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To: Members of the Executive Board

From: The Secretary

Subject: **Guinea Bissau—Request for Disbursement Under the Rapid Credit Facility—Debt Sustainability Analysis**

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

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

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

January 25, 2021

Approved By
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Prepared jointly by the Staffs of the International Monetary Fund and the International Development Association [1, 2]

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

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

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

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

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

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

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

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

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

The debt outlook remains highly vulnerable to a weaker economic recovery, adverse terms-of-trade, and export shocks as well as the materialization of contingent liabilities (as coverage of public debt is limited). The fragile socio-political context could undermine the authorities' long-term adherence to macroeconomic stability and prudent fiscal policies and constitute an additional downside risk. If realized, all these risks could lead to weaker external and public debt indicators and may put into question debt sustainability.

BACKGROUND

A. Public Debt Coverage

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

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

Text Table 1. Public Debt Coverage Under the Baseline Scenario

Subsectors of the public sector	Sub-sectors covered
Central government	X
State and local government	
Other elements in the general government	
o/w: Social security fund	
o/w: Extra budgetary funds (EBFs)	
Guarantees (to other entities in the public and private sector, including to SOEs)	X
Central bank (borrowed on behalf of the government)	X
Non-guaranteed SOE debt	

2. **The DSA is conducted on a currency basis.** In line with practice for most WAEMU countries[5], debt issued in domestic currency in the regional market is treated as domestic debt for the purpose of this DSA. The stock of such treasury securities (held by both local and regional banks) at end-2019 was CFAF 86.2 billion, equivalent to 24 percent of domestic debt or 10.2 percent of GDP. Debt in CFAF to the West African Bank for Development (BOAD) is also treated as domestic debt (15.8 percent of GDP at end-2019).

B. Debt Developments

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

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

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

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

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

Text Table 2. Guinea Bissau: Total Public Debt

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

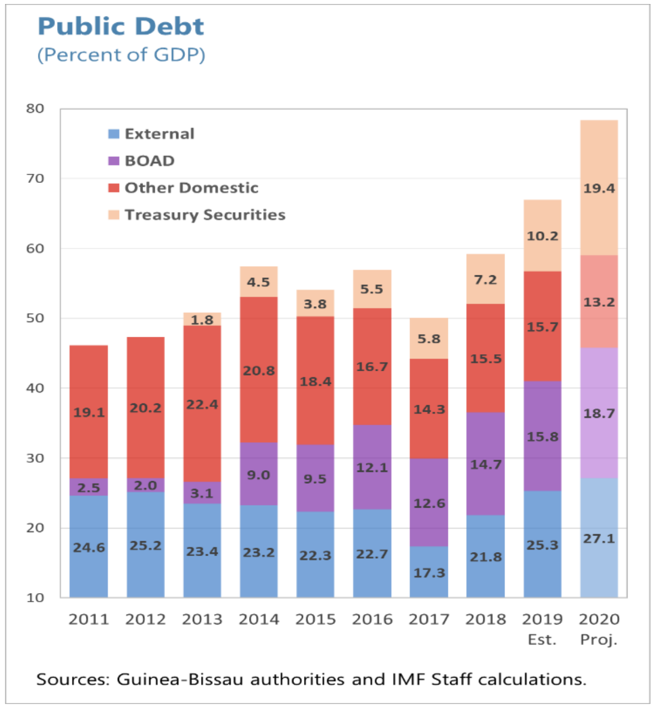
Sources: Guinea-Bissau's authorities and IMF Staff estimates and projections.

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

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

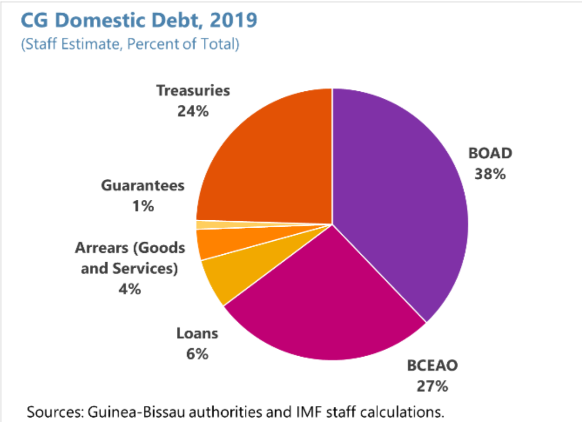
[6] The higher deficit and lower real GDP growth rates during 2018–19 were in large part driven by a lower price of cashew (the dominant export product) that resulted in a slowdown in economic activity and in lower revenue.

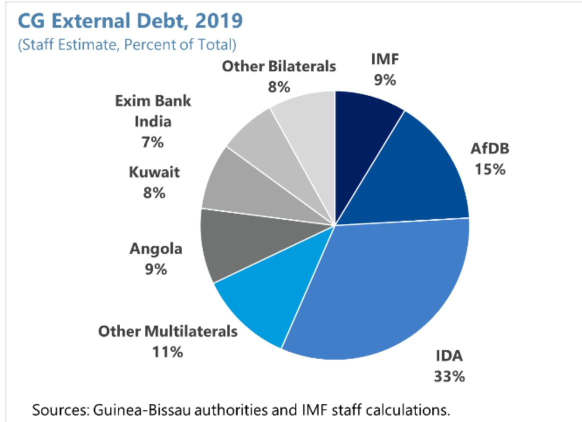
4. Non-concessional domestic borrowing has risen on the back of larger investment projects and the increased financing needs fueled by the COVID-19 pandemic (Text Table 2). Central government domestic currency debt amounted to 41.7 percent of GDP at end-2019, up from 32.7 percent at end-2017. The largest source of net borrowing was Treasury securities, the stock of which rose by 4.4 percentage points of GDP during 2018–19, with the bulk purchased by commercial banks from elsewhere in WAEMU. In 2020, the stock of securities is projected to further grow by 9.2 percentage points of GDP fueled by increased COVID-related fiscal financing needs. The other main source of financing was BOAD, with increased financing in 2017-2019 of a series of road, power, and rural development projects, almost all on non-concessional terms.[7] Debt to BOAD rose by 3.2 percentage points of GDP between 2017 and 2019. It is projected to increase by almost the same amount in 2020 mainly due to two program loans to mitigate the impact of the COVID-19 pandemic. Other components of domestic debt, including debt to the regional central bank (BCEAO), loans from local commercial banks, domestic payment arrears, and government guarantees, are estimated to have decreased by a combined 1.2 percentage points of GDP during 2017–20.



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

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





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

C. Macroeconomic Forecasts

7. **The baseline scenario underpinning this DSA assumes a gradual economic recovery from the pandemic in 2021-22 and includes a significant frontloaded fiscal adjustment during 2021-25 (Text Table 3)**. GDP is expected to contract by 2.4 percent in 2020 as the global economic slowdown is weighing on cashew nuts exports and foreign direct investment, along with the substantial adverse impact of COVID lockdown measures on domestic non-cashew activity and retail trade and the impact of devasting floods in basic infrastructure and agricultural production. A gradual economic recovery is expected thereafter. Assuming the pandemic subsides by mid-2021, growth is expected to reach 3 percent with the gradual lifting of containment measures and recovery of the international cashew market. Growth converges to the 5 percent potential by 2023 supported by anticipated increases in public and private investment, favorable terms of trade, structural reforms and enhancements in the business environment. Average price inflation is projected to

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

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

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

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

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

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

10. The macroeconomic scenario is broadly realistic. Reflecting Guinea-Bissau's dependence on agricultural exports, the current account deficit in 2020-25 is projected to contribute to external debt accumulation, in contrast with the past five years dynamics [8]. This driver of debt is expected to be offset by

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

increased reliance on grants and concessional loans (Figure 3). It is assumed that multilateral donors will prioritize concessional lending considering the structural fragility of the country, its large development needs and limited access to alternative sources as well as progress in fiscal consolidation and governance. The projected 3-year adjustment in the primary deficit is in line with historical data from LICs with Fund-supported programs (Figure 4). Actual fiscal results are however highly volatile in Guinea-Bissau[9]. Real GDP growth is projected to gradually rise to 5 percent consistent with a small fiscal multiplier, as presumed by a high import content of government spending and evidenced by essentially zero correlation between real GDP growth and changes in the fiscal primary balance since 2010.

D. Country Classification and Determination of Stress Test Scenarios

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

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

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

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

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

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

Text Table 5. Combined Contingent Liabilities Shock

		Default	Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	5	Increased from 2 and 5 to reflect potential liabilities linked to bank recapitalisation needs, EAGB and domestic arrears.
4	PPP	35 percent of PPP stock	0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		10.0	

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

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

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

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

B. Public Debt Sustainability Analysis

15. Guinea-Bissau's overall risk of debt distress is assessed as high. The PV of total public debt-to-GDP ratio is above its indicative benchmark through 2040, a substantial and prolonged breach. Moreover, the debt service-to-revenue and grants ratio is projected to worsen from 54.8 percent in 2019 to 56.3 percent in 2020. This reflects mainly: (i) the impact of the COVID-19 crisis on revenue outcomes, (ii) amortization of short-term Treasury issuances amounting to 22 percent of revenues that were successfully rolled-over with new issuances of medium-term securities (3 and 5-year term), and (iii) escalating debt service costs due to the end of the grace period for several loans. To help alleviate that burden, BOAD provided a program loan equivalent to 8 percent of revenues and the IMF granted debt service relief through the Catastrophe Containment and Relief Trust (CCRT) amounting to 1.4 percent of revenues. There is however a risk of external arrears accumulation[10]. The medium-term increase in debt service up to 66.7 percent of revenues in 2025 calls for efforts, as intended by the authorities, to seek debt reprofiling[11] and lower interest rates of external and domestic new borrowing. The current projection would significantly improve if ongoing and future debt management efforts were to succeed. In particular, the authorities' request on December 15 to join the Debt Service Suspension Initiative (DSSI) is expected to enhance debt sustainability prospects[12].

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

CONCLUSIONS

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

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

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

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

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

[13] WAEMU currency union regional institutions manage both the debt issued by Guinea-Bissau in the regional sovereign treasury securities market (UMOA-titres) as well as the debt held by the central bank (BCEAO). These two components account for 50 percent of Guinea-Bissau's domestic debt at end-2019. Moreover, Guinea-Bissau's borrowing through WAEMU sovereign securities market is expected to account for an insignificant share of available

bolsters the country's capacity to carry domestic/regional debt beyond what is captured by the standard composite indicator. Taking this into consideration underpins the conclusion that Guinea Bissau's public debt is sustainable on a forward-looking basis contingent on the authorities commitments in the context of an engagement with the Fund and other development partners, together with the assumption (see below) that policies are in place that would put debt on a robust downward trajectory.

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

20. Achieving the baseline projection will require significant policy actions underpinned by a Fund program and strong multilateral donor engagement. Key policy actions include (i) vigorous fiscal consolidation efforts including revenue enhancement measures, containing current spending below nominal GDP growth, and continued implementation of growth-enhancing reforms; (ii) prudent borrowing policies, including avoidance of non-concessional project financing; (iii) enhanced debt management, with more rigorous compilation and monitoring of debts, upgraded procedures and publication of regular debt reports to improve transparency[14]; and (iv) improved management of the existing loan pipeline and application of recognized assessment procedures to ensure criticality of investment projects. The baseline debt dynamics could further improve with full donor re-engagement leading to (i) a significant scaling up of grants and concessional lending by multilateral institutions ; and (ii) a reprofiling of selected debt obligations to extend maturities and reduce interest rates (which the authorities are actively discussing with various development partners). There are as well significant downside risks to the baseline scenario, as strong and sustained political commitment is needed to deliver the envisaged medium-term fiscal adjustment embedded in the framework. In addition, the risk of a more prolonged fallout from the COVID-19 pandemic is high.

AUTHORITIES' VIEWS

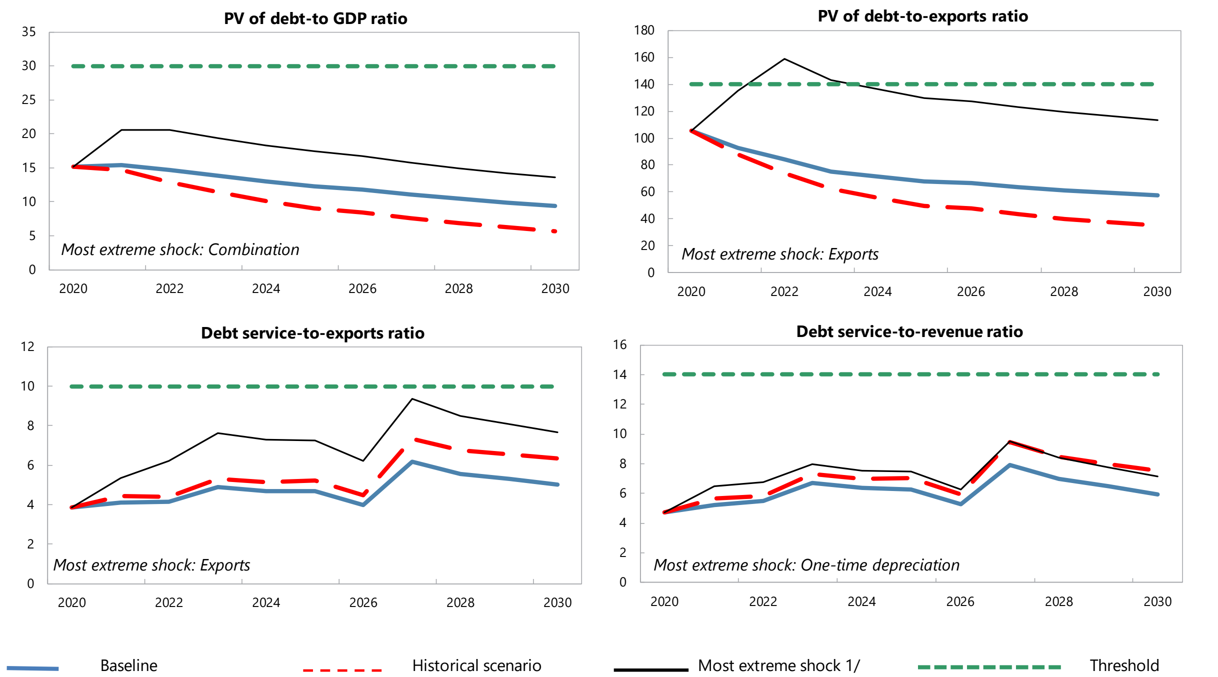
21. The authorities broadly concur with staff's views on debt sustainability and the recommendations. They agree that debt sustainability depends crucially on sound macroeconomic policies including a strong and sustained fiscal consolidation. They emphasized that the pace of public investment would be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

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

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

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

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



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

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

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	31	30
Avg. grace period	6	10

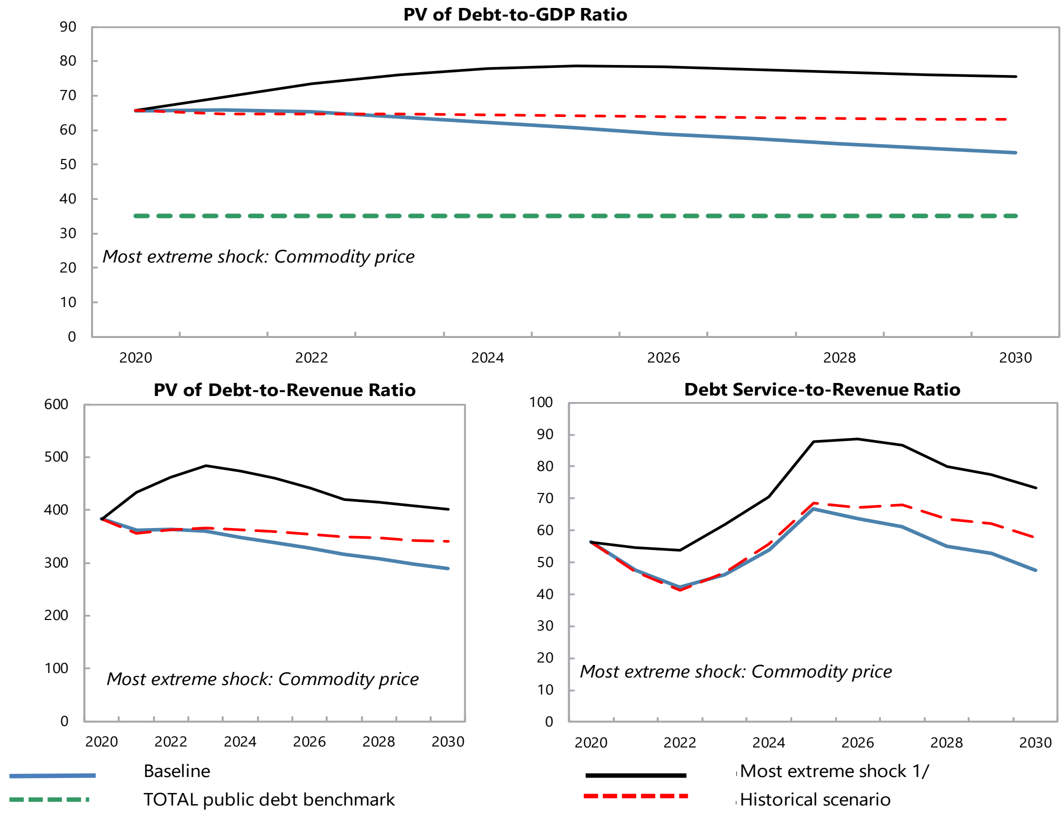
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

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

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

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



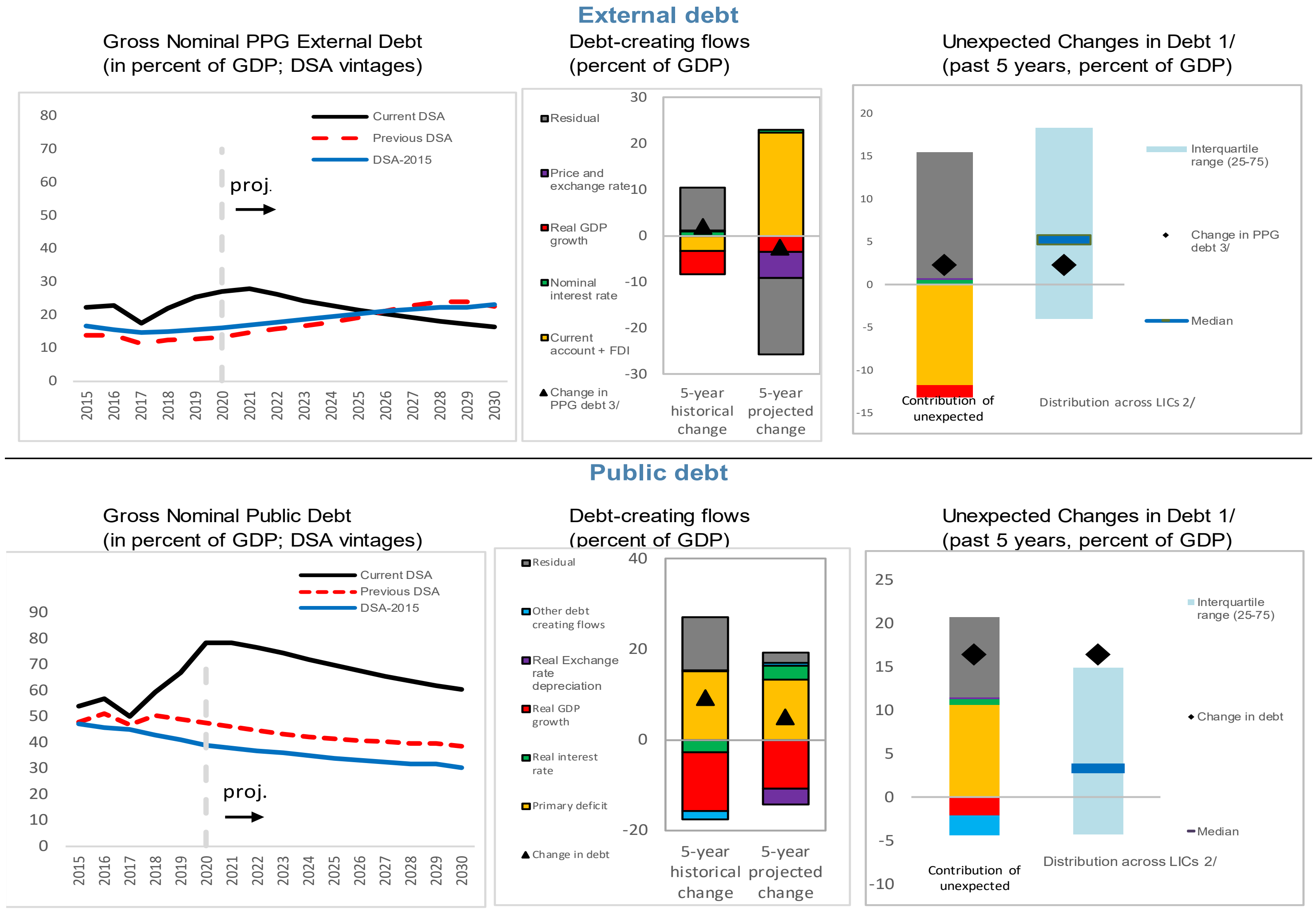
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	13%	13%
Domestic medium and long-term	67%	67%
Domestic short-term	21%	21%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest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

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

Sources: Country authorities; and staff estimates and projections.

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

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



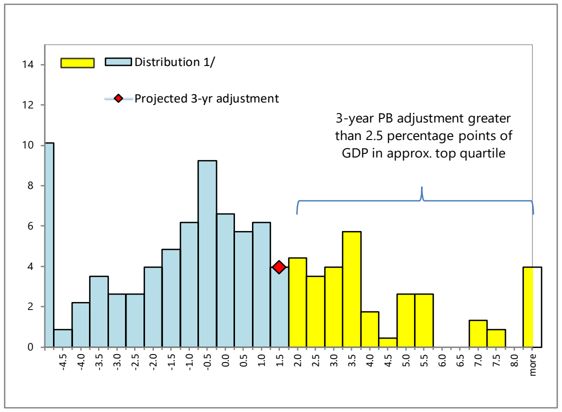
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

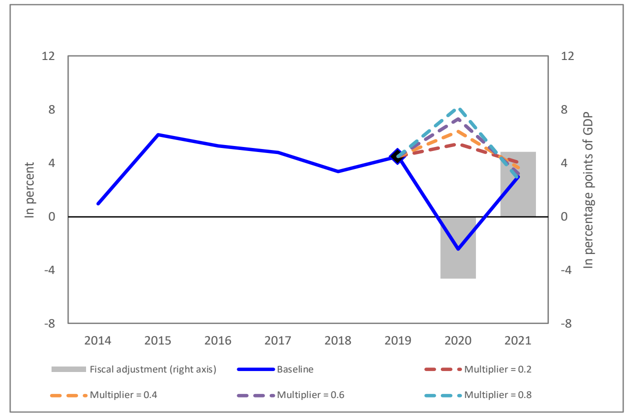
Figure 4. Guinea-Bissau: Realism tools

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



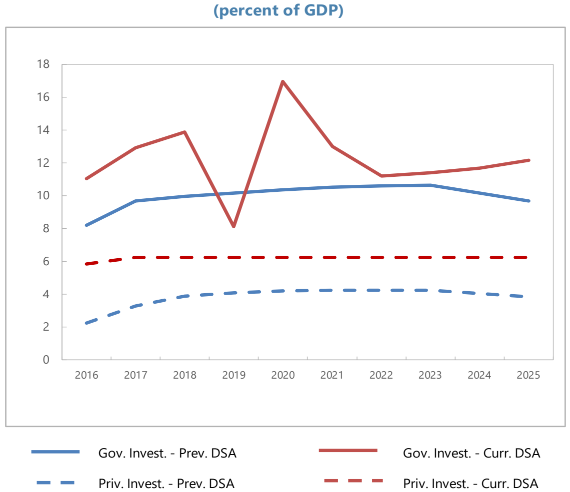
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

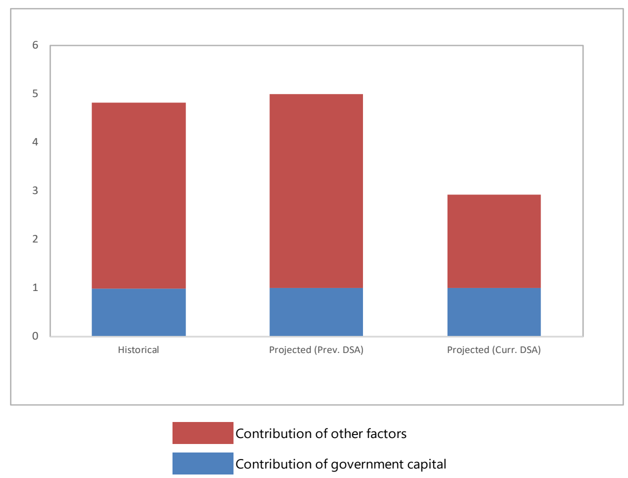
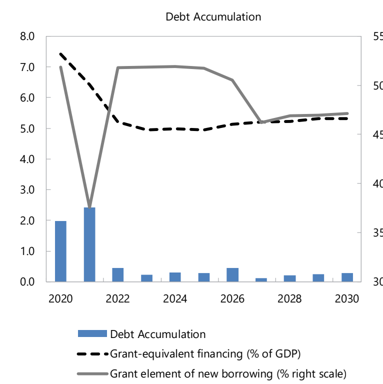


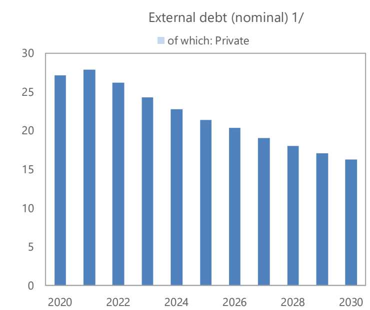
Table 1. Guinea-Bissau: External Debt Sustainability Framework, Baseline Scenario, 2017–40

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	**17.3**	**21.8**	**25.3**	**27.1**	**27.9**	**26.1**	**24.2**	**22.7**	**21.4**	**16.3**	**13.5**	**24.1**	**21.8**
of which: public and publicly guaranteed (PPG)	**17.3**	**21.8**	**25.3**	**27.1**	**27.9**	**26.1**	**24.2**	**22.7**	**21.4**	**16.3**	**13.5**	**24.1**	**21.8**
Change in external debt	-5.4	4.5	3.4	1.9	0.7	-1.7	-1.9	-1.5	-1.4	-0.8	-0.1		
Identified net debt-creating flows	**-4.7**	**1.8**	**4.6**	**9.8**	**4.2**	**2.7**	**1.6**	**1.4**	**1.2**	**0.4**	**0.8**	**-0.9**	**2.1**
Non-interest current account deficit	**-0.4**	**3.3**	**8.4**	**9.9**	**6.2**	**5.3**	**4.3**	**4.1**	**3.8**	**2.8**	**3.0**	**2.8**	**4.4**
Deficit in balance of goods and services	4.9	5.2	14.6	17.7	14.8	13.6	12.5	12.1	11.7	11.6	11.3	**7.9**	**12.8**
Exports	25.5	25.8	20.3	14.4	16.7	17.5	18.3	18.2	18.2	16.3	12.0		
Imports	30.4	31.0	34.9	32.1	31.5	31.1	30.8	30.3	29.9	27.9	23.4		
Net current transfers (negative = inflow)	-4.1	-5.0	-3.9	-6.0	-7.1	-6.5	-6.2	-6.0	-5.9	-5.5	-4.4	**-4.8**	**-6.0**
of which: official	-1.1	-1.2	-1.2	-2.4	-3.4	-2.9	-2.7	-2.7	-2.6	-2.9	-2.7		
Other current account flows (negative = net inflow)	-1.1	3.1	-2.3	-1.8	-1.5	-1.8	-2.0	-2.0	-2.1	-3.3	-3.9	**-0.3**	**-2.4**
Net FDI (negative = inflow)	**-1.0**	**-1.4**	**-5.0**	**-0.8**	**-1.5**	**-1.7**	**-1.7**	**-1.7**	**-1.7**	**-1.7**	**-1.7**	**-2.1**	**-1.6**
Endogenous debt dynamics 2/	**-3.3**	**-0.2**	**1.2**	**0.7**	**-0.5**	**-0.9**	**-1.1**	**-1.0**	**-0.9**	**-0.7**	**-0.5**		
Contribution from nominal interest rate	0.1	0.3	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1		
Contribution from real GDP growth	-0.9	-0.6	-1.0	0.6	-0.7	-1.0	-1.2	-1.1	-1.1	-0.8	-0.6		
Contribution from price and exchange rate changes	-2.6	0.1	2.0	...	...	...	...	...	...	...	...		
Residual 3/	**-0.7**	**2.7**	**-1.2**	**-8.0**	**-3.4**	**-4.4**	**-3.5**	**-3.0**	**-2.5**	**-1.3**	**-0.9**	**-8.0**	**-3.0**
of which: exceptional financing	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	**13.2**	**15.2**	**15.4**	**14.7**	**13.8**	**13.0**	**12.3**	**9.4**	**7.8**		
PV of PPG external debt-to-exports ratio	...	...	**65.1**	**105.7**	**92.4**	**84.2**	**75.3**	**71.4**	**67.8**	**57.8**	**65.1**		
PPG debt service-to-exports ratio	**13.9**	**2.1**	**2.5**	**3.8**	**4.1**	**4.1**	**4.9**	**4.7**	**4.7**	**5.0**	**4.2**		
PPG debt service-to-revenue ratio	**30.2**	**4.7**	**4.0**	**4.7**	**5.2**	**5.5**	**6.7**	**6.4**	**6.3**	**5.9**	**3.5**		
Gross external financing need (Million of U.S. dollars)	31.9	37.7	57.2	138.3	88.3	76.3	67.9	68.3	66.7	63.7	130.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.8	3.4	4.5	-2.4	3.0	4.0	5.0	5.0	5.0	5.0	5.0	**4.0**	**4.1**
GDP deflator in US dollar terms (change in percent)	12.7	-0.9	-8.5	2.2	10.8	3.8	3.3	3.0	2.8	2.9	2.9	**1.1**	**3.7**
Effective interest rate (percent) 4/	0.7	1.5	0.7	0.5	0.7	0.5	0.5	0.5	0.5	0.7	0.8	**0.7**	**0.6**
Growth of exports of G&S (US dollar terms, in percent)	20.0	3.5	-24.8	-29.2	32.5	13.0	13.5	7.7	7.7	5.6	3.6	**10.8**	**6.7**
Growth of imports of G&S (US dollar terms, in percent)	21.0	4.5	7.6	-8.1	11.9	6.6	7.3	6.7	6.4	6.2	4.1	**6.4**	**5.7**
Grant element of new public sector borrowing (in percent)	...	...	...	51.9	37.6	51.8	51.9	51.9	51.8	47.1	51.0	**...**	**48.6**
Government revenues (excluding grants, in percent of GDP)	11.8	11.6	12.5	11.8	13.1	13.2	13.3	13.4	13.5	13.7	14.8	**10.7**	**13.3**
Aid flows (in Million of US dollars) 5/	82.8	104.5	51.1	117.2	97.9	98.5	102.1	111.8	119.7	185.3	422.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	7.4	6.4	5.2	4.9	5.0	5.0	5.3	5.4	**...**	**5.5**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	79.8	75.0	92.5	92.1	91.0	90.6	89.7	89.3	**...**	**88.1**
Nominal GDP (Million of US dollars)	1,469	1,506	1,440	1,436	1,639	1,770	1,920	2,076	2,241	3,293	7,110		
Nominal dollar GDP growth	18.1	2.5	-4.4	-0.2	14.1	8.0	8.5	8.1	7.9	8.0	8.0	**5.3**	**7.9**
Memorandum items:													
PV of external debt 7/	...	...	13.2	15.2	15.4	14.7	13.8	13.0	12.3	9.4	7.8		
In percent of exports	...	...	65.1	105.7	92.4	84.2	75.3	71.4	67.8	57.8	65.1		
Total external debt service-to-exports ratio	13.9	2.1	2.5	3.8	4.1	4.1	4.9	4.7	4.7	5.0	4.2		
PV of PPG external debt (in Million of US dollars)			189.8	218.4	253.2	260.5	264.5	270.2	276.2	309.5	557.3		
(PVt-PVt-1)/GDPt-1 (in percent)				2.0	2.4	0.4	0.2	0.3	0.3	0.3	0.5		
Non-interest current account deficit that stabilizes debt ratio	5.0	-1.1	5.0	8.1	5.5	7.0	6.2	5.6	5.1	3.6	3.1		

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





Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief, including IMF CCRT 2020-2022); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

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

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

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

Table 2. Guinea-Bissau: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–40

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	**50.0**	**59.2**	**66.9**	**78.4**	**78.4**	**76.7**	**74.3**	**71.9**	**69.6**	**60.4**	**49.9**	**55.2**	**69.9**
of which: external debt	**17.3**	**21.8**	**25.3**	**27.1**	**27.9**	**26.1**	**24.2**	**22.7**	**21.4**	**16.3**	**13.5**	**24.1**	**21.8**
Change in public sector debt	-6.9	9.2	7.7	11.4	0.0	-1.7	-2.4	-2.5	-2.3	-1.6	-0.7		
Identified debt-creating flows	**-11.4**	**6.7**	**4.1**	**9.2**	**0.0**	**-1.7**	**-2.4**	**-2.5**	**-2.3**	**-1.6**	**-0.7**	**-10.5**	**-0.8**
Primary deficit	**0.8**	**4.3**	**2.8**	**7.5**	**2.6**	**1.2**	**1.0**	**0.9**	**1.0**	**0.9**	**1.0**	**2.2**	**1.8**
Revenue and grants	16.8	15.2	15.4	17.2	18.2	18.0	17.8	17.8	17.9	18.5	19.5	**15.7**	**18.0**
of which: grants	5.0	3.6	2.9	5.4	5.1	4.8	4.5	4.4	4.4	4.8	4.7		
Primary (noninterest) expenditure	17.6	19.5	18.2	24.6	20.8	19.2	18.8	18.8	18.9	19.4	20.5	**17.9**	**19.8**
Automatic debt dynamics	**-9.5**	**2.6**	**0.9**	**1.1**	**-2.6**	**-2.9**	**-3.4**	**-3.4**	**-3.3**	**-2.5**	**-1.7**		
Contribution from interest rate/growth differential	-5.6	0.6	-0.7	2.8	-1.8	-2.4	-3.1	-3.2	-3.1	-2.0	-1.3		
of which: contribution from average real interest rate	-3.0	2.2	1.8	1.1	0.5	0.6	0.6	0.4	0.3	1.0	1.1		
of which: contribution from real GDP growth	-2.6	-1.6	-2.6	1.6	-2.3	-3.0	-3.7	-3.5	-3.4	-3.0	-2.4		
Contribution from real exchange rate depreciation	-3.8	2.1	1.7	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**-2.8**	**-0.2**	**0.4**	**0.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-10.0**	**0.1**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.1	-0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**4.5**	**2.5**	**3.6**	**2.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2.4**	**0.0**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**55.0**	**65.7**	**65.9**	**65.2**	**63.9**	**62.2**	**60.6**	**53.5**	**44.2**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**356.4**	**382.7**	**361.5**	**363.4**	**359.3**	**348.4**	**338.2**	**289.6**	**226.3**		
Debt service-to-revenue and grants ratio 3/	**42.0**	**35.1**	**54.8**	**56.3**	**47.5**	**42.3**	**46.0**	**54.0**	**66.7**	**47.6**	**37.4**		
Gross financing need 4/	5.1	9.4	11.6	17.8	11.3	8.8	9.2	10.6	13.0	9.7	8.3		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.8	3.4	4.5	-2.4	3.0	4.0	5.0	5.0	5.0	5.0	5.0	**4.0**	**4.1**
Average nominal interest rate on external debt (in percent)	0.8	1.4	0.7	0.5	0.7	0.5	0.5	0.5	0.5	0.7	0.8	**0.7**	**0.6**
Average real interest rate on domestic debt (in percent)	-8.6	7.4	5.7	3.2	1.8	1.9	1.9	1.4	1.3	1.9	2.7	**-1.8**	**1.7**
Real exchange rate depreciation (in percent, + indicates depreciation)	-17.8	12.4	8.0	...	...	...	...	...	...	...	...	**1.7**	**...**
Inflation rate (GDP deflator, in percent)	10.4	-5.2	-3.5	0.1	3.0	2.8	2.8	2.8	2.8	2.9	2.9	**3.3**	**2.6**
Growth of real primary spending (deflated by GDP deflator, in percent)	-6.8	14.1	-2.0	31.7	-12.9	-4.3	3.0	5.0	5.8	5.3	5.1	**6.1**	**5.1**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	7.8	-4.9	-4.9	-4.0	2.6	2.9	3.4	3.4	3.3	2.5	1.7	**-0.7**	**2.3**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

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

(In percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	PV of debt-to GDP ratio										
Baseline	15	15	15	14	13	12	12	11	10	10	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	15	15	13	11	10	9	8	8	7	6	6
B. Bound Tests											
B1. Real GDP growth	15	16	16	15	14	13	13	12	11	11	10
B2. Primary balance	15	16	15	14	13	13	12	11	11	10	10
B3. Exports	15	18	20	19	18	17	16	15	15	14	13
B4. Other flows 3/	15	18	19	18	17	16	16	15	14	13	13
B5. Depreciation	15	19	15	14	13	13	12	11	11	10	9
B6. Combination of B1-B5	15	21	21	19	18	17	17	16	15	14	14
C. Tailored Tests											
C1. Combined contingent liabilities	15	16	15	15	14	13	13	12	12	11	11
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	15	16	15	14	13	12	11	10	9	8	7
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
	PV of debt-to-exports ratio										
Baseline	106	92	84	75	71	68	66	64	61	59	58
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	106	88	74	62	56	50	48	44	40	37	35
B. Bound Tests											
B1. Real GDP growth	106	92	84	75	71	68	66	64	61	59	58
B2. Primary balance	106	93	85	76	73	69	68	65	63	62	60
B3. Exports	106	135	**159**	**143**	136	130	128	123	119	116	114
B4. Other flows 3/	106	106	109	98	93	89	87	84	82	79	78
B5. Depreciation	106	92	71	63	60	56	55	52	50	49	47
B6. Combination of B1-B5	106	**141**	106	126	120	114	112	108	105	102	100
C. Tailored Tests											
C1. Combined contingent liabilities	106	96	88	79	76	73	73	70	68	67	66
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	106	91	85	76	71	66	63	58	53	49	45
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
	Debt service-to-exports ratio										
Baseline	4	4	4	5	5	5	4	6	6	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	4	4	4	5	5	5	4	7	7	7	6
B. Bound Tests											
B1. Real GDP growth	4	4	4	5	5	5	4	6	6	5	5
B2. Primary balance	4	4	4	5	5	5	4	6	6	5	5
B3. Exports	4	5	6	8	7	7	6	9	8	8	8
B4. Other flows 3/	4	4	4	5	5	5	4	6	6	6	5
B5. Depreciation	4	4	4	5	4	4	4	6	5	5	5
B6. Combination of B1-B5	4	5	6	7	7	7	6	9	8	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	4	4	4	5	5	5	4	6	6	5	5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	4	4	4	5	5	5	4	6	6	5	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
	Debt service-to-revenue ratio										
Baseline	5	5	5	7	6	6	5	8	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	5	6	6	7	7	7	6	9	8	8	8
B. Bound Tests											
B1. Real GDP growth	5	5	6	7	7	7	6	9	8	7	6
B2. Primary balance	5	5	5	7	6	6	5	8	7	6	6
B3. Exports	5	5	6	8	7	7	6	9	8	7	7
B4. Other flows 3/	5	5	6	7	7	7	6	8	7	7	6
B5. Depreciation	5	6	7	8	8	7	6	10	8	8	7
B6. Combination of B1-B5	5	6	7	8	8	7	6	9	8	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	6	7	6	6	5	8	7	7	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	5	6	7	8	8	7	6	8	7	7	6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public Debt, 2020–30

(In percent)

	Projections 1/										
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
						PV of Debt-to-GDP Ratio					
Baseline	**66**	**66**	**65**	**64**	**62**	**61**	**59**	**58**	**56**	**55**	**54**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2	**66**	**65**	**65**	**65**	**64**	**64**	**64**	**64**	**63**	**63**	**63**
B. Bound Tests											
B1. Real GDP growth	**66**	**69**	**73**	**72**	**72**	**71**	**70**	**70**	**69**	**68**	**68**
B2. Primary balance	**66**	**67**	**68**	**66**	**65**	**63**	**61**	**60**	**58**	**57**	**56**
B3. Exports	**66**	**68**	**70**	**68**	**66**	**65**	**63**	**61**	**60**	**58**	**57**
B4. Other flows 3/	**66**	**68**	**70**	**68**	**66**	**64**	**63**	**61**	**60**	**58**	**57**
B5. Depreciation	**66**	**66**	**64**	**62**	**60**	**57**	**55**	**53**	**51**	**49**	**48**
B6. Combination of B1-B5	**66**	**65**	**65**	**63**	**61**	**59**	**58**	**56**	**55**	**54**	**52**
C. Tailored Tests											
C1. Combined contingent liabilities	**66**	**75**	**74**	**73**	**71**	**69**	**67**	**65**	**64**	**62**	**60**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**66**	**70**	**73**	**76**	**78**	**79**	**78**	**78**	**77**	**76**	**75**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
						PV of Debt-to-Revenue Ratio					
Baseline	383	362	363	359	348	338	328	316	308	298	290
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2	383	356	362	365	362	359	355	349	347	343	340
B. Bound Tests											
B1. Real GDP growth	383	376	396	398	392	387	381	374	370	363	359
B2. Primary balance	383	369	378	374	362	352	341	329	320	310	301
B3. Exports	383	372	388	383	371	360	349	337	328	317	308
B4. Other flows 3/	383	374	387	382	371	360	348	336	327	316	307
B5. Depreciation	383	369	363	355	340	326	314	299	287	274	263
B6. Combination of B1-B5	383	358	363	354	343	333	323	312	303	294	285
C. Tailored Tests											
C1. Combined contingent liabilities	383	413	414	409	397	385	372	358	349	337	327
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	383	433	462	484	474	460	442	420	415	408	402
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
						Debt Service-to-Revenue Ratio					
Baseline	56	47	42	46	54	67	64	61	55	53	48
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2	56	47	41	47	56	69	67	68	64	62	58
B. Bound Tests											
B1. Real GDP growth	56	49	46	51	60	75	74	73	67	66	61
B2. Primary balance	56	47	44	49	55	70	69	66	57	55	51
B3. Exports	56	47	42	46	54	67	64	62	55	53	48
B4. Other flows 3/	56	47	42	46	54	67	64	62	55	53	48
B5. Depreciation	56	46	41	44	52	64	60	59	54	51	46
B6. Combination of B1-B5	56	46	42	45	53	66	63	61	54	52	47
C. Tailored Tests											
C1. Combined contingent liabilities	56	47	56	51	58	84	85	72	61	61	60
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	56	55	54	62	71	88	89	87	80	78	73
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.