



GUINEA-BISSAU

FIRST REVIEW UNDER THE STAFF MONITORED PROGRAM

November 2021

In the context of the First Review Under the Staff Monitored Program, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF following discussions that ended on October 11, 2021, with the officials of Guinea-Bissau on economic developments and policies underpinning the IMF arrangement under the Staff-Monitored Program. Based on information available at the time of these discussions, the Staff Report was completed on November 5, 2021.

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

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

FOR IMMEDIATE RELEASE

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

Washington, DC – November 30, 2021: The Management of the IMF approved on November 9, 2021 the completion of the first review of Guinea Bissau's SMP.¹ The SMP, which was [approved on July 19, 2021](#), supports the government's home-grown program of reforms aimed at stabilizing the economy, improving competitiveness, and strengthening governance.

Guinea Bissau's economic conditions are improving on the back of higher cashew nut exports. Growth has been revised upwards in 2020 and is projected to accelerate to 3¾ percent in 2021. The improvement in business confidence associated with a more stable political situation should contribute to sustain the recovery.

The authorities have made satisfactory progress on their reform program despite difficult socio-economic conditions compounded by the COVID-19 pandemic. In a context of very constrained resources, they have managed to achieve relatively high levels of vaccination compared to other Sub-Saharan African countries.

Fiscal deficit is expected to be contained to about 5¼ percent of GDP in 2021, which would be a substantial fiscal adjustment in line with program objectives. Stronger revenue mobilization and expenditure containment including in the wage bill are expected to continue creating fiscal space and crowding-in donor support to protect social spending in education, health, pandemic-related expenditures, and to initiate key infrastructure investments.

Timely implementation of governance and transparency reforms are key for the SMP success and for addressing long-standing socioeconomic challenges. This includes measures to strengthen expenditure control, tax and custom frameworks, fight against corruption and mitigation of State-Owned Enterprises' risks. Amendment of the legal procurement framework and the asset declaration regime are also important measures embedded in the SMP.

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

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



GUINEA-BISSAU

FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM

EXECUTIVE SUMMARY

Context. After two years of protracted political turmoil and delays in reforms, the authorities put in place in 2021 an ambitious fiscal consolidation program to ensure debt sustainability while creating fiscal space to address vast developmental needs. In late July, a 9-month SMP was approved to support the government's reform program aimed at stabilizing the economy, strengthening governance, and building a sound track-record of policy implementation towards an Extended Credit Facility (ECF) arrangement. Guinea-Bissau is a fragile state with considerable needs to address the COVID-19 pandemic and developmental challenges. A Rapid Credit Facility (RCF) disbursement of SDR 14.2 million (50 percent of quota) was approved in January to provide urgent financing to support critical spending in health and catalyze additional donor resources. The RCF disbursement, the recent SDR 27.2 million allocation (96 percent of quota) and reforms underpinned by the SMP are contributing to address the adverse impact of the pandemic, improve government spending transparency and mitigate debt vulnerabilities, and create conditions that would help restore donor confidence and catalyze much-needed concessional financing.

SMP review. The review focused on policies aimed to ensure debt sustainability, create fiscal space for priority and public investment spending and enhance governance and anticorruption frameworks. Program performance at end-June 2021 was satisfactory. All but two end-June quantitative target (QTs) were met. Despite efforts to contain the wage bill and achieve the tax collection floor, the domestic primary balance ceiling was missed mainly due to higher COVID-related expenditures and the need to improve service delivery in health and education sectors. There was also a small accumulation of external arrears. The authorities have taken steps to meet all end-year proposed targets and clear all external arrears. All structural benchmarks (SBs) were met. The BOP and fiscal gaps for 2021, identified at the time of SMP approval, are estimated to have been closed because of the SDR allocation.

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

November 17, 2021

Approved By
Annalisa Fedelino
(AFR) and Craig
Beaumont (SPR)

An IMF team consisting of Jose Gijon (Head), Pedro Maciel, Leonardo Pio Perez, Harold Zavarce (all AFR), Koon Hui Tee (FAD), Patrick Gitton (Resident Representative) and Gaston Fonseca (local economist) held discussions by teleconferences with the authorities. The mission met with H.E. President Sissoco Embaló, Vice-Prime Minister Sambú, the Minister of Finance Fadia, BCEAO National Director Embalo, and High Commissioner for COVID-19 Robalo. The team also met with officials from the Ministries of Finance, Economy, Public Administration, the National Direction of the BCEAO, the National Institute of Statistics, the Financial Intelligence Unit, other officials, and representatives of development partners. The mission took place during September 28–October 11, 2021. Mr. Varela (Advisor to the Executive Director, OED) participated in the policy discussions. Fairiza Jaghori and Tomas Picca (all AFR) contributed to the preparation of this report.

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CONTEXT

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

- *COVID-19.* By end-October, there were 6,134 confirmed cases and 141 deaths. The authorities have been taking actions to protect the population and limit the economic impact of COVID-19, including a recently declared state of calamity to prevent the spread of the third wave of infections because of the acceleration of case numbers in September (Text Figure 1).¹
- *Vaccination.* In coordination with donors, Guinea-Bissau launched a national vaccine program in April 2021 using the AstraZeneca vaccines. By end-October, a total of 139,369 vaccine doses have been administered² covering about 17 percent of the target population (about 700,000 people). 882,970 doses have been delivered to date (AstraZeneca, Johnson & Johnson, and Pfizer) provided by the African Union, COVAX, Sweden, and the United States. In addition, 200,000 Sinopharm doses are expected from China. COVID-19 vaccination campaign aims to reach 50 percent of the target population by end-December.
- *Political situation.* President Embaló appointed a new government in late February 2020 to address the impact of the pandemic and reengage with the international donor community.³ It was the first peaceful transition of power in Guinea-Bissau's history and security conditions so far have remained stable.

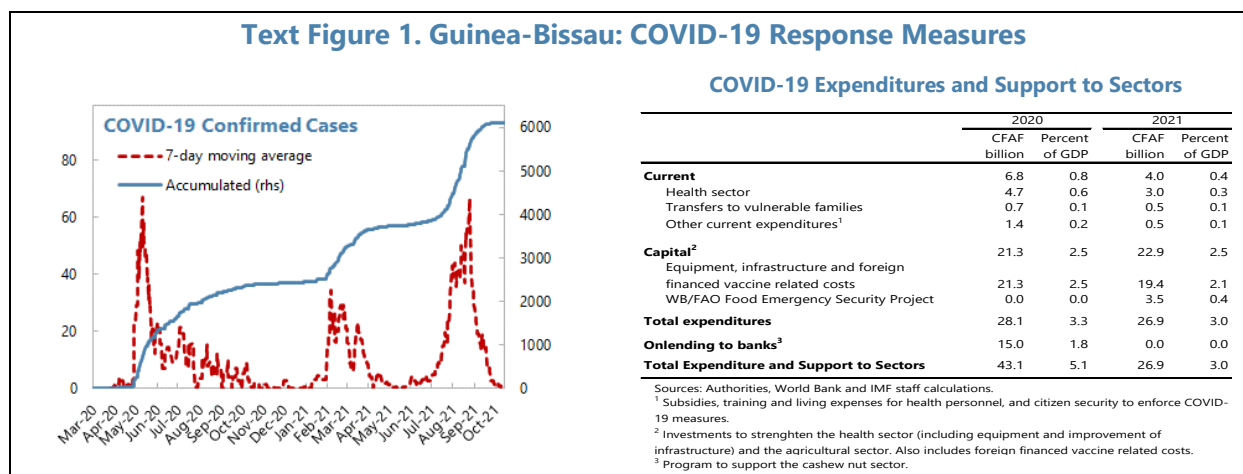
2. The authorities are pursuing a reform agenda to secure macroeconomic stability, strengthen social protection, and enhance governance. The Staff Monitored Program (SMP) is supporting the fiscal consolidation plan enacted in the 2021 and 2022 budgets which include measures to recover from the pandemic while preserving debt sustainability. The authorities are aware that successful program implementation hinges on strong governance reforms to fight corruption and enhance public finance transparency, accountability, and efficiency.

¹ See [IMF Country Report No. 21/172](#) for measures implemented (p.6) by the authorities and the regional central bank to fight the spread of COVID-19 and support the economy.

² As reported by the [WHO](#).

³ Former Prime Minister Umaro Sissoco Embaló won a highly contested Presidential election in December 2019 and his victory was officially recognized by the international community.

Text Figure 1. Guinea-Bissau: COVID-19 Response Measures



RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3. Despite the effects of the pandemic, growth has been revised upwards to 1.5 percent in 2020 and is projected to accelerate to 3¾ percent in 2021. In 2020, the performance of the of the construction and transportation sectors was better than originally expected. Moreover, liquidity support measures provided by the BCEAO, the regional central bank, also helped to support economic activity. In 2021, the cashew nut production, Guinea-Bissau's main export, is expected to reach historical record levels, with spillover effects on the fiscal and external accounts, and economic activity.⁴ The current account deficit is projected to drop from 8.1 percent in 2020 to 4.3 percent of GDP in 2021. Average price inflation is projected to accelerate to 2.4 percent in 2021 (Text Table 1), reflecting pressures on prices of imported goods, especially food and oil.

Text Table 1. Guinea-Bissau: Revised Macroframework

	2019	2020		2021	
	Est.	Pre-shock ¹ proj.	After shock estimates	Pre-shock proj.	After shock proj.
Real GDP (percent change)	4.5	4.9	1.5	5.0	3.8
GDP deflator (percent change)	-3.5	2.1	-1.0	3.6	2.7
CPI inflation, average (percent)	0.3	1.5	1.5	1.8	2.4
Current account (percent of GDP) ²	-8.8	-4.5	-8.1	-4.6	-4.3
Overall fiscal balance, commitment basis incl. grants (percent of GDP)	-3.9	-5.1	-9.2	-5.1	-5.2
Total public debt (percent of GDP)	65.9	71.5	77.1	71.1	77.0
<i>Memorandum items:</i>					
Nominal GDP (CFAF billion)	843	893	848	972	903
Cashew nut export prices (US\$ per ton)	1098	1140	1000	1180	1148
Cashew export volume (thousands of tons)	196	208	155	214	225

Sources: Guinea-Bissau authorities; and IMF staff estimates and projections.
 1/ Projections as of January 2020.
 2/ In 2019 the current account deficit includes the one-off import (3.5 percent of GDP) of a power-generation ship that is anchored off the coast of Bissau and supplies electricity to the city.

⁴ Cashew nut exports have contributed to the improvement of the external balance and have provided much needed extra income to at least 500,000 households of poor cashew farmers. This is also partly due to the measures taken by the government in 2020 to provide financing to the cashew sector since the onset of the pandemic. Guinea-Bissau exports are expected to grow by 34.5 percent year on year.

4. The improvement in the economic situation had positive impact in the fiscal accounts partially compensating pandemic-related spending pressures. Revenue performance was strong in 2021H1, on account of the economic recovery and greater revenue mobilization (Text Table 2). However, domestic primary deficit was higher-than-expected due to higher current expenditure in (i) wages and salaries, which reflected higher spending in the education sector reflecting hiring of teachers in rural areas; and (ii) higher spending to improve health services delivery and COVID-related expenses.^{5, 6}

	Projections ¹		Estimates		Difference	
	CFAF billion	Percent of GDP	CFAF billion	Percent of GDP	CFAF billion	Percent of GDP
Revenue and grants	71.5	7.9	71.9	8.0	0.4	0.0
Revenue	48.5	5.4	52.8	5.8	4.2	0.5
Tax revenue	38.2	4.2	41.7	4.6	3.5	0.4
Nontax revenue	10.3	1.1	11.1	1.2	0.7	0.1
Grants	23.0	2.5	19.1	2.1	-3.9	-0.4
Budget support	1.0	0.1	0.0	0.0	-1.0	-0.1
Project grants	21.1	2.3	18.2	2.0	-2.9	-0.3
Capital grants from CCRT	0.9	0.1	0.9	0.1	0.0	0.0
Expenditure	102.5	11.3	106.8	11.8	4.3	0.5
Expense	66.6	7.4	73.7	8.2	7.1	0.8
Wages and salaries	29.3	3.2	29.8	3.3	0.5	0.1
Goods and services	11.1	1.2	13.9	1.5	2.8	0.3
Transfers	12.2	1.3	12.6	1.4	0.4	0.0
Other	7.2	0.8	10.8	1.2	3.6	0.4
Interest	6.8	0.8	6.7	0.7	-0.1	0.0
Net acquisition of nonfinancial assets	35.9	4.0	33.1	3.7	-2.8	-0.3
Domestically financed	5.1	0.6	4.8	0.5	-0.3	0.0
Foreign Financed	30.8	3.4	28.3	3.1	-2.5	-0.3
Overall balance, including grants (commitment)	-30.9	-3.4	-34.9	-3.9	-4.0	-0.4
Change in arrears	-7.1	-0.8	-1.9	-0.2	5.2	0.6
Overall balance, including grants (cash)	-38.0	-4.2	-36.8	-4.1	1.2	0.1
Financing	38.0	4.2	36.8	4.1	-1.2	-0.1
Net acquisition of financial assets (- = build up)	5.5	0.6	-11.2	-1.2	-16.7	-1.8
Domestic financing	29.3	3.2	41.8	4.6	12.5	1.4
Foreign financing (net)	3.2	0.4	6.2	0.7	3.1	0.3
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance (commitment)	-16.4	-1.8	-19.1	-2.1	-2.7	-0.3
Domestically financed vaccination expenditure ²			1.3	0.1	1.3	0.1
Domestic primary balance (commitment, adjusted)			-17.8	-2.0	-1.4	-0.2
<i>Memorandum item:</i>						
Domestic primary expenditure	64.9	7.2	71.8	8.0	6.9	0.8

Sources: Guinea-Bissau authorities; and IMF staff estimates.
¹ Projections in 2021H1 are consistent with full year 2021 SMP projections.
² See TMU paragraph 16.

5. The fiscal position is projected to improve in 2021, driving a stabilization in the debt/GDP ratio. The overall fiscal deficit, is projected to fall from 9.2 percent of GDP in 2020 to 5.2 percent of GDP, stabilizing the stock of public and publicly guaranteed debt at about 77.0 percent of GDP. This significant adjustment is feasible as it reflects the unwinding of pandemic-

⁵ Annex III provides a detailed explanation of the increase in expenses in the education and health sectors.

⁶ The improvement in the overall deficit on cash basis is partially due to lesser than expected arrears payments because the authorities are only clearing arrears in expenditures in goods and services effectively delivered and have been avoiding the accumulation of new arrears in 2021.

related effects, greater revenue mobilization and expenditure controls adopted in the context of the 2021 budget and the SMP. The financing gap should be covered with international support and reflects the need to sustain imports for essential consumption such as food and medicines, and for capital and intermediate goods to strengthen health sector capacities and road infrastructure, which was severely affected by last year's flooding. The January 2021 RCF disbursement contributed to cover 1.1 percent of GDP of financing needs, the CCRT debt service relief an additional 0.1 percent of GDP and the recent SDR allocation 2.4 percent of GDP (See ¶ 20 and Annex III). Other multilateral organizations and bilateral donors are expected to step-in along with IMF support. These would reduce the need for non-concessional regional financing (Table 3b).

6. The economic slowdown in 2020 weighed on an already fragile banking system but credit is expected to recover in 2021. Credit to the economy slowed down in 2020 after the strong growth observed in recent years but is expected to accelerate in 2021 in response to the accommodative stance of the BCEAO. The situation of the banking sector excluding a systemic undercapitalized bank is adequate based on the financial soundness indicators for end-2020 (Table 5). However, the low capitalization and high NPL level of one bank represent an important vulnerability despite the high level of provisions. The undercapitalized bank recovered part of the loans considered non-performing in late 2020 and is seeking strategic investors with the support of an external consultant.⁷

7. The near-term outlook projects a modest recovery, but program risks are tilted to the downside (Annex I).

- *Outlook.*⁸ More dynamic consumption and the recovery of cashew nut exports should support a modest economic recovery in 2021 and offset the effects of the third wave of COVID-19 cases, resulting in an economic growth of about 3¾ percent. The authorities expect to prevent further outbreaks by enacting confinement measures and accelerating the rollout of vaccines (see ¶1, bullets 1 and 2). In the medium term, growth will be supported by higher cashew export prices and volumes driven by a recovery in global trade, and a more stable political situation, in which structural reforms and enhancements in the business environment are expected support private investment growth. Over the medium term, inflation should remain below the 3 percent regional convergence criterion while the current account should converge to about 4 percent, in line with the initial SMP estimates.
- *Program risks.* Downside risks arise from political risks and weak capacity, but also volatile global prices in food and oil imports, and cashew nuts exports. A negative food price shock could exacerbate the debt vulnerabilities. Political risks are high given potential conflict related to public sector salaries, tensions associated with new taxes, weak governance and corruption, high levels of poverty and weak public service delivery. In addition, the public sector limited capacity, including ineffective coordination across ministries and institutions, may hinder reform

⁷ The systemic undercapitalized bank holds about 40 percent of deposits and has the largest number of branches throughout the country. About 10 percent of the bank's total NPLs has been recovered.

⁸ The outlook is based on the pandemic partially subsiding globally and its effects moderating locally after the third quarter of 2021 due to the effectiveness of containment measures and increased access to vaccines.

implementation. Should downside risks materialize with worsening fiscal conditions, the authorities are committed to further rationalize expenditures, in particular domestically financed investment and non-priority spending. On the upside, a stronger performance of the cashew sector and a successful vaccination campaign would underpin a faster recovery than in the baseline. Greater political stability should crowd in private sector activity and donor support.

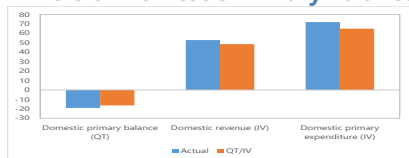
PROGRAM PERFORMANCE

8. Program performance under the SMP has been positive. Five out of seven quantitative targets (QTs) were met (Table 6). Revenue mobilization has improved with the domestic tax revenue floor exceeding the end-June QT by more than 9.2 percent, while expenditure control and debt policy have contributed to avoiding new domestic arrears and recurring to non-concessional borrowing and non-regularized expenditures (DNTs). The social priority spending floor also exceeded the QT by more 1.5 percent. However, US\$0.5 million external payments arrears were

Text Figure 2. Guinea-Bissau: Actual Data vs. Quantitative Target (QT) /Indicative Value¹: End-June 2021
(Cumulative, CFAF billions)

Domestic primary balance missed QT, due to higher-than-expected domestic primary expenditure... ..amid higher-than-expected current expenditures.

Drivers of Domestic Primary Balance

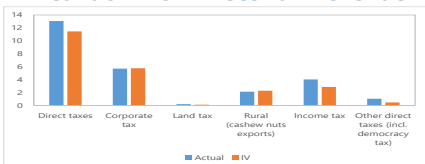


Breakdown of Domestic Primary Expenditure

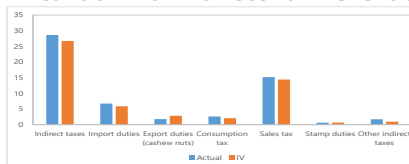


Total domestic revenue was supported by robust performance in both direct and indirect tax revenues...

Breakdown of Direct Tax Revenue

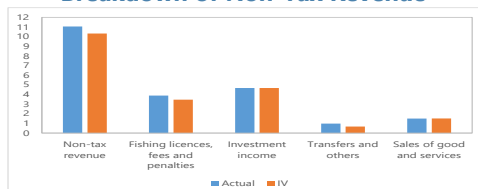


Breakdown of Indirect Tax Revenue



...as well as non-tax revenue.

Breakdown of Non-Tax Revenue



Sources: Guinea-Bissau authorities and IMF staff calculations.

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

incurred, largely reflecting small technical difficulties,⁹ which the authorities are taking actions to resolve (MEFP ¶117 and fn. 9 Table 6). The end-June QT capping the domestic primary deficit was missed (higher than the QT by CFAF 1.4 billion or 0.2 percent of GDP) and was mainly due to higher COVID-related expenditures and the need to improve service delivery in health and education sectors (Text Figure 2).

9. All structural benchmarks (SBs) for end-July, all but one for end-September and one for end-December were met (Table 7).

- Expenditure control.** The Treasury Committee has continued its weekly meetings without interruption and a ministerial order has been issued defining clear prioritization criteria in the expenditure category to avoid arrears (SB, end-July). An executive order was issued to end the hiring of employees without contract (SB, end-September 2021). In addition, a team has been appointed to spearhead the implementation of the Treasury Single Account (TSA) at the General Directorate of Treasury, a mandatory prior authorization by the Minister of Finance for opening public bank accounts is in place, and all public sector bank accounts have been identified (SB, end-September).
- Tax and customs frameworks and tax administration.** The Council of Ministers has approved and submitted to the Parliament the revised general tax code, a tax penalty regime (SBs, end-July), a revised customs code (SB, end-September) and a new VAT law (SB, end-December). The general tax code and tax penalty regime, will strengthen the tax framework, provide a common basis for the administration of all taxes regardless of tax types, and promote fairness and understanding. The VAT law will improve the tax framework and broaden the tax base and the customs code will change traders behavior and raise customs compliance. In addition, to strengthen tax administration, the Kontaktu system for electronic filling of tax returns and payments is operational for a small number of taxpayers (pilot phase), and progress has been made to extend the solution to all large taxpayers, to achieve full implementation. In this regard, staff supports the authorities' request to rephase full implementation of the system from end-September to end-December to ensure a smooth transition amid the pandemic, allowing to train users and deploy a communication campaign (MEFP ¶117 bullet 2). With ongoing IMF TA support, customs management is taking steps to address gaps in core functions and enhance revenue mobilization, including introduction of a modern clearance procedure, control of import values, fight against smuggling and abuse of exemptions.

POLICY ISSUES

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

⁹ Arrears of US\$ 0.34 million to Libya and US\$ 0.11 million to the Islamic Development Bank (IDB) were due to correspondent bank constraints (Libya) and coordination issues inside the Ministry of Finance (IDB).

A. Macroeconomic Policies

Addressing Fiscal Consolidation

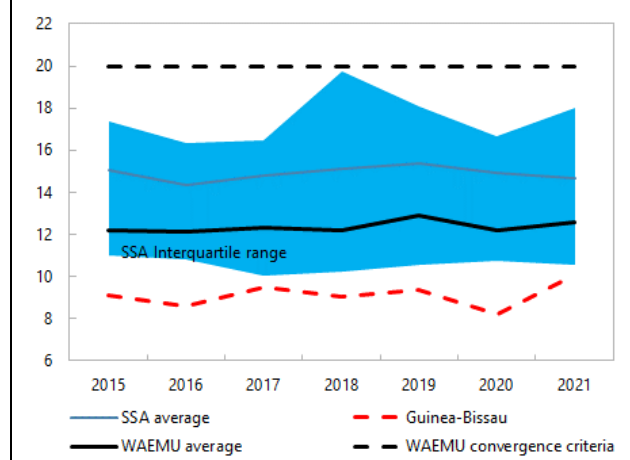
10. While the overall fiscal balance in 2021 will be better than expected, the end-2021 domestic primary balance target is no longer within reach. The authorities expect revenue performance in 2021H2 to remain strong, as revenue collection from the two new taxes (i.e., democracy and telecommunication taxes) and fishing licenses have improved. For the full year, revenue is projected to be higher than the SMP target by 0.7 percentage points of GDP. In addition, the government has adopted expenditure containment measures to keep end-December domestic primary deficit at 2.1 percent of GDP. While this is about 0.4 percentage points above the SMP target, it represents a significant fiscal consolidation effort of 1.9 percent of GDP this year¹⁰, bringing back the primary balance closer to its 2019 level. The higher domestic primary deficit is largely due to higher COVID-related expenditures and improvements in service delivery in health and education sectors (Annex III).¹¹ Staff proposes internalizing the slippage based on the authorities' commitment to further rationalize non-priority spending (¶13).

11. In 2021, measures agreed with the authorities under the SMP are contributing to enhancement in revenue mobilization, rationalization of expenditures and avoidance of expensive non-concessional financing:

Revenue

12. Tax and non-tax measures: Key measures already taken included new taxes on telecommunications and labor income¹² along with other revenue-enhancing measures (MEFP ¶10, bullet 1). Overall, the fiscal yields estimates for tax and non-tax measures in 2021 amount to about respectively 0.4 and 0.1 percent of GDP. Staff recommended further measures to promote a more effective revenue mobilization, including through continued digitalization of tax collection supported by IMF technical assistance (TA). The authorities expect to mobilize revenues

Text Figure 3. Guinea-Bissau: Tax Revenue, 2015–21
(Percent of GDP)



¹⁰ The domestic primary balance in 2021 could reach around -1.9 percent of GDP after adjusting for the domestically financed vaccination costs (TMU ¶16).

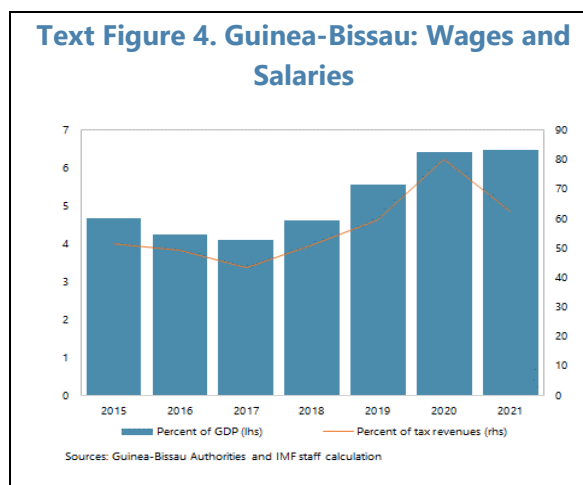
¹¹ The increase in pandemic-related priority spending will be the main factor for missing the end-December primary fiscal balance target. It will amount to CFAF 7.0 billion (0.8 percent of GDP) which will be compensated by higher revenue mobilization (CFAF 6.1 billion or 0.7 percent of GDP) and lower domestically financed investment (CFAF 2.5 billion or 0.3 percent). Other non-priority spending will also increase by CFAF 5.1 billion (0.6 percent of GDP).

¹² Based on available data, the tax collection for April-August for these taxes reached about CFAF 1.6 billion.

and reduce contact points between taxpayers and tax administrators by fully implementing the website for electronic tax returns by end-2021, and allowing for electronic tax returns filing and payment. Staff advised the authorities to fully implement this and other projects to increase revenue mobilization towards similar levels of Guinea-Bissau's peers over the medium term (Text Figure 3).

Expenditure

13. Expenditure control and wage bill. To meet the end-December domestic primary balance floor, the authorities have adopted a ministerial order for expenditure containment measures which include (i) wage bill rationalization through the suspension of new hires; (ii) suspension of all official missions; (iii) limiting tax expenditures by not granting fiscal and customs exemptions, in particular on fuel¹³; (iv) suspensions of new infrastructure projects with exception of priority sectors; and (v) limiting acquisitions of goods and services to those associated to core functions (MEFP ¶10, bullet 2). Moreover, despite additional efforts to contain expenditures, the government remains committed to safeguard spending in priority sectors (TMU ¶14), and not using irregular and improperly documented expenditure (DNTs). Staff supports the authorities' expenditure control efforts especially wage bill control measures including the deployment of the IMF-supported blockchain-based project to assist in the reconciliation of the personnel and payroll records which will help to assess the accurate size of the public service.¹⁴ All these measures should support the convergence to the WAEMU regional ceiling of 35 percent of wages-to-tax revenues ratio over the medium-term (Text Figure 4).



14. State Owned Enterprises. The authorities are taking steps to strengthen the management of the largest SOE, the electricity company *Electricidade e Aguas da Guinea-Bissau* (EAGB), including changing the top management, revamping management operations and enhancing financial management controls (MEFP ¶10, bullet 2). Additional steps will be needed to further strengthen the operations of EAGB to ensure its financial viability and limit fiscal risks.¹⁵ The IMF will also provide TA to enhance SOE supervision.

15. Priority spending. Priority spending in 2021 focuses on vaccination efforts, and health and

¹³ This measure does not apply to embassies and international organizations.

¹⁴ Wage rationalization is critical to create fiscal space for priority spending. In this respect, the authorities have already initiated a freezing of public sector salaries and new hires, and rationalized incentives in 2020 (from 26 percent of wages and salaries in 2019 to 13 percent in 2020).

¹⁵ EAGB has non-publicly guaranteed debts estimated at 2.5 percent of GDP. For further discussion on governance of SOEs, see [IMF Technical Report for Guinea-Bissau "Enhancing Governance and the Anti-Corruption Framework: Next Steps"](#).

social spending. The national vaccination campaign initiated in April 2021 aims to vaccinate 700,000 people by early 2022 with a cost of around CFAF 9 billion (1 percent of GDP). So far, the operational cost has been borne by the government, except US\$1 million granted by GAVI but there is still a funding gap of US\$5.5 million which will require additional donor support. The 2021 projected health expenditure (2.4 percent of GDP) is about 1 percentage point of GDP above pre-COVID projections (Annex III) and 2021 social spending also increased as a share of GDP as compared to pre-COVID projections, largely because of additional transfers to vulnerable families. Furthermore, the government in 2020 launched a program to support the financing of the critical cashew nut campaign by on-lending resources (1.8 percent of GDP) through the banking sector, which helped secure continued employment in this critical sector. The authorities are prepared to further support the health sector and vulnerable families through prioritizing expenditures if the health crisis worsens. Staff emphasized the need to safeguard priority spending on health, education and social sectors.

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

2022 Budget

17. Discussion on the 2022 budget focused on the impact of pandemic on revenue and expenditure, as well as measures to support recovery and fiscal sustainability over the medium term. The authorities' draft 2022 budget to be submitted to Parliament by mid-November is in line with the SMP targets in terms the overall and domestic primary deficits reaching respectively -4.4 percent of GDP and -1.2 percent of GDP (LOI). In particular, current expenditure—excluding interest payments— as percent of GDP is projected to fall by 1.5 percentage points, while domestically financed capital expenditure will increase by 0.8 percentage points. Fiscal consolidation will be underpinned by an improvement in revenue mobilization of 0.2 percentage points, by reallocating resources from wages and salaries to support priority spending and capital expenditure in key infrastructure investment, and rationalizing spending in goods and services and other expenditures (Text Table 3). The authorities will exercise strict control on budgetary execution, avoiding the accumulation of arrears and authorizing external borrowing consistent with debt sustainability. To strengthen debt management and improve the efficiency of future government spending, the government plans to review the debt management framework, wage bill policy, public investment management¹⁶ and SOEs supervision with TA support from the World Bank and the IMF.

¹⁶ Guinea-Bissau has a significant share of externally financed projects in its capital budget. This requires strong coordination within government entities as well as between the government and donors/lenders, which currently

(continued...)

Text Table 3. Guinea-Bissau: Key Fiscal Indicators, 2021-22

	2021	2022	2021	2022
	CFAF, billion		Percent of GDP	
Revenue and grants	168.8	177.0	18.7	18.3
Revenue	121.0	131.3	13.4	13.6
Tax revenue	93.5	101.6	10.4	10.5
Nontax revenue	27.5	29.7	3.0	3.1
Grants	47.8	45.7	5.3	4.7
Budget support	3.7	4.7	0.4	0.5
Project grants	42.8	40.8	4.7	4.2
Capital grants from CCRT	1.4	0.2	0.1	0.0
Expenditure	215.5	219.5	23.9	22.7
Expense	146.0	144.4	16.2	15.0
Wages and salaries	58.4	59.2	6.5	6.1
Goods and services	28.1	25.5	3.1	2.6
Transfers	25.3	25.2	2.8	2.6
Other	20.7	17.2	2.3	1.8
Interest	13.5	17.3	1.5	1.8
Net acquisition of nonfinancial assets	69.5	75.0	7.7	7.8
Domestically financed	7.5	15.7	0.8	1.6
Foreign financed	62.0	59.4	6.9	6.1
Overall balance, including grants (commitment)	-46.6	-42.4	-5.2	-4.4
Domestic primary balance	-18.9	-11.5	-2.1	-1.2
Domestically financed vaccination expenditure ¹	2.2		0.2	
Domestic primary balance (commitment, adjusted)	-16.7		-1.9	
<i>Memorandum item:</i>				
Domestic primary expenditure	140.0	142.8	15.5	14.8

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

¹ See TMU paragraph 16.

Financing and Debt

18. IMF emergency financing, CCRT debt relief, and concessional loans of multilateral institutions will ease budget financing pressures in 2021. The recent RCF and the SMP are helping to catalyze additional donor support and alleviate financing pressures stemming from reliance on non-concessional lending from BOAD, the regional development bank, and Treasury issuances in the regional market. The reengagement strategy included joining the Debt Service Suspension Initiative (DSSI)¹⁷ and taking steps towards solving all legacy external arrears.¹⁸ Staff will follow up on the government's plans for seeking additional grants and highly concessional financing

limited and has a negative effect on the quality of information on investment projects. Against this backdrop, FAD conducted a technical mission in 2019 to provide hands-on training on the planning and execution of the capital budget, using relevant dimensions of the public investment management assessment (PIMA) framework.

¹⁷ See footnote 9 in Country Report No. 21/172 on the reasons for debt not been suspended yet.

¹⁸ Debt sustainability prospects are expected to be enhanced by the commitments associated with the DSSI, as no debt service has yet been suspended. Regarding legacy arrears, agreements were signed with Libya and Taiwan Province of China. For Brazil and Russia, the debts have been negotiated but the agreements are still pending signature. Negotiations with Angola and Pakistan are ongoing.

for specific investment projects. Expected COVID-related grants include project financing from World Bank and African Development Bank, and budget support from France and African Development Bank.

19. Guinea-Bissau received an allocation of SDR 27.2 million in end-August (Annex IV).

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

20. The authorities plan to use the SDR allocation to reduce financing costs by amortizing expensive debt and close the 2021 financing gap associated with the emergency response to the pandemic.¹⁹ The authorities will use the allocation to repay BOAD amortization due in 2021 and 2022. Staff estimates the debt management operation could save up to CFAF 3.4 billion (0.4 percent of 2021 GDP) on interest payments up to 2026. The concessional terms of the on-lending operation provide an alternative to more costly financing such as contracting non-concessional debt and issuing Treasury bills in the WAEMU regional market. Staff recommended that any pandemic spending and its financing should be transparently recorded in the budget in accordance with the IMF's Fiscal Transparency Code.

21. The authorities' policies to support fiscal consolidation and preserve debt sustainability could still require additional financing needs of 2.1 percent of GDP in 2022-24.

The authorities should seek to cover this financing gap by identifying concessional loans backed by a strong track record of policy implementation under the SMP. Staff estimates a financing gap of CFAF 7.4 billion each year, about 0.7 percent of GDP (Tables 2, 3a and 3b). Covering this gap with concessional loans will decrease the recourse to regional commercial bank financing, reducing the interest expenses by an average of 0.1 percent of GDP over 2022-26. The fiscal space associated with a lower interest burden could be used to support much-needed investment in public infrastructure and priority sectors. Staff discussed ways to improve debt management with TA support,^{20,21} which would also allow for the elaboration and update of annual borrowing plans in line with best practices.

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

¹⁹ The macroeconomic framework assumes that the SDR allocation will be used to repay non-concessional debt and finance critical spending.

²⁰ The authorities are seeking long-term TA from the World Bank and the IMF to improve its capacity for debt recording, monitoring, and overall debt management.

²¹ While the new Debt Limits Policy recommends converting the nominal limit on concessional project loans to a present value limit, due to capacity constraints on debt recording, monitoring and reporting in Guinea-Bissau, staff proposes to defer this change to a future ECF request.

context²² reduces medium-term rollover risks associated with domestic debt, and staff projects a gradual decline of the PV of public debt relative to GDP over the medium term, with the fiscal deficit and public debt meeting WAEMU convergence criteria in 2025.²³ The assessment continues to be contingent on the authorities' commitment to: (i) an ambitious fiscal adjustment strategy; (ii) prudent borrowing policies, including avoiding non-concessional project financing; (iii) enhanced debt management; and (iv) cautious management of the existing loan pipeline and application of assessment procedures based on best international practices to ensure criticality of investment projects.

23. Staff discussed the reclassification of BOAD debt and the improvement of debt transparency.²⁴ The authorities have no objection to the reclassification of the debt to BOAD as external. At the time of the authorities' request for an ECF arrangement, debt classification in the DSA and debt limits will follow a hybrid approach in which debt to BOAD (denominated in CFA francs) will be classified as external and the remaining debt sources will continue to follow a currency-based classification. Considering the importance of this creditor to the country (23 percent of total debt), this reclassification will improve the coverage of debt limits. The authorities remain committed to debt transparency, including on the debt holder profile in line with new requirements under the Debt Limits Policy (DLP) (Text Table 4). They are planning to request IMF technical assistance to further improve the quality of debt data.

²² Guinea-Bissau benefits from financial support from regional institutions and larger regional/WAEMU currency union members with stronger debt carrying capacity; in the WAEMU, the regional sovereign treasury market is managed by UMOA-Titres.

²³ On April 27, 2020, 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, and countries should converge to the fiscal regional fiscal rule by 2024. Given the size of the fiscal consolidation in Guinea-Bissau, convergence has been postponed to 2025.

²⁴ The reclassification of BOAD's debt as external debt is consistent with the [Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries](#), which advises using a residency basis. Acknowledging that data constraints in Guinea-Bissau make a full residency-based coverage difficult, adopting the hybrid approach with some regional debt considered external and other domestic. BOAD's borrowing sources are mostly non-resident and its lending should be treated as external debt.

Text Table 4. Guinea-Bissau: Decomposition of Public Debt and Debt Service by Creditor 2020-22¹

	Debt Stock (end of period)			Debt Service					
	2020			2020	2021	2022	2020	2021	2022
	(In US\$)	(Percent of total debt)	(Percent of GDP) ⁵	(In US\$)			(Percent of GDP)		
Total	1,212,212,426	100.0	77.1	130,918,373	215,051,858	93,461,664	8.9	13.1	5.3
External	388,105,448	32.0	24.7	9,122,796	12,646,606	12,262,124	0.6	0.8	0.7
Multilateral creditors ²	272,764,947	22.5	17.3	8,442,081	8,716,179	8,498,857	0.6	0.5	0.5
IMF	29,222,503	2.4	1.9						
World Bank	147,765,418	12.2	9.4						
AfDB	44,197,787	3.6	2.8						
Other Multilaterals	51,579,238	4.3	3.3						
o/w: Islamic Development Bank	22,401,895	1.8	1.4						
BADEA	10,025,825	0.8	0.6						
Bilateral Creditors	115,340,502	9.5	7.3	680,715	3,930,427	3,763,268	0.0	0.2	0.2
Paris Club	3,442,487	0.3	0.2	0	0	389,998	0.0	0.0	0.0
o/w: Brazil	1,942,487	0.2	0.1						
Russia	1,500,000	0.1	0.1						
Non-Paris Club	111,898,015	9.2	7.1	680,715	3,930,427	3,373,269	0.0	0.2	0.2
o/w: Angola	32,900,000	2.7	2.1						
Kuwait	28,900,000	2.4	1.8						
Domestic	824,106,978	68.0	52.4	121,795,577	202,405,253	81,199,540	8.3	12.3	4.6
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Regional T-bills	259,847,203	21.4	16.5	57,858,653	78,982,654	63,318,333	3.9	4.8	3.6
BOAD	284,620,264	23.5	18.1	23,796,861	47,560,590	6,368,276	1.6	2.9	0.4
BCEAO	175,568,676	14.5	11.2	1,264,626	1,323,422	1,338,085	0.1	0.1	0.1
Loans local commercial banks ³	81,238,088	6.7	5.2	37,551,394	62,193,762	-	2.5	3.8	0.0
Payment Arrears	22,832,747	1.9	1.5	1,324,043	12,344,826	10,174,846	0.1	0.8	0.6
Memo items:									
Collateralized debt ⁴	0	0.0	0.0						
Contingent liabilities	19,578,219	1.6	1.2						
Public guarantees	19,578,219	1.6	1.2						
Nominal GDP	1,474,656,307			1,474,656,307	1,644,325,141	1,777,458,461			

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

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

3/ Including public guarantees.

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

5/ Calculated based on the amounts in CFA francs.

B. Other Structural and Governance Reforms in Progress

24. The authorities are committed to step up the implementation of governance safeguards related to the COVID-19 response.²⁵ COVID-related funds are managed using a dedicated account at the BCEAO and will be subject to an ex-post independent audit by a reputable third-party auditor who will work jointly with the Audit Court. An additional audit of COVID-19 expenses by the Audit Court has started in October at the request of the High Commissioner for COVID-19, covering the period June 2020-August 2021. The Terms of Reference for hiring a reputable third-party auditor are being developed in consultation with the Fund for an audit covering all COVID-19 expenses for 2021 to be published by end-September of 2022. The entire crisis-related spending is an integral part of the State Budget and spending reports are being

²⁵ See "Guinea-Bissau Request for Disbursement Under the Rapid Credit Facility", IMF Country Report No. 21/29, Annex I.

presented to the National Assembly. In addition, the government has published, through the High Commission for COVID-19, financial reports, and key information of all crisis-related contracts for the years 2020 and 2021.²⁶ Staff advised the High Commissioner to create a dedicated space in their website for each type of publication to increase its visibility. Furthermore, the government will publish the full text of contracts and ex-post validation of delivery and start to disclose the beneficial ownership information of companies awarded COVID-19 related contracts as soon as the legal procurement framework has been amended with the support of IMF TA (SB end-December 2021, MEFP ¶14).

25. The authorities are committed to further strengthen public financial management to urgently improve expenditure control (Table 7).

- Steps have been taken towards establishing a Treasury Single Account (TSA) to strengthen cash management. Continuous IMF TA has been provided to support the improvement of the treasury and cash management function. The Ministry of Finance created a unit within the Directorate General of Treasury to implement the cash management function using the IMF tool.
- Consultations are ongoing within relevant government institutions to amend the legal procurement framework to enable the collection and publication of beneficial ownership information. IMF TA is supporting the review of the existing procurement framework.
- Work is ongoing, including the preparation of an executive order to enforce control by the financial controller over all public salaries and reconcile personnel and payroll records (SB end-December 2021) which will be supported by the blockchain project. The Council of Ministers decided²⁷ that these measures must be implemented by all public entities whose wages are included in the budget.

26. Moreover, going beyond the SMP commitments, the authorities are implementing two additional expenditure control measures. The authorities will enforce normal expenditure execution procedure by requiring certification of goods and services delivery before payment to providers. A ministerial order will mandate the implementation of the “Manual for procedures on public expenditures”, developed with IMF TA support, starting with a pilot with at least five line ministries (MEFP ¶12). The government will also publish a follow-up report on previous Tribunal de Contas audit reports’ recommendations on *Electricidade e Aguas da Guineia-Bissau* (EAGB). The report will be published by end-December.

27. To support revenue mobilization, the government will ensure that the information exchange between the directorates general of Taxes, Customs, and Treasury, and the National Institute of Social Security. This will bring transparency and accountability to the operations between public entities and increase tax revenue mobilization. Partial progress has already been

²⁶ In their [webpage](#), the High Commission has published financial reports that cover the period June 2020 until June 2021 and some crisis-related contracts, including [acquisition of vehicles](#) and [medical supplies](#). The authorities are working to overcome capacity constraints and coordination issues to publish all procurement contracts and ex-post validation of delivery reports.

²⁷ July 27, 2021 resolution.

made in this area by end-August and the government will dedicate efforts to include the National Institute of Social Security in the exchange of information by end-October.

28. Furthermore, the government is committed to strengthen the legal framework to mitigate corruption risk via enhanced transparency and greater accountability. The authorities plan to reform the asset declaration regime with IMF TA support. The reform will aim to (i) cover all politically exposed persons (PEPs), as defined by the Financial Action Task Force standards and their family members and close associates; (ii) cover assets and interests owned, including those beneficially owned, domestically and abroad (iii) ensure declarations are publicly available online; and (iv) allow the imposition of targeted, proportionate, and dissuasive sanctions that are consistently enforced for failure of submission and for submission of false declaration. In addition, the recommendations of the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) mutual evaluation report have not been finalized and authorities shared with staff the preliminary National AML/CFT Risk Assessment.

29. The government will continue to make efforts to preserve the stability of the financial sector. The government is monitoring developments of the restructuring plan of the undercapitalized bank and is preparing a report including a viable disengagement strategy by 2024 as agreed with the regional Banking Commission (SB, end-December 2021). This report will recommend a full audit of the bank's NPLs by an independent third-party auditing firm (MEFP ¶121).

30. Safeguards assessment. The BCEAO has only one recommendation outstanding from the 2018 safeguards assessment. The outstanding recommendation relates to the strengthening of the risk management function, which is in process. The assessment found that overall, the central bank has maintained a strong control culture.

STAFF APPRAISAL

31. Guinea-Bissau's economy is projected to improve but downside risks and long-standing socioeconomic challenges remain. After the country was severely hit by the COVID-19 global pandemic, which followed a negative terms-of-trade shock in 2018-19, economic conditions are improving on the back of higher cashew nut exports. Despite the effects of the pandemic, growth has been revised upwards to 1.5 percent in 2020 and is projected to accelerate to 3¾ percent in 2021. The improvement in business confidence associated with a more stable political situation should contribute to sustain the recovery.

32. The authorities deserve credit for a good start on the SMP implementation. The policies and reforms implemented under the SMP have helped to support macroeconomic stability. Supported by the RCF disbursement, the CCRT debt relief, and the special SDR allocation, the authorities have made satisfactory progress in their reform program despite difficult socioeconomic conditions compounded by the COVID-19 pandemic. The overall fiscal deficit including grants is expected to be contained to 5.2 percent of GDP in 2021, representing a substantial fiscal adjustment in line with program objectives. The authorities are committed to implement policy measures to bring

the fiscal deficit down to 4.4 percent of GDP in 2022, to secure key program objectives, and gradually converge to the WAEMU regional deficit norm of 3 percent of GDP by 2025. Stronger revenue mobilization and expenditure containment including in the wage bill are expected to continue creating fiscal space and crowding-in donor support to protect social spending in education, health, and pandemic-related expenditures and to undertake key infrastructure investments.

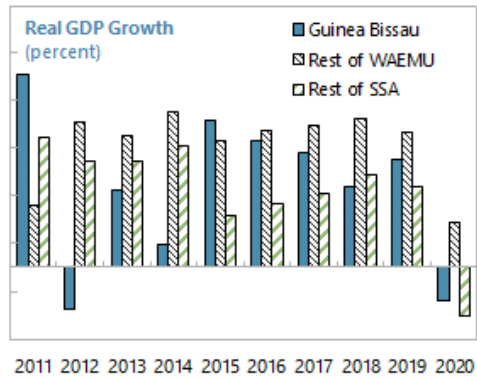
33. Staff welcomes the prudent use of the SDR allocation. The authorities decided to use most of the recent SDR 27.2 million allocation (about US\$ 38.4 million) to buttress debt sustainability by repaying BOAD's non-concessional debt, and allocate the remaining amount to supporting COVID-related expenditures, including vaccination and improvement in health services.

34. Timely implementation of governance and transparency reforms are key for the SMP success. Staff commends the authorities for the implementation PFM strategy to enhance fiscal governance, transparency and accountability including measures to strengthen expenditure control, tax and custom frameworks, the fight against corruption and mitigation of SOEs' risks. Staff supports the authorities' strong commitment to amend the legal procurement framework to enable the collection and publication of beneficial ownership information and review the asset declaration regime with IMF TA during the SMP.

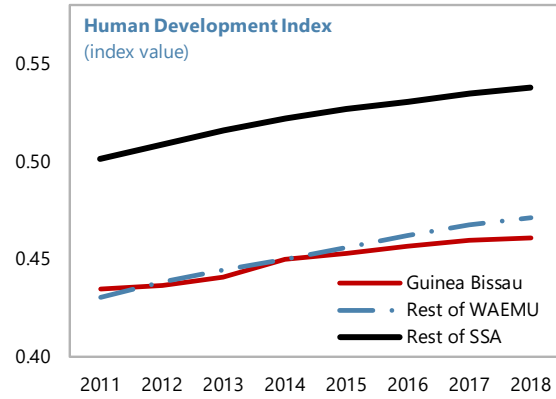
35. Staff supports the authorities' request for completion of the first review of the SMP given the satisfactory performance in achieving program objectives. Five out of seven QTs for end-June and all SBs for end-July were met. Moreover, the authorities have already met all but one SBs for end-September and one SB for end-December. To mitigate the potential risks from capacity constraints, the IMF will support the authorities' efforts in all policy areas covered by the SMP through tailored TA.

Figure 1. Guinea-Bissau: Growth and Living Standards

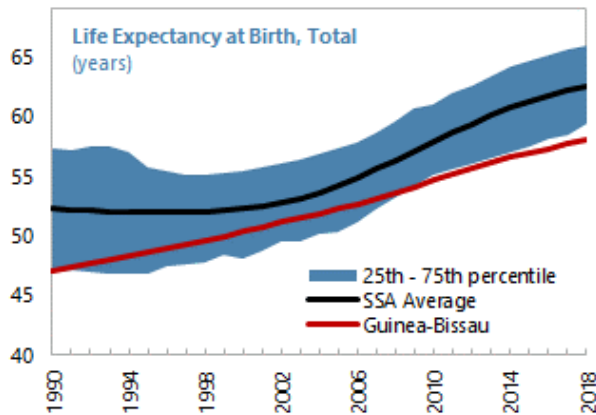
A volatile economic growth compared to its regional peers reflects a long history of political instability...



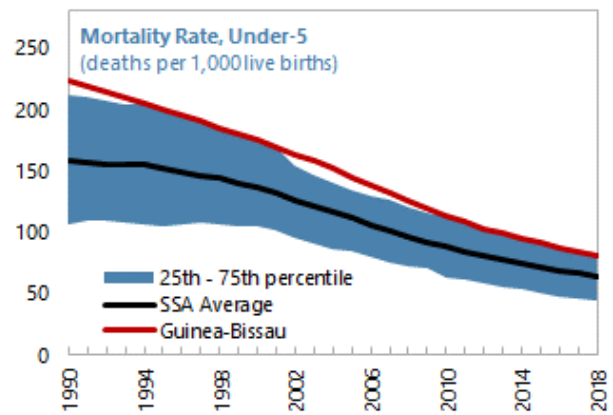
...and economic fragility, which weighs on the population's living standards.



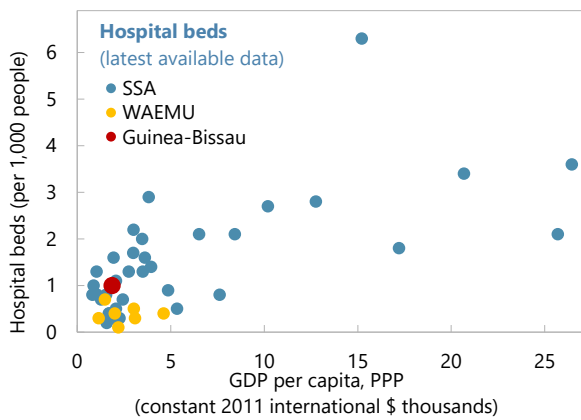
Weak health conditions are evidenced by a significantly lower life expectancy at birth...



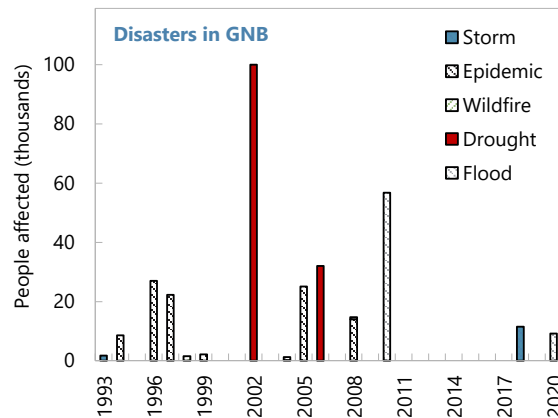
...as well as the higher child mortality rate, both compared to SSA peers.



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



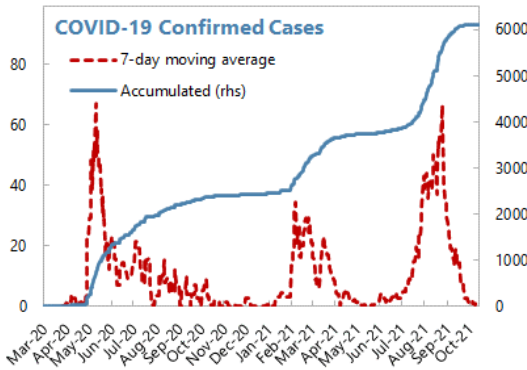
...considering the country's exposure to natural hazard events such as last year's floods and the pandemic.



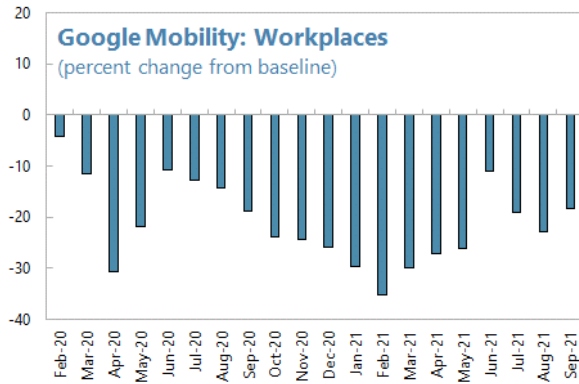
Sources: World Bank, Worldwide Development Indicators; EM-DAT, CRED database; Guinea-Bissau authorities; and IMF staff calculations.

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

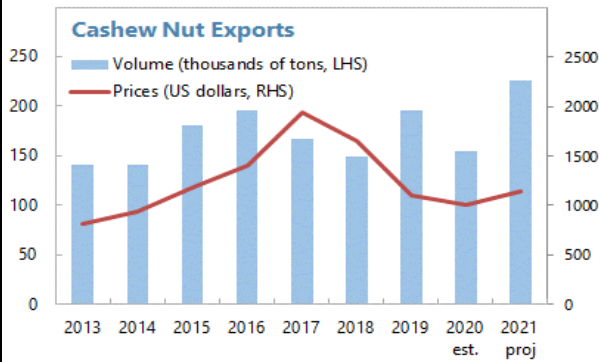
The first COVID-19 cases were reported in end-March 2020 and a third wave was controlled...



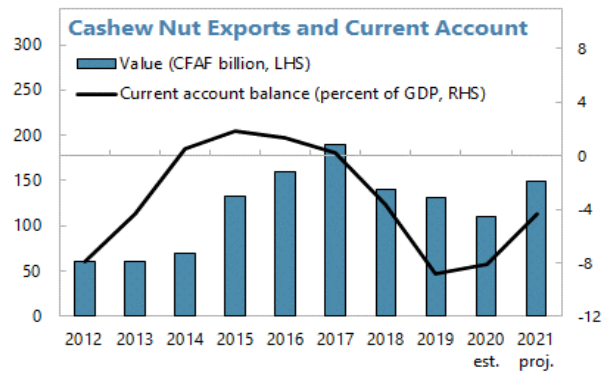
...by the reestablishment of confinement measures in September 2021.



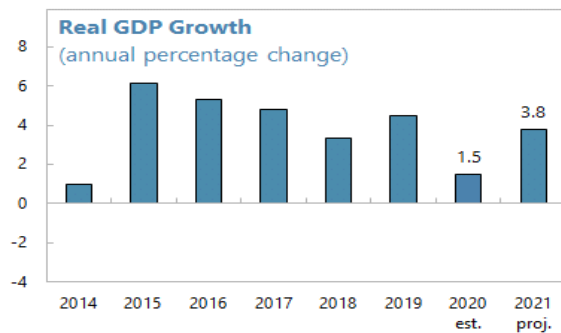
After the delays and weaker demand caused by the pandemic in 2020, cashew nut exports show a significant recovery in 2021...



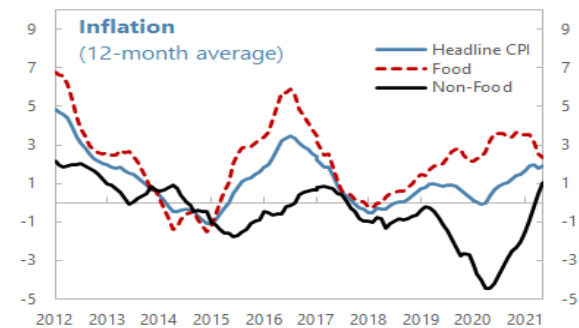
...which helps to narrow the current account deficit, partially reverting the effects of the terms-of-trade shock of 2018-19 followed by the pandemic.



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



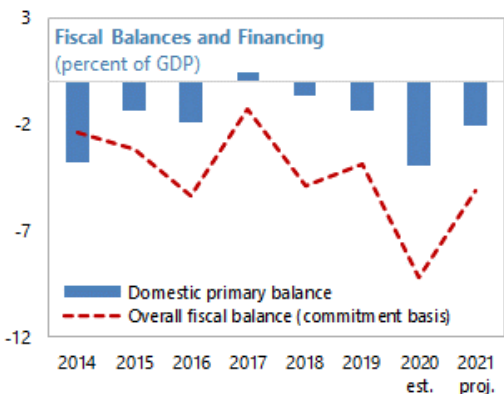
...but inflation remains high due to the price of imported products, mainly food.



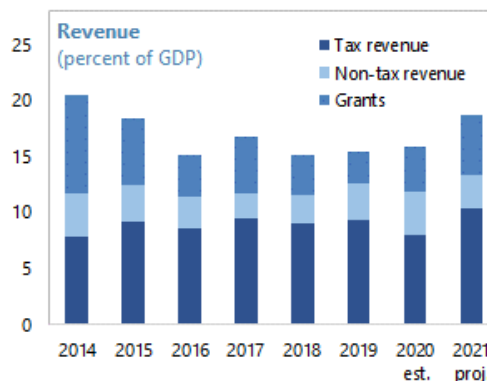
Sources: Google Mobility database, Our World in Data, Guinea-Bissau authorities and IMF staff calculations.

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

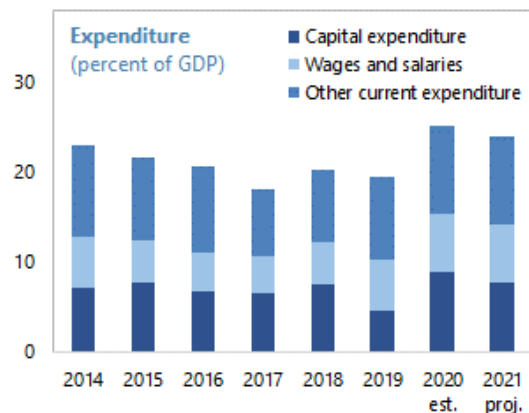
Fiscal consolidation is projected for 2021...



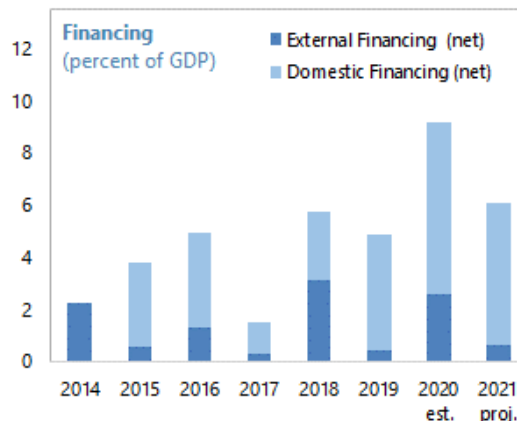
...supported by increased revenues and grants ...



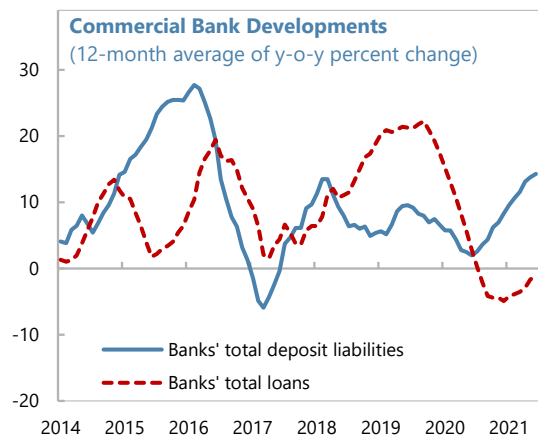
...and contained expenditures...



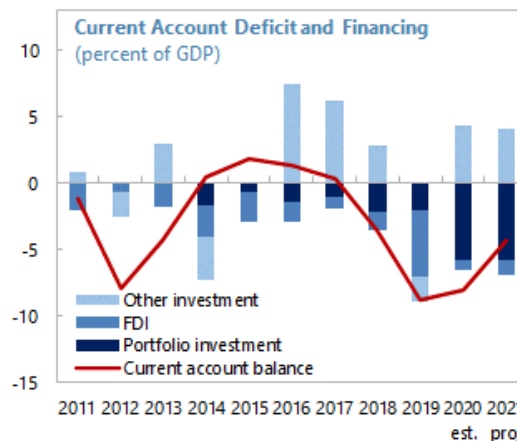
...resulting in reduced need for additional financing, both external and within the region.



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



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



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

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2019–26

	2019	2020	2021	2022	2023	2024	2025	2026
		Prel.			Proj.			
	(Annual percent change, unless otherwise indicated)							
National accounts and prices								
Real GDP at market prices	4.5	1.5	3.8	4.0	5.0	5.0	5.0	5.0
Real GDP per capita	2.3	-0.7	1.5	1.7	2.8	2.8	2.9	2.9
GDP deflator	-3.5	-1.0	2.7	2.8	2.8	2.8	2.8	2.8
Consumer price index (annual average)	0.3	1.5	2.4	2.0	2.0	2.0	2.0	2.0
External sector								
Exports, f.o.b. (CFA francs)	-22.7	-21.2	34.5	0.9	3.7	3.7	3.4	3.7
Imports, f.o.b. (CFA francs)	20.5	-8.3	5.5	4.0	4.6	3.2	3.7	4.9
Terms of trade (deterioration = -)	-31.4	-3.6	-5.3	-0.4	4.7	3.5	2.6	2.6
Real effective exchange rate (depreciation = -)	-2.8	2.3	...	...	...	...	...	...
Exchange rate (CFAF per US\$; average)	585.9	574.8	...	...	...	...	...	...
Government finances								
Revenue excluding grants	9.2	-5.5	21.3	8.5	11.1	10.1	9.1	7.2
Expenditure	-3.0	30.5	1.2	1.8	8.5	4.9	5.2	7.5
Current expenditure	18.2	10.1	6.4	-1.1	3.5	7.1	6.9	6.7
Capital expenditure	-38.5	96.7	-8.1	7.9	18.2	1.2	2.3	9.2
Money and credit								
Domestic credit	13.8	-1.7	10.8	14.5	15.3	15.5	11.1	9.0
Credit to the government (net)	13.8	-19.7	19.4	10.3	7.3	6.3	-6.8	-6.7
Credit to the economy	13.8	5.9	8.1	16.0	18.0	18.4	16.0	12.5
Net domestic assets	12.0	-13.8	14.9	21.3	21.2	20.5	14.0	11.1
Broad money (M2)	0.3	9.1	5.2	6.9	6.0	6.5	5.6	5.2
	(Percent of GDP, unless otherwise indicated)							
Investments and savings								
Gross investment	14.2	21.8	20.0	20.4	22.1	21.4	20.9	21.4
Of which: government investment	8.4	16.4	14.2	14.3	15.7	14.7	13.9	14.1
Gross domestic savings	0.9	5.7	7.7	8.1	10.1	10.0	10.0	10.7
Of which: government savings	1.8	3.3	4.3	5.7	7.2	6.8	6.7	6.9
Gross national savings	5.4	13.7	15.7	16.2	17.9	17.2	17.0	17.5
Government finances								
Revenue excluding grants	12.5	11.8	13.4	13.6	14.0	14.3	14.4	14.3
Domestic primary expenditure	13.9	15.7	15.5	14.8	14.8	14.3	13.9	13.9
Domestic primary balance	-1.4	-4.0	-2.1	-1.2	-0.8	0.0	0.6	0.5
Overall balance (commitment basis)								
Including grants	-3.9	-9.2	-5.2	-4.4	-4.2	-3.6	-3.0	-3.0
Excluding grants	-6.8	-13.3	-10.5	-9.1	-8.9	-7.9	-7.2	-7.3
External current account								
Excluding official current transfers	-8.8	-8.1	-4.3	-4.2	-4.2	-4.2	-4.0	-3.9
Stock of public and publicly guaranteed debt¹								
Of which: external debt	65.9	77.1	77.0	75.9	74.1	72.1	69.6	67.3
	24.2	24.7	25.4	24.4	23.3	22.4	20.9	19.8
Memorandum items:								
Nominal GDP at market prices (CFAF billions)	843.5	847.6	903.1	965.5	1042.2	1124.9	1214.2	1310.7
WAEMU gross official reserves (billions of US\$)	17.6	21.8	...	...	...	...	...	...
(percent of broad money)	34.2	32.9	...	...	...	...	...	...

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

¹ Coverage expanded to include legacy arrears.

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

	2019	2020	2021	2022	2023	2024	2025	2026
		Prel.	Projections					
Current Account Balance	-74.4	-68.4	-38.9	-41.0	-43.8	-47.3	-48.3	-51.5
Goods and services	-123.3	-134.7	-117.5	-126.5	-133.6	-138.0	-144.2	-152.9
Goods	-50.6	-65.2	-35.5	-41.7	-45.1	-45.7	-47.9	-52.4
Exports, f.o.b.	145.7	114.8	154.4	155.8	161.5	167.5	173.1	179.4
Of which : cashew nuts	130.7	110.2	149.2	150.2	155.5	161.0	166.1	171.9
Imports, f.o.b.	-196.4	-180.0	-189.9	-197.5	-206.6	-213.2	-221.0	-231.8
Of which : food products	-59.7	-59.3	-59.6	-63.2	-65.9	-69.6	-73.3	-77.3
petroleum products	-33.1	-29.9	-32.1	-34.2	-33.6	-33.5	-33.9	-34.6
Services	-72.6	-69.5	-82.0	-84.8	-88.5	-92.3	-96.3	-100.5
Credit	25.2	10.3	17.0	18.2	19.6	21.2	22.9	24.7
Debit	-97.8	-79.8	-99.0	-103.0	-108.1	-113.5	-119.2	-125.1
Incomes	15.8	8.6	6.4	10.4	12.1	12.7	14.4	15.8
Credit	24.5	21.6	21.0	26.1	29.5	31.1	33.1	34.7
Of which: EU fishing compensation	7.6	7.6	7.4	8.8	8.8	8.8	8.8	8.8
Other license fees	6.8	10.1	6.3	8.2	11.3	12.5	14.1	15.2
Debit	-8.8	-13.0	-14.6	-15.7	-17.4	-18.4	-18.7	-18.9
Of which : government interest	-3.7	-8.8	-9.4	-10.4	-12.0	-12.9	-13.1	-14.4
Current transfers (net)	33.1	57.7	72.2	75.1	77.8	78.0	81.5	85.6
Official	10.0	11.6	25.1	29.2	30.3	29.0	31.0	33.5
Private	23.1	46.1	47.1	45.9	47.5	49.0	50.5	52.1
Of which : remittances	21.7	44.5	45.4	44.1	45.6	47.1	48.5	50.0
Capital account	16.1	22.6	23.6	19.5	22.1	22.7	24.1	25.8
Of which : official transfers	14.5	21.4	21.4	16.3	18.8	19.4	20.7	22.3
Financial account	-75.8	-19.2	-25.2	-26.5	-18.2	-18.7	-16.0	-20.5
FDI	-41.8	-7.0	-10.1	-13.6	-14.7	-15.8	-17.1	-18.5
Other investment	-34.0	-12.2	-15.1	-12.9	-3.6	-2.8	1.1	-2.0
Official medium- and long-term disbursements	-14.1	-58.5	-19.3	-18.6	-18.5	-18.9	-20.0	-20.0
Programs	0.0	-22.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects	-14.1	-36.5	-19.3	-18.6	-18.5	-18.9	-20.0	-20.0
Amortization	2.3	12.6	26.1	4.5	18.4	18.9	18.7	15.6
Treasury bills (regional financing)	-18.3	-48.7	-52.4	-28.1	-38.6	-36.7	-39.6	-39.4
Commercial bank net foreign assets	-28.1	72.2	-9.5	-7.5	-7.5	-7.5	0.0	0.0
Other net foreign assets	24.1	10.2	40.0	36.8	42.7	41.4	42.0	41.7
Errors and Omissions	-4.3	6.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	13.2	-20.3	9.9	5.0	-3.4	-5.9	-8.1	-5.2
Financing	-13.2	20.3	-9.9	-5.0	3.4	5.9	8.1	5.2
Net foreign assets excluding IMF (increase -)	-12.0	20.3	-21.0	-3.6	6.3	9.0	10.7	7.4
IMF purchases	0.0	0.0	11.2	0.0	0.0	0.0	0.0	0.0
IMF repurchases	-1.2	-2.0	-1.4	-1.6	-2.9	-3.1	-2.6	-2.2
Grant for debt relief under the IMF CCRT	0.0	2.0	1.4	0.2	0.0	0.0	0.0	0.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	7.4	7.4	7.4	0.0	0.0
<i>Memorandum items:</i>								
Cashew export quantity (thousands of tons)	196	155	225	228	231	234	236	239
Cashew export prices (US\$ per ton)	1,098	1,000	1,148	1,159	1,194	1,229	1,266	1,304
Import volume of goods (annual percentage change)	14.1	-3.0	-6.5	3.7	8.0	5.2	4.7	5.4
Oil prices (international, US\$ per barrel)	61.4	41.3	65.7	64.5	61.3	59.0	57.4	56.3
Scheduled debt service								
Percent of exports and service credits	2.1	4.2	4.1	3.9	5.0	5.0	5.4	5.0
Percent of total government revenue	3.5	5.3	5.7	5.1	6.3	5.8	6.1	5.4
Current account balance (percent of GDP)	-8.8	-8.1	-4.3	-4.2	-4.2	-4.2	-4.0	-3.9
Official transfers (percent of GDP)	2.9	3.9	5.1	4.7	4.7	4.3	4.3	4.3
WAEMU gross official reserves (billions of US\$)	17.6	21.8	...	...	...	...	...	...
(percent of broad money)	34.2	32.9	...	...	...	...	...	...

Sources: BCEAO; and IMF staff estimates and projections.

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

	2019	2020		2021		2022	2023	2024	2025	2026
		Prel.	SMP request	Proj.	Proj.					
Revenue and grants	130.1	134.7	162.0	168.8	177.0	195.0	208.9	226.8	243.5	
Tax revenue	79.1	67.8	87.9	93.5	101.6	113.6	126.0	137.8	148.1	
Nontax revenue	26.5	32.0	27.0	27.5	29.7	32.3	34.6	37.3	39.6	
Grants	24.5	35.0	47.0	47.8	45.7	49.1	48.4	51.7	55.8	
Budget support	1.9	0.0	3.7	3.7	4.7	3.8	0.0	0.0	0.0	
Project grants	22.6	33.0	42.5	42.8	40.8	45.3	48.4	51.7	55.8	
Capital grants from CCRT	0.0	2.0	0.9	1.4	0.2	0.0	0.0	0.0	0.0	
Expenditure	163.2	212.9	206.1	215.5	219.5	238.2	249.9	263.0	282.8	
Expense	124.7	137.3	134.4	146.0	144.4	149.5	160.1	171.1	182.4	
Wages and salaries	46.9	54.3	56.6	58.4	59.2	58.9	62.4	66.5	70.4	
Goods and services	18.7	21.2	24.4	28.1	25.5	26.6	28.7	31.1	33.4	
Transfers	27.1	27.3	23.6	25.3	25.2	26.6	29.2	31.4	32.8	
Non regularized spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Interest	9.2	13.9	14.1	13.5	17.3	19.7	21.7	22.8	25.3	
Other	22.7	20.5	15.8	20.7	17.2	17.7	18.0	19.2	20.5	
Net acquisition of nonfinancial assets	38.5	75.7	71.7	69.5	75.0	88.7	89.8	91.9	100.4	
Domestically financed	1.8	9.9	10.0	7.5	15.7	24.9	22.5	20.2	24.5	
Foreign financed (including BOAD)	36.7	65.7	61.7	62.0	59.4	63.8	67.3	71.7	75.8	
Overall balance, including grants (commitment)	-33.1	-78.2	-44.1	-46.6	-42.4	-43.3	-40.9	-36.1	-39.3	
Overall balance, excluding grants (commitment)	-57.6	-113.1	-91.2	-94.5	-88.2	-92.3	-89.3	-87.8	-95.1	
Change in arrears	-0.5	0.6	-13.7	-8.2	-5.5	0.0	0.0	0.0	0.0	
Domestic arrears ¹	-2.3	-0.8	-12.3	-6.8	-5.5	0.0	0.0	0.0	0.0	
Accumulation current year	9.8	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Payment previous years (-)	-12.1	-4.1	-12.3	-6.8	-5.5	0.0	0.0	0.0	0.0	
Net external arrears	1.8	0.5	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	
Net BOAD interest arrears	0.0	0.9	-0.9	-0.9	0.0	0.0	0.0	0.0	0.0	
Float and statistical discrepancy	-7.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance, including grants (cash)	-41.0	-77.8	-57.8	-54.8	-48.0	-43.3	-40.9	-36.1	-39.3	
Financing ²	41.0	77.8	47.0	54.8	40.5	35.9	33.6	36.1	39.3	
Net acquisition of financial assets (- = build up)	-2.4	-28.7	11.1	11.1	0.0	0.0	0.0	0.0	0.0	
Bank deposits	3.0	-12.8	11.1	11.1	0.0	0.0	0.0	0.0	0.0	
BCEAO	0.2	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Local commercial banks	2.8	-11.1	11.1	11.1	0.0	0.0	0.0	0.0	0.0	
Other ³	-5.4	-15.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
of which: Bank recapitalization	-3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Domestic financing	39.6	84.6	30.1	37.9	35.2	30.0	25.8	28.9	29.8	
BCEAO credit	-1.2	-2.0	10.1	31.4	-1.6	-2.9	-3.1	-4.8	-4.4	
(o/w) IMF	-1.2	-2.0	10.1	9.7	-1.6	-2.9	-3.1	-2.6	-2.2	
Other domestic (net)	40.7	86.6	20.1	6.5	36.8	32.9	28.9	33.8	34.2	
Local commercial banks	14.5	17.5	-33.3	-33.2	0.0	0.0	0.0	0.0	0.0	
Regional commercial banks	18.3	48.7	54.6	52.4	28.1	38.6	36.7	39.6	39.4	
Regional financing (BOAD)	7.9	20.3	-1.3	-12.7	8.6	-5.7	-7.8	-5.8	-5.2	
Foreign financing (net)	3.8	21.9	5.8	5.9	5.4	5.9	7.8	7.2	9.5	
Disbursements	5.5	24.3	9.2	9.2	9.4	11.0	12.9	14.0	16.1	
Projects	5.5	24.3	9.2	9.2	9.4	11.0	12.9	14.0	16.1	
Programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Amortization	-1.6	-2.3	-3.4	-3.4	-4.0	-5.1	-5.1	-6.8	-6.6	
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual financing gap	0.0	0.0	10.8	0.0	7.4	7.4	7.4	0.0	0.0	
<i>Memorandum item:</i>										
Domestic primary balance (commitment) ⁴	-11.7	-33.5	-15.4	-18.9	-11.5	-8.8	-0.3	6.7	6.0	

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

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

² Financing is on currency basis.

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

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

Table 3b. Guinea-Bissau: Consolidated Operations of the Central Government, 2019–26
(Percent of GDP)

	2019	2020		2021		2022	2023	2024	2025	2026
		Prel.	SMP request	Proj.	Proj.					
Revenue and grants	15.4	15.9	18.5	18.7	18.3	18.7	18.6	18.7	18.6	
Tax revenue	9.4	8.0	10.1	10.4	10.5	10.9	11.2	11.3	11.3	
Nontax revenue	3.1	3.8	3.1	3.0	3.1	3.1	3.1	3.1	3.0	
Grants	2.9	4.1	5.4	5.3	4.7	4.7	4.3	4.3	4.3	
Budget support	0.2	0.0	0.4	0.4	0.5	0.4	0.0	0.0	0.0	
Project grants	2.7	3.9	4.9	4.7	4.2	4.3	4.3	4.3	4.3	
Capital grants from CCRT	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	
Expenditure	19.3	25.1	23.6	23.9	22.7	22.9	22.2	21.7	21.6	
Expense	14.8	16.2	15.4	16.2	15.0	14.3	14.2	14.1	13.9	
Wages and salaries	5.6	6.4	6.5	6.5	6.1	5.7	5.6	5.5	5.4	
Goods and services	2.2	2.5	2.8	3.1	2.6	2.6	2.6	2.6	2.6	
Transfers	3.2	3.2	2.7	2.8	2.6	2.6	2.6	2.6	2.5	
Non-regularized spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Interest	1.1	1.6	1.6	1.5	1.8	1.9	1.9	1.9	1.9	
Other	2.7	2.4	1.8	2.3	1.8	1.7	1.6	1.6	1.6	
Net acquisition of nonfinancial assets	4.6	8.9	8.2	7.7	7.8	8.5	8.0	7.6	7.7	
Domestically financed	0.2	1.2	1.1	0.8	1.6	2.4	2.0	1.7	1.9	
Foreign financed (including BOAD)	4.3	7.8	7.1	6.9	6.1	6.1	6.0	5.9	5.8	
Overall balance, including grants (commitment)	-3.9	-9.2	-5.0	-5.2	-4.4	-4.2	-3.6	-3.0	-3.0	
Overall balance, excluding grants (commitment)	-6.8	-13.3	-10.4	-10.5	-9.1	-8.9	-7.9	-7.2	-7.3	
Change in arrears	-0.1	0.1	-1.6	-0.9	-0.6	0.0	0.0	0.0	0.0	
Domestic arrears ¹	-0.3	-0.1	-1.4	-0.8	-0.6	0.0	0.0	0.0	0.0	
Accumulation current year	1.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Payment previous years (-)	-1.4	-0.5	-1.4	-0.8	-0.6	0.0	0.0	0.0	0.0	
Net external arrears	0.2	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	
Net BOAD interest arrears	0.0	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	
Float and statistical discrepancy	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance, including grants (cash)	-4.9	-9.2	-6.6	-6.1	-5.0	-4.2	-3.6	-3.0	-3.0	
Financing ²	4.9	9.2	5.4	6.1	4.2	3.4	3.0	3.0	3.0	
Net acquisition of financial assets (- = build up)	-0.3	-3.4	1.3	1.2	0.0	0.0	0.0	0.0	0.0	
Bank deposits	0.4	-1.5	1.3	1.2	0.0	0.0	0.0	0.0	0.0	
BCEAO	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Local commercial banks	0.3	-1.3	1.3	1.2	0.0	0.0	0.0	0.0	0.0	
Other ³	-0.6	-1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
of which: Bank recapitalization	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Domestic financing	4.7	10.0	3.4	4.2	3.6	2.9	2.3	2.4	2.3	
BCEAO credit	-0.1	-0.2	1.2	3.5	-0.2	-0.3	-0.3	-0.4	-0.3	
(o/w) IMF	-0.1	-0.2	1.2	1.1	-0.2	-0.3	-0.3	-0.2	-0.2	
Other domestic (net)	4.8	10.2	2.3	0.7	3.8	3.2	2.6	2.8	2.6	
Local commercial banks	1.7	2.1	-3.8	-3.7	0.0	0.0	0.0	0.0	0.0	
Regional commercial banks	2.2	5.7	6.2	5.8	2.9	3.7	3.3	3.3	3.0	
Regional financing (BOAD)	0.9	2.4	-0.1	-1.4	0.9	-0.5	-0.7	-0.5	-0.4	
Foreign financing (net)	0.5	2.6	0.7	0.6	0.6	0.6	0.7	0.6	0.7	
Disbursements	0.6	2.9	1.1	1.0	1.0	1.1	1.1	1.2	1.2	
Projects	0.6	2.9	1.1	1.0	1.0	1.1	1.1	1.2	1.2	
Programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Amortization	-0.2	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.6	-0.5	
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual financing gap	0.0	0.0	1.2	0.0	0.8	0.7	0.7	0.0	0.0	
<i>Memorandum item:</i>										
Domestic primary balance (commitment) ⁴	-1.4	-4.0	-1.8	-2.1	-1.2	-0.8	0.0	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 WARPIP project from 2018 onwards; in 2019 equity investment and bank recapitalization; in 2020 on-lending support to banks.

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

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

	2019	2020	2021	2022	2023
			Projections		
			(CFAF billions)		
Net foreign assets	217.7	271.5	273.3	271.0	260.1
Central Bank of West African States (BCEAO)	182.6	164.2	175.5	180.7	177.3
Commercial banks	35.1	107.3	97.8	90.3	82.8
Net domestic assets	148.3	127.7	146.8	178.1	215.8
Credit to the government (net)	58.8	47.2	56.4	62.2	66.7
BCEAO	42.7	40.2	71.6	77.4	81.9
Commercial banks	16.2	7.0	-15.2	-15.2	-15.2
Credit to the economy	138.9	147.1	159.0	184.5	217.7
Other items (net)	-49.5	-66.6	-68.6	-68.6	-68.6
Money supply (M2)	366.0	399.2	420.0	449.1	475.9
Currency outside banks	235.3	246.5	259.4	277.3	293.8
Bank deposits	130.7	152.7	160.7	171.8	182.0
Base money (M0)	258.7	274.7	296.9	317.5	336.4
			(Change in percent of beginning-of-period broad money)		
Contribution to the growth of broad money (M2)					
Net foreign assets	-4.1	14.7	0.4	-0.5	-2.4
BCEAO	3.6	-5.0	2.8	1.2	-0.8
Commercial banks	-7.7	19.7	-2.4	-1.8	-1.7
Net domestic assets	4.3	-5.6	4.8	7.4	8.4
Credit to the central government	2.0	-3.2	2.3	1.4	1.0
Credit to the economy	4.6	2.3	3.0	6.1	7.4
Other items (net)	-2.2	-4.7	-0.5	0.0	0.0
<i>Memorandum items:</i>					
Broad money (M2, annual percentage change)	0.3	9.1	5.2	6.9	6.0
Base money (M0, annual percentage change)	4.2	6.2	8.1	6.9	6.0
Credit to the economy (annual percentage change)	13.8	5.9	8.1	16.0	18.0
Velocity (GDP/M2)	2.3	2.1	2.2	2.2	2.2
Money multiplier (M2/M0)	1.4	1.5	1.4	1.4	1.4
Sources: BCEAO; and IMF staff estimates and projections.					
¹ End of period.					

Table 5. Guinea-Bissau: Selected Financial Soundness Indicators, 2015–20¹
(Percent)

	2015	2016	2017	2018	2019	2020	
						All banks	Excluding undercapitalized bank
Capital Adequacy							
Capital to risk-weighted assets ²	28.9	20.3	2.2	-5.4	-2.0	-3.6	25.6
Tier 1 capital to risk weighted assets	13.3	20.3	1.8	-5.5	-2.0	-3.6	25.6
Provisions to risk-weighted assets	7.1	5.7	27.6	29.8	26.0	20.4	2.3
Capital to total assets	8.8	9.1	1.0	-2.0	-0.7	-1.3	12.8
Asset Composition and Quality							
Total loans to total assets	53.6	46.4	40.1	50.5	46.7	40.4	36.5
Concentration: loans to 5 largest borrowers to capital	106.8	87.5	831.7	-316.1	-748.5	-379.3	...
Sectoral distribution of loans							
Agriculture and fishing	0.3	0.3	0.9	0.5	0.5	0.8	...
Extractive industries	0.0	0.0	0.0	0.0	0.0	1.2	...
Manufacturing	4.3	1.1	0.4	0.7	0.7	15.7	...
Electricity, water and gas	10.2	0.0	1.1	0.7	0.7	10.5	...
Construction	3.3	2.1	1.7	1.7	1.7	7.7	...
Retail and wholesale trade, restaurants and hotels	53.0	46.4	29.7	29.4	29.4	25.2	...
Transportation and communication	0.1	0.1	1.1	1.1	1.1	7.1	...
Insurance, real state and business services	3.0	1.9	8.4	8.2	8.2	1.1	...
Other services	25.8	48.0	56.7	57.8	57.8	30.7	...
Gross NPLs to total loans	8.4	11.5	37.4	26.3	25.4	21.8	10.3
General provisions to gross NPLs	46.7	45.0	64.8	67.3	65.3	68.8	35.2
Net NPLs to total loans	4.7	6.7	17.4	10.5	10.6	8.0	2.1
Net NPLs to capital	28.2	34.1	694.6	-268.1	-680.0	-257.0	16.7
Earnings and profitability							
Average cost of borrowed funds	1.2	1.6	1.6	1.7	0.8	1.2	...
Average interest rate on loans	10.9	11.4	10.2	8.7	10.2	9.7	...
Average interest margin ³	9.7	9.8	8.5	7.0	9.4	8.5	...
After-tax return on average assets (ROA)	6.4	-0.3	-0.4	0.8	4.2	0.8	1.8
After-tax return on average equity (ROE)	46.3	-2.9	-10.8	17.2	79.6	9.9	13.8
Non-interest expenses to net banking income	88.4	65.6	79.3	71.3	74.8	70.0	...
Personnel expenses to net banking income	30.1	28.4	33.8	28.6	30.9	31.8	...
Liquidity							
Liquid assets to total assets	16.6	13.8	15.0	19.6	18.9	17.3	18.7
Liquid assets to total deposits	27.8	26.0	25.3	32.7	35.9	30.4	46.9
Total loans to total deposits	93.6	92.0	89.1	102.5	106.5	83.6	92.5
Total deposits to total liabilities	59.6	53.2	59.4	59.9	52.6	56.9	39.4

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 2018, 33.4 percent in 2019, and 25.6 percent in 2020.

³ Excluding tax on banking operations.

Table 6. Guinea-Bissau: Quantitative Targets Under the Staff-Monitored Program
(Cumulative from beginning of calendar year to end of month indicated, CFAF billion)

	2021					
	Jun			Sep	Dec	
	Target	Actual	Status	Target	Target	Proposed
Quantitative targets¹						
Total domestic tax revenue (floor)	38.2	41.7	met	62.8	87.9	93.5
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US\$ millions) ^{2,3}	0.0	0.0	met	0.0	0.0	0.0
New external payment arrears (US\$ millions, ceiling) ²	0.0	0.5	not met ⁹	0.0	0.0	0.0
New domestic arrears (ceiling)	0.0	0.0	met	0.0	0.0	0.0
Social and priority spending (floor) ⁴	27.2	27.6	met	38.7	50.1	50.1
Domestic primary balance (commitment basis, floor) ⁵	-16.4	-17.8	not met	-23.4	-15.4	-18.9
Non regularized expenditures (DNTs, ceiling)	0.0	0.0	met	0.0	0.0	0.0
<i>Memorandum items:</i>						
External budgetary assistance (US\$ millions) ⁶	1.8	0.0	...	1.8	6.9	6.8
Net domestic bank credit to the central government	23.4	11.0	...	53.6	42.2	15.8
Concessional project loans (US\$ millions) ⁷	9.9	14.0	...	14.9	19.9	19.6
Outstanding stock of government guarantees ⁸	10.1	12.5	...	23.1	23.1	10.3

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

² These apply on a continuous basis.

³ Contracted or guaranteed by the central government.

⁴ Defined as spending by the Ministries of Health, Education and the Ministry of Women, Family and Social Cohesion, and the High Commissioner for COVID-19.

⁵ Excludes grants, foreign and BOAD financed capital spending, and interest. The actual value for end-June (deficit of CFAF 19.1 billion) has been adjusted downwards by CFAF 1.3 billion related to domestically financed current expenditures associated to COVID vaccination implementation (TMU paragraph 11).

⁶ Comprises budget support grants and program loans (for budget support) excluding RCF disbursements and CCRT debt relief.

⁷ Comprises project loans with grant elements exceeding or equal to 35 percent.

⁸ All guarantees are denominated in CFAF.

⁹ Arrears of US\$0.34 million to Libya and US\$0.11 million to the Islamic Development Bank (IDB) were accumulated for technical reasons. The transfer to Libya was rejected due to correspondent banking constraints, which the authorities have already taken actions to solve. The payment to the IDB was delayed due to coordination problems but has already been executed.

Table 7. Guinea-Bissau: Structural Benchmarks

Measures	Rationale	Date	Current Status
Public Financial Management			
To: (i) continue weekly Treasury Committee meetings without interruptions;	Expenditure control	Continuous	Met
(ii) issue a ministerial order defining a clear criteria for prioritization of cash payments by expenditure category to avoid arrears (restos a pagar) after their due date.	Expenditure control	End-July 2021	Met
Appoint a team in charge of the project of implementing the TSA at the General Directorate of Treasury and Public Accounting (DGTCP) through a DGTCP mission letter. Make compulsory the prior authorization of the Minister of Finance for any opening of a public bank account through a Ministry of Finance decision. Identify all public bank accounts by requesting separately the information from the banks, the sectoral ministries and other public entities.	Expenditure control	End-September 2021	Met
Amend the legal procurement framework to enable the collection and publication of beneficial ownership information for contracts that fall above a certain threshold to be defined.	Expenditure control/Anti-corruption	End-December 2021	In progress
Issue an executive order to end hiring of irregular employees and enforce control by the financial controller over all public salaries, including employment incentives and the National Assembly salaries, and reconcile the personnel and the payroll records.	Wage bill control	End-December 2021	In progress
Revenue Mobilization			
Approve by Council of Ministers, submit to parliament:			
(i) the revised general tax code and the revised tax penalty regime; and	Strengthen tax framework	End-July 2021	Met
(ii) the new VAT bill.	Strengthen tax framework	End-December 2021	Met
Implementation of the Kontaktu system for tax returns filing and electronic payments through e-banking and mobile money:			
(i) pilot phase for a small number of large taxpayers followed by	Increase revenues	End-July 2021	Met
(ii) full implementation.	Increase revenues	End-September 2021	In progress. To be met in end-December
Approve by Council of Ministers, submit to parliament a reviewed customs code.	Strengthen custom framework	End-September 2021	Met
Financial Sector			
Prepare a report with the exit strategy from the undercapitalized systemic bank, including a full financial assessment.	Financial stability	End-December 2021	In progress

Sources: Guinea-Bissau authorities and IMF staff

Annex I. Risk Assessment Matrix¹

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
External Risks			
<p>Uncontrolled COVID-19 local outbreaks and subpar/volatile growth in affected countries. Outbreaks in slow-to-vaccinate countries force new lockdowns. For many Emerging Markets and Low-Income Countries, policy response to cushion the economic impact is constrained by lack of policy space, with some market access countries facing additional financial tightening as a reassessment of growth prospects triggers capital outflows, depreciations, and debt defaults.</p>	High	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.
<p>Global resurgence of the COVID-19 pandemic. Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.</p>	Medium	<ul style="list-style-type: none"> • Outbreaks would have particularly large adverse impact in Guinea-Bissau as the weak health system would not be able to avoid a high human toll of the pandemic. • The economy would be hardly hit by increased disruptions in the cashew trade and business in general. 	
<p>Further adverse cashew nut price movements. A weaker than projected price recovery of the dominant export product would hamper economic recovery.</p>	Medium	High / ST	<ul style="list-style-type: none"> • Control public expenses to compensate for lower revenues. • Preserve social spending focused on the most vulnerable. • Step up diversification efforts.

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

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized / Time Horizon	Policies to Mitigate Risks
Domestic Risks			
<p>Continued weaknesses in state-owned enterprises. The public electricity and water utility (EAGB), in particular, has been a long-standing problem.</p>	Medium	<p style="text-align: center;">Moderate / ST</p> <ul style="list-style-type: none"> Limited and expensive electricity and water supply. Contingent liabilities adding to fiscal pressures. 	<ul style="list-style-type: none"> Implement credible strategy to improve management of public enterprises. Improve governance, transparency and accountability.
<p>Banking instability, arising from high NPLs, and bank's undercapitalization.</p>	Medium	<p style="text-align: center;">High / MT</p> <ul style="list-style-type: none"> Limited credit extension hampers investment and growth. Potential contingent liabilities adding to fiscal pressures. 	<ul style="list-style-type: none"> Enhance banking supervision and enforce prudential regulations. Improve processes and procedures for collection of debts and collateral.
<p>Widespread social discontent and political instability. Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities).</p>	Medium	<p style="text-align: center;">High / ST, MT</p> <ul style="list-style-type: none"> Delayed fiscal adjustment. Limited financing inflows delay investment projects. Supply disruptions and weaker confidence. 	<ul style="list-style-type: none"> Enhance targeted social policies and strengthen social safety nets Avoid early withdrawal of fiscal and financial incentives supporting households and companies impacted by the pandemic. Improve governance, transparency and accountability and fighting corruption.
<p>Higher frequency and severity of natural disasters related to climate change cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies. A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.</p>	Medium	<p style="text-align: center;">High / ST, MT</p> <ul style="list-style-type: none"> Harm cashew production worsening the livelihood of people in rural areas and exacerbating extreme poverty and inequalities. Higher recovery spending, higher financing costs, and lower revenues. Supply disruptions and weaker confidence. 	<ul style="list-style-type: none"> Address infrastructure gaps and income/developmental disparities among regions, while instituting appropriate social safety nets. Promote investment in climate resilient infrastructure.

Annex II. Recently Adopted Key Measures on Governance and Corruption

Measures taken	Date
Adopt a firm customs policy against cases of characterized undervaluation and apply progressive sanctions.	Continuous since 2020
Publish the diagnostic report on enhancing governance and anti-corruption framework.	Jun-20
Create a commission to eliminate unjustified wage incentives to public servants.	Jul-20
Publish select information of some COVID-related procurement contracts. ¹	Continuous since Aug-20
Repeal the 2015 Budget Law amendments to the IGV and the Investment Code (Código de Investimento).	Sep-20
Approve by parliament, and promulgation by the President of the 2020 Budget.	Sep-20
Reformulate and resume customs control of the land flow of imports.	Oct-20
Issue a ministerial order allowing the IGV (VAT) electronic tax return.	Oct-20
Approve by parliament, and promulgation by the President of the 2021 budget.	Dec-20/Jan-21
Strengthen the general custom clearance procedure.	Continuous since Jan-21
Reestablish Treasury Committee by Ministerial order.	Feb-21
Approve by the Council of Ministers decrees that create a National Committee of Debt Policy; establish the organization and functioning of the Direção Geral da Dívida Publica; and regulate the issuance of debt and debt management.	Jun-21
Launch system for tax returns filing and electronic payments through e-banking and mobile money	Jun-21
Establish priority expenses, in the framework of the 2021 budget execution by Ministerial order	Jul-21
Establish expenditure limits per budget line	Jul-21
Approve and send to Parliament a revised general tax code and a revised tax penalty regime by the Council of Ministers	Jul-21
Approve and send to Parliament a modernized statute of the Imposto Geral sobre Vendas (IGV or VAT) by the Council of Ministers	Jul-21
Source: Guinea-Bissau Authorities.	
¹ The information is available on the website of the High Commissioner: https://www.accovid-gw.org/relat%C3%B3rios	

Annex III. Safeguarding Social and Priority Spending

1. Social and priority spending exceeded the quantitative target by more than 1.5 percent (Table 6). Spending in the education sector represented 57 percent (Text Figure 5), followed by the health sector, 38 percent, including COVID-19 related expenditure, and the social sector, 5 percent. Some key features are:

- i. **Education.** The spending mostly consisted in hiring 2,500 teachers to meet the rising needs of the population in the interior of the country, while addressing the challenges of COVID-19, which required additional teachers to cope with the reduction in classroom size. There are still nearly 3,000 vacancies across various education levels and by regions, especially in basic education in underserved rural areas (Text Figure 6).
- ii. **Health.** Spending has focused in enhancing the service delivery as well as building long-term capacity through infrastructure investment.
 - **Ministry of Health.** Current expenditure included the purchase of hospital consumables for the Hospital Nacional Simão Mendes¹ (CFAF 48 million per month) and operation of the Raul Follereaux Hospital² (CFAF 23 million per month). Capital expenditure included spending on the maintenance contract for equipment in all hospitals (CFAF 15 million per month) and infrastructure investment in Hospital Nacional Simão Mendes (CFAF 640 million).
 - **High Commission for COVID-19.** Spending has been crucial to mitigate the impact of the pandemic and implement the vaccination campaign. Domestically financed expenditure on vaccination³ accounts for about CFAF 1.3 billion (or 30 percent) of total spending of the High Commission as of end-June, while spending on prevention and containment of COVID-19 and investment accounted respectively for CFAF 3.0 billion.

2. Given Guinea-Bissau's considerable developmental challenges and weak healthcare system (Figure 3), enhancing social and priority spending supports inclusive growth and long-term development. An IMF (2021)⁴ study found that countries that successfully exit from fragility spend more on health and education than those countries that do not escape. Protecting social spending supports political and social inclusion and enables government effectiveness through a steady build-up of fiscal, legal, and civil service capacities.

¹ Hospital Nacional Simão Mendes is the main hospital in Guinea-Bissau.

² This hospital specializes in treating pulmonary diseases, in particular tuberculosis.

³ Under the adjustment clause, this vaccination expenditure would be used to adjust the domestic primary balance floor downwards (TMU paragraph 16).

⁴ [IMF \(2021\), "Avoid a Fall or Fly Again: Turning Points of State Fragility", Working Paper, WP/21/133.](#)

Figure 1. Distribution of Social and Priority Spending in End-June 2021 (CFAF billion)

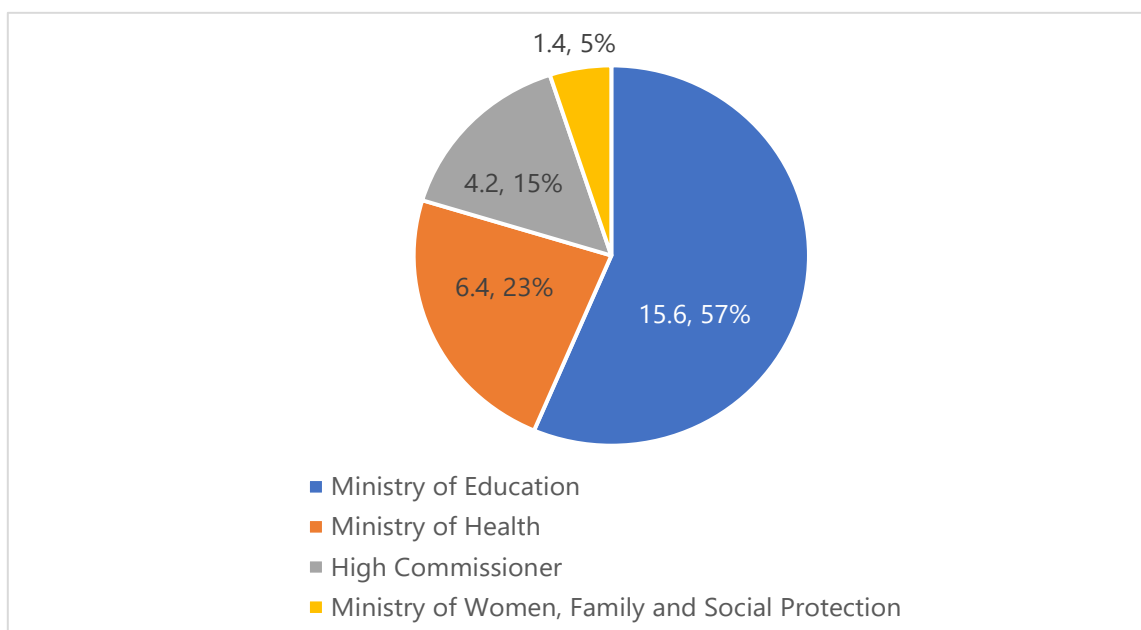
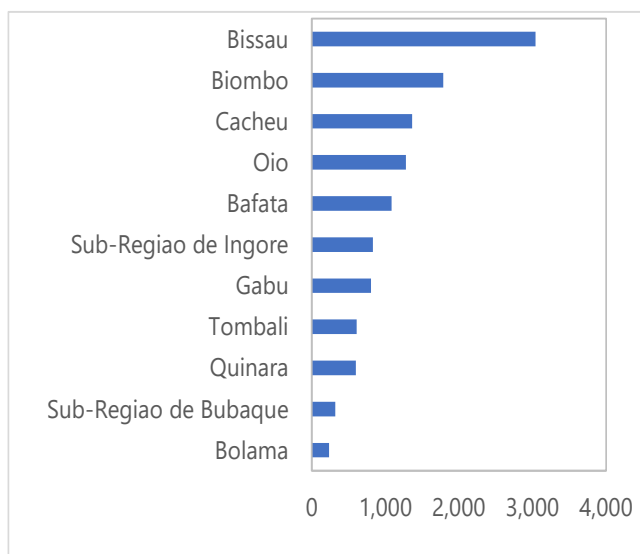


Figure 2. Distribution of Teachers and Vacancies

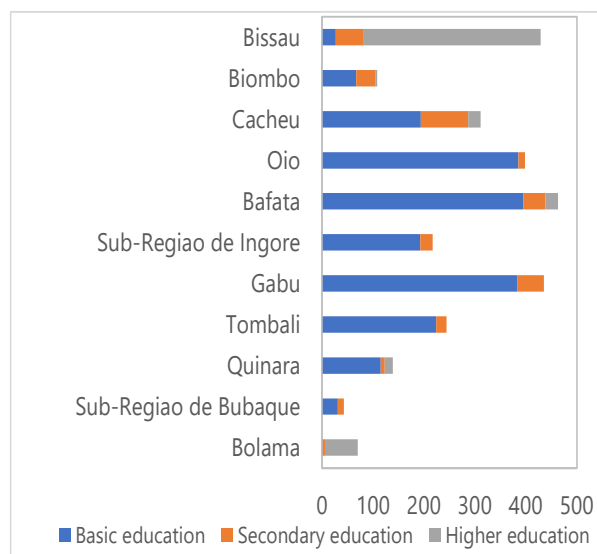
As of July 2021, there are nearly 12,000 permanent teachers...

...Close to 3,000 vacancies, particularly in basic education and rural areas.

Number of Permanent Teachers by Region



Vacancies, by Education Level and Region



Sources: Guinea-Bissau authorities and IMF staff calculations.

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

A. Background

1. Guinea-Bissau received an allocation of SDR 27.2 million (CFAF 21.6 billion), or 96 percent of quota. Existing SDR holdings are SDR 32.4 million in outstanding purchases and SDR 33.4 million loans as of end-August 2021. The previous SDR allocation in 2009 of SDR 12.4 million was used to pay domestic arrears.

B. Accounting Treatment

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

C. Cost of Use of the SDR holdings

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

D. Use of the Allocation

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

- **Repayment of costly debt.** BCEAO on-lending is concessional and provides an alternative source of funding, amid constraints to mobilize donor support in 2021, to more costly alternatives such as contracting debt with regional development banks (project financing) and issuing short-term treasury bills in the regional market. The authorities are repaying BOAD amortization for 2021 and 2022. Staff estimates the debt management operation can save up to [CFAF 3.4] billion on interest payments up to 2026.
- **Emergency response and strengthening economic resilience.** The authorities are also

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

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

considering allocating some resources³ to support the COVID-19 emergency response and the recovery from the pandemic, including the vaccination roll out plan (¶ 1). The operational cost of the vaccination campaign is borne by the government, except US\$1 million grant from GAVI.

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

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

Appendix I. Letter of Intent

Bissau, October 11, 2021

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

Madame Managing Director,

After the country was severely hit by the COVID-19 global pandemic and a negative terms-of-trade shock in 2019, economic conditions in 2021 are improving on the back of higher cashew exports, public investment in critical infrastructure externally financed, the gradual lifting of containment measures and an improvement in business confidence associated with a more stable political situation. COVID-19 vaccination campaign has started, and the government aims to vaccinate 50 percent of the target population by end-December.

The government of Guinea-Bissau has initiated an ambitious reform program supported by the Staff Monitored Program (SMP) initiated in July and is also encouraged by the support of the international community, including the Fund through the Rapid Credit Facility (RCF) approved in January 2021 and the special allocation of SDR in August 2021. We are implementing policies to buttress the recovery from the pandemic and enhancing fiscal transparency and governance. Revenue mobilization has been strengthened, and new domestic arrears and recurrence to non-concessional borrowing has been avoided. Amid a third wave of COVID-19 cases, we continue our efforts to create fiscal space to support priority expending and revamp public infrastructure while strengthening macroeconomic stability and securing debt sustainability to create opportunities for inclusive growth and catalyze support from international donors to our national development plan.

We believe that the implementation of the governance commitments of the SMP will contribute to address state fragility enhancing revenue mobilization and expenditure control capacities increasing public finance transparency, accountability, and efficiency. These measures aim to guarantee that expenditure decisions with impact in the budget are exclusively authorized by the Ministry of Finance.

We have met five out of seven end-June quantitative targets and all structural benchmarks under the SMP. The end-June quantitative target capping the domestic primary deficit was missed due to higher COVID related expenditures, the need to improve service delivery in health and education sectors and other current spending. Also, arrears to Libya and the Islamic Development Bank (IDB) have been incurred for technical reasons and the government has taken actions to resolve. We have met the four structural benchmarks for end-July, all but one out of three structural benchmarks due

in September and one out of three important structural benchmarks due in December by approving in cabinet and submission to Parliament the new VAT bill.

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

- **Fiscal policy.** We are committed to observe the legal time frame for budget submission to Parliament for second year. Our draft budget for 2022 is anchored in line with the SMP macroframework in terms the overall deficit and domestic primary deficit including enhancing revenue mobilization, re-allocating resources for wages and salaries to support priority spending and capital expenditure in key infrastructure investment, and rationalizing spending in goods and services, and other expenditures. We will exercise strict control on budgetary execution avoiding accumulation of arrears and authorizing external borrowing consistent with debt sustainability. To strengthen debt management and improve the efficiency of future government spending, we plan to review the debt management framework, the wage bill policy, public investment management and SOEs supervision with technical assistance from the World Bank and the IMF.
- **Governance Reforms.** We are committed to complete the implementation of the RCF's governance safeguards on COVID-19 spending. The objective of these governance and transparency measures is that budgetary allocations related to COVID-19 are spent appropriately and consistent with the commitments of the RCF disbursed in January. This entails the completion of an independent audit of COVID-19 spending. The related report will be published along with regular expenditure reports, procurement contracts including the names of the awarded companies and related beneficial ownership information, as well as ex-post reports on validation of delivery of goods and services. To legally enable the collection and publication of this beneficial ownership information, we are amending the legal procurement and are also reforming the asset declaration regime frameworks to fight corruption. IMF is supporting the implementation through the provision of technical assistance.

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

The policies and actions set out in the attached Memorandum of Economic and Financial Policies (MEFP) convey the understandings reached with IMF Staff during the September 28-October 11 review mission, which we consider necessary to reach the objectives of our program. On this basis we request the completion of the first review of the SMP. We stand ready to undertake any further measures to achieve the program objectives if necessary, in close consultation the IMF staff. We will provide timely information for monitoring economic developments and the implementation of policies defined in the program, as agreed under the attached Technical Memorandum of Understanding (TMU), or upon staff request.

In line with our commitment to transparency, we authorize the IMF to publish this Letter of Intent, together with the attached MEFP and the TMU, as well as the Staff Monitored Program Report.

Yours sincerely,

/s/

João Alage Mamadú FADIA

Minister of Finance
Guinea-Bissau

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

Attachment I. Memorandum of Economic and Financial Policies

A. Context

1. Following a peaceful transition of power in the beginning of 2020, our country continues to be severely hit by the COVID-19 global pandemic. The government is taking measures to respond to this severe shock by scaling up health-related spending and deploying containment and mitigation measures, along with a commitment to enhanced transparency of COVID-19 related expenditures. We enacted a state of calamity to prevent the spread of the third wave of infections because of the acceleration of case numbers during the last month. Fighting the pandemic has benefited from the disbursement under the Rapid Credit Facility (RCF) from the International Monetary Fund (IMF) in January 2021, which contributed towards catalyzing urgently needed resources from international partners to support the emergency response and the recovery from the pandemic. The recent special SDR allocation has also contributed to these efforts.

2. Fully funding the national vaccination plan requires further donor support. The number of people that have been infected has increased (as of October 1st) to 5,329 confirmed cases and 135 deaths. In coordination with donors, Guinea-Bissau has prepared a vaccine rollout plan and launched the national vaccine program in April 2021 using the AstraZeneca vaccines. As of end-September 2021, a total of [94,715] vaccine doses have been administered¹ covering about - 13.5 percent of the target population (about 700,000 people). 676,650 doses have been delivered to date (AstraZeneca, Johnson & Johnson, and Pfizer) provided by the African Union, COVAX, Sweden, and the United States. In addition, 200,000 Sinopharm doses are expected from China. COVID-19 vaccination campaign has started aiming to reach 50 percent of the target population by end-December and the rest in 2022. The operational cost of the vaccination campaign is borne by the government, except US\$1 million granted by GAVI. The funding gap for the vaccination campaign is US\$5.5 million for 2021-2022.

3. The government is committed to pursue reforms aimed at ensuring macroeconomic stability, strengthening social protection and enhancing governance. The Staff Monitored Program (SMP) is supporting the fiscal consolidation plan in the 2021 Budget and the formulation of the 2022 Budget. The SMP success also hinges on meeting strong governance commitments aimed at enhancing public finance transparency, accountability, and efficiency. In this regard, our performance aim to set the building blocks to ensure further fiscal consolidation towards WAEMU standards and address debt vulnerabilities underpinned by a strong track record to request an Extended Credit Facility (ECF) arrangement.

B. Recent Macroeconomic Developments

4. Despite the effects of the pandemic, growth has been revised upwards in 2020 and is expected to improve in 2021. Growth in 2020 was revised upwards to 1.5 percent (from an

¹ As reported to [WHO](#).

estimated contraction of 1.4 percent) based on updated information about construction and transportation sectors. For 2021, preliminary end-June data suggest an improvement of the economic situation. GDP growth is forecasted at about 3¾ percent on the back of higher cashew export prices and volumes, public investment in critical infrastructure externally financed, the gradual lifting of containment measures and an improvement in business confidence associated with a more stable political situation. Average price inflation is projected to accelerate to 2.4 percent from 1.5 percent in 2020, reflecting price pressures from imported goods and transportation prices.

5. The cashew nut production is expected to reach its historical record level in 2021, with spillovers effects to the fiscal and external accounts and economic activity. Cashew nut exports have contributed to the improvement of the external balance and have provided much needed extra income to at least 500,000 households of poor cashew farmers. This is also partly due to the measures taken by the government in 2020 to provide financing to the cashew sector since the onset of the pandemic. The cashew nut export value is expected to grow by 34.5 percent year on year. As a result, we project a reduction in the current account deficit. In the fiscal sector, revenue was robust in 2021H1, in tandem with the economic recovery and enhancement in revenue mobilization. Nevertheless, domestic primary deficit was higher than expected, due to higher expenditure, in part related to COVID-related measures.

6. The economic slowdown in 2020 and heightened uncertainty are expected to continue weighing on an already fragile banking system. The liquidity of the banking system has been supported by the accommodative stance of the BCEAO, however, the low capitalization of one bank and its high NPL level represent an important vulnerability despite the high level of provisions. In December 2020, the BCEAO encouraged WAEMU banks to refrain from distributing dividends with a view to strengthening their capital buffers in anticipation of the impact of the crisis on assets quality. In terms of the situation of the undercapitalized bank, it recovered part of the loans considered non-performing in late 2020 and is seeking strategic investors with the support of an external consultant specialized in mergers and acquisitions. The government was able to end a litigation with another local bank in December 2020 by settling cross liabilities with the bank's debtors, reducing the bank's NPLs. Credit to the economy slowed down in 2020 after the strong growth observed in recent years but is expected to accelerate in 2021.

7. The fiscal position is projected to improve in 2021, and the stock of public debt should stabilize. Tax revenue is expected to be robust in 2021. This underpins a sizeable pace of fiscal consolidation, albeit slower than expected, reflecting higher spending in COVID-19 related measures and social priority sectors. The overall fiscal deficit (including grants on a commitment basis) is projected to fall to 5.2 percent of GDP from 9.2 percent of GDP in 2020, stabilizing the stock of public and publicly guaranteed debt to about 77.0 percent of GDP (from 77.1 percent of GDP in 2020). The resulting external financing gap covered by international donor support reflects the need to sustain imports for essential consumption such as food and medicines, and for capital and intermediate goods to strengthen health sector capacities and infrastructure, mainly roads, severely affected by last year's flooding as our country is becoming more prone to extreme weather events linked to climate change. The RCF disbursement in January 2021 should have contributed to cover

1.2 percent of GDP of financing needs. Furthermore, the CCRT debt service relief will contribute an additional 0.1 percent of GDP. Other multilateral organizations and bilateral donors are expected to step-in along with IMF support. These should reduce the need for non-concessional regional financing.

C. Performance Under the SMP

8. The recovery of the external economic environment has contributed to the improvement of fiscal performance, allowing to meet five quantitative targets (Table 1).

Revenue mobilization has improved allowing to meet the domestic tax revenue floor by more than 9.2 percent of the QT, expenditure control and debt policy has avoided new domestic arrears and recurrence to non-concessional borrowing and non-regularized expenditures (DNTs). Also, the priority spending floor exceeded the QT by more 1.5 percent. However, we have incurred in US\$ 0.5 million external payments arrears and taken actions to resolve them (paragraph 17). The end-June quantitative target capping the domestic primary deficit was missed due to higher COVID-related expenditures, the need to improve service delivery in health and education sector and other current spending (exceeded the QT by CFAF 1.4 billion or 8.5 percent).²

9. We have accelerated governance reforms and met all end-July Structural benchmarks (SBs), all but one for September and one for December (Table 2).

- **Expenditure control.** The Treasury Committee has continued its weekly meetings without interruption and a ministerial order has been issued defining a clear prioritization criteria expenditure category to avoid arrears by end-June. In addition, a team has been appointed in charge to implement the Treasury Single Account (TSA) at the General Directorate of Treasury (DGTCP), prior authorization from the Minister of Finance is compulsory for opening public bank accounts and all public bank accounts have been identified by end-September.
- **Strengthen tax and customs frameworks and tax administration.** The Council of Ministers has approved and submitted to the Parliament the revised general tax code, tax penalty regime (SBs, end-July), together with the modernized statute of the VAT (SB, end-December) and the revised customs code (SB, end-September). The general tax code and tax penalty regime, aimed to strengthen the tax framework, will provide a common basis for administration of all taxes regardless of tax types, promote fairness and understanding; the VAT will improve the tax framework and broaden the sales tax base; and the customs codes will change traders behavior and raise customs compliance. In addition, to strengthen tax administration, the Kontaktu system for electronic filling tax returns and payments is operational for a small number of taxpayers (pilot phase), and progress has been made to extend the solution to all large taxpayers, achieving full implementation. In this regard, we request to rephase full implementation of the system from end-September to end-December to ensure a smooth transition amid the pandemic, allowing to train users and deploy a communication campaign.

² The actual value for end-June (deficit of CFAF 19.1 billion) has been adjusted downwards by CFAF 1.3 billion related to domestically financed current expenditures associated to COVID-19 vaccination implementation (TMU paragraph 16).

With ongoing TA advice, customs management is taking steps to address gaps in core functions and enhance revenue mobilization, including introduction of a modern clearance procedure, control of import values, fight against smuggling and abuse of exemptions.

Measures to Address Fiscal Consolidation

10. The government is committed to the following measures to mobilize domestic revenues, rationalize expenditures and avoid expensive non-concessional financing:

- **Tax and non tax-measures.** Key measures already taken include a new tax on telecommunications and a new tax on labor income along with measures to enhance tax compliance including the adoption of new decrees and ministerial orders to strengthen internal control procedures of the customs and tax directorate.³ The government will take steps to mobilize revenues and reduce contact points between tax payers and tax administrators by launching with IMF TA support a website for electronic tax returns in 2021 and allowing for electronic tax returns filing and payment.
- **Expenditure control and wage bill.** We have adopted expenditures containment measures including (i) wage bill rationalization through suspension of new hires; (ii) suspension of all official missions; (iii) limiting tax expenditures by not granting fiscal and customs exemptions, in particular on fuel. This measure does not apply to embassies and international organizations; (iv) suspensions of new infrastructure projects with exception of priority sectors; and (v) limiting acquisitions of goods and services to those associated to core functions. We continue implementing expenditure control measures including deploying with IMF support blockchain technology to assist in reconciling the personnel and the payroll records. We have initiated discussions on a public administration reform and this project will help to assess the accurate size of our public service. The reinstatement of the Treasury Committee should also contribute to improve expenditure control. Furthermore, the government has taken steps towards strengthening the management of the largest SOE, the electricity company *Electricidade e Aguas da Guinea-Bissau* (EAGB) by revamping management operations and enhancing financial management controls. Moreover, while the government is rationalizing overall expenditures, it is committed to safeguard priority spending on health, education and the social sector and not using irregular and improperly documented expenditure (DNTs) to emergency cases.

Other Structural and Governance Reforms in Progress

11. The government is committed to further strengthen public financial management to urgently improve expenditure control (Structural Benchmarks, SBs, listed in Table 2).

- To strengthen cash management and improve expenditure control the government has taken progressive steps are taken towards a Treasury Single Account (TSA). IMF technical assistance

³ The telecommunication tax covers the following services: call traffic; instant messaging services; voice or text messaging services; advertising and information services; mobile data services; and internet access and connection services. The newly introduced "democracy tax" has labor income as tax base.

will support the improvement for the treasury and cash management function. We created a unit within DGTCP to implement the cash management function that will use the IMF tool.

- The government will amend the legal procurement framework to enable the collection and publication of beneficial ownership information above a certain threshold, to be defined based on IMF TA, (SB, end-December 2021). We are consulting with stakeholders within related public institutions to implement this measure and have requested IMF TA in May.
- An executive order was issued to end the hiring of employees without contract (SB, end-September 2021). Work is ongoing to enforce control by the financial controller over all public salaries including employment incentives and the National Assembly salaries, and reconcile the personnel and the payroll records (SB end-December 2021) supported by the implementation of the blockchain project. The government decided in a resolution of the Council of Ministers on July 27 that these measures must be implemented by all public entities whose wages are included in the budget.

12. Moreover the government is working to implement two additional expenditure control measures. It will enforce normal expenditure execution procedure by requiring that delivery of goods and services is certified before payment to providers via a ministerial order mandating spending units to adopt and implement the improved expenditure execution procedures as stated in the “Manual for procedures on public expenditures” which was developed with IMF TA support and the government will be piloting this in at least five selected line ministries. IMF TA has been requested to support the implementation. The government will also publish a follow-up report on previous Tribunal de Contas audit reports’ recommendations on *Electricidade e Águas da Guineá-Bissau* (EAGB) to strengthen the management and transparency of this state-owned enterprise. The report will be published by end-December.

13. To support revenue mobilization the government will ensure that the information exchange between DGCI, DGA, Treasury and the National Institute of Social Security. This will bring transparency and accountability to operations between public entities and increase tax revenue mobilization. Partial progress has already been made in this area by end-August and the government will dedicate efforts to include the National Institute of Social Security in the exchange of information by end-October.

14. The government is committed to implement strong governance safeguards for COVID-19 spending. We manage COVID-19 related funds using a dedicated account at the BCEAO. The allocation of funds will be subject to an ex-post independent audit by a reputable third-party auditor who will work jointly with the Audit Court. An audit of COVID-19 expenses by the Audit Court has started in October at the request of the High Commissioner for COVID-19, covering the period June 2020-August 2021. The Terms of Reference for a reputable third-party auditor are being developed in consultation with the Fund for complementary audit covering all COVID-19 expenses for 2021 to be published by end-September of 2022. The entire crisis-related spending is an integral part of the State Budget, so that reports on such spending are being published in the budget execution report presented to the National Assembly. In addition, the government has published, through the High Commission for COVID-19, key information of all crisis-related contracts for the

year 2020. Furthermore, the government will publish the full text of contracts and ex-post validation of delivery and start to disclose the beneficial ownership information (SB end-December 2021) of companies awarded COVID-19 related contracts as soon as the legal procurement framework has been amended to enable the collection and publication of beneficial ownership information.

15. Furthermore, the government is committed to strengthen the legal framework to mitigate corruption risk via enhancing transparency and promoting accountability. We will propose to reform the asset declaration regime with IMF TA support. The reform will aim to (1) cover all politically exposed persons (PEPs), as defined by the Financial Action Task Force standards and their family members and close associates; (2) cover assets and interests owned, including those beneficially owned, domestically and abroad (3) ensure declarations are publicly available online; and (4) allow the imposition of targeted, proportionate, and dissuasive sanctions that are consistently enforced for failure of submission and for submission of false declaration.

Measures to Mitigate Debt Vulnerabilities

16. The government is committed to clear part of outstanding domestic arrears and to avoid accumulating new ones. It will pay about a third (CFAF 4.7 billion) of the remaining stock of domestic arrears accumulated between 1974 and 1999 amounting to CFAF 14.1 billion.⁴ Furthermore, by end-2021, with external technical support, the government intends to determine the true amount of any outstanding arrears through further auditing and verifications,⁵ verify full tax compliance of all creditors, and determine net government arrears after correcting for any tax obligations. This will allow the government to decide on a strategy towards clearing all outstanding domestic arrears over the medium term.

17. The government remains committed to solving all legacy external arrears and to avoid further accumulation. Agreement or settlement have been reached with Libya, Taiwan Province of China, Russia and Brazil, and progress are made towards resolving remaining external arrears.⁶ In addition, the government has joined the Debt Service Suspension Initiative (DSSI) and intends to explore debt reprofiling/restructuring with development partners in the context of downside risks from the COVID-19 pandemic. In the context of this review, arrears to Libya and the Islamic Development Bank (IDB) have been incurred. Correspondent banking constraints have prevented timely payment to Libya and we have already taken actions to solve it. The payment to the IDB was delayed due to coordination problems but has already been executed (Table 1). Recently implemented weekly

⁴ There are three types of domestic arrears (i) accumulated between 1974 and 1999 which have been audited and partially recognized, (ii) accumulated between 2000 and 2007 which have been audited but for some of which validity remains doubtful, and (iii) accumulated between 2008 and 2012, including government backed guarantees, which have not been audited yet.

⁵ In this process, the government also intends to assess the level of outstanding membership fees to international institutions and define a strategy regarding membership cancellation, rescheduling and/or settling of obligation.

⁶ For Russia and Brazil, the debts have already been negotiated, but the agreements are still pending to be signed. This is being handled at the level of the Paris Club Secretariat.

coordination meetings between the directories of treasury and debt are expected to prevent the incurrence of such arrears for technical reasons.

18. The government will strengthen debt management. It will seek long-term TA from international partners to improve its capacity for debt recording, monitoring and overall debt management. In addition, it will start publishing annual reports on debt (both external and domestic) covering debt service, disbursements and agreements, as well as continue reporting to international debt statistics databases. To strengthen debt management and project prioritization, the government will hold bi-weekly meetings of the National Committee of Public Debt after the approval of the decrees by the Council of Ministers.

19. The government will carefully plan new investments and contract future debt only on highly concessional terms. To ensure that the risk of debt stress remains manageable, the government will carefully rank investments based on cost-benefit analysis, including social considerations, and its impact on macroeconomic stability. Furthermore, the government will work in consultation with the IMF regarding the evaluation of the financial terms of new proposed loans. To avoid high interest payments in a situation of scarce government resources and weak debt management capacity, the government is also committed not to rely on non-concessional loans. The Government will start quarterly meetings with all Project Implementation Units (PIUs) to take stock of the rate of project implementation and discuss challenges ahead. To further enhance coordination, the government will prepare, quarterly reports on Public Investment Plan (PIP) execution. In the medium-term, the government will design a three-year PIP, fully integrated with the medium-term expenditure framework.

20. The government intends to use the new SDR allocation to buttress debt sustainability by repaying non-concessional debt. In addition to supporting COVID-related spending, including vaccination and improvement in health services, the recent SDR 27.2 million allocation to Guinea-Bissau (about US\$ 38.4 million) will be used to anticipate repayments of non-concessional debt due in end-2021 and 2022.

Measures to Strengthen the Financial Sector

21. The government will continue to make efforts to preserve the stability of the financial sector. It will refrain from allocating additional public resources to a large bank where it has a participation. The government is monitoring developments of the restructuring plan of the bank and will prepare a report including a viable disengagement strategy by 2024 as agreed with the regional Banking Commission (SB, end-December 2021). This report will recommend a full audit of the bank's NPLs by an independent third-party auditing firm.

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

	2021					
	Jun			Sep	Dec	
	Target	Actual	Status	Target	Target	Proposed
Quantitative targets¹						
Total domestic tax revenue (floor)	38.2	41.7	met	62.8	87.9	93.5
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US\$ millions) ^{2,3}	0.0	0.0	met	0.0	0.0	0.0
New external payment arrears (US\$ millions, ceiling) ²	0.0	0.5	not met ⁹	0.0	0.0	0.0
New domestic arrears (ceiling)	0.0	0.0	met	0.0	0.0	0.0
Social and priority spending (floor) ⁴	27.2	27.6	met	38.7	50.1	50.1
Domestic primary balance (commitment basis, floor) ⁵	-16.4	-17.8	not met	-23.4	-15.4	-18.9
Non regularized expenditures (DNTs, ceiling)	0.0	0.0	met	0.0	0.0	0.0
<i>Memorandum items:</i>						
External budgetary assistance (US\$ millions) ⁶	1.8	0.0	...	1.8	6.9	6.8
Net domestic bank credit to the central government	23.4	11.0	...	53.6	42.2	15.8
Concessional project loans (US\$ millions) ⁷	9.9	14.0	...	14.9	19.9	19.6
Outstanding stock of government guarantees ⁸	10.1	12.5	...	23.1	23.1	10.3

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

² These apply on a continuous basis.

³ Contracted or guaranteed by the central government.

⁴ Defined as spending by the Ministries of Health, Education and the Ministry of Women, Family and Social Cohesion, and the High Commissioner for COVID-19.

⁵ Excludes grants, foreign and BOAD financed capital spending, and interest. The actual value for end-June (deficit of CFAF 19.1 billion) has been adjusted downwards by CFAF 1.3 billion related to domestically financed current expenditures associated to COVID vaccination implementation (TMU paragraph 11).

⁶ Comprises budget support grants and program loans (for budget support) excluding RCF disbursements and CCRT debt relief.

⁷ Comprises project loans with grant elements exceeding or equal to 35 percent.

⁸ All guarantees are denominated in CFAF.

⁹ Arrears of US\$0.34 million to Libya and US\$0.11 million to the Islamic Development Bank (IDB) were accumulated for technical reasons. The transfer to Libya was rejected due to correspondent banking constraints, which the authorities have already taken actions to solve. The payment to the IDB was delayed due to coordination problems but has already been executed.

Table 2. Structural Benchmarks

Measures	Rationale	Date	Current Status
Public Financial Management			
To: (i) continue weekly Treasury Committee meetings without interruptions;	Expenditure control	Continuous	Met
(ii) issue a ministerial order defining a clear criteria for prioritization of cash payments by expenditure category to avoid arrears (restos a pagar) after their due date.	Expenditure control	End-July 2021	Met
Appoint a team in charge of the project of implementing the TSA at the General Directorate of Treasury and Public Accounting (DGTCP) through a DGTCP mission letter. Make compulsory the prior authorization of the Minister of Finance for any opening of a public bank account through a Ministry of Finance decision. Identify all public bank accounts by requesting separately the information from the banks, the sectoral ministries and other public entities.	Expenditure control	End-September 2021	Met
Amend the legal procurement framework to enable the collection and publication of beneficial ownership information for contracts that fall above a certain threshold to be defined.	Expenditure control/Anti-corruption	End-December 2021	In progress
Issue an executive order to end hiring of irregular employees and enforce control by the financial controller over all public salaries, including employment incentives and the National Assembly salaries, and reconcile the personnel and the payroll records.	Wage bill control	End-December 2021	In progress
Revenue Mobilization			
Approve by Council of Ministers, submit to parliament:			
(i) the revised general tax code and the revised tax penalty regime; and	Strengthen tax framework	End-July 2021	Met
(ii) the new VAT bill.	Strengthen tax framework	End-December 2021	Met
Implementation of the Kontaktu system for tax returns filing and electronic payments through e-banking and mobile money:			
(i) pilot phase for a small number of large taxpayers followed by	Increase revenues	End-July 2021	Met
(ii) full implementation.	Increase revenues	End-September 2021	In progress. To be met in end-December
Approve by Council of Ministers, submit to parliament a reviewed customs code.	Strengthen custom framework	End-September 2021	Met
Financial Sector			
Prepare a report with the exit strategy from the undercapitalized systemic bank, including a full financial assessment.	Financial stability	End-December 2021	In progress

Sources: Guinea-Bissau authorities and IMF staff

Attachment II. Technical Memorandum of Understanding

Introduction

1. **This memorandum sets out the understandings between the Bissau-Guinean authorities and the International Monetary Fund (IMF)**, regarding the definitions of the quantitative targets (QTs) and structural benchmarks (SBs) supported by the Staff Monitoring Program (SMP) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).
2. **Program exchange rates¹**. For the purpose of the program, foreign currency denominated values for 2021 will be converted into local currency (CFAF) using a program exchange rate of CFAF 538.36/US\$ and cross rates as of end-December 2020.

Quantitative Targets

A. Floor on Total Domestic Tax Revenue

3. **Definition.** Tax revenue is defined to include direct and indirect taxes as presented in the central government financial operations table.

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

4. **Definition.** Those are defined as all forms of new non-CFAF denominated debt contracted or guaranteed by the central government. For this purpose, new non-concessional external debt will exclude normal trade credit for imports and debt denominated in CFAF but will include domestically held foreign exchange (non-CFAF) debts. This QT applies not only to debt as defined in the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Decision No. 15688-(14/107), adopted December 5, 2014, point 8, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this QT are disbursements from the IMF and those debts subject to rescheduling or for which verbal agreement has been reached. This QT will apply on a continuous basis.
5. **Reporting requirement.** The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.
6. **Definition of Central Government.** Central government is defined for the purposes of this

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

memorandum to comprise the central administration of the Republic of Guinea-Bissau and does not include any local administration, the central bank nor any other public or government-owned entity with autonomous legal personality not included in the government flow-of-funds table (TOFE).

C. New External Payment Arrears of the Central Government

7. Definition. For the purposes of this quantitative target, external payment arrears, based on the currency test, are debt service payments that have not been paid on due dates (taking into account the contractual grace periods, if any) and that have remained unpaid 30 days after the due dates. Arrears not to be considered arrears for the quantitative target, or “non-program” arrears, are defined as: (i) arrears accumulated on the service of legacy HIPC external debt for which there is a pre-existing request for rescheduling or restructuring; and/or (ii) the amounts subject to litigation. For the purposes of this QT, central government is as defined in paragraph 6 above. This QT will apply on a continuous basis effective on the date of approval of the SMP.

D. New Domestic Arrears of Central Government

8. Definition. Domestic arrears are defined as CFAF-denominated accounts payable (*resto-a-pagar*) accumulated during the year, and still unpaid by one month after the quarter for wages and salaries (including pensions), and three months for goods, services and transfers. Domestic arrears also include CFAF-denominated debt service payments that have not been paid on due dates (taking into account the contractual grace periods, if any) and that have remained unpaid 30 days after the due dates. For the purposes of this QT, central government is as defined in paragraph 6 above.

E. Social and Priority Spending

9. Definition. Social and Priority spending is defined to include spending in the Ministries of Health, Education and the Ministry of Women, Family and Social Cohesion, and the High Commission for COVID-19.

F. Domestic Primary Balance (Commitment Basis)

10. The domestic primary fiscal deficit on a commitment basis is calculated as the difference between government revenue and domestic primary expenditure on commitment basis. Government revenue includes all tax and nontax receipts and excludes external grants. Domestic primary expenditure consists of current expenditure plus domestically financed capital expenditure, excluding all interest payments and capital expenditure financed by project loans or grants. Government commitments include all expenditure for which commitment vouchers have been approved by the Ministry of Finance; automatic expenditure (such as wages and salaries, pensions, utilities, and other expenditure for which payment is centralized); and expenditure by means of offsetting operations.

11. Adjustment clause. The floor in the domestic primary balance will be adjusted downwards by the excess in the CFAF value of any programmed domestically financed current expenditures related to COVID-19 vaccination implementation (programmed at zero in 2021).

G. Non-Regularized Expenditure (DNTs)

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

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

Memorandum Items

H. Net Domestic Bank Credit to the Central Government (NCG)

14. Definition. NCG refers to the net banking system's claim on the central government as calculated by the Treasury Department. It is defined as the sum of the following:

- a. the net position of the Government with the national BCEAO, including: treasury bills and bonds excluding on-lent IMF credit); less central Government deposits (excluding project-related deposits) at the BCEAO;
- b. the net position of the Government with commercial banks, including: (a) treasury bills; (b) treasury bearer bonds; and (c) loan and advances of commercial banks to the central Government; less central Government deposits (excluding project-related deposits) in commercial banks; and
- c. any other CFAF-denominated commercial credit, including net disbursement of project loans by the regional development bank, BOAD (excluding concessional loans with a grant element of at least 35 percent).

Any domestic loan guarantees issued by the government will be included in the net position of the government as defined above. For the purposes of this QT, central government is as defined in paragraph 6 above.

15. Data source. The data source for the above will be the monetary survey and the net position of the government (Position Nette du Tresor, PNT) table, as amended to include net project borrowing from BOAD, submitted monthly to the IMF staff by the Ministry of Finance.

Program Monitoring

16. Program performance under the SMP will be monitored through quarterly reviews of quantitative targets and structural benchmarks. The first test date will be June 30, 2021 and the

review is expected to be completed by end-September 2021. The second test date will be September 30, 2021, and the review is expected to be completed by end 2021. The third test date will be December 31, 2021, and the review is expected to be completed by end-March 2022.

Table 1. Guinea-Bissau: Summary of Reporting Requirements

Information	Frequency	Reporting Deadline	Responsible
<i>Fiscal Sector</i>			
Central Government budget and outrun	Monthly	30 days after the end of the month	DGPS ¹ /MF ²
Grants	Monthly	30 days after the end of the month	DGPS/MF
Budgetary grants	Monthly	30 days after the end of the month	DGPS/MF
Project grants	Monthly	30 days after the end of the month	DGPS/MF
Change in the stock of domestic arrears	Monthly	30 days after the end of the month	DGPS/MF
Unpaid claims	Monthly	30 days after the end of the month	DGPS/MF
Interest arrears	Monthly	30 days after the end of the month	DGPS/MF
Proceeds from bonds issued in the regional WAEMU market	Monthly	30 days after the end of the month	DGPS/MF
Social and priority spending	Quarterly	30 days after the end of the quarter	DGPS/MF
Non-regularized expenditure	As occurring		DGPS/MF
<i>Real and External Sector</i>			
Updates on annual National Accounts by sector	Annually	30 days after approval	CSO ³ /MF
Balance of Payments data	Annually	30 days after approval	BCEAO ⁴ /MF
Balance of Payments data	Quarterly	45 days after the end of the quarter	BCEAO/MF
Details of exports breakdown	Quarterly	45 days after the end of the quarter	BCEAO/MF
Details of imports breakdown	Quarterly	45 days after the end of the quarter	CSO/MF
CPI Monthly	Monthly	45 days after the end of the month	CSO/MF
<i>Debt sector</i>			
External and domestic debt and guaranteed debt by creditor	Monthly	30 days after the end of the month	Debt Directorate
Disbursements	Monthly	30 days after the end of the month	Debt Directorate
Amortization Monthly	Monthly	30 days after the end of the month	Debt Directorate
Interest payments	Monthly	30 days after the end of the month	Debt Directorate
Stock of external debt	Monthly	30 days after the end of the month	Debt Directorate
Stock of domestic debt	Monthly	30 days after the end of the month	Debt Directorate
Arrears on interest and principal	Monthly	30 days after the end of the month	Debt Directorate
Exceptional domestic financing	Monthly	30 days after the end of the month	Debt Directorate
Copies of any new loan agreements	As occurring		Debt Directorate
<i>Monetary/Financial sector</i>			
Detailed balance sheet of the central bank (national BCEAO)	Monthly	45 days after the end of the month	BCEAO/MF
Detailed bank-by-bank balance sheets	Monthly	45 days after the end of the month	BCEAO/MF
Detailed consolidated balance sheet of commercial banks	Monthly	45 days after the end of the month	BCEAO/MF
The monetary survey	Monthly	45 days after the end of the month	BCEAO/MF
Detailed net position of central government (PNG/PNT)	Monthly	45 days after the end of the month	BCEAO/MF
Financial soundness indicators	Monthly	45 days after the end of the month	BCEAO/MF
Interest rates	Monthly	45 days after the end of the month	BCEAO/MF
Deposit rates on all types of deposits at commercial banks	Monthly	45 days after the end of the month	BCEAO/MF
Short- and long-term lending rates of commercial banks	Monthly	45 days after the end of the month	BCEAO/MF
¹ Directorate General for Forecasts			
² Ministry of Finance			
³ Central Statistics Office			
⁴ Central Bank of West African States			