

**EXECUTIVE  
BOARD  
MEETING**

EBS/21/3

January 11, 2021

To: Members of the Executive Board  
From: The Secretary  
Subject: **Guinea Bissau—Request for Disbursement Under the Rapid Credit Facility**

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| Board Action:  | Executive Directors' <b>consideration</b> (Formal)   |
| Tentative Board Date:  | <b>Monday, January 25, 2021</b>  |
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| Publication:   | Yes*   |
| Questions:   | Mr. Gijon, AFR (ext. 35400)<br>Mr. Zavarce, AFR (ext. 39656)<br>Ms. Arjona Perez, AFR (ext. 34454)<br>Mr. Pio Perez, AFR (ext. 35766)                  |
| Document Transmittal<br>in the Absence of<br>an Objection and in<br>accordance with<br>Board policy: | After Board Consideration—African Development Bank, Islamic<br>Development Bank, West African Economic and Monetary Union,<br>World Trade Organization |

\*The authorities have indicated that they consent to the Fund's publication of this paper.





# GUINEA-BISSAU

January 11, 2021

## REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

### EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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## CONTEXT

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

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

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

## IMPACT OF THE COVID-19 PANDEMIC AND OUTLOOK

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

**Text Table 1. Guinea-Bissau: Revised Macroframework**

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

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

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

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

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

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

|   | 2020                             |             |                     |              | 2021                |             |
|---|----------------------------------|-------------|---------------------|--------------|---------------------|-------------|
|   | Pre-shock<br>(est. January 2020) |             | Current projections |              | Current projections |             |
|   | CFAF billion                     | % of GDP    | CFAF billion        | % of GDP     | CFAF billion        | % of GDP    |
| <b>Current Account Balance<sup>1</sup></b>        | <b>-40.4</b>                     | <b>-4.5</b> | <b>-90.7</b>        | <b>-11.0</b> | <b>-72.0</b>        | <b>-8.2</b> |
| Trade balance                                     | -104.1                           | -11.7       | -146.1              | -17.7        | -129.4              | -14.8       |
| Exports of goods and services                     | 171.4                            | 19.2        | 118.6               | 14.4         | 146.1               | 16.7        |
| of which: cashew nuts                             | 138.8                            | 15.5        | 102.0               | 12.4         | 122.0               | 14.0        |
| Imports of goods and services                     | 275.5                            | 30.9        | 264.7               | 32.1         | 275.4               | 31.5        |
| of which: food products                           | 60.9                             | 6.8         | 46.6                | 5.7          | 51.8                | 5.9         |
| petroleum products                                | 31.8                             | 3.6         | 29.1                | 3.5          | 29.9                | 3.4         |
| Incomes   | 17.5                             | 2.0         | 14.1                | 1.7          | 12.0                | 1.4         |
| Current transfers                                 | 46.2                             | 5.2         | 41.4                | 5.0          | 45.3                | 5.2         |
| of which: remittances                             | 32.8                             | 3.7         | 28.0                | 3.4          | 30.7                | 3.5         |
| <b>Capital and financial accounts<sup>1</sup></b> | <b>47.4</b>                      | <b>5.3</b>  | <b>29.3</b>         | <b>3.6</b>   | <b>28.0</b>         | <b>3.2</b>  |
| of which:   |                                  |             |                     |              |                     |             |
| Net foreign direct investments                    | 13.4                             | 1.5         | 7.0                 | 0.8          | 13.0                | 1.5         |
| Official net borrowing                            | 62.9                             | 7.0         | 61.5                | 7.5          | 28.4                | 3.3         |
| MLT disbursements                                 | 28.3                             | 3.2         | 22.8                | 2.8          | 12.0                | 1.4         |
| MLT amortizations                                 | -13.9                            | -1.6        | -9.8                | -1.2         | -5.7                | -0.7        |
| Net regional financing <sup>2</sup>               | 48.5                             | 5.4         | 48.5                | 5.9          | 22.2                | 2.5         |
| <b>Financing gap (excess of financing -)</b>      | <b>-7.0</b>                      | <b>-0.8</b> | <b>61.4</b>         | <b>7.5</b>   | <b>44.1</b>         | <b>5.0</b>  |
| <b>Additional financing sources</b>               |                                  |             |                     |              |                     |             |
| IMF (net)   | -1.8                             | -0.2        | 0.0                 | 0.0          | 9.5                 | 1.1         |
| Disbursements (RCF)                               | 0.0                              | 0.0         | 0.0                 | 0.0          | 10.8                | 1.2         |
| Repayments  | -1.8                             | -0.2        | -1.7                | -0.2         | -1.5                | -0.2        |
| Grant for debt relief under the CCRT <sup>3</sup> | ...                              | ...         | 1.7                 | 0.2          | 0.2                 | 0.0         |
| World Bank  | ...                              | ...         | 8.3                 | 1.0          | 7.5                 | 0.9         |
| Grants  | ...                              | ...         | 0.3                 | 0.0          | 6.2                 | 0.7         |
| Loans   | ...                              | ...         | 8.0                 | 1.0          | 1.3                 | 0.2         |
| Other IFIs  | ...                              | ...         | 37.9                | 4.6          | 10.2                | 1.2         |
| BOAD  | ...                              | ...         | 21.7                | 2.6          | ...                 | ...         |
| AfDB  | ...                              | ...         | ...                 | ...          | 9.3                 | 1.1         |
| IDB   | ...                              | ...         | 8.6                 | 1.0          | ...                 | ...         |
| Other grants                                      | ...                              | ...         | 7.5                 | 0.9          | 1.0                 | 0.1         |
| Additional regional financing                     | ...                              | ...         | 24.9                | 3.0          | ...                 | ...         |
| Net foreign assets excluding IMF (increase -)     | -5.3                             | -0.6        | -9.6                | -1.2         | 6.0                 | 0.7         |
| <b>Residual financing gap</b>                     | <b>0.0</b>                       | <b>0.0</b>  | <b>0.0</b>          | <b>0.0</b>   | <b>10.8</b>         | <b>1.2</b>  |

Sources: BCEAO; and IMF staff projections.

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

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

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

**5. An urgent BOP need of CFAF 44.1 billion, 5 percent of GDP, is expected to remain in 2021.** The effects of the pandemic and flooding are expected to persist in 2021, reflecting the need to sustain imports for essential consumption such as food<sup>3</sup> and medicines, and for capital and

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

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

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

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

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

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

## POLICY ISSUES AND DISCUSSIONS

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

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

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

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

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

|   | 2020         |                | 2021         |                |
|---|--------------|----------------|--------------|----------------|
|   | CFAF billion | Percent of GDP | CFAF billion | Percent of GDP |
| <b>Current</b>                                  | 6.8          | 0.8            | 0.5          | 0.1            |
| Health sector                                   | 4.7          | 0.6            | 0.0          | 0.0            |
| Transfers to vulnerable families                | 0.7          | 0.1            | 0.5          | 0.1            |
| Other current expenditures <sup>1</sup>         | 1.4          | 0.2            | 0.0          | 0.0            |
| <b>Capital<sup>2</sup></b>                      | 21.3         | 2.6            | 13.3         | 1.5            |
| Equipment and infrastructure                    | 21.3         | 2.6            | 9.0          | 1.0            |
| WB/FAO Food Emergency Security Project          | 0.0          | 0.0            | 4.3          | 0.5            |
| <b>Total expenditures</b>                       | 28.1         | 3.4            | 13.8         | 1.6            |
| <b>Onlending to banks<sup>3</sup></b>           | 15.0         | 1.8            | 0.0          | 0.0            |
| <b>Total Expenditure and Support to Sectors</b> | 43.1         | 5.2            | 13.8         | 1.6            |

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

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

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

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

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

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

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

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

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

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

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

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<sup>5</sup> See footnote 4.

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

|   | 2019         |             | 2020, pre-shock<br>(est. January 2020) |             | 2020, after shock |              | 2021         |             |
|---|--------------|-------------|--|-------------|-------------------|--------------|--------------|-------------|
|   | CFAF billion | % of GDP    | CFAF billion                           | % of GDP    | CFAF billion      | % of GDP     | CFAF billion | % of GDP    |
| <b>Revenues and grants</b>                      | <b>130.1</b> | <b>15.4</b> | <b>155.8</b>                           | <b>17.4</b> | <b>131.8</b>      | <b>16.0</b>  | <b>142.7</b> | <b>16.3</b> |
| Tax revenue                                     | 79.1         | 9.4         | 86.5                                   | 9.7         | 66.4              | 8.1          | 85.9         | 9.8         |
| Nontax revenue                                  | 26.5         | 3.1         | 22.8                                   | 2.5         | 30.5              | 3.7          | 28.6         | 3.3         |
| Grants  | 24.5         | 2.9         | 46.6                                   | 5.2         | 34.9              | 4.2          | 28.3         | 3.2         |
| <b>Expenditure</b>                              | <b>163.2</b> | <b>19.3</b> | <b>201.7</b>                           | <b>22.6</b> | <b>215.5</b>      | <b>26.1</b>  | <b>204.3</b> | <b>23.4</b> |
| Current expenditures                            | 124.7        | 14.8        | 123.8                                  | 13.9        | 136.1             | 16.5         | 140.3        | 16.0        |
| of which: COVID19 related expenditures          | ...          | ...         | ...                                    | ...         | 6.8               | 0.8          | 0.5          | 0.0         |
| Healthcare                                      | ...          | ...         | ...                                    | ...         | 4.7               | 0.6          | 0.0          | 0.0         |
| Transfers to families                           | ...          | ...         | ...                                    | ...         | 0.7               | 0.1          | 0.5          | 0.0         |
| Other current expenditures                      | ...          | ...         | ...                                    | ...         | 1.4               | 0.2          | 0.0          | 0.0         |
| Net acquisition of nonfinancial assets          | 38.5         | 4.6         | 77.9                                   | 8.7         | 79.4              | 9.6          | 64.0         | 7.3         |
| of which: COVID19 related expenditures          | ...          | ...         | ...                                    | ...         | 21.3              | 2.6          | 9.0          | 1.0         |
| of which WB/FAO Food Emergency Security Project | ...          | ...         | ...                                    | ...         | ...               | ...          | 4.3          | 0.5         |
| Arrears clearance <sup>1</sup>                  | -8.0         | -1.0        | -2.5                                   | -0.3        | -8.1              | -1.0         | -5.0         | -0.6        |
| <b>Overall balance (cash)</b>                   | <b>-41.1</b> | <b>-4.9</b> | <b>-48.5</b>                           | <b>-5.4</b> | <b>-91.7</b>      | <b>-11.1</b> | <b>-66.5</b> | <b>-7.6</b> |
| <b>Financing<sup>2</sup></b>                    | <b>41.1</b>  | <b>4.9</b>  | <b>48.5</b>                            | <b>5.4</b>  | <b>19.0</b>       | <b>2.3</b>   | <b>26.9</b>  | <b>3.1</b>  |
| Net acquisition of financial assets             | -2.4         | -0.3        | -1.0                                   | -0.1        | -19.9             | -2.4         | 0.0          | 0.0         |
| of which:                                       | ...          | ...         | ...                                    | ...         | ...               | ...          | ...          | ...         |
| onlending to EAGB                               | ...          | ...         | ...                                    | ...         | -4.1              | -0.5         | ...          | ...         |
| COVID19 onlending to banks <sup>3</sup>         | ...          | ...         | ...                                    | ...         | -15.0             | -1.8         | ...          | ...         |
| Domestic financing (net)                        | 39.8         | 4.7         | 36.2                                   | 4.1         | 25.0              | 3.0          | 22.9         | 2.6         |
| of which: Net regional commercial banks         | 18.3         | 2.2         | 48.5                                   | 5.4         | 48.5              | 5.9          | 22.2         | 2.5         |
| Foreign financing (net)                         | 3.7          | 0.4         | 13.2                                   | 1.5         | 13.8              | 1.7          | 4.0          | 0.5         |
| <b>Financing gap (+ = shortfall)</b>            | <b>0.0</b>   | <b>0.0</b>  | <b>0.0</b>                             | <b>0.0</b>  | <b>72.7</b>       | <b>8.8</b>   | <b>39.6</b>  | <b>4.5</b>  |
| <b>Additional financing</b>                     | ...          | ...         | ...                                    | ...         | <b>72.7</b>       | <b>8.8</b>   | <b>28.8</b>  | <b>3.3</b>  |
| Grants  | ...          | ...         | ...                                    | ...         | 9.6               | 1.2          | 16.6         | 1.9         |
| WB Pandemic Emergency Financing                 | ...          | ...         | ...                                    | ...         | ...               | ...          | 0.5          | 0.1         |
| WB/FAO Food Emergency Security Project          | ...          | ...         | ...                                    | ...         | ...               | ...          | 4.3          | 0.5         |
| WB Fast Track Facility                          | ...          | ...         | ...                                    | ...         | ...               | ...          | 1.3          | 0.2         |
| WB onlending to EAGB                            | ...          | ...         | ...                                    | ...         | 0.3               | 0.0          | ...          | ...         |
| IMF (CCRT) <sup>4</sup>                         | ...          | ...         | ...                                    | ...         | 1.7               | 0.2          | 0.2          | 0.0         |
| AfDB  | ...          | ...         | ...                                    | ...         | ...               | ...          | 9.3          | 1.1         |
| Other grants                                    | ...          | ...         | ...                                    | ...         | 7.5               | 0.9          | 1.0          | 0.1         |
| External loans                                  | ...          | ...         | ...                                    | ...         | 16.6              | 2.0          | 1.3          | 0.2         |
| IDB   | ...          | ...         | ...                                    | ...         | 8.6               | 1.0          | ...          | ...         |
| World Bank                                      | ...          | ...         | ...                                    | ...         | 8.0               | 1.0          | 1.3          | 0.2         |
| Regional Disease Surveillance Project           | ...          | ...         | ...                                    | ...         | 4.2               | 0.5          | ...          | ...         |
| Fast Track Facility                             | ...          | ...         | ...                                    | ...         | ...               | ...          | 1.3          | 0.2         |
| WB onlending to EAGB                            | ...          | ...         | ...                                    | ...         | 3.7               | 0.5          | ...          | ...         |
| Domestic financing                              | ...          | ...         | ...                                    | ...         | 46.6              | 5.7          | 10.8         | 1.2         |
| IMF (RCF) <sup>5</sup>                          | ...          | ...         | ...                                    | ...         | ...               | ...          | 10.8         | 1.2         |
| BOAD  | ...          | ...         | ...                                    | ...         | 21.7              | 2.6          | ...          | ...         |
| Additional regional commercial banks            | ...          | ...         | ...                                    | ...         | 24.9              | 3.0          | ...          | ...         |
| <b>Residual financing gap</b>                   | ...          | ...         | ...                                    | ...         | ...               | ...          | <b>10.8</b>  | <b>1.2</b>  |

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

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

- **Implemented measures.** These include: (i) elimination of unjustified wage incentives to public servants; (ii) initiation of an audit to assess the real number of public servants<sup>6</sup>; and (iii) sending to Parliament a prudent 2021 budget to underpin fiscal consolidation thus, contributing towards future IMF engagement.

**Text Table 5. Fiscal Yield by Measure, 2021**

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

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

- **Planned measures.** In relation to the 2021 budget, the authorities will: (i) submit to Parliament a revised new general tax code and a revised tax penalty regime<sup>7</sup>; (ii) implement the Ministerial Order allowing for the Imposto Geral sobre Vendas e Serviços (IGV, the value added tax) Electronic Tax Return (see below) and new decrees and ministerial orders to strengthen collection and internal control procedures of the customs and tax directorates; (iii) freeze public sector salaries and new hires to rationalize the wage bill; (iv) initiate in good faith debt reprofiling discussions with the largest creditor, BOAD, the regional development bank; and (v) streamline the procurement process. Additionally, in early 2021, the Minister will bring forward to Parliament a modernized statute for the IGV. Regarding the procurement action plan,<sup>8</sup> staff recommends reviewing the legal and institutional framework for procurement; verifying that contracts are awarded competitively; ensuring that reporting requirements allow for post audit procurement procedures and transparency in procurement procedures<sup>9</sup>; and requiring that initial phases of public investment projects are subject to rigorous and transparent appraisal and selection.

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

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

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

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

<sup>9</sup> By disclosing all relevant information easily accessible on a digital portal.

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

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

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<sup>10</sup> The report was published on December 14 and can be found at the Ministry of Finance's website [www.mef.gw/noticias/relatorio-anti-corrupcao-2020](http://www.mef.gw/noticias/relatorio-anti-corrupcao-2020).

**15. Guinea-Bissau's debt is assessed as sustainable in a forward-looking sense based on the authorities' commitment to sound policies underpinned by strong multilateral donor engagement and a Fund program.** Taking into account Guinea-Bissau's supportive regional context<sup>11</sup> that eases medium-term rollover risks associated with domestic debt, staff projects a gradual decline of the PV of public debt relative to GDP over the medium term, with the fiscal deficit within 3 percent of GDP and debt below 70 percent of GDP WAEMU convergence criterion.<sup>12</sup> The assessment is contingent on: (i) the authorities' commitment to an ambitious, yet feasible, fiscal adjustment post-pandemic; (ii) announced grants and concessional lending; and (iii) current negotiations for a reprofiling of debt obligations with creditors to extend maturities and reduce interest rates.<sup>13</sup> Strong implementation of a subsequent SMP followed by an ECF arrangement is essential to support the authorities' commitment. The authorities' recent request, in December 15, to join the Debt Service Suspension Initiative (DSSI) is expected to enhance debt sustainability prospects.<sup>14</sup> The debt outlook remains vulnerable to a weaker economic recovery and a lack of authorities' adherence to macroeconomic stability and prudent fiscal policies, among other substantial risks.

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

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

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

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

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

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

(continued)

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

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

## ACCESS AND CAPACITY TO REPAY THE FUND

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

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

<sup>16</sup> Bond issuances of 3- and 5-year maturity.

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

with the Fund and other development partners and on the current outlook, the estimated external financing needs, prospective financing from donors, and Guinea-Bissau's high risk of debt distress. In addition, the access level is considered appropriate in view of the need to proceed in stages given the significant policy uncertainty resulting from the hiatus in program engagement<sup>18</sup>. As normally the case for currency union members, the RCF will be disbursed to the Guinea-Bissau's Treasury account at the BCEAO and on-lent to the government to provide financing for pandemic-related spending.

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

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

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

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

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

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

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

## STAFF APPRAISAL

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

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

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

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

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

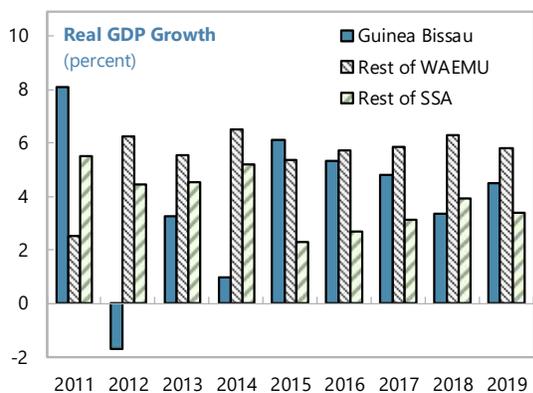
## Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board.

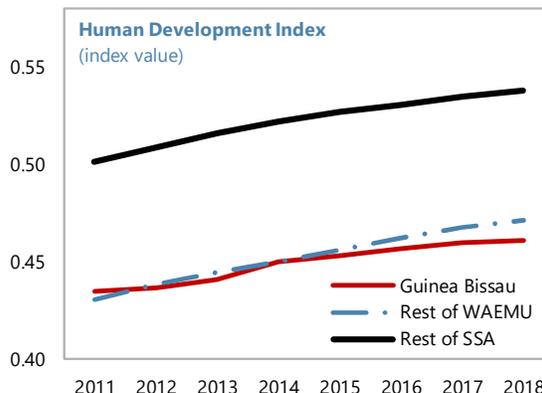
1. Guinea-Bissau has requested a loan disbursement in an amount equivalent to SDR 14.2 million (50 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.
2. The Fund notes the intentions of Guinea-Bissau as set forth in the letter from the Minister of Finance, dated January 4, 2021 (the "January 2021 Letter"), and approves the disbursement in accordance with the request, on the condition that the information provided by Guinea-Bissau on the implementation of the measure specified as a prior action in the January 2021 Letter is accurate.

**Figure 1. Guinea-Bissau: Growth and Living Standards**

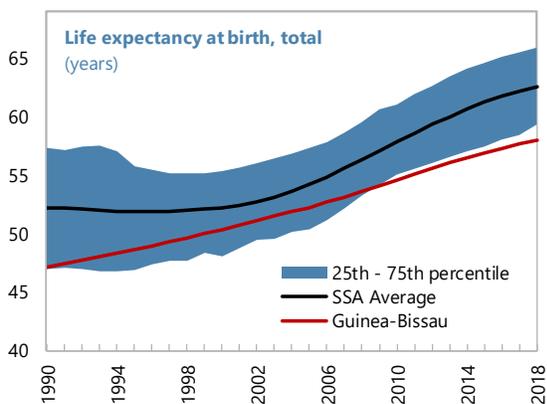
*A volatile economic growth compared to its regional peers reflects a long history of political instability...*



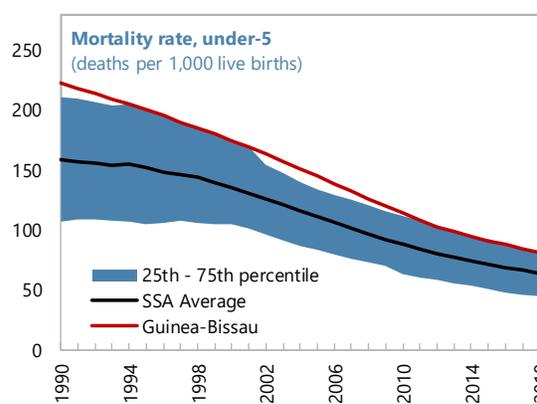
*...and economic fragility, which weighs on the population's living standards.*



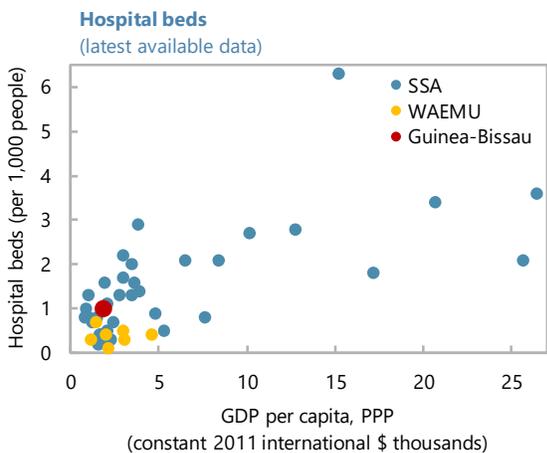
*Weak health conditions are evidenced by a significantly lower life expectancy at birth...*



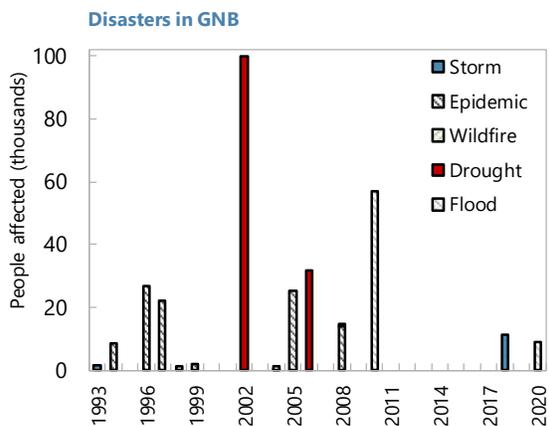
*...as well as the higher child mortality rate, both compared to SSA peers.*



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



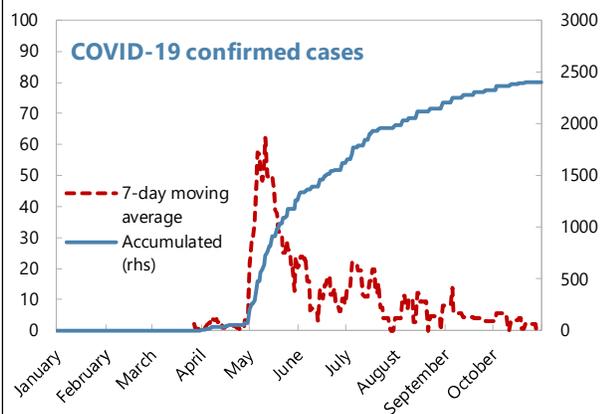
*...considering the country's exposure to natural hazard events such as the current year's floods and the pandemic.*



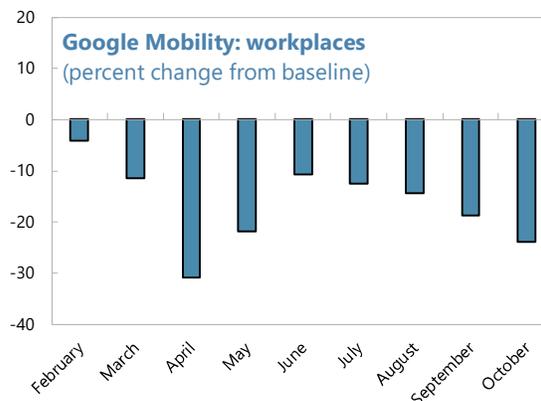
Sources: World Bank, Worldwide Development Indicators; EM-DAT, CRED database; Guinea-Bissau authorities; and IMF staff calculations.

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

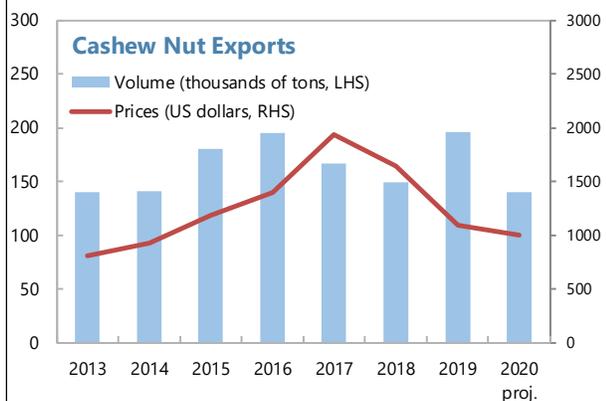
The first COVID-19 were reported in end-March and rapidly increased in the following weeks...



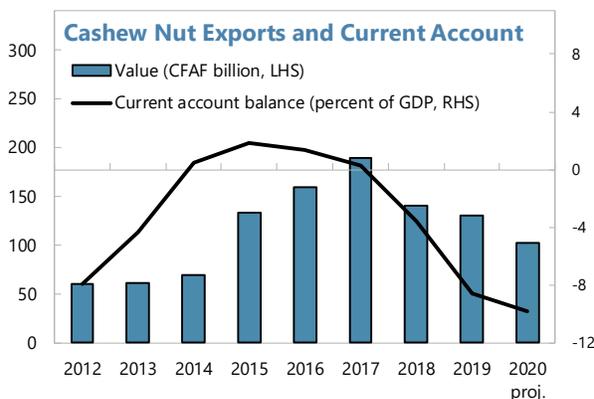
...when containment and lockdown measures were imposed by the State of Emergency (March) and the State of Calamity (September).



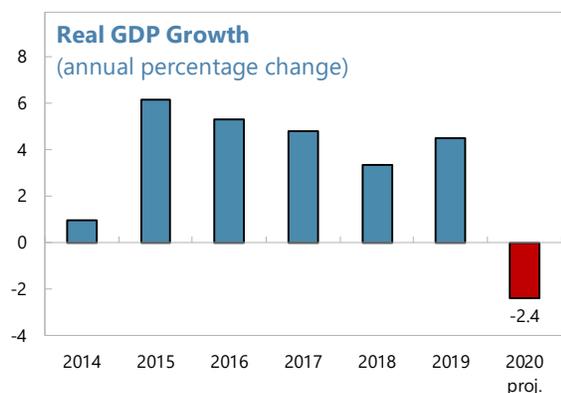
Cashew exports were affected by the delayed cashew campaign (volume) and weaker demand from trade partners (prices)...



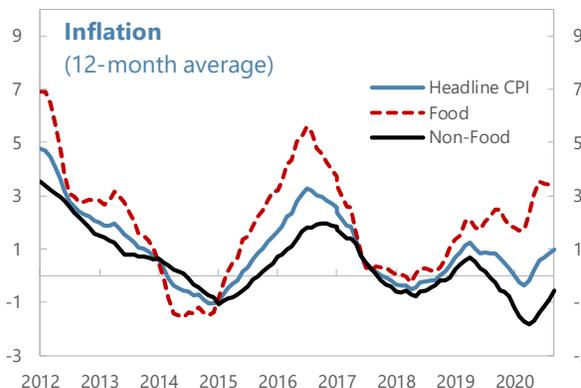
...which added to the terms-of-trade shock of recent years and further widened the current account deficit.



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



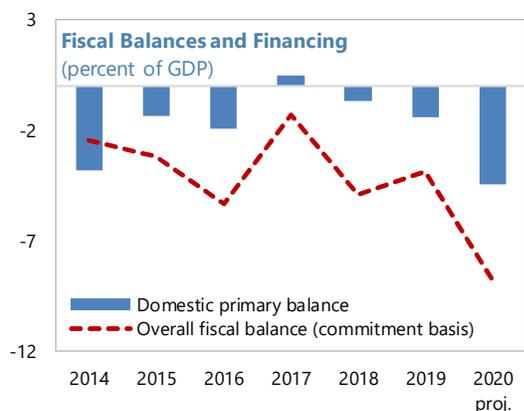
...and a pickup in inflation, as food prices also reflect disruptions in international trade.



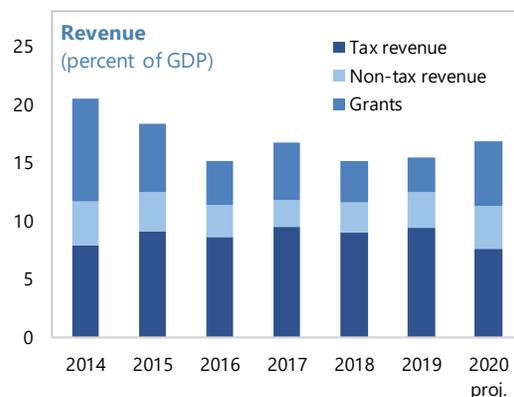
Sources: Google Mobility database, Our World in Data, Guinea-Bissau authorities and IMF staff calculations.

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

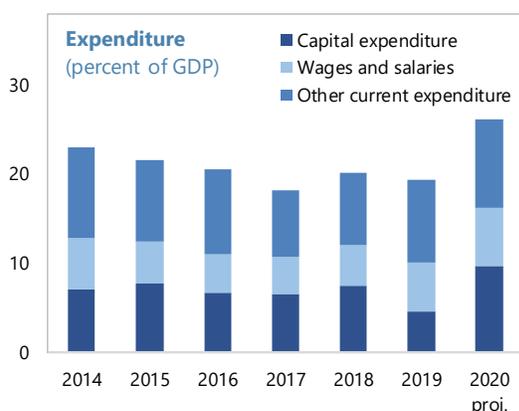
*Fiscal balances are projected to further deteriorated in 2020...*



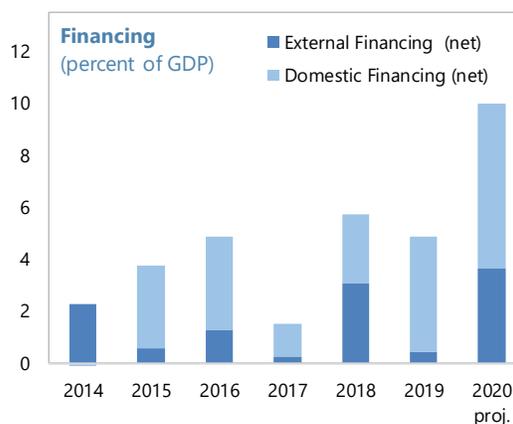
*...as weak revenues compensated by increased grants...*



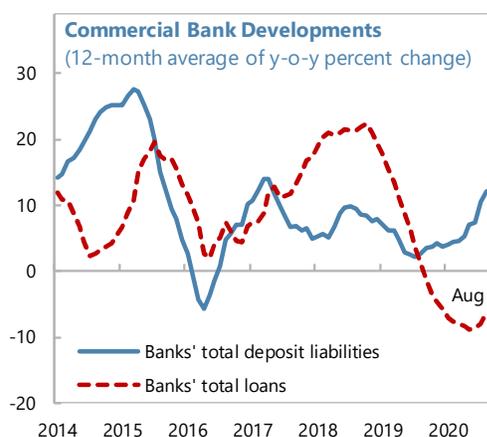
*...are not enough to cover increased expenditures, ...*



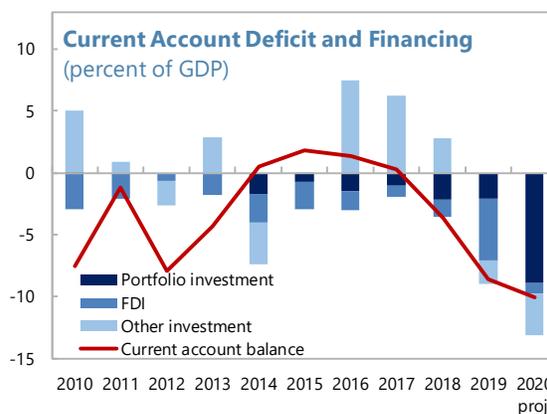
*...resulting in additional financing from both external and within the region.*



*Increased regional financing partially crowded out credit from commercial banks.*



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



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

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

|   | 2018  | 2019  | 2020  | 2021  | 2022  | 2023   | 2024   | 2025   |
|---|-------|-------|-------|-------|-------|--------|--------|--------|
|   |       | Prel. |       |       |       | Proj.  |        |        |
| (Annual percent change, unless otherwise indicated)             |       |       |       |       |       |        |        |        |
| <b>National accounts and prices</b>                             |       |       |       |       |       |        |        |        |
| Real GDP at market prices                                       | 3.4   | 4.5   | -2.4  | 3.0   | 4.0   | 5.0    | 5.0    | 5.0    |
| Real GDP per capita   | 1.1   | 2.3   | -4.5  | 0.8   | 1.7   | 2.8    | 2.8    | 2.9    |
| GDP deflator  | -5.2  | -3.5  | 0.1   | 3.0   | 2.8   | 2.8    | 2.8    | 2.8    |
| Consumer price index (annual average)                           | 0.4   | 0.3   | 1.5   | 2.0   | 2.0   | 2.0    | 2.0    | 2.0    |
| <b>External sector</b>  |       |       |       |       |       |        |        |        |
| Exports, f.o.b. (based on US\$ values)                          | -0.1  | -26.8 | -25.3 | 28.3  | 13.8  | 14.3   | 7.7    | 7.7    |
| Imports, f.o.b. (based on US\$ values)                          | 0.7   | 14.2  | -5.7  | 7.1   | 7.4   | 8.2    | 7.4    | 7.1    |
| Terms of trade (deterioration = -)                              | -21.4 | -31.4 | -2.1  | 8.1   | 4.1   | 3.9    | 2.9    | 3.0    |
| Real effective exchange rate (depreciation = -)                 | 1.2   | -2.9  | ...   | ...   | ...   | ...    | ...    | ...    |
| Exchange rate (CFAF per US\$; average)                          | 555.2 | 585.9 | ...   | ...   | ...   | ...    | ...    | ...    |
| <b>Government finances</b>                                      |       |       |       |       |       |        |        |        |
| Revenue excluding grants  | -3.7  | 9.2   | -8.2  | 18.1  | 7.8   | 8.6    | 8.9    | 8.8    |
| Expenditure   | 8.8   | -3.0  | 32.1  | -5.2  | -1.4  | 5.9    | 6.7    | 8.3    |
| Current expenditure   | 7.2   | 18.2  | 9.2   | 3.1   | 1.8   | 4.7    | 5.3    | 8.0    |
| Capital expenditure   | 11.5  | -38.5 | 106.2 | -19.4 | -8.5  | 8.8    | 9.9    | 9.1    |
| <b>Money and credit</b>   |       |       |       |       |       |        |        |        |
| Domestic credit   | 1.7   | 13.8  | -11.6 | 16.6  | 9.3   | 9.2    | 9.3    | 9.3    |
| Credit to the government (net)                                  | -19.6 | 13.8  | -38.5 | 55.6  | -3.1  | -5.3   | -6.1   | -5.3   |
| Credit to the economy   | 14.6  | 13.8  | -0.3  | 6.4   | 14.1  | 13.9   | 13.4   | 12.6   |
| Net domestic assets   | 7.4   | 12.0  | -15.5 | 23.2  | 12.3  | 11.8   | 11.7   | 11.4   |
| Broad money (M2)  | 4.2   | 0.3   | 7.5   | 2.9   | 3.6   | 4.3    | 4.7    | 5.3    |
| (Percent of GDP, unless otherwise indicated)                    |       |       |       |       |       |        |        |        |
| <b>Investments and savings</b>                                  |       |       |       |       |       |        |        |        |
| Gross investment  | 14.7  | 14.6  | 24.4  | 20.1  | 18.1  | 18.2   | 18.3   | 18.6   |
| Of which: government investment                                 | 13.8  | 8.4   | 17.7  | 13.5  | 11.5  | 11.6   | 11.8   | 12.0   |
| Gross domestic savings  | 11.5  | 1.4   | 6.8   | 6.4   | 5.5   | 6.6    | 7.0    | 7.6    |
| Of which: government savings                                    | 5.3   | 1.8   | 3.6   | 3.8   | 3.6   | 3.8    | 4.4    | 4.5    |
| Gross national savings  | 11.1  | 6.0   | 14.4  | 13.8  | 12.8  | 13.8   | 14.1   | 14.7   |
| <b>Government finances</b>                                      |       |       |       |       |       |        |        |        |
| Revenue excluding grants  | 11.6  | 12.5  | 11.8  | 13.1  | 13.2  | 13.3   | 13.4   | 13.5   |
| Domestic primary expenditure                                    | 12.2  | 13.9  | 16.2  | 14.7  | 13.3  | 12.9   | 12.8   | 13.0   |
| Domestic primary balance  | -0.7  | -1.4  | -4.4  | -1.6  | -0.1  | 0.4    | 0.6    | 0.5    |
| Overall balance (commitment basis)                              |       |       |       |       |       |        |        |        |
| Including grants  | -4.9  | -3.9  | -9.0  | -5.1  | -3.6  | -3.4   | -3.0   | -3.0   |
| Excluding grants  | -8.5  | -6.8  | -14.4 | -10.3 | -8.3  | -7.8   | -7.5   | -7.4   |
| <b>External current account</b>                                 |       |       |       |       |       |        |        |        |
| External current account  | -3.6  | -8.6  | -10.1 | -6.4  | -5.4  | -4.4   | -4.2   | -3.9   |
| Excluding official current transfers                            | -4.8  | -9.8  | -12.4 | -9.7  | -8.3  | -7.1   | -6.9   | -6.5   |
| <b>Stock of public and publicly guaranteed debt<sup>1</sup></b> |       |       |       |       |       |        |        |        |
| Stock of public and publicly guaranteed debt <sup>1</sup>       | 59.2  | 66.9  | 78.4  | 78.4  | 76.7  | 74.3   | 71.9   | 69.6   |
| Of which: external debt   | 21.8  | 25.3  | 27.1  | 27.9  | 26.1  | 24.2   | 22.7   | 21.4   |
| <b>Memorandum items:</b>  |       |       |       |       |       |        |        |        |
| Nominal GDP at market prices (CFAF billions)                    | 836.0 | 843.5 | 824.1 | 874.2 | 934.7 | 1008.9 | 1089.0 | 1175.4 |
| WAEMU gross official reserves (billions of US\$)                | 14.9  | 17.5  | ...   | ...   | ...   | ...    | ...    | ...    |
| (percent of broad money)  | 31.1  | 34.1  | ...   | ...   | ...   | ...    | ...    | ...    |

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

<sup>1</sup> Coverage expanded to include legacy arrears.

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

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

Sources: BCEAO; and IMF staff estimates and projections.

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

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

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

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

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

<sup>2</sup> Financing is on currency basis.

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

<sup>4</sup> Excludes grants, foreign financed capital spending, and interest.

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

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

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

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

<sup>2</sup> Financing is on currency basis.

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

<sup>4</sup> Excludes grants, foreign financed capital spending, and interest.

Table 4. Guinea-Bissau: Monetary Survey, 2017–21<sup>1</sup>

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

Sources: BCEAO; and IMF staff estimates and projections.

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

**Table 5. Guinea-Bissau: Selected Financial Soundness Indicators, 2014–20<sup>1</sup>**

|  | 2014  | 2015  | 2016 | 2017  | 2018   | 2019   | 2020<br>June |
|--|-------|-------|------|-------|--------|--------|--------------|
| <b>Capital Adequacy</b>                                |       |       |      |       |        |        |              |
| Capital to risk-weighted assets <sup>2</sup>           | 25.8  | 28.9  | 20.3 | 2.2   | -5.4   | -2.0   | -2.6         |
| Tier 1 capital to risk weighted assets                 | 18.0  | 13.3  | 20.3 | 1.8   | -5.5   | -2.0   | -2.6         |
| Provisions to risk-weighted assets                     | 25.4  | 7.1   | 5.7  | 27.6  | 29.8   | 26.0   | 22.1         |
| Capital to total assets                                | 11.5  | 8.8   | 9.1  | 1.0   | -2.0   | -0.7   | -0.8         |
| <b>Asset Composition and Quality</b>                   |       |       |      |       |        |        |              |
| Total loans to total assets                            | 45.4  | 53.6  | 46.4 | 40.1  | 50.5   | 46.7   | 41.6         |
| Concentration: loans to 5 largest borrowers to capital | 110.6 | 106.8 | 87.5 | 831.7 | -316.1 | -748.5 | -603.0       |
| Sectoral distribution of loans                         |       |       |      |       |        |        |              |
| Agriculture and fishing                                | 0.0   | 0.3   | 0.3  | 0.9   | 0.5    | 0.5    | 0.5          |
| Extractive industries                                  | 0.0   | 0.0   | 0.0  | 0.0   | 0.0    | 0.0    | 0.1          |
| Manufacturing  | 44.0  | 4.3   | 1.1  | 0.4   | 0.7    | 0.7    | 11.4         |
| Electricity, water and gas                             | 0.2   | 10.2  | 0.0  | 1.1   | 0.7    | 0.7    | 2.3          |
| Construction   | 0.7   | 3.3   | 2.1  | 1.7   | 1.7    | 1.7    | 8.5          |
| Retail and wholesale trade, restaurants and hotels     | 14.2  | 53.0  | 46.4 | 29.7  | 29.4   | 29.4   | 24.0         |
| Transportation and communication                       | 0.0   | 0.1   | 0.1  | 1.1   | 1.1    | 1.1    | 5.7          |
| Insurance, real state and business services            | 0.0   | 3.0   | 1.9  | 8.4   | 8.2    | 8.2    | 1.2          |
| Other services   | 40.8  | 25.8  | 48.0 | 56.7  | 57.8   | 57.8   | 46.4         |
| Gross NPLs to total loans                              | 43.4  | 8.4   | 11.5 | 37.4  | 26.3   | 25.4   | 20.3         |
| General provisions to gross NPLs                       | 46.2  | 46.7  | 45.0 | 64.8  | 67.3   | 65.3   | 65.7         |
| Net NPLs to total loans                                | 29.2  | 4.7   | 6.7  | 17.4  | 10.5   | 10.6   | 8.0          |
| Net NPLs to capital                                    | 115.1 | 28.2  | 34.1 | 694.6 | -268.1 | -680.0 | -437.2       |
| <b>Earnings and profitability</b>                      |       |       |      |       |        |        |              |
| Average cost of borrowed funds                         | 1.2   | 1.2   | 1.6  | 1.6   | 1.7    | 0.8    | ...          |
| Average interest rate on loans                         | 9.4   | 10.9  | 11.4 | 10.2  | 8.7    | 10.2   | ...          |
| Average interest margin <sup>3</sup>                   | 8.2   | 9.7   | 9.8  | 8.5   | 7.0    | 9.4    | ...          |
| After-tax return on average assets (ROA)               | -1.4  | 6.4   | -0.3 | -0.4  | 0.8    | 4.2    | ...          |
| After-tax return on average equity (ROE)               | -13.6 | 46.3  | -2.9 | -10.8 | 17.2   | 79.6   | ...          |
| Non-interest expenses to net banking income            | 68.3  | 88.4  | 65.6 | 79.3  | 71.3   | 74.8   | ...          |
| Personnel expenses to net banking income               | 28.1  | 30.1  | 28.4 | 33.8  | 28.6   | 30.9   | ...          |
| <b>Liquidity</b>                                       |       |       |      |       |        |        |              |
| Liquid assets to total assets                          | 18.6  | 16.6  | 13.8 | 15.0  | 19.6   | 18.9   | 21.6         |
| Liquid assets to total deposits                        | 27.2  | 27.8  | 26.0 | 25.3  | 32.7   | 35.9   | 42.8         |
| Total loans to total deposits                          | 82.8  | 93.6  | 92.0 | 89.1  | 102.5  | 106.5  | 94.8         |
| Total deposits to total liabilities                    | 68.6  | 59.6  | 53.2 | 59.4  | 59.9   | 52.6   | 50.6         |

Source: BCEAO.

<sup>1</sup> FSI indicators for 2015 and 2016 have not been updated by the BCEAO to reflect the null-and-void declaration of the bailout.<sup>2</sup> Capital to risk-weighted assets excluding bank with negative equity: 36.2 percent in Dec 2018 and 33.4 percent in Dec 2019.<sup>3</sup> Excluding tax on banking operations.

**Table 6. Guinea-Bissau: Indicators of Capacity to Repay the IMF, 2021–31<sup>1</sup>**

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

Source: IMF staff estimates and projections.

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

## Annex I. Risk Assessment Matrix<sup>1</sup>

| Nature/Sources of Risk  | Relative Likelihood | Expected Impact If Realized / Time Horizon  | Policies to Mitigate Risks   |
|---|---------------------|---|--|
| <b>External Risks</b>   |                     |   |  |
| <p><b>Unexpected shift in the Covid-19 pandemic.</b></p> <ul style="list-style-type: none"> <li> <p><b>Downside.</b> The disease proves harder to eradicate (e.g., due to difficulties in finding/distributing a vaccine), requiring more containment efforts and impacting economic activity directly and through persistent behavioral changes (prompting costly reallocations of resources). Monetary and fiscal policy response is insufficient amid dwindling policy space and concerns about debt sustainability. Financial markets reassess real economy risks leading to a repricing of risk assets, unmasking of debt-related vulnerabilities, and weakening banks and nonbank financial intermediaries—forcing them to reduce credit (further weighing on growth). Financing difficulties extend to vulnerable sovereigns, leading to cascading debt defaults, capital outflows, depreciation pressures, and in some cases inflation. Pandemic-prompted protectionist actions (e.g., export controls) reemerge, disrupting trade and global value chains.</p> </li> <li> <p><b>Upside.</b> Alternatively, recovery from the pandemic is faster than expected due to the discovery of an effective and widely available vaccine and/or a faster-than-expected behavioral adjustment to the virus that boosts confidence and economic activity.</p> </li> </ul> | <p><b>High</b></p>  | <p><b>High / ST</b></p>   | <ul style="list-style-type: none"> <li>Prioritize spending towards health sector and social protection.</li> <li>Mobilize additional grants and concessional loans from development partners to cover more persistent external needs.</li> </ul> |
|   | <p><b>Low</b></p>   | <ul style="list-style-type: none"> <li>A prolonged outbreak would have particularly large adverse impact in Guinea-Bissau. The limited health system may not be able to avoid a high human toll of the pandemic. The economy would be hardly hit by increased disruptions in the cashew trade.</li> <li>The economy would benefit from the normalization of trade and revenue collection in addition to lower health expenditures.</li> </ul> |  |

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

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

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

## Annex II. Capacity Development Strategy

**1. The COVID-19 pandemic has underscored the need for continued CD assistance on ongoing workstreams to improve fiscal governance and debt sustainability.** The specific objectives have not changed because they already address weaknesses in core functions. This strategy meets the authorities' demands for assistance.

**2. In FY2021, increased political stability opens a window of opportunity for sustained buy-in.** While remote missions need to be maintained during the pandemic, medium term CD will be delivered by long-term resident advisors fluent in Portuguese and hands-on training to better address capacity constraints. To ensure effectiveness of CD initiatives, coordination within the Fund and with outside partners will remain a priority.

### Key Overall CD Priorities Going Forward

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

### Main risks and mitigation

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

### Authorities' views

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

## Appendix I. Letter of Intent

Bissau, January 4, 2021

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

Madame Managing Director:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sincerely yours,

/s/

**João Alage Mamadú FADIA**  
Minister of Finance  
Guinea-Bissau