spillovers from regional measures to contain the pandemic, such as shortages and price increases generated by restrictions on the movement of food and basic goods across countries, and limited movement of seasonal workers due to border closures. On the domestic side risks include financial stress in state-owned enterprises and banking fragilities, arising from high NPLs and banks' undercapitalization, which could generate contingent liabilities adding to fiscal pressures. Social tensions may erupt from high unemployment and higher incidence of poverty in the absence of adequate social safety nets, generating renewed political uncertainties. The mission discussed potential risks and authorities are committed to implementing additional actions if downside risks materialize to protect lives and livelihoods while preserving macroeconomic stability. In an adverse scenario, including donor support not materializing, authorities will further rationalize non-essential expenditure and delay non-urgent capital spending.

8. The authorities broadly agreed with staff's assessment, while noting that multilateral support and donor engagement are key to back policies underpinning the emergency response and the sustainable recovery from the pandemic. They expect a GDP contraction in 2020 similar to staff's assessment and a recovery in 2021. Growth is projected to rebound because of the gradual recovery of the cashew international market, the gradual lifting of containment measures and higher public investment in critical infrastructure. Like staff, the authorities expect inflation to accelerate to 1.5 percent in 2020 due to the pandemic-induced supply shock, and to remain at that level as the economy recovers on the back of gradual fiscal consolidation and easy financial conditions. They agreed with staff's views on near-term prospects for the current account and the importance of external support mostly in the form of grants to deal with the emergency and sustain the recovery efforts while contributing to put the debt on a downward path together with continued fiscal efforts over the medium term. The authorities broadly agreed with staff's debt sustainability analysis and highlighted their intention to signal policy discipline to the international community by requesting an SMP and then an ECF arrangement to rebuild policy implementation

track record and support needed reform efforts over the medium term. In this respect, the authorities have already officially requested an SMP.

POLICY ISSUES AND DISCUSSIONS

The immediate priority is to limit the impact of the pandemic, support vulnerable households, mitigate the impact on the economy, and support post-COVID economic recovery. Starting in 2021, the authorities are committed to put in place a fiscal consolidation program to ensure debt sustainability while addressing Guinea-Bissau's vast developmental needs.

9. The fiscal deficit has widened reflecting the revised macroeconomic outlook, weaker tax compliance and the authorities' measures to deal with the pandemic (Text Table 4). In 2020,

the overall budget cash deficit is projected to widen to 11.1 percent of GDP compared to 5.4 percent of GDP expected before the pandemic.⁴ Tax revenues are expected to drop to 8.1 percent of GDP, compared to 9.7 percent projected in January 2020, because of lower tax revenues from cashew nut exports (15 percent of tax revenues in 2019), duties and sales tax on imports (32 percent), and weaker tax compliance. The latter has been

impacted by lockdown measures as tax payments still rely on human interaction and high turnover in tax administration management. Additional COVID-19-related current expenditures in healthcare, vulnerable families support and other current expenditures are estimated at 0.8 percent of GDP (Text Table 3). COVID-19 capital expenditures are estimated at 2.6 percent of GDP. A program to support the financing of the critical cashew nut campaign by onlending resources through the banking sector has further increased financing needs by 1.8 percent of GDP (Box 1 and Text Table 3). Additional financing to address COVID spending needs has been provided by international donors, including the World Bank, the CCRT and the Islamic Development Bank, non-concessional loans from the West African Development Bank (BOAD), and treasury issuances placed in WAEMU commercial banks.

Text Table 3. Breakdown of COVID-19 Expenditures and Support to Productive Sectors

	2020		2021	
	CFAF billion	Percent of GDP	CFAF billion	Percent of GDP
Current	6.8	0.8	0.5	0.1
Health sector	4.7	0.6	0.0	0.0
Transfers to vulnerable families	0.7	0.1	0.5	0.1
Other current expenditures ¹	1.4	0.2	0.0	0.0
Capital²	21.3	2.6	13.3	1.5
Equipment and infrastructure	21.3	2.6	9.0	1.0
WB/FAO Food Emergency Security Project	0.0	0.0	4.3	0.5
Total expenditures	28.1	3.4	13.8	1.6
Onlending to banks³	15.0	1.8	0.0	0.0
Total Expenditure and Support to Sectors	43.1	5.2	13.8	1.6

Source: Authorities and IMF staff calculations.
 1/ Subsidies, training and living expenses for health personnel, and citizen security to enforce COVID-19 measures.
 2/ Investments to strengthen the health sector (including equipment and improvement of infrastructure) and the agricultural sector.
 3/ Program to support the cashew nut sector.

⁴ In order to assess the fiscal financing gap and related additional financing sources, the fiscal numbers reported in Text Table 4 exclude the additional financing obtained in response to the COVID-19 pandemic, thus differing from the figures reported in Text Table 1 and Tables 3a and 3b.

Box 1. Policy Responses to COVID-19 Crisis in 2020

The authorities have put in place strong containment measures. The borders were closed on March 18, and a state of emergency was declared on March 28 and then extended until early September. A “state of calamity” is currently in place, which entails targeted confinement and testing and reinforces prevention measures. Flights to Bissau resumed in September and schools reopened in October.

The government promptly responded with actions to support the health sector and the most vulnerable households from COVID-19. Guinea-Bissau does not have a robust system to protect its most vulnerable population from the health and economic consequences of COVID-19. Existing health and social safety net programs are mostly financed by international partners through off-budget projects and programs led mainly by the World Food Program (WFP), UNICEF, UNDP and the World Bank. To mitigate the immediate impact of the pandemic the government made emergency allocations of: (i) CFAF 222 million (US\$ 0.4 million) to provide medicine, food, and medical equipment; and (ii) CFAF 580 million (US\$ 1.0 million) to distribute 20,000 bags of rice and 10,000 bags of sugar throughout the country, including in distant areas. Health expenditure priorities are established by the Center for Health Emergency Operations under the aegis of the Ministry of Health. Policy measures are taken by a High Commissioner placed under the authority of the President.

Additional actions were needed to deal effectively with the health and economic fallout of the pandemic. The authorities have targeted additional spending needs of about CFAF 43.1 billion (5.2 percent of GDP) for the health sector, assistance to vulnerable households, and support for the hard-hit cashew nut sector.

- **Health expenditure.** The authorities are upgrading the existing hospital capacity and equipment, which is estimated to require CFAF 21.3 billion (2.6 percent of GDP). They have increased compensation of hospital staff by a monthly CFAF 53 million, and rehabilitated the main hospital for CFAF 100 million.
- **Assistance to households.** The government has increased its targeted number of families to benefit from food supply from an initial 3,000 to 20,000 and provided other family support (CFAF 100 million). A cash transfer program, possibly channeled through the WFP, is also contemplated for 10,000 families in need, in the form of a single payment of CFAF 40,000 (about US\$70). Additional payments would be contingent on securing financial resources. The overall financial envelope that has been in place to assist households by the government amount to CFAF 0.7 billion (0.1 percent of GDP).
- **Support to the cashew nut sector.** The government has provided direct support to the agricultural campaign for CFAF 790 million. It has used the BCEAO special refinancing window for “Covid-19 T-Bills” issued by the State for an amount of about US\$27 million (CFAF 15 billion or 1.8 percent of GDP) for on-lending by domestic commercial banks to the cashew nut sector. This facilitated the purchase and storage of about half of this year’s cashew production; and helped secure continued employment in this critical sector.

The implementation of these support programs largely depended on securing external financing. The authorities have sought financial support from multilateral donors through new loans, reallocated resources from existing projects and additional funds in the form of grants. Development partners response has been strong so far, albeit some negotiations are still ongoing.

10. In 2021, the authorities will initiate an ambitious fiscal consolidation program to ensure medium-term sustainability while continuing to provide support for economic recovery. Based on the 2021 draft budget—discussed with the IMF staff—the fiscal cash deficit is

projected to fall to 7.6 percent of GDP.⁵ Tax revenues are expected to increase to 9.8 percent of GDP based on a new tax on telecommunications, enhanced tax compliance—to which the adoption of new decrees and ministerial orders to strengthen internal control procedures of the customs and tax directorates contribute—and economic recovery. Current expenditures are projected to decline to 16 percent of GDP (from 16.5 percent of GDP) despite higher interest burden on the back of (i) the reestablishment of the Treasury Committee to enhance expenditure control, (ii) freezing of public sector salaries and new hires to reduce the wage bill, and (iii) lower transfers because of improved management of a state owned enterprise. To sustain the recovery, the budget includes COVID-19-related investments in healthcare and other investments to support food security of 1.5 percent of GDP while protecting transfers to vulnerable families (Text Table 3). The joint fiscal consolidation efforts from revenue measures, wage consolidation and reduced transfers to SOEs on the back of better management amount to 2.2 percent of GDP (Text Table 5).

11. The 2021 deficit will create a financing gap of about 4.5 percent of GDP. IMF reengagement could play a catalytic role to address these needs by securing additional donor support and alleviating financing pressures from heavy reliance on non-concessional lending from regional banks.

⁵ See footnote 4.

Text Table 4. Guinea-Bissau: Projected Central Government Financing Requirements

	2019		2020, pre-shock (est. January 2020)		2020, after shock		2021	
	CFAF billion	% of GDP	CFAF billion	% of GDP	CFAF billion	% of GDP	CFAF billion	% of GDP
Revenues and grants	130.1	15.4	155.8	17.4	131.8	16.0	142.7	16.3
Tax revenue	79.1	9.4	86.5	9.7	66.4	8.1	85.9	9.8
Nontax revenue	26.5	3.1	22.8	2.5	30.5	3.7	28.6	3.3
Grants	24.5	2.9	46.6	5.2	34.9	4.2	28.3	3.2
Expenditure	163.2	19.3	201.7	22.6	215.5	26.1	204.3	23.4
Current expenditures	124.7	14.8	123.8	13.9	136.1	16.5	140.3	16.0
of which: COVID19 related expenditures	...	...	...	...	6.8	0.8	0.5	0.0
Healthcare	...	...	...	...	4.7	0.6	0.0	0.0
Transfers to families	...	...	...	...	0.7	0.1	0.5	0.0
Other current expenditures	...	...	...	...	1.4	0.2	0.0	0.0
Net acquisition of nonfinancial assets	38.5	4.6	77.9	8.7	79.4	9.6	64.0	7.3
of which: COVID19 related expenditures	...	...	...	...	21.3	2.6	9.0	1.0
of which WB/FAO Food Emergency Security Project	...	...	...	...	...	...	4.3	0.5
Arrears clearance ¹	-8.0	-1.0	-2.5	-0.3	-8.1	-1.0	-5.0	-0.6
Overall balance (cash)	-41.1	-4.9	-48.5	-5.4	-91.7	-11.1	-66.5	-7.6
Financing²	41.1	4.9	48.5	5.4	19.0	2.3	26.9	3.1
Net acquisition of financial assets	-2.4	-0.3	-1.0	-0.1	-19.9	-2.4	0.0	0.0
of which:	...	...	...	...	...	...	...	...
onlending to EAGB	...	...	...	...	-4.1	-0.5	...	...
COVID19 onlending to banks ³	...	...	...	...	-15.0	-1.8	...	...
Domestic financing (net)	39.8	4.7	36.2	4.1	25.0	3.0	22.9	2.6
of which: Net regional commercial banks	18.3	2.2	48.5	5.4	48.5	5.9	22.2	2.5
Foreign financing (net)	3.7	0.4	13.2	1.5	13.8	1.7	4.0	0.5
Financing gap (+ = shortfall)	0.0	0.0	0.0	0.0	72.7	8.8	39.6	4.5
Additional financing	...	...	...	...	72.7	8.8	28.8	3.3
Grants	...	...	...	...	9.6	1.2	16.6	1.9
WB Pandemic Emergency Financing	...	...	...	...	...	...	0.5	0.1
WB/FAO Food Emergency Security Project	...	...	...	...	...	...	4.3	0.5
WB Fast Track Facility	...	...	...	...	...	...	1.3	0.2
WB onlending to EAGB	...	...	...	...	0.3	0.0	...	...
IMF (CCRT) ⁴	...	...	...	...	1.7	0.2	0.2	0.0
AfDB	...	...	...	...	...	...	9.3	1.1
Other grants	...	...	...	...	7.5	0.9	1.0	0.1
External loans	...	...	...	...	16.6	2.0	1.3	0.2
IDB	...	...	...	...	8.6	1.0	...	...
World Bank	...	...	...	...	8.0	1.0	1.3	0.2
Regional Disease Surveillance Project	...	...	...	...	4.2	0.5	...	...
Fast Track Facility	...	...	...	...	...	...	1.3	0.2
WB onlending to EAGB	...	...	...	...	3.7	0.5	...	...
Domestic financing	...	...	...	...	46.6	5.7	10.8	1.2
IMF (RCF) ⁵	...	...	...	...	...	...	10.8	1.2
BOAD	...	...	...	...	21.7	2.6	...	...
Additional regional commercial banks	...	...	...	...	24.9	3.0	...	...
Residual financing gap	...	...	...	...	...	...	10.8	1.2

Sources: Ministry of Finance; and IMF staff calculations.
1/ Includes float and statistical discrepancy.
2/ Financing is on currency basis.
3/ Program to support cashew nut sector.
4/ Includes amount approved by the Executive Board on April 13, 2020 (SDR 1.1 mn 2020) and October 5, 2020 (SDR 1.1 mn 2020 and 0.3 mn 2021).
5/ IMF financing classified as domestic because it is onlent by the regional central BCEAO.

12. In 2020, despite the pandemic, the authorities started to rebuild track record by adopting prudent fiscal policies that foster reengagement with the donor community. The authorities have implemented and are planning to implement measures to strengthen revenue mobilization, rationalize the wage bill and improve the debt maturity profile to underpin fiscal consolidation and debt sustainability.

- **Implemented measures.** These include: (i) elimination of unjustified wage incentives to public servants; (ii) initiation of an audit to assess the real number of public servants⁶; and (iii) sending to Parliament a prudent 2021 budget to underpin fiscal consolidation thus, contributing towards future IMF engagement.

Text Table 5. Fiscal Yield by Measure, 2021

	2021	
	CFAF billion	Percent of GDP
All measures	19.0	2.2
Revenue Measures	5.0	0.6
Tax ¹	4.5	0.5
Non-tax ²	0.5	0.1
Expenditure Measures	14.0	1.6
Wage bill rationalization ³	8.0	0.9
Transfers (reduced transfers to a SOE)	6.0	0.7

Sources: Authorities and IMF staff estimates.
 1/ Mostly driven by the new telecommunications tax. Includes also other tax and custom measures.
 2/ Changes in the costs of fishing licenses.
 3/ Freezing of public sector salaries and new hires.

- **Planned measures.** In relation to the 2021 budget, the authorities will: (i) submit to Parliament a revised new general tax code and a revised tax penalty regime⁷; (ii) implement the Ministerial Order allowing for the Imposto Geral sobre Vendas e Serviços (IGV, the value added tax) Electronic Tax Return (see below) and new decrees and ministerial orders to strengthen collection and internal control procedures of the customs and tax directorates; (iii) freeze public sector salaries and new hires to rationalize the wage bill; (iv) initiate in good faith debt reprofiling discussions with the largest creditor, BOAD, the regional development bank; and (v) streamline the procurement process. Additionally, in early 2021, the Minister will bring forward to Parliament a modernized statute for the IGV. Regarding the procurement action plan,⁸ staff recommends reviewing the legal and institutional framework for procurement; verifying that contracts are awarded competitively; ensuring that reporting requirements allow for post audit procurement procedures and transparency in procurement procedures⁹; and requiring that initial phases of public investment projects are subject to rigorous and transparent appraisal and selection.

13. The authorities are committed to reinforce fiscal governance and transparency and to ensure that COVID-19 related budgetary allocations are spent appropriately.

⁶ In connection to these efforts, the Ministry of Finance will implement with IMF support the use of blockchain technology to control the wage bill. This project won the third place in the IMF-wide governance challenge in the 2020 Annual Meetings.

⁷ The laws revisions, and the later mentioned IGV law have been supported by FAD TA and the technical work is largely done.

⁸ The Directorate-General for Public Procurement (DGCP) intends to conduct a self-assessment of the national public procurement system, train employees and sectoral authorities; and develop an information and communication platform to manage public procurement.

⁹ By disclosing all relevant information easily accessible on a digital portal.

- **Expenditure control.** In line with the recommendations in the 2019 IMF Technical Report on Governance and Anti-Corruption, the authorities reestablished the Treasury Committee.¹⁰ All expenditure, including those related to COVID-19 will be approved by the Committee. COVID-19 related funds will be managed using a dedicated account at the BCEAO to facilitate traceability and accountability of the funds and will be subject to an ex-post independent audit by a reputable third-party who will carry out jointly with the audit court (Tribunal de Contas) (with the terms of reference to be agreed in consultation with the IMF staff), and published on www.govgb.gw within 9 months after the end of the fiscal year. All COVID-19 expenditure will be reflected in the budget submitted to Parliament and the authorities will publish bimonthly reports on COVID-19 expenditures drawn from the dedicated account at the BCEAO. An emergency decree will allow for a streamlined but transparent procurement process.
- **Transparency.** COVID-19 related procurement contracts will be published on the government's website within one week of procurement with the name of the awarded companies, their beneficial owners, the specific nature of the goods or services procured, their price per unit, the overall contract amount. In addition, ex-post validation of delivery reports will be published on the same website within three months of the end of the execution period for each contract. Earmarking procedures will be used for dedicated funds (e.g. donor grants) to cash transfers. Transparent criteria for selecting beneficiaries of in-kind and cash transfers will be specified. Resources lent to the banks to support the cashew nut sector will be subject to transparent approval and reporting processes. Staff will advise to tag COVID-19 related expenditures in the budget.
- **Prior action.** The authorities have also committed to implement a revenue mobilization-enhancing measure as indicated by meeting a prior action to the RCF request on an adoption of the Ministerial Order that approves the Imposto Geral sobre Vendas (IGV)'s Electronic Tax Return, effective as of January 2021. This prior action is in line with ongoing FAD TA aimed at improving domestic revenue mobilization through digitalization by launching a website for the electronic tax returns in early 2021. The prior action and FAD TA should contribute to strengthen tax collection by simplifying processes, improving information flows with the Treasury, and reducing governance risks.

14. Guinea-Bissau's risk of external debt distress is high, a downgrade from the moderate rating in the May 2018 DSA, whereas the overall risk of debt distress remains high. Debt indicators have significantly worsened on the back of higher than expected fiscal deficits, increased borrowing for investment projects, and the additional financing required to address the impact of the COVID-19 pandemic. The share of external debt remains relatively small (27.1 percent of GDP). However, the external risk rating has been downgraded to high considering the vulnerabilities from overall debt and downside risks to the baseline scenario. Overall risk of debt distress is high as the present value (PV) of public debt relative to GDP is well above the indicative benchmark.

¹⁰ The report was published on December 14 and can be found at the Ministry of Finance's website www.mef.gw/noticias/relatorio-anti-corrupcao-2020.

15. Guinea-Bissau's debt is assessed as sustainable in a forward-looking sense based on the authorities' commitment to sound policies underpinned by strong multilateral donor engagement and a Fund program. Taking into account Guinea-Bissau's supportive regional context¹¹ that eases medium-term rollover risks associated with domestic debt, 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 criterion.¹² The assessment is contingent on: (i) the authorities' commitment to an ambitious, yet feasible, fiscal adjustment post-pandemic; (ii) announced grants and concessional lending; and (iii) current negotiations for a reprofiling of debt obligations with creditors to extend maturities and reduce interest rates.¹³ Strong implementation of a subsequent SMP followed by an ECF arrangement is essential to support the authorities' commitment. The authorities' recent request, in December 15, to join the Debt Service Suspension Initiative (DSSI) is expected to enhance debt sustainability prospects.¹⁴ The debt outlook remains vulnerable to a weaker economic recovery and a lack of authorities' adherence to macroeconomic stability and prudent fiscal policies, among other substantial risks.

16. The regional central bank (BCEAO) for the WAEMU has taken steps to better satisfy banks' demand for liquidity and mitigate the negative impact of the pandemic on economic activity. The BCEAO adopted a full allotment strategy at a fixed rate of 2.5 percent (the minimum monetary policy rate) thereby allowing banks to satisfy their liquidity needs fully at a rate about 25 basis points lower than before the crisis. In June, the Monetary Policy Committee cut by 50 basis points the ceiling and the floor of the monetary policy corridor, to 4 and 2 percent respectively. The BCEAO has also: (i) extended the collateral framework to access central bank refinancing to include bank loans to prequalified 1,700 private companies; (ii) set up a framework inviting banks and microfinance institutions to accommodate demands from customers with COVID-19-related repayment difficulties to postpone for a 3-month renewable period up to end-2020 debt service falling due, without the need to classify such postponed claims as non-performing;¹⁵ and (iii)

¹¹ Guinea-Bissau benefits from financial support from regional institutions and larger regional/CU members with stronger debt carrying capacity, and, in the WAEMU, the regional sovereign treasury market is managed by UMOA-Titres.

¹² On April 27, the West-Africa Economic and Monetary Union (WAEMU) heads of state declared a temporary suspension of the WAEMU Growth and Stability Pact setting six convergence criteria, including the 3 percent of GDP fiscal deficit rule, to help member-countries cope with the fallout of the Covid-19 pandemic. This temporary suspension will allow member countries to raise their overall fiscal deficit temporarily and use the additional external support provided by donors in response to the Covid-19 crisis. The Heads of State' Declaration sets a clear expectation that fiscal consolidation will resume once the crisis is over.

¹³ An agreement has been reached with Exim Bank India in November and discussions with BOAD are at advanced stage.

¹⁴ As outlined in the DSSI, the authorities will (i) commit spending of freed resources on COVID-related health or economic relief and monitoring of such, (ii) disclose public sector debt as per to GFSM 2014 to the IMF/WBG, and (iii) to fully comply with the limits on non-concessional debt agreed under the IMF Debt Limit Policy (DLP) or the WBG Sustainable Development Financing Policy, but not more.

¹⁵ Banks have been invited to provide loan repayment deferrals to customers in good standing having difficulties to repay due to the Covid-19 crisis. Both interest and principal payments are suspended without penalty during the

(continued)

introduced measures to promote the use of electronic payments. In addition, the BCEAO launched in April 2020 a special 3-month refinancing window for limited amounts of 3-month “COVID-19 T-Bills” to be issued by each WAEMU sovereign to help meet immediate funding needs related to the current pandemic. In May, Guinea-Bissau issued CFAF 15.5 billion in COVID-19 T-bills at an average effective rate of 3 percent. The proceeds were lent to commercial banks to support the cashew nut sector and would be repaid as loans from IFIs are disbursed. In August, the repayment was partially financed through a second refinancing window launched by the BCEAO (CFAF 10 billion, three-month maturity). In November, this amount was refinanced with longer maturities.¹⁶

17. The economic downturn and heightened uncertainty are expected to weigh on an already fragile banking system. The liquidity of the banking system has been supported by the accommodative stance of the BCEAO,¹⁷ however, the low sector capitalization and the high NPL level represent an important vulnerability despite the high level of provisions (Table 5). A systemically important bank remains undercapitalized despite a government recapitalization in December 2019. In 2020, the bank recovered part of the loan considered non-performing and reconducted its restructuring plan by prospecting potential investors with the support of an external consultant specialized in mergers and acquisitions. Staff urged the authorities to work closely with the regional supervisor on a plan to restore the bank’s soundness and viability at the least possible cost to the treasury. The authorities reiterated their intention of disengaging from the bank within the next four years as agreed with the regional banking supervisor. Credit growth has remained strong in recent years but is projected to decelerate in 2020. The political crisis and the COVID-19 have also led to a sharp decline in the pre-financing usually provided to producers and exporters ahead of the cashew campaign.

ACCESS AND CAPACITY TO REPAY THE FUND

18. The authorities are requesting a disbursement in the amount of SDR 14.2 million (50 percent of quota) under the RCF exogenous shock window. Guinea-Bissau meets the qualification criteria for support under the RCF as the large financing gaps, if left unaddressed, would result in an immediate and significant economic disruption, and the urgency of the balance-of-payments need calls for financial assistance before a UCT-quality program can be put in place. The requested level of access is adequate and consistent with maintaining debt sustainability in a forward-looking sense based on the authorities commitments in the context of their engagement

deferral period and banks are expected to shift the loans’ amortization period accordingly. Such deferrals can be recorded in a special account within banks’ good loan portfolio rather than in NPL, and have to be reported to the BCEAO on a weekly basis. Outside such temporary and strictly Covid-19-related debt service payment deferrals, banks are expected to follow regular prudential/accounting rules for all loans.

¹⁶ Bond issuances of 3- and 5-year maturity.

¹⁷ With limited resources, banks’ treasuries traditionally rely on the BCEAO’s refinancing window using regional sovereign and regional institutions’ bonds as collateral. Additionally, financial stability liquidity indicators from June 2020 show that liquidity conditions have improved compared to end-2019 as bank deposits have increased, and loans remained stable during the year.

with the Fund and other development partners and on the current outlook, the estimated external financing needs, prospective financing from donors, and Guinea-Bissau's high risk of debt distress. In addition, the access level is considered appropriate in view of the need to proceed in stages given the significant policy uncertainty resulting from the hiatus in program engagement¹⁸. As normally the case for currency union members, the RCF will be disbursed to the Guinea-Bissau's Treasury account at the BCEAO and on-lent to the government to provide financing for pandemic-related spending.

19. The proposed total access of 50 percent of quota is about 25 percent of the estimated BOP financing gap in 2021. The remaining needs are expected to be filled in part by some additional donors' support, but further policy adjustment would be needed if the support falls short of closing the gap. In the near future, the authorities are committed to request an SMP to underpin debt sustainability and sustain the recovery from the pandemic, building track record for an UCT program.

20. Guinea-Bissau has adequate capacity to repay the Fund. With the proposed RCF disbursement, outstanding PRGT credit would reach 116 percent of quota in 2021 and projected to decline thereafter, and total PRGT disbursements over a twelve month-period would reach 50 percent of quota, all within normal access limits (Table 6). Guinea-Bissau has a strong track record in meeting its obligations to the Fund and servicing risks are mitigated by the country's low external indebtedness and the availability of concessional financing. Support under the CCRT will also ease the near-term burden.

21. The BCEAO has only one recommendation outstanding from the 2018 safeguards assessment,¹⁹ on strengthening the risk management function, which is in progress. The assessment found that the central bank has maintained a strong control culture.

22. External arrears are being tackled gradually. Efforts towards addressing external arrears on pre-HIPC debts US\$38 million are ongoing.²⁰ An agreement on restructuring of arrears to Brazil is pending ratification by the Brazilian Senate. Negotiations with other bilateral creditors (Angola, Pakistan, and Russia) for the remaining legacy arrears are ongoing. More recently arrears of US\$2.7 million have been accumulated with the Exim Bank of India but in November 2020 the authorities signed a reprofiling agreement with Exim Bank of India rescheduling amortizations and addressing the arrears.

¹⁸ The previous ECF supported program expired in July 2019 without completion of the last two reviews.

¹⁹ Under the four-year cycle, the next BCEAO's safeguards assessment is due in 2022.

²⁰ Guinea-Bissau has legacy arrears to Angola, Brazil, Pakistan and Russia which have consented to Fund financing notwithstanding these arrears. In addition, Guinea-Bissau has contacted the authorities of Libya to inform of their intention to resolve a US\$ 0.8 million in external arrears which arose recently due to financial constraints associated to the COVID pandemic.

STAFF APPRAISAL

23. Guinea-Bissau's already fragile economy is being severely impacted by the COVID-19 pandemic and is facing urgent external and fiscal financing needs. Guinea-Bissau registered its first case on March 24, 2020, and despite the authorities' efforts to contain the spread of the disease the number of cases has rapidly increased. The short-term economic outlook has sharply deteriorated owing to the adverse global economic conditions, the decline in the demand for cashew nuts, and the impact of domestic containment measures aggravated by recent severe floods—compounding the adverse impact of a protracted period of political uncertainty, now being resolved, and long-standing development challenges. Measures needed to address the pandemic and the associated external shocks have increased fiscal and external financing needs. Albeit subject to a high degree of uncertainty, staff estimates the external and the fiscal financing gaps at about 5.0 and 4.5 percent of GDP, respectively in 2021.

24. Staff supports the authorities' immediate priorities of mitigating the impact of the pandemic while committing to medium-term fiscal and debt sustainability. Appropriate measures are being taken to increase health spending, assist the most vulnerable, and support the cashew nut sector. Staff welcomes the authorities' commitment, once conditions normalize, to the objective of reducing the fiscal deficit over time to 3 percent of GDP and debt ratios below 70 percent of GDP, in line with WAEMU fiscal convergence criteria. Guinea-Bissau's debt is assessed as sustainable in a forward-looking sense although subject to a high risk of debt distress. Staff's assessment rests on the confidence on the authorities' commitment to implementation of sound policies underpinned by strong multilateral donor engagement, including their intention to request an SMP and, based on a satisfactory track record, an ECF arrangement to support the recovery from the pandemic and implement needed structural reforms. The authorities have implemented and are planning to implement measures to strengthen revenue mobilization, rationalize the wage bill and improve the debt maturity profile.

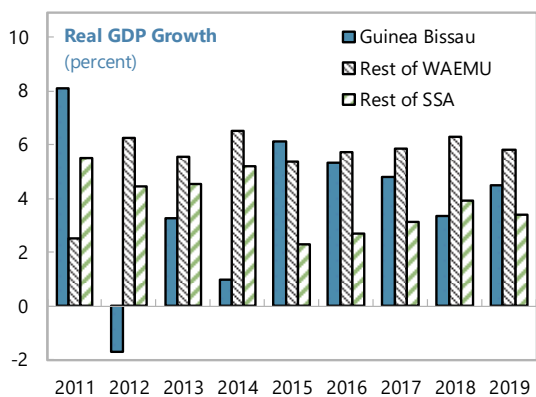
25. Staff welcomes the authorities' commitment to strengthen fiscal governance and transparency to ensure that COVID-19 related outlays are spent appropriately. Establishing a dedicated account at the BCEAO to manage all expenditures related to COVID-19, publishing bimonthly expense reports and procurement contracts with the name of the awarded companies, their beneficial owners and ex-post validation of delivery, and subjecting these expenses to an ex-post independent audit will be essential to ensure the most effective use of the resources dedicated to fight the consequences of the pandemic and to minimize possible corruption practices. Looking ahead, staff welcomes the authorities' intention to engage in a Fund-supported program, and concurs that robust governance measures, in line with the recommendations of the recently concluded governance assessment by the Fund, would represent a critical component of such engagement.

26. Staff supports the authorities' request for a disbursement under the RCF in the amount of SDR 14.2 million (50 percent of quota). Staff's support is based on the urgent balance of payments need arising from the severe impact of the pandemic and the authorities' existing and

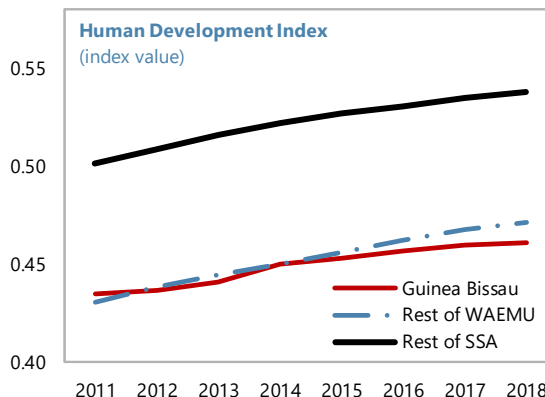
prospective policies to address this external shock, including their engagement with other development partners to obtain additional budget support. The requested level of access is adequate and consistent with, the estimated external financing needs and prospective financing from donors.

Figure 1. Guinea-Bissau: Growth and Living Standards

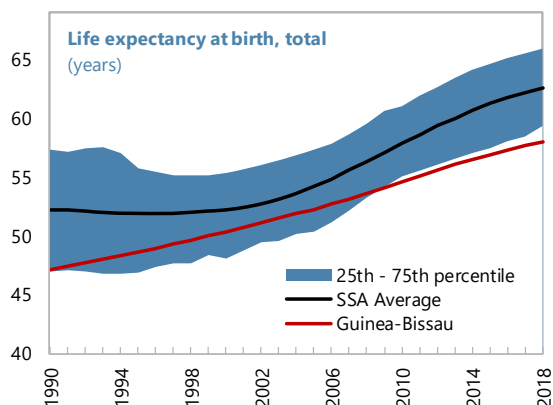
A volatile economic growth compared to its regional peers reflects a long history of political instability...



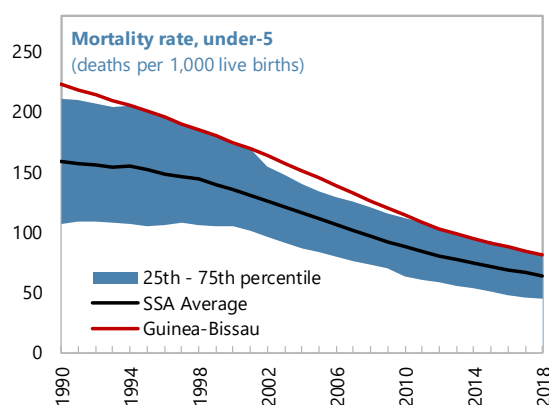
...and economic fragility, which weighs on the population's living standards.



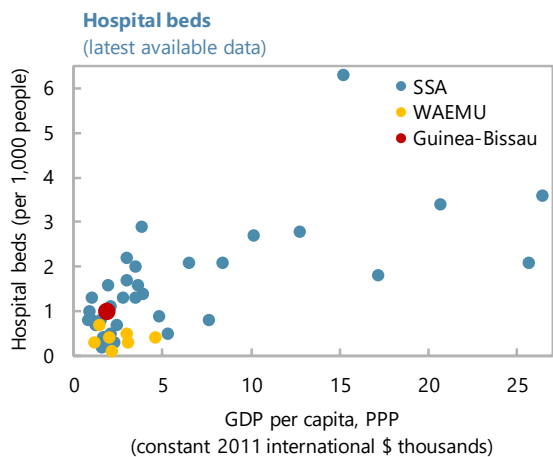
Weak health conditions are evidenced by a significantly lower life expectancy at birth...



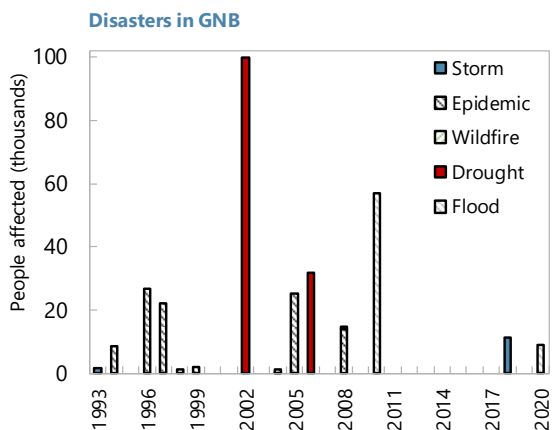
...as well as the higher child mortality rate, both compared to SSA peers.



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



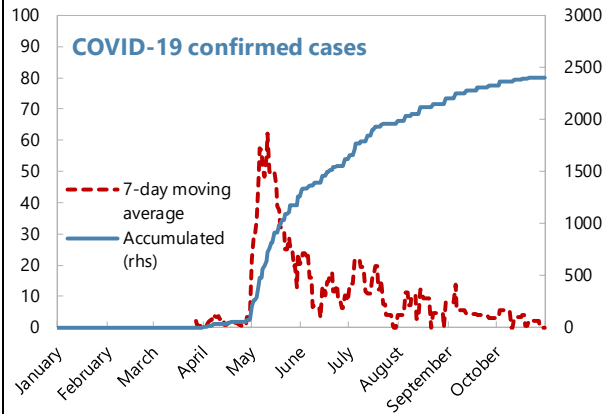
...considering the country's exposure to natural hazard events such as the current year's floods and the pandemic.



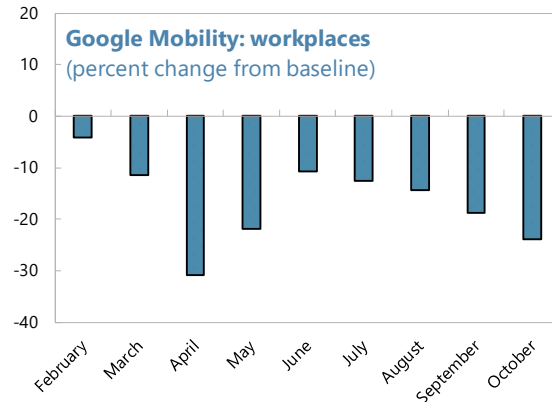
Sources: World Bank, Worldwide Development Indicators; EM-DAT, CRED database; Guinea-Bissau authorities; and IMF staff calculations.

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

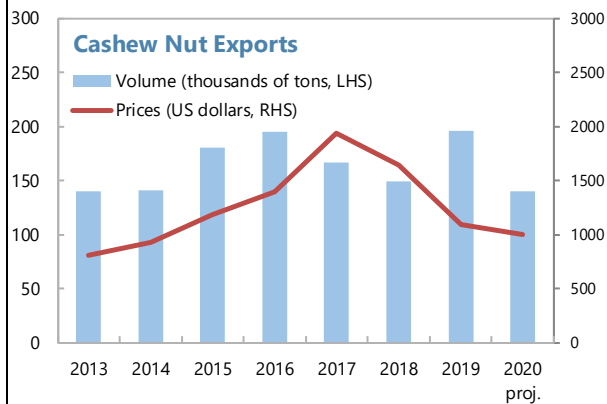
The first COVID-19 were reported in end-March and rapidly increased in the following weeks...



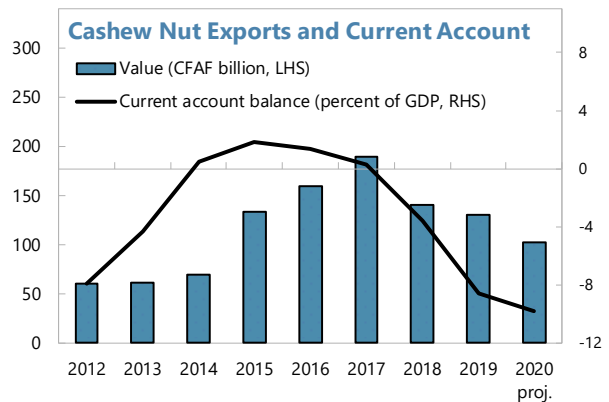
...when containment and lockdown measures were imposed by the State of Emergency (March) and the State of Calamity (September).



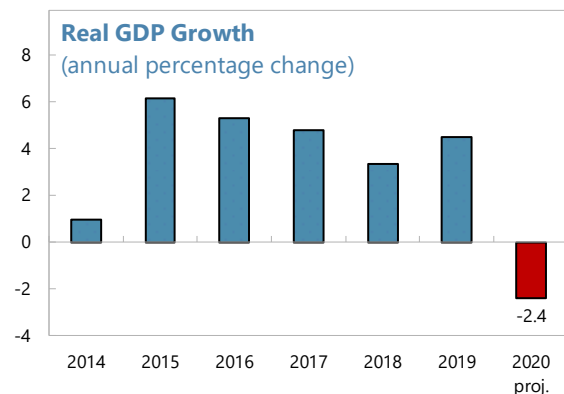
Cashew exports were affected by the delayed cashew campaign (volume) and weaker demand from trade partners (prices)...



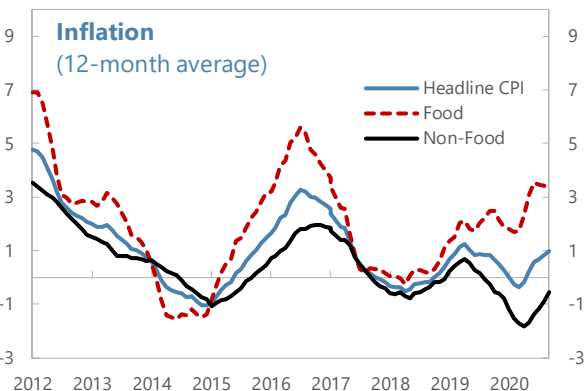
...which added to the terms-of-trade shock of recent years and further widened the current account deficit.



The effect of recent severe floods added to the pandemic, resulting on a GDP contraction projected at 2.4 percent...



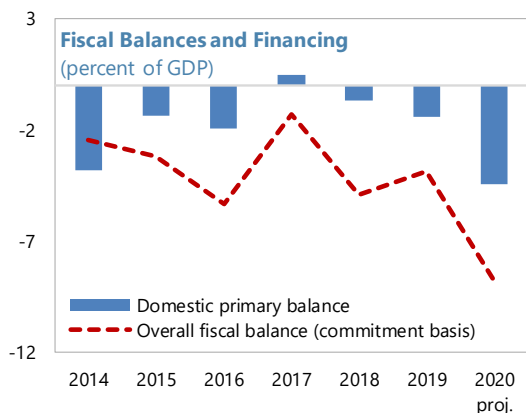
...and a pickup in inflation, as food prices also reflect disruptions in international trade.



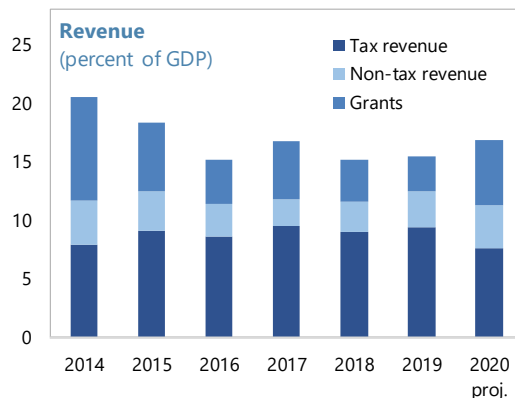
Sources: Google Mobility database, Our World in Data, Guinea-Bissau authorities and IMF staff calculations.

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

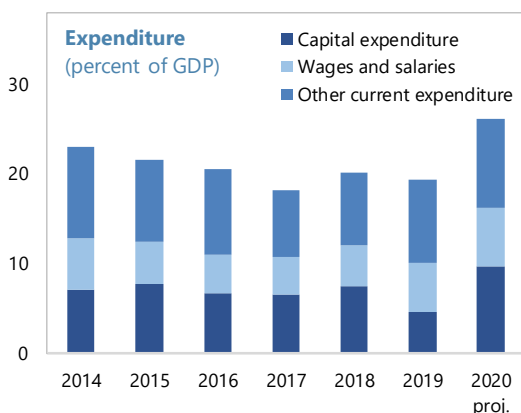
Fiscal balances are projected to further deteriorated in 2020...



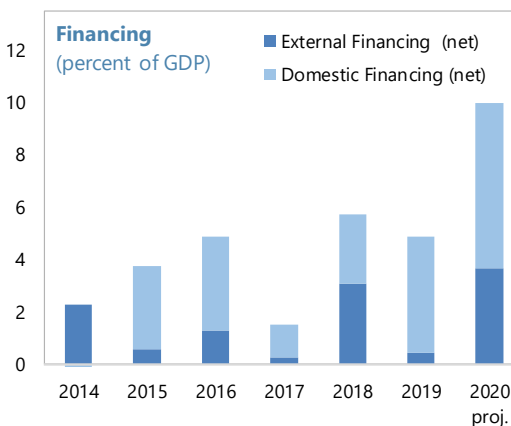
...as weak revenues compensated by increased grants...



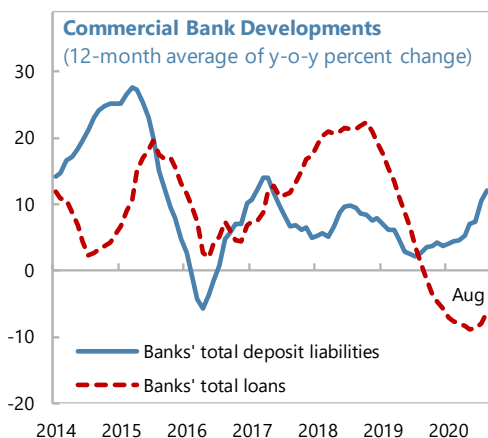
...are not enough to cover increased expenditures, ...



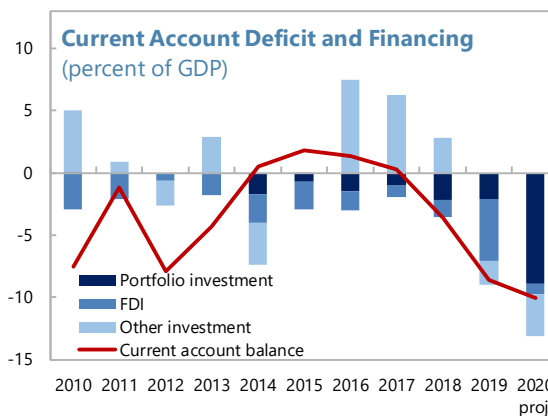
...resulting in additional financing from both external and within the region.



Increased regional financing partially crowded out credit from commercial banks.



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



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

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2018–25

	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.			Proj.			
	(Annual percent change, unless otherwise indicated)							
National accounts and prices								
Real GDP at market prices	3.4	4.5	-2.4	3.0	4.0	5.0	5.0	5.0
Real GDP per capita	1.1	2.3	-4.5	0.8	1.7	2.8	2.8	2.9
GDP deflator	-5.2	-3.5	0.1	3.0	2.8	2.8	2.8	2.8
Consumer price index (annual average)	0.4	0.3	1.5	2.0	2.0	2.0	2.0	2.0
External sector								
Exports, f.o.b. (based on US\$ values)	-0.1	-26.8	-25.3	28.3	13.8	14.3	7.7	7.7
Imports, f.o.b. (based on US\$ values)	0.7	14.2	-5.7	7.1	7.4	8.2	7.4	7.1
Terms of trade (deterioration = -)	-21.4	-31.4	-2.1	8.1	4.1	3.9	2.9	3.0
Real effective exchange rate (depreciation = -)	1.2	-2.9	...	...	...	...	...	...
Exchange rate (CFA franc per US\$; average)	555.2	585.9	...	...	...	...	...	...
Government finances								
Revenue excluding grants	-3.7	9.2	-8.2	18.1	7.8	8.6	8.9	8.8
Expenditure	8.8	-3.0	32.1	-5.2	-1.4	5.9	6.7	8.3
Current expenditure	7.2	18.2	9.2	3.1	1.8	4.7	5.3	8.0
Capital expenditure	11.5	-38.5	106.2	-19.4	-8.5	8.8	9.9	9.1
Money and credit								
Domestic credit	1.7	13.8	-11.6	16.6	9.3	9.2	9.3	9.3
Credit to the government (net)	-19.6	13.8	-38.5	55.6	-3.1	-5.3	-6.1	-5.3
Credit to the economy	14.6	13.8	-0.3	6.4	14.1	13.9	13.4	12.6
Net domestic assets	7.4	12.0	-15.5	23.2	12.3	11.8	11.7	11.4
Broad money (M2)	4.2	0.3	7.5	2.9	3.6	4.3	4.7	5.3
	(Percent of GDP, unless otherwise indicated)							
Investments and savings								
Gross investment	14.7	14.6	24.4	20.1	18.1	18.2	18.3	18.6
Of which: government investment	13.8	8.4	17.7	13.5	11.5	11.6	11.8	12.0
Gross domestic savings	11.5	1.4	6.8	6.4	5.5	6.6	7.0	7.6
Of which: government savings	5.3	1.8	3.6	3.8	3.6	3.8	4.4	4.5
Gross national savings	11.1	6.0	14.4	13.8	12.8	13.8	14.1	14.7
Government finances								
Revenue excluding grants	11.6	12.5	11.8	13.1	13.2	13.3	13.4	13.5
Domestic primary expenditure	12.2	13.9	16.2	14.7	13.3	12.9	12.8	13.0
Domestic primary balance	-0.7	-1.4	-4.4	-1.6	-0.1	0.4	0.6	0.5
Overall balance (commitment basis)								
Including grants	-4.9	-3.9	-9.0	-5.1	-3.6	-3.4	-3.0	-3.0
Excluding grants	-8.5	-6.8	-14.4	-10.3	-8.3	-7.8	-7.5	-7.4
External current account								
Excluding official current transfers	-3.6	-8.6	-10.1	-6.4	-5.4	-4.4	-4.2	-3.9
Excluding official current transfers	-4.8	-9.8	-12.4	-9.7	-8.3	-7.1	-6.9	-6.5
Stock of public and publicly guaranteed debt¹								
Of which: external debt	59.2	66.9	78.4	78.4	76.7	74.3	71.9	69.6
Of which: external debt	21.8	25.3	27.1	27.9	26.1	24.2	22.7	21.4
Memorandum items:								
Nominal GDP at market prices (CFA franc billions)	836.0	843.5	824.1	874.2	934.7	1008.9	1089.0	1175.4
WAEMU gross official reserves (billions of US\$)	14.9	17.5	...	...	...	...	...	...
(percent of broad money)	31.1	34.1	...	...	...	...	...	...

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

¹ Coverage expanded to include legacy arrears.

Table 2. Guinea-Bissau: Balance of Payments, 2017–25
(CFAF billions)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Prel.			Projections			
Current Account Balance	2.2	-30.1	-72.3	-82.8	-55.6	-50.3	-44.8	-45.9	-45.9
Goods and services	-41.5	-43.7	-123.3	-146.1	-129.4	-127.2	-125.7	-131.9	-137.8
Goods	28.3	25.7	-50.6	-74.7	-53.3	-48.7	-43.9	-46.6	-48.9
Exports, f.o.b.	197.5	188.6	145.7	106.6	127.1	143.2	162.8	174.9	188.3
<i>Of which</i> : cashew nuts	189.0	140.6	130.7	102.0	122.0	135.7	151.7	163.0	175.4
Imports, f.o.b.	-169.2	-162.9	-196.4	-181.3	-180.4	-191.9	-206.6	-221.6	-237.2
<i>Of which</i> : food products	-60.0	-54.7	-59.7	-46.6	-51.8	-51.9	-52.9	-53.9	-56.1
petroleum products	-29.2	-33.5	-33.1	-29.1	-29.9	-31.7	-33.9	-36.3	-38.1
Services	-69.8	-69.4	-72.6	-71.4	-76.0	-78.5	-81.8	-85.3	-88.9
Credit	20.2	26.7	25.2	12.0	19.0	20.3	21.9	23.6	25.5
Debit	-90.1	-96.1	-97.8	-83.4	-95.0	-98.8	-103.7	-108.9	-114.4
Incomes	8.4	-28.4	17.8	14.1	12.0	15.9	18.5	20.5	23.0
Credit	27.1	30.8	24.5	24.0	24.1	27.7	30.4	32.3	34.5
<i>Of which</i> : EU fishing compensation	0.0	0.0	7.6	7.6	7.6	7.6	7.6	7.6	7.6
Other license fees	6.8	4.2	6.8	9.1	9.2	10.3	11.4	12.6	14.1
Debit	-18.7	-59.2	-6.7	-9.9	-12.0	-11.8	-11.9	-11.8	-11.5
<i>Of which</i> : government interest	-2.2	-2.1	-1.6	-4.9	-6.5	-6.0	-5.8	-5.4	-4.8
Current transfers (net)	35.4	42.1	33.1	49.2	61.7	61.0	62.4	65.5	68.9
Official	9.6	10.2	10.0	19.6	29.3	27.1	27.2	29.1	31.1
Private	25.8	31.9	23.1	29.6	32.4	33.9	35.2	36.5	37.8
<i>Of which</i> : remittances	24.5	30.2	21.7	28.0	30.7	32.1	33.4	34.6	35.9
Capital account ¹	60.6	23.4	16.1	23.8	17.6	20.6	21.4	22.8	24.2
<i>Of which</i> : official transfers	59.9	22.1	14.5	23.2	15.4	17.4	18.1	19.4	20.7
Financial account	36.2	-6.3	-75.9	-68.7	-11.7	-19.3	-20.8	-20.9	-21.1
FDI	-8.3	-11.6	-41.8	-7.0	-13.0	-15.6	-16.8	-18.2	-19.6
Other investment	44.5	5.3	-34.2	-61.7	1.3	-3.7	-4.0	-2.8	-1.5
Official medium- and long-term disbursements	-13.9	-45.8	-14.1	-61.1	-13.3	-13.8	-14.4	-17.3	-18.5
Programs	0.0	0.0	0.0	-30.3	0.0	0.0	0.0	0.0	0.0
Projects	-13.9	-45.8	-14.1	-30.8	-13.3	-13.8	-14.4	-17.3	-18.5
Amortization	28.2	2.5	2.2	9.8	5.7	6.6	7.6	7.7	8.9
Treasury bills (regional financing)	-9.6	-17.9	-18.3	-73.4	-22.2	-28.1	-30.0	-26.6	-28.7
Commercial bank net foreign assets	0.9	13.3	-28.1	39.1	8.4	5.8	0.0	0.0	0.0
Other net foreign assets	38.9	53.3	24.1	23.9	22.7	25.7	32.8	33.4	36.8
Errors and Omissions	-8.9	-4.0	-6.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	17.7	-4.4	13.2	9.6	-26.3	-10.4	-2.5	-2.2	-0.6
Financing	-17.7	4.4	-13.2	-9.6	15.5	10.4	2.5	2.2	0.6
Net foreign assets excluding IMF (increase -)	-21.4	3.1	-12.0	-9.6	6.0	12.2	5.4	5.3	3.2
IMF purchases	4.9	2.4	0.0	0.0	10.8	0.0	0.0	0.0	0.0
IMF repurchases	-1.2	-1.1	-1.2	-1.7	-1.5	-1.7	-2.9	-3.1	-2.6
Grant for debt relief under the IMF CCRT	0.0	0.0	0.0	1.7	0.2	0.0	0.0	0.0	0.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	10.8	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>									
Cashew export quantity (thousands of tons)	166	149	196	140	189	202	216	223	230
Cashew export prices (US\$ per ton)	1,950	1,648	1,098	1,000	1,100	1,155	1,213	1,267	1,324
Import volume of goods (annual percentage change)	7.3	-4.5	14.1	0.0	7.6	6.1	6.6	5.4	5.2
Oil prices (international, US\$ per barrel)	52.8	68.3	61.4	41.7	46.7	48.1	49.2	50.2	51.2
Scheduled debt service									
Percent of exports and service credits	13.9	1.7	2.2	3.8	4.1	4.1	4.9	4.7	4.7
Percent of total government revenue	30.2	3.8	3.6	4.7	5.2	5.5	6.7	6.4	6.3
Current account balance (percent of GDP)	0.3	-3.6	-8.6	-10.1	-6.4	-5.4	-4.4	-4.2	-3.9
Official transfers (percent of GDP)	8.1	3.9	2.9	5.2	5.1	4.8	4.5	4.4	4.4
WAEMU gross official reserves (billions of US\$)	13.0	14.9	17.5	...	...	...	...	...	...
(percent of broad money)	29.4	31.1	34.1	...	...	...	...	...	...

Sources: BCEAO; and IMF staff estimates and projections.

¹ The figure for 2017 includes CFAF 23.9 billion in debt relief from Taiwan Province of China.

Table 3a. Guinea-Bissau: Consolidated Operations of the Central Government, 2018–25
(CFAF billions)

	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.				Proj.		
Revenue and grants	127.0	130.1	141.4	159.3	167.8	179.3	194.3	210.5
Tax revenue	75.7	79.1	66.4	85.9	93.5	101.9	111.4	121.3
Nontax revenue	21.0	26.5	30.5	28.6	29.9	32.1	34.5	37.5
Grants	30.3	24.5	44.5	44.9	44.5	45.3	48.4	51.8
Budget support	0.0	1.9	0.0	4.7	3.7	0.0	0.0	0.0
Project grants	30.3	22.6	42.8	40.0	40.8	45.3	48.4	51.8
Capital grants from CCRT	0.0	0.0	1.7	0.2	0.0	0.0	0.0	0.0
Expenditure	168.1	163.2	215.5	204.3	201.3	213.1	227.3	246.2
Expense	105.5	124.7	136.1	140.3	142.8	149.5	157.4	169.9
Wages and salaries	38.5	46.9	54.5	54.6	56.1	58.4	61.2	66.4
Goods and services	21.0	18.7	21.6	24.4	25.0	26.1	28.2	30.7
Transfers	21.6	27.1	26.8	23.6	23.7	25.1	27.7	29.8
Non regularized spending	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	5.4	9.2	12.6	22.2	22.2	23.6	22.7	23.7
Other	16.9	22.7	20.7	15.5	15.7	16.3	17.6	19.4
Net acquisition of nonfinancial assets	62.6	38.5	79.4	64.0	58.5	63.7	70.0	76.3
Domestically financed	2.1	1.8	9.9	10.7	4.0	4.0	4.3	6.1
Foreign financed (including BOAD)	60.5	36.7	69.5	53.3	54.5	59.7	65.7	70.2
Overall balance, including grants (commitment)	-41.1	-33.1	-74.1	-44.9	-33.5	-33.8	-33.0	-35.7
Overall balance, excluding grants (commitment)	-71.4	-57.6	-118.6	-89.8	-78.0	-79.1	-81.4	-87.4
Change in arrears	-0.6	-0.5	-8.1	-5.0	0.0	0.0	0.0	0.0
Domestic arrears ¹	-0.8	-2.3	-8.1	-5.0	0.0	0.0	0.0	0.0
Accumulation current year	1.1	9.8	5.1	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-1.9	-12.1	-13.2	-5.0	0.0	0.0	0.0	0.0
External arrears	0.1	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.1	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancy	-6.0	-7.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-47.7	-41.1	-82.2	-49.9	-33.5	-33.8	-33.0	-35.7
Financing ²	47.7	41.1	82.2	39.1	33.5	33.8	33.0	35.7
Net acquisition of financial assets (- = build up)	-18.2	-2.4	-19.9	0.0	0.0	0.0	0.0	0.0
Bank deposits	-2.6	3.0	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	4.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Local commercial banks	-7.4	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Other ³	-15.6	-5.4	-19.9	0.0	0.0	0.0	0.0	0.0
of which: Bank recapitalization	0.0	-3.5	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	40.1	39.8	71.6	33.7	29.1	29.9	26.8	29.3
BCEAO credit	1.2	-1.2	-1.7	9.3	-1.7	-2.9	-3.1	-2.6
(o/w) IMF	1.2	-1.2	-1.7	9.3	-1.7	-2.9	-3.1	-2.6
Other domestic (net)	38.9	41.0	73.4	24.4	30.9	32.8	29.9	31.9
Local commercial banks	3.5	14.5	-20.9	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	17.9	18.3	73.4	22.2	28.1	30.0	26.6	28.7
Regional financing (BOAD)	17.5	8.2	20.9	2.3	2.8	2.8	3.4	3.3
Foreign financing (net)	25.8	3.7	30.4	5.3	4.4	4.0	6.2	6.4
Disbursements	27.7	5.5	32.2	8.3	8.2	8.9	11.2	12.5
Projects	27.7	5.5	23.6	8.3	8.2	8.9	11.2	12.5
Programs	0.0	0.0	8.6	0.0	0.0	0.0	0.0	0.0
Amortization	-1.9	-1.8	-1.8	-3.0	-3.8	-4.9	-4.9	-6.1
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	10.8	0.0	0.0	0.0	0.0
<i>Memorandum item:</i>								
Domestic primary balance (commitment) ⁴	-5.5	-11.7	-36.5	-14.4	-1.2	4.1	6.9	6.4

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 financed capital spending, and interest.

Table 3b. Guinea-Bissau: Consolidated Operations of the Central Government, 2018–25
(Percent of GDP)

	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.						
					Proj.			
Revenue and grants	15.2	15.4	17.2	18.2	18.0	17.8	17.8	17.9
Tax revenue	9.1	9.4	8.1	9.8	10.0	10.1	10.2	10.3
Nontax revenue	2.5	3.1	3.7	3.3	3.2	3.2	3.2	3.2
Grants	3.6	2.9	5.4	5.1	4.8	4.5	4.4	4.4
Budget support	0.0	0.2	0.0	0.5	0.4	0.0	0.0	0.0
Project grants	3.6	2.7	5.2	4.6	4.4	4.5	4.4	4.4
Capital grants from CCRT	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Expenditure	20.1	19.3	26.1	23.4	21.5	21.1	20.9	20.9
Expense	12.6	14.8	16.5	16.0	15.3	14.8	14.5	14.5
Wages and salaries	4.6	5.6	6.6	6.3	6.0	5.8	5.6	5.6
Goods and services	2.5	2.2	2.6	2.8	2.7	2.6	2.6	2.6
Transfers	2.6	3.2	3.3	2.7	2.5	2.5	2.5	2.5
Non-regularized spending	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.6	1.1	1.5	2.5	2.4	2.3	2.1	2.0
Other	2.0	2.7	2.5	1.8	1.7	1.6	1.6	1.6
Net acquisition of nonfinancial assets	7.5	4.6	9.6	7.3	6.3	6.3	6.4	6.5
Domestically financed	0.2	0.2	1.2	1.2	0.4	0.4	0.4	0.5
Foreign financed (including BOAD)	7.2	4.3	8.4	6.1	5.8	5.9	6.0	6.0
Overall balance, including grants (commitment)	-4.9	-3.9	-9.0	-5.1	-3.6	-3.4	-3.0	-3.0
Overall balance, excluding grants (commitment)	-8.5	-6.8	-14.4	-10.3	-8.3	-7.8	-7.5	-7.4
Change in arrears	-0.1	-0.1	-1.0	-0.6	0.0	0.0	0.0	0.0
Domestic arrears ¹	-0.1	-0.3	-1.0	-0.6	0.0	0.0	0.0	0.0
Accumulation current year	0.1	1.2	0.6	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-0.2	-1.4	-1.6	-0.6	0.0	0.0	0.0	0.0
External arrears	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancy	-0.7	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-5.7	-4.9	-10.0	-5.7	-3.6	-3.4	-3.0	-3.0
Financing ²	5.7	4.9	10.0	4.5	3.6	3.4	3.0	3.0
Net acquisition of financial assets (- = build up)	-2.2	-0.3	-2.4	0.0	0.0	0.0	0.0	0.0
Bank deposits	-0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local commercial banks	-0.9	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other ³	-1.9	-0.6	-2.4	0.0	0.0	0.0	0.0	0.0
of which: Bank recapitalization	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	4.8	4.7	8.7	3.9	3.1	3.0	2.5	2.5
BCEAO credit	0.1	-0.1	-0.2	1.1	-0.2	-0.3	-0.3	-0.2
(o/w) IMF	0.1	-0.1	-0.2	1.1	-0.2	-0.3	-0.3	-0.2
Other domestic (net)	4.6	4.9	8.9	2.8	3.3	3.2	2.7	2.7
Local commercial banks	0.4	1.7	-2.5	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	2.1	2.2	8.9	2.5	3.0	3.0	2.4	2.4
Regional financing (BOAD)	2.1	1.0	2.5	0.3	0.3	0.3	0.3	0.3
Foreign financing (net)	3.1	0.4	3.7	0.6	0.5	0.4	0.6	0.5
Disbursements	3.3	0.6	3.9	0.9	0.9	0.9	1.0	1.1
Projects	3.3	0.6	2.9	0.9	0.9	0.9	1.0	1.1
Programs	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.2	-0.2	-0.2	-0.3	-0.4	-0.5	-0.5	-0.5
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0
<i>Memorandum item:</i>								
Domestic primary balance (commitment) ⁴	-0.7	-1.4	-4.4	-1.6	-0.1	0.4	0.6	0.5

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

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

² Financing is on currency basis.

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

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

Table 4. Guinea-Bissau: Monetary Survey, 2017–21¹

	2017	2018	2019	2020	2021
			Prel.	Projections	
	(CFAF billions)				
Net foreign assets	227.1	232.6	217.6	268.1	250.4
Central Bank of West African States (BCEAO)	177.1	169.3	182.5	193.8	167.7
Commercial banks	50.0	63.3	35.1	74.3	82.7
Net domestic assets	123.3	132.5	148.3	125.3	154.3
Credit to the government (net)	64.3	51.7	58.8	36.2	56.3
BCEAO	37.1	43.9	42.7	40.9	61.1
Commercial banks	27.2	7.9	16.2	-4.7	-4.7
Credit to the economy	106.5	122.0	138.9	138.5	147.4
Other items (net)	-47.5	-41.3	-49.4	-49.4	-49.4
Money supply (M2)	350.5	365.0	366.0	393.4	404.7
Currency outside banks	227.2	234.9	235.3	252.9	260.2
Bank deposits	123.3	130.1	130.7	140.5	144.6
Base money (M0)	243.7	248.2	258.7	278.1	286.1
	(Change in percent of beginning-of-period broad money)				
Contribution to the growth of broad money (M2)					
Net foreign assets	7.6	1.5	-4.1	13.8	-4.5
BCEAO	7.3	-2.2	3.6	3.1	-6.6
Commercial banks	0.3	3.8	-7.7	10.7	2.1
Net domestic assets	-2.9	2.6	4.3	-6.3	7.4
Credit to the central government	-14.1	-3.6	2.0	-6.2	5.1
Credit to the economy	15.0	4.4	4.6	-0.1	2.3
Other items (net)	-3.9	1.8	-2.2	0.0	0.0
<i>Memorandum items:</i>					
Broad money (M2, annual percentage change)	4.7	4.2	0.3	7.5	2.9
Base money (M0, annual percentage change)	3.4	1.8	4.2	7.5	2.9
Credit to the economy (annual percentage change) ²	27.5	14.6	13.8	-0.3	6.4
Velocity (GDP/M2)	2.4	2.3	2.3	2.1	2.2
Money multiplier (M2/M0)	1.4	1.5	1.4	1.4	1.4

Sources: BCEAO; and IMF staff estimates and projections.

¹ End of period.² The value for 2017 is adjusted to include Bank Atlantique.

Table 5. Guinea-Bissau: Selected Financial Soundness Indicators, 2014–20¹

	2014	2015	2016	2017	2018	2019	2020 June
Capital Adequacy							
Capital to risk-weighted assets ²	25.8	28.9	20.3	2.2	-5.4	-2.0	-2.6
Tier 1 capital to risk weighted assets	18.0	13.3	20.3	1.8	-5.5	-2.0	-2.6
Provisions to risk-weighted assets	25.4	7.1	5.7	27.6	29.8	26.0	22.1
Capital to total assets	11.5	8.8	9.1	1.0	-2.0	-0.7	-0.8
Asset Composition and Quality							
Total loans to total assets	45.4	53.6	46.4	40.1	50.5	46.7	41.6
Concentration: loans to 5 largest borrowers to capital	110.6	106.8	87.5	831.7	-316.1	-748.5	-603.0
Sectoral distribution of loans							
Agriculture and fishing	0.0	0.3	0.3	0.9	0.5	0.5	0.5
Extractive industries	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Manufacturing	44.0	4.3	1.1	0.4	0.7	0.7	11.4
Electricity, water and gas	0.2	10.2	0.0	1.1	0.7	0.7	2.3
Construction	0.7	3.3	2.1	1.7	1.7	1.7	8.5
Retail and wholesale trade, restaurants and hotels	14.2	53.0	46.4	29.7	29.4	29.4	24.0
Transportation and communication	0.0	0.1	0.1	1.1	1.1	1.1	5.7
Insurance, real state and business services	0.0	3.0	1.9	8.4	8.2	8.2	1.2
Other services	40.8	25.8	48.0	56.7	57.8	57.8	46.4
Gross NPLs to total loans	43.4	8.4	11.5	37.4	26.3	25.4	20.3
General provisions to gross NPLs	46.2	46.7	45.0	64.8	67.3	65.3	65.7
Net NPLs to total loans	29.2	4.7	6.7	17.4	10.5	10.6	8.0
Net NPLs to capital	115.1	28.2	34.1	694.6	-268.1	-680.0	-437.2
Earnings and profitability							
Average cost of borrowed funds	1.2	1.2	1.6	1.6	1.7	0.8	...
Average interest rate on loans	9.4	10.9	11.4	10.2	8.7	10.2	...
Average interest margin ³	8.2	9.7	9.8	8.5	7.0	9.4	...
After-tax return on average assets (ROA)	-1.4	6.4	-0.3	-0.4	0.8	4.2	...
After-tax return on average equity (ROE)	-13.6	46.3	-2.9	-10.8	17.2	79.6	...
Non-interest expenses to net banking income	68.3	88.4	65.6	79.3	71.3	74.8	...
Personnel expenses to net banking income	28.1	30.1	28.4	33.8	28.6	30.9	...
Liquidity							
Liquid assets to total assets	18.6	16.6	13.8	15.0	19.6	18.9	21.6
Liquid assets to total deposits	27.2	27.8	26.0	25.3	32.7	35.9	42.8
Total loans to total deposits	82.8	93.6	92.0	89.1	102.5	106.5	94.8
Total deposits to total liabilities	68.6	59.6	53.2	59.4	59.9	52.6	50.6
Source: BCEAO.							
¹ FSI indicators for 2015 and 2016 have not been updated by the BCEAO to reflect the null-and-void declaration of the bailout.							
² Capital to risk-weighted assets excluding bank with negative equity: 36.2 percent in Dec 2018 and 33.4 percent in Dec 2019.							
³ Excluding tax on banking operations.							

Table 6. Guinea-Bissau: Indicators of Capacity to Repay the IMF, 2021–31¹

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Projections										
(SDR millions, unless otherwise indicated)											
Fund obligations based on existing credit											
Principal	1.72	2.30	3.82	4.12	3.41	2.84	1.82	0.30	0.00	0.00	0.00
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fund obligations based on existing and prospective credit											
Principal	1.72	2.30	3.82	4.12	3.41	4.26	4.66	3.14	2.84	2.84	1.42
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total obligations based on existing and prospective credit											
SDR millions	1.72	2.30	3.82	4.12	3.41	4.26	4.66	3.14	2.84	2.84	1.42
CFAF billions	1.31	1.75	2.90	3.14	2.59	3.24	3.55	2.39	2.16	2.16	1.08
Percent government revenue	1.15	1.42	2.17	2.15	1.63	1.90	1.91	1.19	0.99	0.91	0.42
Percent exports of goods and services	0.90	1.07	1.57	1.58	1.21	1.44	1.49	0.95	0.81	0.77	0.37
Percent debt service	21.86	25.88	32.22	33.74	25.99	36.00	24.14	17.02	15.36	15.32	7.44
Percent GDP	0.15	0.19	0.29	0.29	0.22	0.26	0.26	0.16	0.14	0.13	0.06
Percent quota	6.06	8.10	13.45	14.51	12.01	15.00	16.41	11.06	10.00	10.00	5.00
Outstanding Fund credit											
SDR millions	32.80	30.50	26.69	22.57	19.16	14.90	10.24	7.10	4.26	1.42	0.00
CFAF billions	25.01	23.17	20.28	17.17	14.58	11.34	7.79	5.40	3.24	1.08	0.00
Percent government revenue	21.86	18.78	15.13	11.77	9.18	6.66	4.21	2.69	1.49	0.46	0.00
Percent exports of goods and services	17.12	14.17	10.98	8.65	6.82	5.02	3.27	2.15	1.22	0.38	0.00
Percent debt service	416.94	343.13	225.08	184.84	146.01	125.92	53.05	38.49	23.05	7.66	0.00
Percent GDP	2.86	2.48	2.01	1.58	1.24	0.89	0.57	0.36	0.20	0.06	0.00
Percent quota	115.50	107.40	93.97	79.47	67.47	52.47	36.07	25.00	15.00	5.00	0.00
Net use of Fund credit											
Disbursements	12.48	-2.30	-3.82	-4.12	-3.41	-4.26	-4.66	-3.14	-2.84	-2.84	-1.42
Repayments and repurchases	14.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	1.72	2.30	3.82	4.12	3.41	4.26	4.66	3.14	2.84	2.84	1.42
(CFAF billions, unless otherwise indicated)											
Memorandum items:											
Nominal GDP	874.2	934.7	1,008.9	1,089.0	1,175.4	1,269.5	1,371.1	1,480.9	1,599.4	1,727.4	1,865.6
Exports of goods and services	146.1	163.4	184.7	198.6	213.8	225.8	238.4	251.8	266.0	281.0	294.6
Government revenue	114.4	123.4	134.0	145.9	158.8	170.3	185.2	200.6	217.7	237.1	259.2
External debt service	6.0	6.8	9.0	9.3	10.0	9.0	14.7	14.0	14.1	14.1	14.5
CFAF/SDR (period average)	762.5	759.5	759.7	760.9	760.9	760.9	760.9	760.9	760.9	760.9	760.9
Quota (SDR millions)	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4

Source: IMF staff estimates and projections.

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

Annex I. Risk Assessment Matrix¹

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
External Risks			
<p>Unexpected shift in the Covid-19 pandemic.</p> <ul style="list-style-type: none"> <div style="display: flex; align-items: flex-start;"> <div style="flex: 1;"> <p>▪ Downside. The disease proves harder to eradicate (e.g., due to difficulties in finding/distributing a vaccine), requiring more containment efforts and impacting economic activity directly and through persistent behavioral changes (prompting costly reallocations of resources). Monetary and fiscal policy response is insufficient amid dwindling policy space and concerns about debt sustainability. Financial markets reassess real economy risks leading to a repricing of risk assets, unmasking of debt-related vulnerabilities, and weakening banks and nonbank financial intermediaries—forcing them to reduce credit (further weighing on growth). Financing difficulties extend to vulnerable sovereigns, leading to cascading debt defaults, capital outflows, depreciation pressures, and in some cases inflation. Pandemic-prompted protectionist actions (e.g., export controls) reemerge, disrupting trade and global value chains.</p> </div> <div style="flex: 0.2; text-align: center; background-color: #FF0000; color: white; padding: 5px; font-weight: bold; font-size: 1.2em;">High</div> </div> <div style="display: flex; align-items: flex-start;"> <div style="flex: 1;"> <p>▪ Upside. Alternatively, recovery from the pandemic is faster than expected due to the discovery of an effective and widely available vaccine and/or a faster-than-expected behavioral adjustment to the virus that boosts confidence and economic activity.</p> </div> <div style="flex: 0.2; text-align: center; background-color: #008000; color: white; padding: 5px; font-weight: bold; font-size: 1.2em;">Low</div> </div> 		High / ST	<ul style="list-style-type: none"> Prioritize spending towards health sector and social protection. Mobilize additional grants and concessional loans from development partners to cover more persistent external needs.
		<ul style="list-style-type: none"> A prolonged outbreak would have particularly large adverse impact in Guinea-Bissau. The limited health system may 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. The economy would benefit from the normalization of trade and revenue collection in addition to lower health expenditures. 	

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
<p>Intensified geopolitical tensions and security risks (e.g., in response to the pandemic) cause socio-economic and political disruption, disorderly migration, higher commodity prices (if supply is disrupted), and lower confidence.</p>	<p>Medium</p>	<p>Moderate / ST</p> <ul style="list-style-type: none"> Restrictions on the movement of food and basic goods across countries may cause shortages and price increases. Higher oil prices increase energy costs and worsen the external position. Limited financing inflows delay investment projects. 	<ul style="list-style-type: none"> Step up efforts to improve energy sector. Improve investment planning and resource management.
<p>Further adverse cashew nut price movements. A weaker than projected price recovery of the dominant export product would hamper economic recovery.</p>	<p>Medium</p>	<p>High / ST</p> <ul style="list-style-type: none"> Private sector incomes come under pressure, denting economic activity. Government revenues further diminish, leaving less room for priority spending. 	<ul style="list-style-type: none"> Control public expenses to compensate for lower revenues. Preserve social spending focused on the most vulnerable. Step up diversification efforts.
Domestic Risks			
<p>Continued weaknesses in state-owned enterprises. EAGB, in particular, has been a long-standing problem.</p>	<p>Medium</p>	<p>Moderate / ST</p> <ul style="list-style-type: none"> Limited and expensive electricity and water supply. Contingent liabilities adding to fiscal pressures. 	<ul style="list-style-type: none"> Implement credible strategy to improve management of public enterprises. Improve governance, transparency and accountability.
<p>Banking instability, arising from high NPLs, and bank's undercapitalization.</p>	<p>Medium</p>	<p>High / ST</p> <ul style="list-style-type: none"> Limited credit extension hampers investment and growth. Potential contingent liabilities adding to fiscal pressures. 	<ul style="list-style-type: none"> Enhance banking supervision and enforce prudential regulations. Improve processes and procedures for collection of debts and collateral.

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
<p>Widespread social discontent and political instability. Social tensions erupt as the pandemic and inadequate policy response cause economic hardship (including unemployment, higher incidence of poverty, and shortages and higher prices of essentials) and exacerbate preexisting socioeconomic inequities. Economic activity is disrupted. Growing political polarization and instability weaken policymaking and confidence.</p>	<p>Medium</p>	<p>High / ST, MT</p> <ul style="list-style-type: none"> • Delayed fiscal adjustment. • Limited financing inflows delay investment projects. • Supply disruptions and weaker confidence. 	<ul style="list-style-type: none"> • Enhance targeted social policies and strengthen social safety nets • Avoid early withdrawal of fiscal and financial incentives supporting households and companies impacted by the pandemic. • Improve governance, transparency and accountability and fighting corruption.
<p>Higher frequency and severity of natural disasters related to climate change cause severe economic damage to the economy disrupting infrastructure, livelihoods and food production of the most vulnerable people. A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.</p>	<p>Medium</p>	<p>High / ST, MT</p> <ul style="list-style-type: none"> • Harm cashew production worsening the livelihood of people in rural areas. • Higher recovery spending, higher financing costs, and lower revenues. • Supply disruptions and weaker confidence. 	<ul style="list-style-type: none"> • Address infrastructure gaps and income/developmental disparities among regions, while instituting appropriate social safety nets. • Promote investment in climate resilient infrastructure.

Annex II. Capacity Development Strategy

- 1. The COVID-19 pandemic has underscored the need for continued CD assistance on ongoing workstreams to improve fiscal governance and debt sustainability.** The specific objectives have not changed because they already address weaknesses in core functions. This strategy meets the authorities' demands for assistance.
- 2. In FY2021, increased political stability opens a window of opportunity for sustained buy-in.** While remote missions need to be maintained during the pandemic, medium term CD will be delivered by long-term resident advisors fluent in Portuguese and hands-on training to better address capacity constraints. To ensure effectiveness of CD initiatives, coordination within the Fund and with outside partners will remain a priority.

Key Overall CD Priorities Going Forward

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

Main risks and mitigation

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

Authorities' views

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

Appendix I. Letter of Intent

Bissau, January 4, 2021

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

Madame Managing Director:

Guinea-Bissau is being severely impacted by the COVID-19 global pandemic. After the 2019 terms-of-trade shock, this crisis looms large over our structurally fragile economy, highly dependent on raw cashew nut exports. To protect our citizens, 67 percent of which live below the poverty line, the government has rapidly put in place strong containment measures. Specifically, on March 18, 2020 we stopped flights to Bissau and closed the international borders, schools and outdoor markets, and on March 28 we declared a state of emergency across the country which has delayed the launch of the annual cashew campaign. Despite our determined efforts, the number of people that have contracted the disease has gradually increased (as of December 7 there were 2444 confirmed cases and 44 deaths). Were the disease to spread more widely, the loss of lives could be substantial given our very weak health system. The government has already allocated some resources to upgrade our healthcare services (CFAF 4.7 billion, equivalent to US\$ 8.2 million), and provided cash and in-kind food assistance to support the most vulnerable households (CFAF 686 million, equivalent to US\$ 1.2 million). In addition, the government has prepared a response plan to contain the spread of COVID-19 and strengthen its medical care capacity, in close cooperation with the World Health Organization and other development partners. The perverse effects of the pandemic have been compounded by recent floods that have damaged our basic infrastructure and our agricultural sector, especially of rice production, an essentially subsistence farming crop in Guinea-Bissau.

Our ability to effectively respond to the crisis is severely limited by the drop in international demand for cashew nuts, the domestic containment measures and the long-standing capacity constraints of our public sector. We anticipate that economic activity will contract by 2.4 percent in 2020, compared to 4.5 percent growth in 2019. This will weigh heavily on our public finances and the balance of payments. Against depressed tax revenue and tight cash availability, spending will need to increase—reflecting the unanticipated health-related expenditure, the need to provide food assistance, alleviate liquidity constraints in the economy through clearance of domestic arrears, and support the cashew nut sector. In particular, to strengthen the health system, our objective is to finance a total of CFAF 21.3 billion (US\$37.1 million) in health-related expenses. The government has also increased the targeted number of families to benefit from food supply from an initial 3,000 to 20,000. As a result, we expect the cash fiscal deficit to deteriorate to 10 percent of GDP in 2020. We have rolled out a program to support the financing of the cashew nut campaign by on-lending resources through the banking sector that further increases our financing needs by 1.8 percent of

GDP. As a result, we estimate a financing gap of about 8.8 percent of GDP. On the external sector, the residual need for urgent financing balance of payments support resulting from the shocks is estimated at about CFAF 61.4 billion, or 7.5 percent of GDP. These gaps will be covered through international support and regional banks.

Despite the projected 3 percent economic growth in 2021, the need to sustain the recovery by protecting lives and livelihoods requires to cover a fiscal gap of CFAF 39.6 billion, or 4.5 percent of GDP; and a balance of payment financing need of CFAF 44.1 billion, or 5 percent of GDP.

Against this backdrop, the Government of Guinea-Bissau would like to request financial assistance from the IMF under the Rapid Credit Facility (RCF) in the amount of SDR 14.2 million, corresponding to about US\$19.5 million or 50 percent of our quota with the Fund. This financial support from the IMF would help to ease the urgent balance of payment need and the pressure on our fiscal position, while providing some fiscal space necessary to fight the spread of the virus, support economic activity and meet the needs of the most vulnerable segments of the population. The financial assistance under the RCF will cover part of the projected financing needs and will play a key catalytic role with other donors expected to cover the remaining financing needs.

The Government has also requested to join the Debt Service Suspension Initiative (DSSI) and, expects enhancing debt sustainability prospects. We commit spending the freed resources on COVID-related health or economic relief and monitoring of such; disclosing public sector debt as per to GFSM 2014 to the IMF/WBG; and fully complying with the limits on non-concessional debt agreed under the IMF Debt Limit Policy (DLP) or the WBG Sustainable Development Financing Policy, but not more.

We would request that the funds be disbursed as direct budget support to a dedicated account at the Central Bank (BCEAO). A monthly report on all drawings from the account at the BCEAO will be published. The BCEAO's latest safeguards assessments, which remains valid, was finalized in 2018 and the next one will be performed in 2022 following the four-year cycle.

We officially requested a Staff-Monitored Program (SMP) to the IMF on December 22, 2020 which we hope will be discussed during the first quarter of 2021 to support our economic program. The SMP will help us to build a strong track record to request an Extended Credit Facility (ECF) by the end of 2021 or early 2022 to back our ambitious reform program reinforcing fiscal governance and transparency based on the recent technical assistance on governance concluded by the Fund. While our reforms seek to support our continued objective of a growth-friendly fiscal adjustment, we will initiate an ambitious consolidation effort based on the 2021 budget that will be adopted by the parliament by year-end boosting revenue performance and reducing public debt as a share of GDP. Also, in the context of the reengagement with the IMF, we are committed to enhance revenue mobilization as indicated by meeting a prior action to the RCF request on the adoption of the Ministerial Order (Despacho n. 044/GMF/2020) approving the Imposto Geral sobre Vendas (IGV)'s Electronic Tax Return starting on January 1st, 2021. This measure will complement ongoing IMF TA supporting the improvement of revenue mobilization.

The government of Guinea-Bissau remains firmly committed to maintaining macroeconomic stability and fostering growth. Notwithstanding the urgent need to increase public spending to contain the pandemic and support the economy, we are keenly aware of the need to contain fiscal imbalances going forward to maintain public debt sustainability. Thus, once the current shock has been overcome, we will continue our standing policy of reducing the fiscal deficit over time consistent with converging to the WAEMU criteria of 3 percent of GDP maximum overall central government deficit, which remains our key fiscal anchor, by 2024 and to debt ratio ceiling of 70 percent of GDP by 2025. The government is committed to implementing additional actions if downside risks materialize, including further rationalization of non-essential expenditure and delaying non-urgent capital spending, to protect lives and livelihoods while preserving macroeconomic stability.

In line with the recommendations in the 2020 IMF Technical Report on Governance and Anti-corruption, which we have published on the Ministry of Finance's website (www.mef.gw), we are committed to strengthen fiscal governance and transparency to ensure that the additional budgetary allocations related to COVID-19 are spent appropriately. To that end, we have reestablished the Treasury Committee, which approves all expenditure related to COVID-19. In addition, all COVID-19 related spending are managed using a dedicated account at the BCEAO to facilitate traceability and accountability; will be subject to an ex-post independent audit by a reputable third-party auditor who will work jointly with the audit court (Tribunal de Contas) (with the terms of reference to be agreed in consultation with IMF staff) and published within 9 months after the end of the fiscal year on the government's website; and are reflected in the 2020 budget that was submitted and approved by Parliament on September 9, 2020. The government will also publish bimonthly reports on COVID-19 expenditure, and all COVID-19 related procurement contracts will be published on the government's website, within one week of the procurement being awarded, with the name of the awarded companies, the names and nationalities of their beneficial owners, the specific nature of the goods or services procured, their price per unit, and the overall contract amount. Delivery reports for goods and services, including the list of suppliers and contractors, will be published on the government's website within three months of the end of the execution period for each contract. We have established reporting processes for the allocation of resources on-lent to the banks to support the cashew nut sector during the pandemic in 2020.

The regional central bank (BCEAO) adopted several measures to preserve financial stability and provide additional liquidity. These include: introducing a full allotment strategy at a fixed interest rate of 2.5 percent and subsequently of 2 percent from June 24, 2020, thereby allowing banks to satisfy their liquidity fully at a lower cost; extending the collateral framework to access central bank refinancing; setting-up a framework with the banking system to support firms with COVID-19 repayment difficulties; allocating FCFA 25 billion to the trust fund of the West African Development Bank (BOAD) to increase the amount of concessional loans to eligible countries to finance urgent investment and equipment expenses; communicating on the special program for refinancing bank credits granted to SMEs; initiating negotiations with firms issuing electronic money to encourage its usage; and ensuring adequate provision of banknotes for satisfactory ATM operation. In addition, the BCEAO launched a special 3-month refinancing window for limited amounts of 3-month "COVID-19 T-Bills" to be issued by each WAEMU sovereign to help meet funding needs related to

the current pandemic. On May 7, we issued CFAF 15 billion in COVID-19 T-bills at an average effective rate of 3 percent. The proceeds were on lent to commercial banks to support the cashew nut sector and will be repaid as loans from IFIs are disbursed.

We are committed to work closely with the regional supervisor to restore the soundness and viability of a systemically important bank, that remains undercapitalized, at the least possible cost to the treasury. We will also coordinate with the Fund to assess all options. In this connection, we have shared with Fund staff the bank's business plan and the provisional 2019 financial accounts.

We will continue to maintain the dialogue with the IMF, comply with the provisions of the IMF's Articles of Agreement, and do not intend introduce or intensify exchange and trade restrictions and other measures or policies that would compound Guinea-Bissau's balance of payments difficulties.

We authorize the IMF to publish this letter and the forthcoming staff report for the request for a disbursement under the RCF.

Sincerely yours,

/s/

João Alage Mamadú FADIA
Minister of Finance
Guinea-Bissau



GUINEA-BISSAU

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

January 25, 2021

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

Prepared jointly by the Staffs of the International Monetary Fund and the International Development Association ^{1, 2}

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

Guinea-Bissau’s risk of external debt distress is high, a downgrade from the moderate rating in the May 2018 DSA. The overall risk of debt distress remains high. Debt indicators have significantly deteriorated due to a combination of factors: an upward revision of the debt stock at end-2017 reflecting better coverage and improved data; a rise in concessional lending from multilaterals for infrastructure projects; higher fiscal deficits in 2018–19; increased reliance on borrowing from regional banks; and the adverse impact of the COVID-19 pandemic.

In 2020 GDP is expected to contract by 2.4 percent as the global economic slowdown is weighing on cashew nut exports and foreign direct investment, along with the substantial adverse impact of lockdown measures on domestic non-cashew activity and retail trade. Together with the need for increased health and social spending, this has opened large balance of payments and fiscal gaps addressed by increased recourse to concessional

¹ The previous DSA was dated May 16, 2018 (IMF Country Report No. 18/147). No DSA was prepared since the expiration of the ECF program in 2019 which was followed by a period of political uncertainty. This DSA applies the revised LIC-DSA framework introduced in late 2018 and reflects a GDP rebasing.

² The DSA compares the evolution of debt-burden indications against thresholds and benchmarks pre-determined by the country’s debt-carrying capacity. This capacity is classified as weak for Guinea-Bissau based on a Composite Indicator (CI) encompassing four macroeconomic indicators with data from the October 2020 WEO and the WB’s 2019 Country Policy and Institutional Assessment (CPIA) rating.

foreign and non-concessional domestic borrowing. The macro framework underpinning the DSA assumes a gradual economic recovery from the pandemic supported by the anticipated rebound of international cashew markets and higher public and private investment.

The present value (PV) of public and publicly guaranteed (PPG) debt relative to GDPs exhibits a prolonged and substantial breach of its indicative benchmark for weak debt carrying capacity LICs. However, WAEMU currency union safeguards are an important supporting factor for Guinea-Bissau's debt carrying capacity, which is not sufficiently captured by the standard indicators. Indeed, considering that (i) the country benefits from financial and technical support from the regional debt market institutions and larger regional members with strong debt carrying capacity; (ii) the PV of public debt shows a consistent downward trend from 2021 onwards under the baseline scenario, and (iii) the external DSA indicators for extra-regional debt are consistent with sustainability (in the sense of remaining below the thresholds over the medium-term), public debt is assessed as sustainable on a forward-looking basis.

This conclusion is contingent on the authorities' strong commitment to an ambitious, yet feasible, fiscal adjustment post-pandemic, aiming to bring the fiscal deficit within the 3 percent of GDP WAEMU convergence criterion by 2024, together with multilateral donor support in the form of announced grants and concessional financing as well as possible debt reprofiling. Adoption and strong implementation of a Fund's Staff Monitored Program (SMP) followed by an Extended Credit Facility (ECF), is essential to support the authorities' commitment.

The baseline downward trend would further improve with full multilateral donor re-engagement leading to (i) a significant additional scaling up of grants and highly concessional lending; and (ii) a reprofiling of debt obligations to extend maturities and reduce interest rates (as done in the past and following completion of ongoing discussions).

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). The fragile socio-political context could undermine the authorities' long-term adherence to macroeconomic stability and prudent fiscal policies and constitute an additional downside risk. If realized, all these risks could lead to weaker external and public debt indicators and may put into question debt sustainability.

BACKGROUND

A. Public Debt Coverage

1. The perimeter of central government debt has been expanded to include external legacy arrears. Compared to the previous DSA, the end-2017 stock of external debt as a percent of GDP has increased by 5.9 percentage points while the stock of domestic debt as a percent of GDP decreased by 2.6 percentage points, reflecting calculation adjustments and improved data reported by the authorities.

External legacy arrears (2.7 percent of GDP in 2019) are pre-HIPC debts that the authorities have been seeking to renegotiate and have gradually been resolving.³ Data limitations prevent expanding public debt coverage to SOEs (Text Table 1), but in general they have had limited access to borrow and are not likely to represent a major contingent liability for government. A notable exception is the state-owned electricity and water utility (EAGB) that has debts estimated at 3 percent of GDP but on which there is limited information.⁴

Text Table 1. 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	

2. The DSA is conducted on a currency basis. In line with practice for most WAEMU countries⁵, debt issued in domestic currency in the regional market is treated as domestic debt for the purpose of this DSA. The stock of such treasury securities (held by both local and regional banks) at end-2019 was CFAF 86.2 billion, equivalent to 24 percent of domestic debt or 10.2 percent of GDP. Debt in CFAF to the West African Bank for Development (BOAD) is also treated as domestic debt (15.8 percent of GDP at end-2019).

B. Debt Developments

3. Guinea-Bissau's public debt burden fell during 2014-17 but rose in 2018-19 because of larger fiscal deficits and increased concessional borrowing for infrastructure projects. The ratio of public debt to GDP rose by an estimated 16.8 percentage points between end-2017 and end 2019. This reflected (i) a sharp increase of the government deficit (on commitment basis from 1.3 percent of GDP in 2017 to 4.9 percent of GDP in 2018 and 3.9 percent in 2019) along with lower real GDP growth (estimated at 3.4

³ Guinea-Bissau has external arrears, totaling USD\$ 38.55 million at end-2019 to Angola, Brazil, Russia, and Pakistan for longstanding debts that were not covered in the HIPC process. The government has actively sought debt rescheduling agreements with all debtors. In 2017, Guinea-Bissau secured extensive debt relief on arrears of USD\$ 43.2 million to Taiwan P.C. In 2018, a debt rescheduling agreement was reached with Libya for arrears of USD\$ 6.9 million with limited net debt relief. The restructuring of debt to Brazil (USD\$ 1.9 million) is awaiting the approval of the Brazilian Senate. Negotiations continue with Angola (for USD\$ 32.9 million arrears), Pakistan (USD\$ 2.2 million) and Russia (USD\$ 1.5 million). This DSA includes some conservative repayment assumptions that will be revised once rescheduling agreements are reached.

⁴ Government clearance of EAGB debt amounted to CFAF 6.6 billion in 2017, CFAF 2.5 billion in 2018 and CFAF 5.9 billion in 2019. In 2020 this amount is currently estimated at CFAF 6 billion. Also in 2020, the government has guaranteed a CFAF 5.5 billion loan to EAGB as part of a 8-years debt service restructuring agreement with a local commercial bank. EAGB has been strictly complying with the debt amortization schedule. This guarantee is included in the DSA. EAGB is with WB support implementing a Management Improvement Plan and a financial restructuring plan. It is expected that both will yield by end-2021 a more accurate assessment of the utility's stock of debt upon which consider the extension of DSA debt coverage.

⁵ For DSA purposes debt in CFAF to BOAD is treated as external debt for Mali, Niger and Burkina Faso.

percent in 2018 and 4.5 percent in 2019, down from an average 5.4 percent in 2015-2017);⁶ and (ii) borrowing mostly from the World Bank and other multilaterals as well as BOAD (11.2 percentage points increase in 2017-2019) to finance investments in energy (18 percent), other infrastructure (61 percent) and rural development (15 percent).

Text Table 2. Guinea Bissau: Total Public Debt

	2017	2018	2019	2020	2017	2018	2019	2020
	Act.	Act.	Prel.	Proj.	Act.	Act.	Prel.	Proj.
	<i>(Billions of CFAF)</i>				<i>(Percent of GDP)</i>			
Central Government Debt	426.9	495.2	564.7	645.9	50.0	59.2	66.9	78.4
External	148.0	182.5	213.2	223.6	17.3	21.8	25.3	27.1
Multilateral	83.8	115.7	144.8	161.2	9.8	13.8	17.2	19.6
IMF	17.7	19.3	18.5	15.4	2.1	2.3	2.2	1.9
IDA	21.0	48.5	69.1	83.1	2.5	5.8	8.2	10.1
AfDB	18.4	19.7	32.9	31.9	2.2	2.4	3.9	3.9
Others (IDB, BADEA, IFAD, etc.)	26.6	28.2	24.3	30.8	3.1	3.4	2.9	3.7
Bilateral	64.2	66.8	68.4	62.4	7.5	8.0	8.1	7.6
Paris Club	1.6	2.0	2.0	1.9	0.2	0.2	0.2	0.2
Non-Paris Club ¹	62.7	64.8	66.3	60.5	7.3	7.8	7.9	7.3
of which Legacy Arrears ²	24.3	22.4	22.8	21.0	2.8	2.7	2.7	2.5
Domestic	278.9	312.6	351.5	422.3	32.7	37.4	41.7	51.2
BOAD	107.3	123.0	133.0	153.9	12.6	14.7	15.8	18.7
Local Banking System	112.2	114.6	128.1	96.7	13.1	13.7	15.2	11.7
BCEAO	94.6	94.6	94.6	94.6	11.1	11.3	11.2	11.5
Loans local commercial banks	5.6	15.5	20.9	-	0.7	1.9	2.5	-
Treasury Securities held by local banks	12.0	4.5	12.5	2.0	1.4	0.5	1.5	0.2
Treasury Securities held by regional banks	37.5	55.4	73.7	157.5	4.4	6.6	8.7	19.1
Payment Arrears	16.1	15.4	13.1	5.0	1.9	1.8	1.5	0.6
Guarantees	5.9	4.2	3.7	9.2	0.7	0.5	0.4	1.1

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

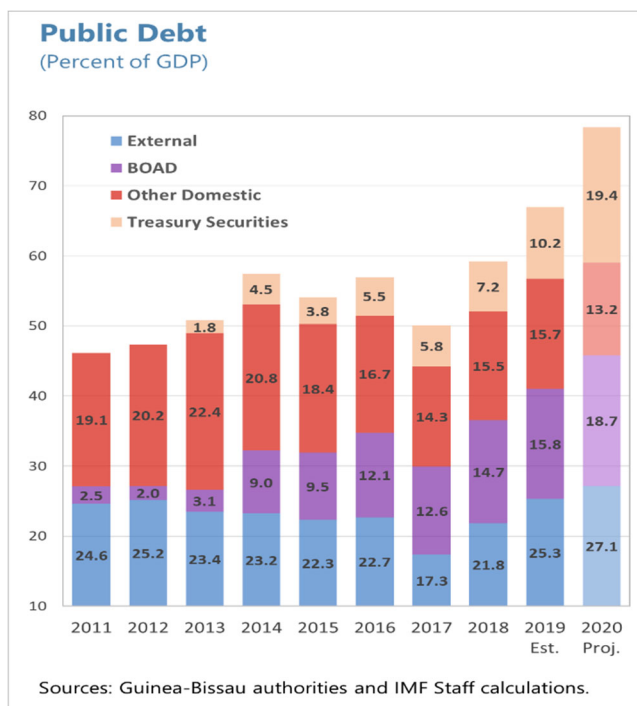
¹ Non-Paris Club: Angola, Exim Bank of India, Kuwait, Libya, Pakistan, Saudi Fund, Exim Bank of Taiwan P.C.

² Legacy Arrears are due to Brazil and Russia as well as Angola and Pakistan.

⁶ The higher deficit and lower real GDP growth rates during 2018–19 were in large part driven by a lower price of cashew (the dominant export product) that resulted in a slowdown in economic activity and in lower revenue.

4. Non-concessional domestic borrowing has risen on the back of larger investment projects and the increased financing needs fueled by the COVID-19 pandemic (Text Table 2). Central

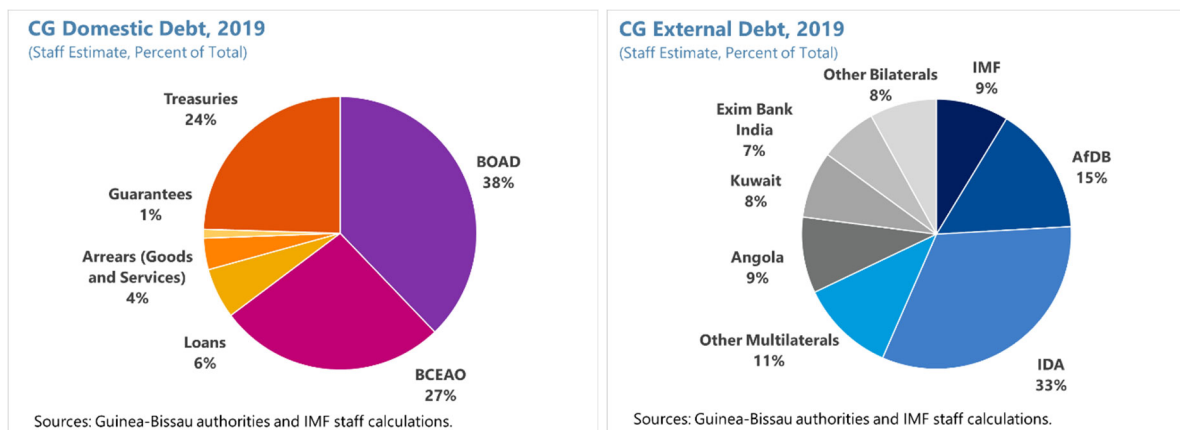
government domestic currency debt amounted to 41.7 percent of GDP at end-2019, up from 32.7 percent at end-2017. The largest source of net borrowing was Treasury securities, the stock of which rose by 4.4 percentage points of GDP during 2018–19, with the bulk purchased by commercial banks from elsewhere in WAEMU. In 2020, the stock of securities is projected to further grow by 9.2 percentage points of GDP fueled by increased COVID-related fiscal financing needs. The other main source of financing was BOAD, with increased financing in 2017–2019 of a series of road, power, and rural development projects, almost all on non-concessional terms.⁷ Debt to BOAD rose by 3.2 percentage points of GDP between 2017 and 2019. It is projected to increase by almost the same amount in 2020 mainly due



to two program loans to mitigate the impact of the COVID-19 pandemic. Other components of domestic debt, including debt to the regional central bank (BCEAO), loans from local commercial banks, domestic payment arrears, and government guarantees, are estimated to have decreased by a combined 1.2 percentage points of GDP during 2017–20.

5. External borrowing has also increased but remained mostly concessional. The stock of external debt increased to 25.3 percent of GDP at end-2019, with almost all new borrowing on concessional terms. The main source of external financing has been the World Bank, which accounted for 71 percent of the increase in external debt since 2017, mainly for financing for regional infrastructure and energy interconnection projects. This included borrowing to fund the government participation in a public-private telecommunications project (2 percent of GDP in 2018) which was not reflected in the government deficit. Altogether, multilaterals held 68 percent of Guinea-Bissau's external debt at end-2019. The remaining external debt was bilateral, mainly to non-Paris Club creditors and including legacy arrears (2.7 percent of GDP) that the authorities are seeking to resolve (Para. 5). In 2020, the stock of external debt is projected to rise by only 1.8 percent of GDP driven by project and program loans from the World Bank and the Islamic Development Bank (IDB) for COVID-19 assistance.

⁷ A loan is considered concessional if its grant element is at least equal to 35 percent. The grant element is defined as the difference between the loan's nominal value (face value) and the sum of the discounted future debt-service payments to be made by the borrower (present value), expressed as a percentage of the loan's face value.



6. A large pipeline of contracted project loans remains undisbursed. The stock of contracted but undisbursed debt amounted to CFAF 182 billion (22 percent of GDP) at end-2019, about half of which stems from concessional loans contracted with the World Bank. Many of these projects were not reflected in the public investment plan even as loan documents assumed rapid implementation. In practice, capacity constraints and lack of budgetary allocation for government co-financing has entailed implementation delays.

C. Macroeconomic Forecasts

7. The baseline scenario underpinning this DSA assumes a gradual economic recovery from the pandemic in 2021-22 and includes a significant frontloaded fiscal adjustment during 2021-25 (Text Table 3). GDP is expected to contract by 2.4 percent in 2020 as the global economic slowdown is

weighing on cashew nuts exports and foreign direct investment, along with the substantial adverse impact of COVID lockdown measures on domestic non-cashew activity and retail trade and the impact of devastating floods in basic infrastructure and agricultural production. A gradual economic recovery is expected thereafter. Assuming the pandemic subsides by mid-2021, growth is expected to reach 3 percent with the gradual lifting of containment measures and recovery of the international cashew market. Growth converges to the 5 percent potential by

Text Table 3. Key Macroeconomic Projections
(in percent of GDP, unless otherwise indicated)

	2017	2018	2019 Prel.	2020 Proj.	Medium Term (first six years)	Long Term ¹
Real GDP growth (percent)						
Previous DSA	5.9	5.3	5.2	5.0	5.0	5.0
Current DSA	4.8	3.4	4.5	-2.4	3.3	5.0
Primary fiscal balance						
Previous DSA	-1.0	-2.1	-2.0	-1.8	-1.8	-2.1
Current DSA	-0.8	-4.3	-2.8	-7.5	-2.4	-0.9
Non-interest current account balance						
Previous DSA	-0.3	-3.1	-2.2	-2.0	-1.9	-2.9
Current DSA	0.4	-3.3	-8.4	-9.9	-5.6	-3.1
External debt						
Previous DSA	12.4	12.0	12.2	12.8	14.6	17.9
Current DSA	17.3	21.8	25.3	27.1	24.9	16.2
Domestic debt						
Previous DSA	37.7	38.3	36.6	34.5	30.7	20.5
Current DSA	32.7	37.4	41.7	51.2	38.4	42.4

Source: Bissau-Guinean authorities and staff estimates.
¹ Covers the period 2025-39 for current DSA, 2024-38 for the previous DSA (dated May 16, 2018).

2023 supported by anticipated increases in public and private investment, favorable terms of trade, structural reforms and enhancements in the business environment. Average price inflation is projected to

accelerate to 2 percent from 0.3 percent in 2019 reflecting pressures on prices of essential goods due to disruptions to international trade which would be only offset by weaker demand. The non-interest current account deficit is projected to widen to 9.9 percent of GDP in 2020, and is expected to be financed by grants and loans from international financial institutions (IFIs), and additional borrowing from regional commercial banks. Consistent with the authorities' commitment to consolidate and improve medium-term debt sustainability, an average 1.6 percentage points of GDP adjustment in the primary fiscal balance (commitment basis) is projected over the next three years. As discussed in the accompanying staff report, about a quarter of this fiscal consolidation would come from revenue raising measures (both tax policy and tax administration), and the remainder from measures containing the growth of current spending (including the public wage bill).

8. Government borrowing over time is projected to shift towards concessional project financing. Given the large pipeline of contracted yet undisbursed investment project loans, bringing down public debt would require spreading disbursements over the next five years and downsizing some projects. Contracting of new loans is expected to be constrained during this period. Gross annual project disbursements from loans and grants are assumed to finance capital expenditure within 6.5 percent of GDP, given the low absorption capacity. In the medium term, in line with the government's policy to prioritize low cost funding, project financing is expected to be provided mainly by multilateral external creditors on concessional terms. Borrowing from BOAD, which is almost entirely non-concessional, is projected to decline significantly. The baseline assumes strengthened investment planning and execution to ensure value for money and better alignment with the budget process. Residual financing needs are assumed to be filled by Treasury securities with longer maturities, with interest rates projected at 5.8 percent for 3-year bonds and 6.3 percent for 5-years bond, in line with the trend of improved financing conditions shown in recent auction results.

9. The macroeconomic outlook is highly uncertain and subject to significant downside risks. It is contingent on the pandemic subsiding globally and locally by mid-2021. A deeper or more prolonged duration globally or in Guinea-Bissau would worsen the outlook. Were this to materialize, social tensions would increase and could trigger renewed political instability, hampering the recovery process. On the external front, short-term risks include a weaker than projected recovery of the cashew nut market and spillovers from regional measures to contain the pandemic. More broadly, Guinea-Bissau is structurally vulnerable to terms-of-trade shocks and climate change risks. On the domestic side, the possible lack of authorities' adherence to macroeconomic stability and prudent fiscal policies constitute a substantial risk. Financial stress in state-owned enterprises and banking fragilities could generate contingent liabilities adding to fiscal pressures. Weak governance, low institutional capacity and the business environment could deter consumption and official and private investment flows.

10. The macroeconomic scenario is broadly realistic. Reflecting Guinea-Bissau's dependence on agricultural exports, the current account deficit in 2020-25 is projected to contribute to external debt accumulation, in contrast with the past five years dynamics⁸. This driver of debt is expected to be offset by

⁸ In 2015-19 the current account deficit averaged 2.1 percent of GDP on the back of high international cashew prices in 2015-18 followed by a negative terms of trade shock. Overall, the external outlook helped contain debt

increased reliance on grants and concessional loans (Figure 3). It is assumed that multilateral donors will prioritize concessional lending 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 projected 3-year adjustment in the primary deficit is in line with historical data from LICs with Fund-supported programs (Figure 4). Actual fiscal results are however highly volatile in Guinea-Bissau⁹. Real GDP growth is projected to gradually rise to 5 percent consistent 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.

D. Country Classification and Determination of Stress Test Scenarios

11. Guinea-Bissau is assessed to have weak debt carrying capacity, unchanged from the 2018 DSA. The Composite Indicator (CI) score for Guinea-Bissau is 2.49, based on data on four macroeconomic indicators from the October 2020 WEO and a ten-year (2015-24) average of the World Bank's Country Policy and Institutional Assessment (CPIA), thus pointing to a weak debt-carrying capacity. The thresholds and benchmarks to assess the external and overall debt risk rating have been revised per the LIC-DSA Framework for the current DSA methodology (Text Table 4).

Text Table 4. Change in Thresholds and Benchmarks for Guinea Bissau

WEAK capacity	Previous DSA	Current DSA
EXTERNAL Debt Burden Thresholds		
Present value of debt in percent of		
Exports	100	140
GDP	30	30
Debt service in percent of		
Exports	15	10
Revenue	18	14
TOTAL Public Debt Benchmark		
Present value of total public debt in percent of GDP	38	35

12. The magnitude of the combined contingent liability shock has been increased (Text Table 5). This DSA runs a stress test with a contingent liability shock of 5 percent of GDP instead of the default value of 2 percent. The shock mostly captures the potential liabilities related to the possible recapitalization needs of a systemic bank that does not meet the WAEMU's minimum capital requirements. The shock also reflects the potential fiscal costs of operational losses of the electricity utility (EAGB) and the possibility of the domestic arrears being larger than what is already included in the debt stock (1.5 percent of GDP at end-2019). The current estimate builds on an audit that stills needs to be validated by the authorities.

accumulation. The relatively higher 2020-25 projected average for the current account deficit would imply higher debt flows.

⁹ Past forecast errors are mostly explained by unexpected changes in the primary deficit driven by aleatory cashew campaigns and the impact of political instability on the implementation of reforms.

Text Table 5. 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	Increased from 2 and 5 to reflect potential liabilities linked to bank recapitalisation needs, EAGB and domestic arrears.
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	5	
4 PPP	35 percent of PPP stock	0	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
Total (2+3+4+5) (in percent of GDP)		10.0	

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

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

13. Guinea-Bissau's risk of external debt distress is high, a downgrade from the moderate rating in the 2018 DSA. The share of external debt remains relatively small at 27.1 percent of GDP at end-2019, and all external debt indicators remain below the relevant indicative thresholds throughout the projection period (2020–40) under the baseline scenario. Under the most extreme shock scenario (a standard adverse export shock) the PV of debt-to-exports ratio breaches the threshold for two years, implying a mechanical 'moderate' rating. However, Guinea Bissau faces substantial additional vulnerabilities that are not captured by this mechanical rating and which justify a 'high' external risk rating. These include large downside risks to the macro baseline given the nature of the current COVID-19 crisis; high public debt, a large share of which is held by non-residents but denominated in CFAF, and hence not captured in the external DSA conducted on a currency basis; the structural vulnerabilities in the political domain; and the fact that the external DSA excludes private debt.

14. A tailored adverse commodity price stress test was designed to reflect Guinea-Bissau's vulnerability to cashew price fluctuations. It shows the debt sustainability prospects after a hypothetical 15 percent fall in cashew export prices in the first year of projection (Figure 1). Prices in 2020 cashew campaign have fallen by an estimated 8.9 percent. However, its trajectory has been highly unpredictable due to international and domestic markets disruptions in the wake of the COVID pandemic and extensive floods in Guinea-Bissau. The cashew campaign is still ongoing due to a delayed start.

B. Public Debt Sustainability Analysis

15. 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 through 2040, a substantial and prolonged breach. Moreover, the debt service-to-revenue and grants ratio is projected to worsen from 54.8 percent in 2019 to 56.3 percent in 2020. This reflects mainly: (i) the impact of the COVID-19 crisis on revenue outcomes, (ii) amortization of short-term Treasury issuances amounting to 22 percent of revenues that were successfully rolled-over with new issuances of medium-term securities (3 and 5-year term), and (iii) escalating debt service costs due to the end of the grace period for several loans. To help alleviate that burden, BOAD provided a program loan equivalent to 8 percent of revenues and the IMF granted debt service relief through the Catastrophe Containment and Relief Trust (CCRT) amounting to 1.4 percent of revenues. There

is however a risk of external arrears accumulation¹⁰. The medium-term increase in debt service up to 66.7 percent of revenues in 2025 calls for efforts, as intended by the authorities, to seek debt reprofiling¹¹ and lower interest rates of external and domestic new borrowing. The current projection would significantly improve if ongoing and future debt management efforts were to succeed. In particular, the authorities' request on December 15 to join the Debt Service Suspension Initiative (DSSI) is expected to enhance debt sustainability prospects¹².

16. The Public debt sustainability is vulnerable to the combined contingent liability shock. For this shock, the PV of debt-to-GDP ratio reaches 75 percent in 2021 and the debt service-to-revenue ratio rises to 85 percent in 2026.

CONCLUSIONS

17. Without significant and sustained fiscal adjustment and external support, Guinea-Bissau's debt is set to remain elevated, constraining development prospects. Guinea-Bissau's debt indicators have significantly deteriorated relative to the May 2018 DSA. This reflects a combination of higher stock of debt at end-2017 from better coverage, and higher fiscal deficits in 2018-19. In 2020, the pandemic has led to a sharp decline in exports and foreign direct investment, which have further weakened the balance of payments and are weighing heavily on economic activity. Addressing the crisis has required a strong response from the authorities to increase health and social spending. All of the above has resulted in significant additional external and fiscal financing needs in 2020 addressed by increased recourse to concessional foreign and non-concessional domestic borrowing. The growing cost of debt service constrains fiscal space and the implementation of much needed social and infrastructure spending to progress in the achievement of the 2030 sustainable development goals (SDGs).

18. Public debt is considered sustainable on a forward-looking sense based on the support provided by the regional institutions with strong capacity to manage debt. Guinea Bissau's external DSA indicators for *extra-regional debt* are consistent with sustainability (in the sense of staying over the medium term below the thresholds for a country assessed to have a low debt-carrying capacity), but public debt as a whole shows large and prolonged breaches of these benchmarks. Nonetheless, the country benefits from financial and technical support from the regional institutions and debt markets and larger regional currency union members with stronger debt carrying capacity.¹³ The supportive WAEMU context

¹⁰ In 2018 external arrears amounted to USD\$ 0.33 million. In 2019 Guinea-Bissau accumulated USD\$ 1.3 million external and USD\$ 5.2 million domestic debt service arrears. Due to financial constraints associated to the COVID pandemic, external arrears of US\$ 0.8 million are reported at end-2020. The authorities intend to resolve those arrears promptly in 2021.

¹¹ The baseline assumption incorporates the effect of a reprofiling agreement reached with Exim Bank India in 2020 for USD\$25 million as well as a conservative estimate of a similar arrangement with BOAD which is under discussion.

¹² The estimated impact of the DSSI on debt service projections has not been included in this DSA baseline scenario.

¹³ 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 50 percent of Guinea-Bissau's domestic debt at end-2019. Moreover, Guinea-Bissau's borrowing through WAEMU sovereign securities market is expected to account for an insignificant share of available

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.

19. Under staff's baseline scenario, Guinea Bissau's public debt is brought back to a sustainable path, with overall public debt falling below 70 percent of GDP, the regional convergence criteria, by 2025. If the policy agenda is successfully executed, and barring a more protracted pandemic, total public debt would decline steadily from 78.4 percent of GDP projected at end-2020 to 69.6 percent of GDP by 2025.

20. Achieving the baseline projection will require significant policy actions underpinned by a Fund program and strong multilateral donor engagement. Key policy actions include (i) vigorous fiscal consolidation efforts including revenue enhancement measures, containing current spending below nominal GDP growth, and continued implementation of growth-enhancing reforms; (ii) prudent borrowing policies, including avoidance of non-concessional project financing; (iii) enhanced debt management, with more rigorous compilation and monitoring of debts, upgraded procedures and publication of regular debt reports to improve transparency¹⁴; 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 and concessional lending by multilateral institutions ; and (ii) a reprofiling of selected debt obligations to extend maturities and reduce interest rates (which the authorities are actively discussing with various development partners). There are as well significant downside risks to the baseline scenario, as strong and sustained political commitment is needed to deliver the envisaged medium-term fiscal adjustment embedded in the framework. In addition, the risk of a more prolonged fallout from the COVID-19 pandemic is high.

AUTHORITIES' VIEWS

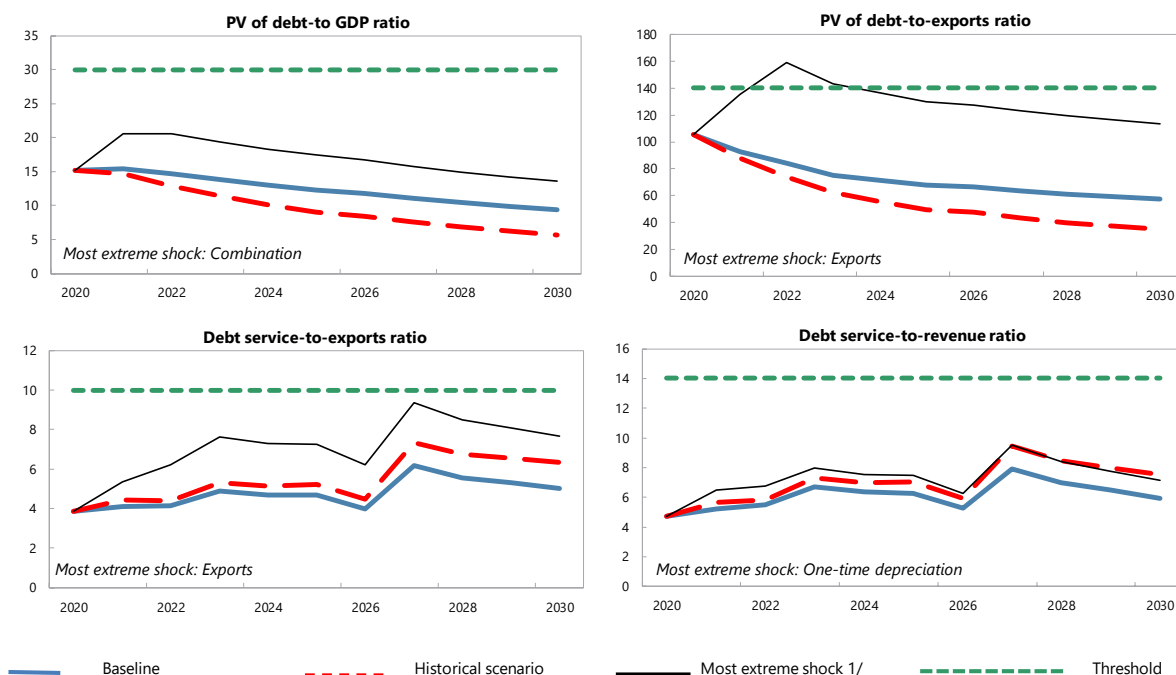
21. The authorities broadly concur with staff's views on debt sustainability and the recommendations. They agree that debt sustainability depends crucially on sound macroeconomic policies including a strong and sustained fiscal consolidation. They emphasized that the pace of public investment would be determined by available external concessional resources. Thus, some risks identified in this DSA may not materialize. The authorities recognize the risks to the debt outlook and would like to

regional financing to the 8 countries in this currency union. Between January and September 2020 Guinea-Bissau raised CFAF 101 billion or just 1.6 percent of total gross issuances of this market.

¹⁴ The authorities are with support from UNCTAD expected to fully deploy the new Debt Management and Financial Analysis system (DEMFAS) in 2021 to upgrade their current limited debt monitoring and reporting capacity. The authorities will also undertake a Debt Management Performance Assessment (DEMPA) with assistance from the WB in 2021. Guinea-Bissau recently has and will continue to receive substantial technical assistance from the IMF and the WB to improve its reporting to the International Debt Statistics (IDS) and the Quarterly External Debt Statistics (QEDS).

request financial assistance from the IMF under the Rapid Credit Facility (RCF) in the amount of SDR 14.2 million. They intend to subsequently request a Staff-Monitored Program (SMP) to support their economic program and build a strong track record to pave the way to an arrangement under the Extended Credit Facility (ECF) as soon as conditions allow.

Figure 1. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2020–30



Customization of Default Settings		
	Size	Interactions
Standardized Tests	Yes	
Tailored Stress	Yes	
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	0.8%	0.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	31	30
Avg. grace period	6	10

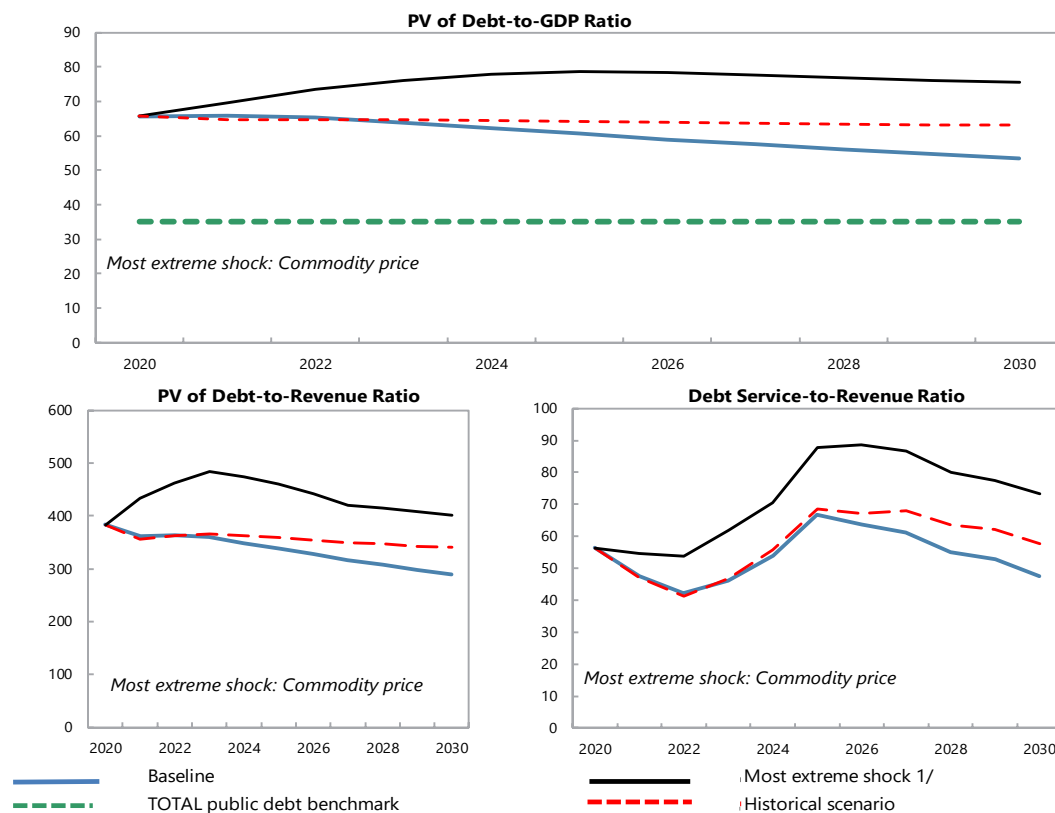
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

Figure 2. Guinea-Bissau: Indicators of Public Debt Under Alternative Scenarios, 2020–30



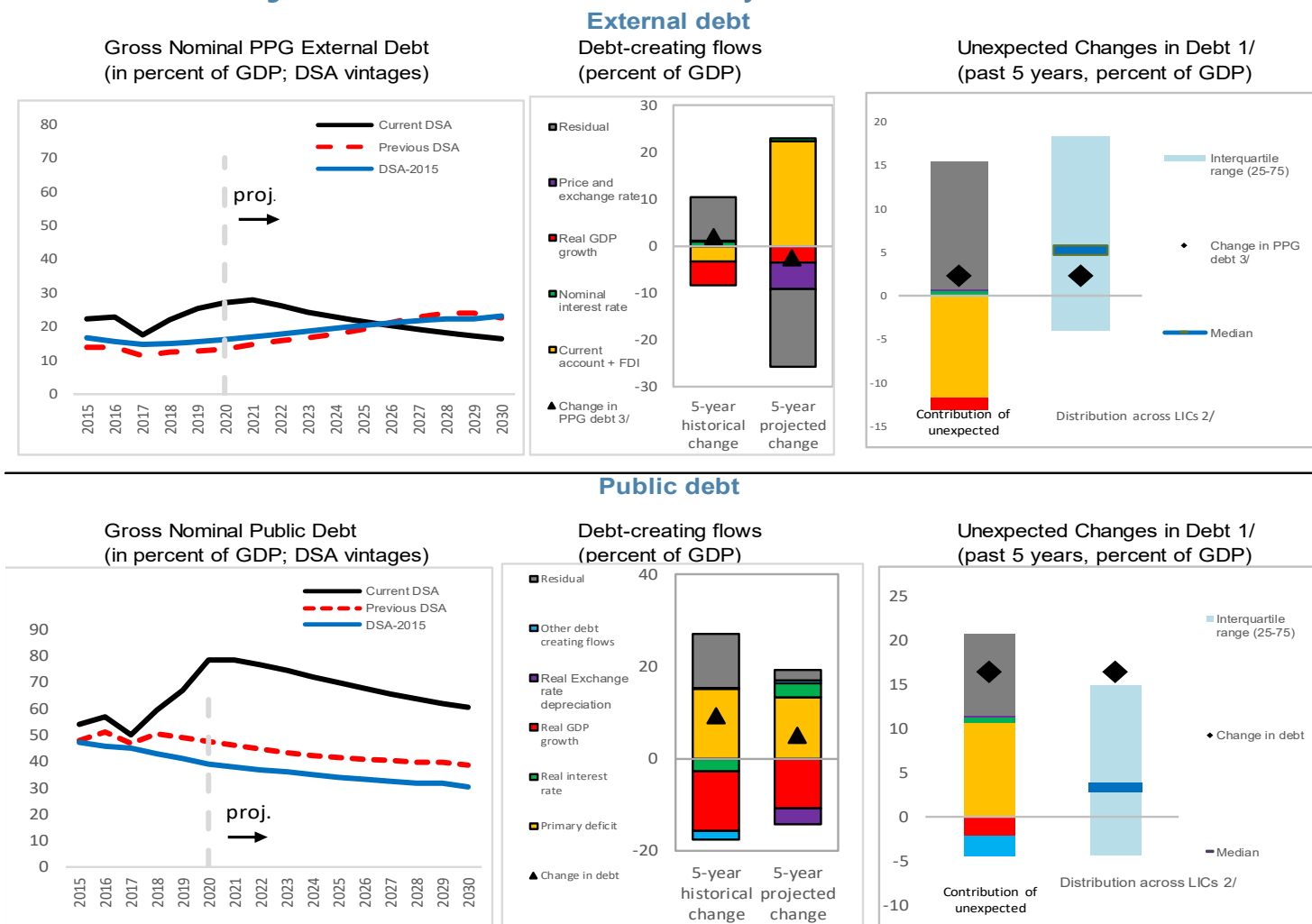
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	13%	13%
Domestic medium and long-term	67%	67%
Domestic short-term	21%	21%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
Avg. maturity (incl. grace period)	31	30
Avg. grace period	6	10
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.3%	3.3%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	2.8%	2.8%

* 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 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



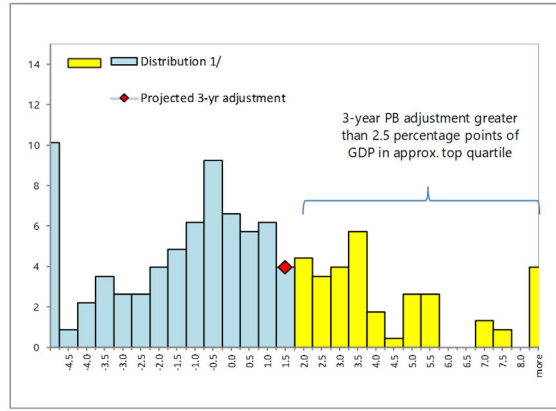
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

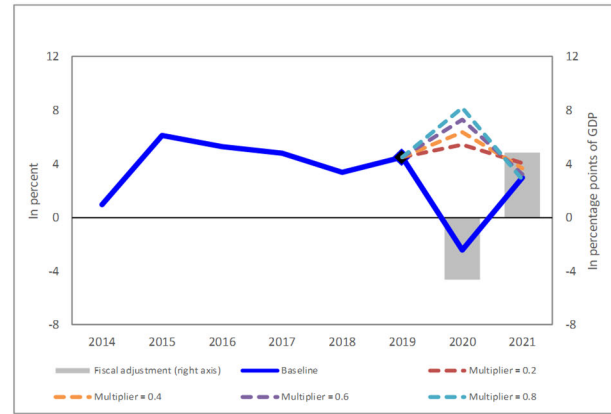
Figure 4. Guinea-Bissau: Realism tools

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



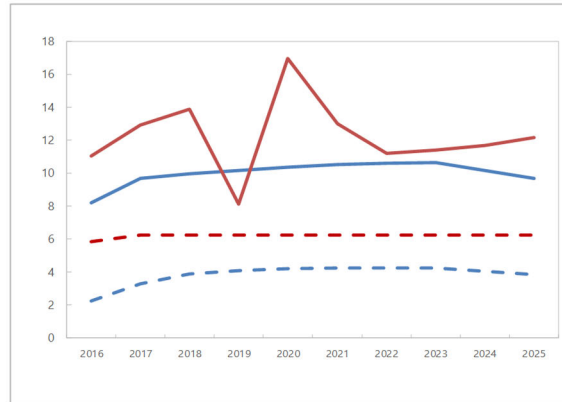
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



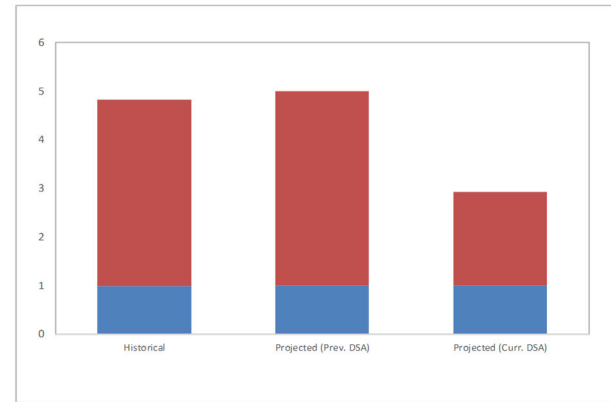
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Gov. Invest. - Prev. DSA Gov. Invest. - Curr. DSA
Priv. Invest. - Prev. DSA Priv. Invest. - Curr. DSA

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



Contribution of other factors
Contribution of government capital

Table 2. Guinea-Bissau: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–40
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	50.0	59.2	66.9	78.4	78.4	76.7	74.3	71.9	69.6	60.4	49.9	55.2	69.9
of which: external debt	17.3	21.8	25.3	27.1	27.9	26.1	24.2	22.7	21.4	16.3	13.5	24.1	21.8
Change in public sector debt	-6.9	9.2	7.7	11.4	0.0	-1.7	-2.4	-2.5	-2.3	-1.6	-0.7		
Identified debt-creating flows	-11.4	6.7	4.1	9.2	0.0	-1.7	-2.4	-2.5	-2.3	-1.6	-0.7	-10.5	-0.8
Primary deficit	0.8	4.3	2.8	7.5	2.6	1.2	1.0	0.9	1.0	0.9	1.0	2.2	1.8
Revenue and grants	16.8	15.2	15.4	17.2	18.2	18.0	17.8	17.8	17.9	18.5	19.5	15.7	18.0
of which: grants	5.0	3.6	2.9	5.4	5.1	4.8	4.5	4.4	4.4	4.8	4.7		
Primary (noninterest) expenditure	17.6	19.5	18.2	24.6	20.8	19.2	18.8	18.8	18.9	19.4	20.5	17.9	19.8
Automatic debt dynamics	-9.5	2.6	0.9	1.1	-2.6	-2.9	-3.4	-3.4	-3.3	-2.5	-1.7		
Contribution from interest rate/growth differential	-5.6	0.6	-0.7	2.8	-1.8	-2.4	-3.1	-3.2	-3.1	-2.0	-1.3		
of which: contribution from average real interest rate	-3.0	2.2	1.8	1.1	0.5	0.6	0.6	0.4	0.3	1.0	1.1		
of which: contribution from real GDP growth	-2.6	-1.6	-2.6	1.6	-2.3	-3.0	-3.7	-3.5	-3.4	-3.0	-2.4		
Contribution from real exchange rate depreciation	-3.8	2.1	1.7	...	...	...	...	...	...	...	...
Other identified debt-creating flows	-2.8	-0.2	0.4	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-10.0	0.1
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)	0.1	-0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-2.9	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	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	4.5	2.5	3.6	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.4	0.0
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	55.0	65.7	65.9	65.2	63.9	62.2	60.6	53.5	44.2		
PV of public debt-to-revenue and grants ratio	...	...	356.4	382.7	361.5	363.4	359.3	348.4	338.2	289.6	226.3		
Debt service-to-revenue and grants ratio 3/	42.0	35.1	54.8	56.3	47.5	42.3	46.0	54.0	66.7	47.6	37.4		
Gross financing need 4/	5.1	9.4	11.6	17.8	11.3	8.8	9.2	10.6	13.0	9.7	8.3		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.8	3.4	4.5	-2.4	3.0	4.0	5.0	5.0	5.0	5.0	5.0	4.0	4.1
Average nominal interest rate on external debt (in percent)	0.8	1.4	0.7	0.5	0.7	0.5	0.5	0.5	0.5	0.7	0.8	0.7	0.6
Average real interest rate on domestic debt (in percent)	-8.6	7.4	5.7	3.2	1.8	1.9	1.9	1.4	1.3	1.9	2.7	-1.8	1.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-17.8	12.4	8.0	...	...	...	...	...	...	...	...	1.7	...
Inflation rate (GDP deflator, in percent)	10.4	-5.2	-3.5	0.1	3.0	2.8	2.8	2.8	2.8	2.9	2.9	3.3	2.6
Growth of real primary spending (deflated by GDP deflator, in percent)	-6.8	14.1	-2.0	31.7	-12.9	-4.3	3.0	5.0	5.8	5.3	5.1	6.1	5.1
Primary deficit that stabilizes the debt-to-GDP ratio 5/	7.8	-4.9	-4.9	-4.0	2.6	2.9	3.4	3.4	3.3	2.5	1.7	-0.7	2.3
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 stabilize the debt ratio only in the year in question.

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

Table 3. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–30
(In percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to-GDP ratio											
Baseline	15	15	15	14	13	12	12	11	10	10	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	15	15	13	11	10	9	8	8	7	6	6
B. Bound Tests											
B1. Real GDP growth	15	16	16	15	14	13	13	12	11	11	10
B2. Primary balance	15	16	15	14	13	13	12	11	11	10	10
B3. Exports	15	18	20	19	18	17	16	15	15	14	13
B4. Other flows 3/	15	18	19	18	17	16	16	15	14	13	13
B5. Depreciation	15	19	15	14	13	13	12	11	11	10	9
B6. Combination of B1-B5	15	21	21	19	18	17	17	16	15	14	14
C. Tailored Tests											
C1. Combined contingent liabilities	15	16	15	15	14	13	13	12	12	11	11
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	15	16	15	14	13	12	11	10	9	8	7
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	106	92	84	75	71	68	66	64	61	59	58
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	106	88	74	62	56	50	48	44	40	37	35
B. Bound Tests											
B1. Real GDP growth	106	92	84	75	71	68	66	64	61	59	58
B2. Primary balance	106	93	85	76	73	69	68	65	63	62	60
B3. Exports	106	135	159	143	136	130	128	123	119	116	114
B4. Other flows 3/	106	106	109	98	93	89	87	84	82	79	78
B5. Depreciation	106	92	71	63	60	56	55	52	50	49	47
B6. Combination of B1-B5	106	141	106	126	120	114	112	108	105	102	100
C. Tailored Tests											
C1. Combined contingent liabilities	106	96	88	79	76	73	73	70	68	67	66
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	106	91	85	76	71	66	63	58	53	49	45
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	4	4	5	5	5	4	6	6	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	4	4	4	5	5	5	4	7	7	7	6
B. Bound Tests											
B1. Real GDP growth	4	4	4	5	5	5	4	6	6	5	5
B2. Primary balance	4	4	4	5	5	5	4	6	6	5	5
B3. Exports	4	5	6	8	7	7	6	9	8	8	8
B4. Other flows 3/	4	4	4	5	5	5	4	6	6	6	5
B5. Depreciation	4	4	4	5	4	4	4	6	5	5	5
B6. Combination of B1-B5	4	5	6	7	7	7	6	9	8	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	4	4	4	5	5	5	4	6	6	5	5
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	4	4	5	5	5	4	6	6	5	5
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	5	5	7	6	6	5	8	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	5	6	6	7	7	7	6	9	8	8	8
B. Bound Tests											
B1. Real GDP growth	5	5	6	7	7	7	6	9	8	7	6
B2. Primary balance	5	5	5	7	6	6	5	8	7	6	6
B3. Exports	5	5	6	8	7	7	6	9	8	7	7
B4. Other flows 3/	5	5	6	7	7	7	6	8	7	7	6
B5. Depreciation	5	6	7	8	8	7	6	10	8	8	7
B6. Combination of B1-B5	5	6	7	8	8	7	6	9	8	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	6	7	6	6	5	8	7	7	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	5	6	7	8	8	7	6	8	7	7	6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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, 2020–30
 (In percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	66	66	65	64	62	61	59	58	56	55	54
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	66	65	65	65	64	64	64	64	63	63	63
B. Bound Tests											
B1. Real GDP growth	66	69	73	72	72	71	70	70	69	68	68
B2. Primary balance	66	67	68	66	65	63	61	60	58	57	56
B3. Exports	66	68	70	68	66	65	63	61	60	58	57
B4. Other flows 3/	66	68	70	68	66	64	63	61	60	58	57
B5. Depreciation	66	66	64	62	60	57	55	53	51	49	48
B6. Combination of B1-B5	66	65	65	63	61	59	58	56	55	54	52
C. Tailored Tests											
C1. Combined contingent liabilities	66	75	74	73	71	69	67	65	64	62	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	66	70	73	76	78	79	78	78	77	76	75
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	383	362	363	359	348	338	328	316	308	298	290
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	383	356	362	365	362	359	355	349	347	343	340
B. Bound Tests											
B1. Real GDP growth	383	376	396	398	392	387	381	374	370	363	359
B2. Primary balance	383	369	378	374	362	352	341	329	320	310	301
B3. Exports	383	372	388	383	371	360	349	337	328	317	308
B4. Other flows 3/	383	374	387	382	371	360	348	336	327	316	307
B5. Depreciation	383	369	363	355	340	326	314	299	287	274	263
B6. Combination of B1-B5	383	358	363	354	343	333	323	312	303	294	285
C. Tailored Tests											
C1. Combined contingent liabilities	383	413	414	409	397	385	372	358	349	337	327
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	383	433	462	484	474	460	442	420	415	408	402
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	56	47	42	46	54	67	64	61	55	53	48
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	56	47	41	47	56	69	67	68	64	62	58
B. Bound Tests											
B1. Real GDP growth	56	49	46	51	60	75	74	73	67	66	61
B2. Primary balance	56	47	44	49	55	70	69	66	57	55	51
B3. Exports	56	47	42	46	54	67	64	62	55	53	48
B4. Other flows 3/	56	47	42	46	54	67	64	62	55	53	48
B5. Depreciation	56	46	41	44	52	64	60	59	54	51	46
B6. Combination of B1-B5	56	46	42	45	53	66	63	61	54	52	47
C. Tailored Tests											
C1. Combined contingent liabilities	56	47	56	51	58	84	85	72	61	61	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	56	55	54	62	71	88	89	87	80	78	73
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.



GUINEA-BISSAU

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—INFORMATIONAL ANNEX

January 11, 2020

Prepared By

The African Department
(In Consultation with Other Departments)

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RELATIONS WITH THE IMF

(As of December 31, 2020)

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)	24.38	85.84
Reserve Tranche Position	4.04	14.23
SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	13.60	100.00
Holdings	18.17	133.52
Outstanding purchases and Loans:	SDR Million	Percent Quota
RCF Loans	2.84	10.00
ECF Arrangements	17.48	61.55

Latest 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 Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
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				
	2021	2022	2023	2024	2025
Principal	1.72	2.30	3.82	4.12	3.41
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	1.72	2.30	3.82	4.12	3.41

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)

Delivery Date	Eligible Debt		
	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 Relief (CCR):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

Safeguards Assessments:

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAEMU). The BCEAO's latest safeguards assessments, which remains valid, was finalized in April 2018 and the next one will be performed in 2022 following the four-year cycle. The assessment found that overall the central bank has maintained a strong control culture. The central bank has implemented two recommendations (out of three) from the 2018 safeguards assessment: (i) improving reporting to Audit Committee from the Internal Audit Department; and (ii) incorporating an accounting expert to the Audit Committee. The outstanding recommendation relates to the finalization of the harmonization project in risk management, which is in process. The financial statements are timely prepared in accordance with the International Financial Reporting Standards (IFRS) and published in its website.

Exchange System and Exchange Rate Arrangement

Guinea Bissau accepted the obligations of Article VIII, Sections 2, 3, and 4 with effect from January 1, 1997. It joined the WAEMU in 1997 and has no separate legal tender. The exchange arrangement of the WAEMU countries is classified as a conventional peg. The exchange system is free from multiple currency practices and exchange restrictions on the making of payments and transfers for current international transactions. Since January 1, 1999, the CFA franc has been pegged to the Euro at a fixed rate of € 1 = CFAF 655.957. On June 15, 2020, the rate of the CFA franc in terms of the SDR was CFAF 804.44 = SDR 1.

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 10–October 3, 2017. The staff report was discussed by the Executive Board and the consultation was concluded on December 11, 2017.

Resident Representative

Mr. Patrick Gitton assumed his duties in September 2019.

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

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

A. World Bank

<https://www.worldbank.org/en/country/guineabissau>

World Bank Group Projects:

https://projects.worldbank.org/en/projects-operations/projects-list?lang=en&searchTerm=&countrycode_exact=GW

B. African Development Bank

<https://www.afdb.org/en/countries/west-africa/guinea-bissau>

**Statement by Mr. Andrianarivelo, Mr. Sylla, and Mr. Lopes Varela on Guinea-Bissau
January 25, 2021**

We thank staff for the constructive engagement with the Bissau-Guinean authorities and the insightful set of reports. We also appreciate Management and the Executive Board's continued support to Guinea-Bissau, which has been critical to helping the country tackle the numerous challenges associated with fragility, particularly during these unprecedented times.

The Covid-19 pandemic has taken a severe toll on the fragile economy of Guinea-Bissau, at a time when it was already weathering a shock caused by the collapse of cashew prices. These shocks, along with the recent floods and the containment and mitigation measures introduced by the government, have resulted in a drastic fall in economic activity. At the same time, substantial fiscal and external financing gaps emerged. Furthermore, tighter global conditions, a sudden drop in the demand for cashew nuts, and the extent and severity of the pandemic have weakened the outlook further.

Against this backdrop, the authorities are requesting the Fund's emergency assistance under the Rapid Credit Facility (RCF) in the amount of SDR 14.2 million, equivalent to 50 percent of quota to help cover part of the sizeable and urgent financing needs arising from these shocks. The IMF disbursement will also help catalyze much-needed assistance from other development partners. The authorities have also requested debt service suspension from official creditors under the G-20 Debt Service Suspension Initiative (DSSI).

Impact of the Pandemic and Prospects

In early 2020, Guinea-Bissau's economy was expected to recover after a period of decline in cashew nuts prices that severely impacted growth in 2018 and 2019. Real GDP growth was forecast to reach 4.9 percent on the back of a strong cashew campaign and higher cashew nuts prices. The external and fiscal positions were also expected to improve, with the current account deficit projected to narrow to 4.5 percent of GDP from 8.6 percent in 2019, supported by improved terms of trade. Furthermore, the fiscal cash deficit was estimated to decrease to 5.4 percent of GDP compared to after-shock projection of 10 percent.

The COVID-19 pandemic has severely impacted Guinea-Bissau's economy. The authorities have acted swiftly to declare a state of emergency and calamity and introduced strong measures to contain the spread of the virus, protect lives and vulnerable groups. They closed international borders as well as schools and markets while also restricting movements and social gatherings. They have also elaborated and implemented a Covid-19 contingency plan with the World Health Organization and other development partners' assistance to contain the spread of the virus and provide the needed medical supplies. As of January 18, 2021, there were 2,510 cases in the country, with 45 confirmed deaths for a population of only 1.8 million.

At the same time, Guinea-Bissau was also severely affected by the weaker external demand for cashew nuts (which represents over 90 percent of exports) and the effects of the recent floods. The latter has put the main crops at risk, including rice, a major staple food. These shocks, along with prevention and containment measures, have taken a heavy toll on the fragile economy of Guinea-Bissau, leading to a recession in 2020. As a result, real GDP is expected to contract by 2.4 percent in 2020 against 4.9 percent growth initially projected and 4.5 percent recorded in 2019. This recession has hurt fiscal revenues. Together with COVID-19 related expenditures, they are putting a heavy burden on public finances and giving rise to significant fiscal and balance of payment needs. Consequently, the balance of payments and fiscal gaps are expected to widen to 7.5 and 8.8 percent of GDP, respectively.

Policy Response to the Pandemic

Fiscal Policy

The authorities' top priority has been to contain the virus outbreak and address its impact on the most vulnerable and the economy. As an immediate response, they implemented a set of fiscal measures to accommodate health-related expenses and cash support to vulnerable groups, including food supply to 20,000 families. The government has also devoted resources to clear arrears and supported the cashew nut sector to resume the cashew campaign, which had been at a standstill due to lack of funds. The budget allocation to meet all these needs is estimated to amount to 5.2 percent of GDP in 2020.

The authorities are firmly committed to fiscal transparency and reporting of all pandemic-related resources to ensure that these funds are used as planned, specifically to support their response efforts and help meet urgent financing needs. In this regard, they are requesting that the RCF be disbursed directly to a devoted account at the Central Bank to ensure these funds' traceability and accountability; they have reestablished the Treasury Committee, a body that will approve all expenditures, including the ones related to COVID-19. The authorities will ensure that an independent firm conducts an ex-post audit of all pandemic-related spending with the support of the National Audit Court (Tribunal de Contas). The findings will be posted on their official website nine months after the fiscal year ends. They will also publish procurement contracts and all relevant information on the awarded companies and the amount dispensed as well as all related pandemic-related spending reports. They will also implement transparent approval and reporting processes to monitor the allocation of resources on-lent to the banks aimed at supporting the cashew nut sector during the

pandemic. Furthermore, they are fully committed to implementing the recommendations comprised in the 2020 IMF Technical Report on Governance and Anti-corruption to reinforce fiscal governance and transparency.

Looking ahead, the authorities are committed to resuming fiscal consolidation once the crisis recedes and bringing the deficit to 3 percent of GDP in 2024, consistent with the WAEMU convergence criterion and the debt-to-GDP ratio ceiling of 70 percent by 2025. Meanwhile, they plan to embark on a pro-growth fiscal adjustment, starting with the parliament's approved 2021 budget in December. The budget seeks to reduce the fiscal cash deficit to 7.6 percent of GDP and raise tax revenue to 9.8 percent of GDP, including through the implementation of the Ministerial Decree that approves the Sales Tax Electronic Return starting on January 1, 2021, in line with the Fund's TA recommendation. Other adjustment efforts will come from the spending side, particularly from ongoing reductions in the wage bill through freezing salary growth and new hires, lowering transfers to SOEs, and improving expenditures control. Furthermore, in case of a shortfall in donor support, the authorities will redouble their efforts to rationalize non-priority spending and scale back non-urgent public investments to help meet their fiscal targets.

The authorities took note of the Debt Sustainability Analysis (DSA), which indicates that the overall risk of debt distress is high. They are committed to pursuing fiscal consolidation to preserve debt sustainability. In this regard, they intend to rely on grants and concessional borrowing for financing and continue extending the debt maturity profile as part of their debt management strategy.

Financial Sector Policies

The regional Central Bank (BCEAO) has adopted various measures to address liquidity pressures and preserve financial stability in the Union. Among others, these measures include introducing a full allotment strategy at a fixed interest rate of 2.5 percent, cutting the policy rate and interest rate corridor to ease monetary stance further, and extending the collateral framework to access central bank refinancing. Moreover, BCEAO launched a special 3-month "COVID-19 T-Bills" to help meet the current pandemic's funding needs. The authorities took advantage of the latter by issuing CFAF 15 billion in COVID-19 T-bills at an average effective rate of 3 percent to support the cashew sector companies' typical financing through on-lending resources by the commercial banks. Nevertheless, the authorities are mindful of remaining vulnerabilities in the financial sector stemming from undercapitalized banks and NPLs. To this end, they reiterate their strong commitment to work in close collaboration with regional authorities to address these vulnerabilities and readiness to implement any measures deemed necessary to ensure compliance with regulatory norms.

Conclusion

In response to the pandemic, the government's immediate priorities have been to protect lives and mitigate the effects of the shocks on the most vulnerable and the economy. Going forward, they reiterate their firm commitment to sound policies and are looking forward to a strengthened partnership and engagement with the Fund. To that end, they have requested a

Staff-Monitored Program (SMP). The SMP will be instrumental in supporting their economic program and building a strong track record of policy implementation before transitioning to a subsequent Extended Credit Facility (ECF) as soon as possible. This will also help them frame the economic policy for the coming years, strengthen the country's resilience to shocks, and the authorities' efforts to gradually reduce the cashew dependency and diversify the economy while promoting strong and inclusive economic growth. They reiterate that Guinea-Bissau cannot overcome its fragility and challenges without support from the international community and emphasize the importance of the Fund's catalytical role in helping fill the remaining financing gaps.

In light of the above, the authorities seek Executive Directors' favorable consideration of their emergency assistance request under the RCF.