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GUINEA-BISSAU

December 2024

SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA-BISSAU

In the context of the Seventh Review Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 16, 2024, following discussions that ended on November 7, 2024, with the officials of Guinea-Bissau on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the Staff Report was completed on November 25, 2024.
- A **Debt Sustainability Analysis** prepared by a staff team of the IMF and the World Bank.
- A **Staff Statement** updating on recent developments.
- A **Statement by the Executive Director** for Guinea-Bissau.

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

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IMF Executive Board Completes the Seventh Review under the Extended Credit Facility Arrangement for Guinea-Bissau and Approves US$7.1Million Disbursement

FOR IMMEDIATE RELEASE

- The IMF Executive Board today completed the seventh review under the Extended Credit Facility (ECF) arrangement for Guinea-Bissau. This decision allows for an immediate disbursement of SDR5.43 million (about US$7.1 million) to help meet the country's financing needs.
- Program performance was strong relative to the quantitative targets and broadly satisfactory as regards structural reforms. All nine quantitative performance criteria and all three structural benchmarks for end-June 2024 were met. Specifically, significant progress was made with regard to energy sector reforms.
- Growth is expected to reach 5 percent in 2024 while inflation should average 4.2 percent. The fiscal deficit is projected to reach 5 percent of GDP in 2024 and the authorities remain committed to achieving a fiscal deficit of 3 percent of GDP in 2025, in line with the WAEMU target. However, the economic outlook remains subject to significant downside risks.

Washington, DC – December 16, 2024 : The Executive Board of the International Monetary Fund (IMF) completed today the seventh review under Guinea-Bissau's Extended Credit Facility (ECF) arrangement. The three-year arrangement, approved on January 30, 2023, aims to secure debt sustainability, improve governance, and reduce corruption while creating fiscal space for inclusive growth. The Executive Board granted an augmentation of access (140 percent of quota or SDR 39.76 million) on November 29, 2023.

The completion of the seventh review enables the disbursement of SDR 5.43 million (about US$7.1 million) to help meet the country's balance-of-payments and fiscal financing needs. This brings total disbursement under the arrangement to SDR 30.31 million (about US$ 39.9 million). Program performance was strong relative to the quantitative targets and broadly satisfactory as regards structural reforms. All nine Quantitative Performance Criteria and all three Structural Benchmarks for end-June 2024 were met. The authorities have also met the two continuous Structural Benchmarks on the expenditure committee (COTADO) and debt service payments. In completing the seventh review, the Executive Board approved the authorities' request for modification of performance criteria and completed the financing assurance review.

Growth is expected to reach 5 percent in 2024 despite lower-than-expected cashew exports while inflation is projected to average 4.2 percent. The current account deficit will be larger than projected earlier at 7.4 percent of GDP due to the underperformance in cashew exports. The fiscal deficit is projected to reach 5 percent of GDP in 2024 and the authorities remain committed to achieving a fiscal deficit of 3 percent of GDP in 2025, in line with the WAEMU target. However, the economy remains subject to significant downside risks in the context of a challenging socio-political climate and capacity constraints.

At the conclusion of the Executive Board's discussion, Mr. Li, Deputy Managing Director and Acting Chair, made the following statement: Guinea-Bissau continues to face a complex economic and political landscape. The recent decline in cashew nut exports has added pressure on the balance of payments and fiscal revenues. Moreover, the tight financial conditions in the region have led to higher borrowing costs, further affecting the country's external position and government financing. In the face of these challenges, the authorities have fostered consensus on essential reforms while upholding political and macroeconomic stability. Their commitment to implementing the reforms and policies outlined in their Fund-supported program is vital for ensuring debt sustainability, maintaining macroeconomic stability, and addressing developmental needs.

The economy remains resilient, and program performance remains strong. It is commendable that the authorities have pursued ambitious revenue measures and stringent expenditure controls to achieve fiscal consolidation targets, even in the face of declining cashew revenues due to stagnating export prices and weather shocks.

Achieving the fiscal consolidation targets for 2024 and 2025 is essential to achieve program objectives and reduce public debt vulnerabilities. In particular, it will be important to maintain strict controls over the wage bill and tighten controls of other expenditures through the expenditure committee (COTADO) to prevent spending overruns. Revenue mobilization efforts should focus on reducing tax exemptions and strengthening revenue administration. Securing fiscal space for priority social spending is also essential. These efforts should be accompanied by a strengthened debt management and a prudent borrowing strategy.

The authorities are advancing structural reforms that are critical to the successful implementation of the program. Actions have been undertaken to mitigate fiscal risks associated with the public utility company, thereby helping restore its cost recovery. Furthermore, the authorities have made progress toward disengaging from the undercapitalized bank, which would enhance overall financial stability. Additional efforts are needed on governance and transparency reforms as well as on economic diversification, which are critical to boost sustainable and inclusive growth.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

November 25, 2024

SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Guinea-Bissau continues to face a challenging economic and political environment. Recent downward shocks to cashew exports are adding pressures to the balance of payments and fiscal revenue. Tightening of regional financial conditions continue to raise borrowing costs. Since the political crisis in December 2023, underlying social tension has been high, and the next legislative election has been postponed to complete preparatory steps required by law. Despite these challenges, growth has been resilient, supported by strong public and private investments, and high producer prices of cashew nuts due to increased competition among exporters and strengthened securities measures. Risks to the outlook remain tilted towards the downside.

Program performance. Program performance was strong for the seventh review relative to the quantitative targets and broadly satisfactory as regards structural reforms. All nine Quantitative Performance Criteria (QPC) and all two Indicative Targets (IT) for June 2024 as well as all three structural benchmarks (SBs) for the end-June 2024 were met. For the QPC on external arrears, which were missed at the sixth review, the authorities have implemented a corrective action which prevented recurrence of technical arrears. The two continuous Structural Benchmarks (SB) on the expenditure committee (COTADO) and debt service payments were also both met. Four out of seven SBs for August-September 2024 were met or completed with delay.

Policy commitments. The authorities have maintained strong program commitments. As prior actions, the authorities have been implementing ambitious revenue measures and tight expenditure controls to meet the fiscal consolidation targets despite the lower cashew revenue. In the energy sector, as a prior action, the authorities have been restoring cost recovery in the public utility company. The authorities should continue reforms to support revenue mobilization, mitigate fiscal risks in the energy and financial sector, and improve governance.

Staff views. Staff supports the authorities' requests for completion of the seventh review under the ECF arrangement and modification of performance criteria and completion of financing assurances review.

Approved By
Montfort Mlachila (AFR) and Fabian Bornhorst (SPR)

An IMF team consisting of Mr. Hobdari (Head), Messrs. Koshima and Maciel (all AFR), Mr. Al-Karablieh (SPR), Mr. Sarr (Resident Representative), and Mr. Fonseca (local economist) held discussions with the authorities during October 29-November 7, 2024, in Bissau. Mr. Varela (Advisor OED) participated in the discussions. Ms. Derrouis contributed to the preparation of this report. The mission met with President Mr. Sissoco, Prime-Minister Mr. Barros, Minister of Finance Mr. Té, Minister of Economy Mr. Sambú, Minister of Energy Mr. Casimiro, Minister of Fishery Mr. Silva, National Director of BCEAO Ms. Cassama, other senior officials of the government and BCEAO and representatives of development partners.

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CONTEXT

1. Guinea-Bissau continues to face a challenging economic and political environment. Cashew exports were adversely affected by stagnating export prices and weather shocks. Lower-than-expected exports are adding to the existing challenges from tight regional financial conditions. In September and October 2024, interest rates of one-year Treasury securities issued in the regional market exceeded 10 percent with widening spreads relative to other countries in the region. Since the political crisis in December 2023, underlying social tension has been high. The legislative election, which was originally scheduled on November 24, has been postponed to complete preparatory steps required by law, and consultations are underway amongst the political parties and civil society to decide the new election date.

2. Despite these challenges, the authorities have maintained strong program performance. There is consensus on critical reforms across the political spectrum, which was facilitated by the current government including members from all major political parties. The authorities are resolute to meet the fiscal consolidation targets and reduce public debt despite the decline of cashew and other revenue. As prior actions, the authorities have been implementing strong fiscal measures in an election year.

RECENT ECONOMIC DEVELOPMENTS

3. Growth remains resilient despite challenges in cashew production in 2024. The expected volume of cashew exports has declined from the previous projections of 200,000 ton to around 170,000 ton mainly due to lower cashew production, which was impacted by unusually high temperatures during the flowering and harvesting seasons. Moreover, there has been a decrease in exports to India[1] and logistical challenges at the port of Bissau. Despite this decline in cashew exports, overall real GDP growth is projected to remain stable at 5 percent, supported by the positive spillover effects from increased income due to higher producer prices for cashews, which have doubled since 2023.[2] Furthermore, public and private investment remains robust with the ongoing investments in the energy sector and the construction of a new airport terminal. Average projected inflation is expected to stabilize at 4.2 percent, reflecting the lagging effects of the reversal of rice and fuel price subsidies that occurred in May 2024.

[1] India accounts for 60 percent of Guinea-Bissau's cashew exports. In 2024, India's cashew import volume declined by 4 percent relative to 2023 and 21 percent relative to 2022, cumulatively until August. This decrease is, however, likely to be temporary.

[2] Producer prices of cashew nuts increased from around CFAF 215/kg in 2023 to CFAF 500-600/kg in 2024, because new entry of more than 20 exporters, who were searching for alternative markets after Cote d'Ivoire imposed the export restriction of raw cashew nuts, increased competition for cashew inventories. Strengthened security measures also prevented intermediaries from exploiting farmers by colluding to reduce producer prices. While increased competition squeezed out several long-standing exporters, an impact of their market exit on growth is limited as they continue to operate imports and other activities.

4. The current account deficit is projected to reach 7.4 percent of GDP in 2024. While this is a decline from last year, it is 1.3 percentage points higher than projected at the time of the sixth ECF review. In addition to the decline in cashew nut export volumes, the country has experienced a terms-of-trade shock, with the average price of cashew dropping from US$1,050 per ton in 2023 to US$950 per ton in 2024, coupled with slightly higher import prices. Conversely, higher remittances have alleviated the impact of lower cashew exports on the current account. The government has turned to the regional bond market as its primary source of financing; however, tight financial conditions have raised borrowing costs, shortened maturities, and restricted additional issuances. In 2024, financing needs of about 1.0 percent of GDP were met mainly through disbursements from the Extended Credit Facility (ECF) arrangement.

5. The overall fiscal deficit is estimated at 5.0 percent of GDP in 2024. The domestic primary deficit is expected to remain at 1.2 percent of GDP, consistent with the sixth review projections. However, the overall deficit projection has risen by 1.2 percentage points, mainly due to three main factors: (i) increased interest payments resulting from higher borrowing costs; (ii) lower-than-expected realization of budget support; and (iii) increased disbursements for foreign-financed capital expenditures related to delayed processing of invoices from 2023. Public debt is projected to reach 77.6 percent of GDP by end-2024.

6. The financial sector's soundness deteriorated in 2023, with no data available for 2024 yet. The disappointing cashew campaign led to a 0.5 percent decline in credit to the economy and an increase in non-performing loans in 2023, negatively affecting financial indicators. The ratio of net non-performing loans to total loans rose from 4.3 percent in 2022 to 9.5 percent in 2023, while the return on equity fell from 21.3 percent to 16.4 percent, and capital adequacy indicators deteriorated. The country's financial sector is relatively small[3] and heavily reliant on limited formal sector activities, particularly those associated with the public sector and cashew nut traders. The growth of the financial sector depends on efforts to diversify the economy, formalize economic activities, and enhance the business environment. At the regional level, actions are needed to strengthen the resilience of the financial sector by increasing the minimal capital requirements, introducing Basel III liquidity ratios and mitigating sovereign-bank nexus risks.[4] Delays of the 2024 FSI indicators reporting limits staff assessment on the recent developments in the financial sector.

OUTLOOK AND RISKS

7. The medium-term outlook remains broadly unchanged. In the medium term, growth is projected to sustain its potential at approximately 5 percent per year. This growth will be bolstered

[3] The banking sector comprises one national bank, two subsidiaries of regional banks and three branches. The FSI indicators of net NPLs to total loans and to capital excluding the large undercapitalized bank deteriorated significantly in December 2023 due to debt restructuring operations and new NPLs found in an audit by the WAEMU regional commission of a subsidiary of a regional bank. The regional commission is assessing if the observed deterioration is temporary or a supervisory action is necessary.

[4] See details in Common Policies of Member Countries of the West African Economic and Monetary Union (WAEMU) Staff Report.

by the implementation of reforms supported by the ECF arrangement aimed at reducing economic vulnerabilities, enhancing donor engagement, improving governance and the business environment, and fostering increased investments. Inflation is expected to converge to around 2 percent. Additionally, the current account deficit is expected to gradually improve to about 4 percent of GDP, driven by fiscal consolidation and more favorable terms of trade.

8. **The outlook is facing significant downside risks.** These risks arise from domestic political instability, limited state capacity, shocks to terms of trade, and adverse weather conditions. Furthermore, prolonged tightening of financial conditions in the regional market could restrict access to financing and elevate risks related to debt rollover and solvency. Financial distress among state-owned enterprises (SOEs) and vulnerabilities within the banking sector may also create contingent liabilities. Should these risks materialize, the authorities may need to consider further expenditure rationalization and seek additional donor funding, primarily through budget support from international financial institutions (IFIs) and bilateral partners. Conversely, stronger performance in the agriculture sector, the expansion of the electricity network, and successful implementation of reforms could result in higher growth.

PROGRAM PERFORMANCE

9. **All nine Quantitative Performance Criteria (QPC) and two Indicative Targets (ITs) for June 2024 were met** (MEFP Table 1). For the QPC on external arrears, which was missed at the sixth review, the authorities have implemented a corrective action that has substantially improved the debt service payment process and prevented the recurrence of technical arrears.

10. **All three Structural Benchmarks (SBs) for end-June 2024 and both continuous SBs were met, and four out of seven SBs for August-September 2024 were met or completed with delay** (MEFP Table 2).[5] Since the sixth review, the authorities have met the continuous SB on the Technical Committee of Arbitration of Budgetary Expenditure (COTADO), which was strengthened through the prior authorization by the Prime Minister of expenditure for real estate, vehicles, and major rehabilitation under the Budget Law. They have also met the continuous SB on debt service, including by sending to BCEAO a single batch of payment instructions for all external debt services, ten days before the beginning of each month. One of the three missed SBs for August-September 2024 is proposed to be reprogrammed and another one to be replaced with a new SB (¶25).

POLICY DISCUSSIONS

Meeting the fiscal consolidation targets for 2024 and 2025 is crutial to achieve the program objectives and reduce public debt. The authorities have implemented ambitious revenue measures and tight expenditure controls and have stregnthened debt management. Reforms to mitigate fiscal risks from the public utility company and improve governance continue to be priorities.

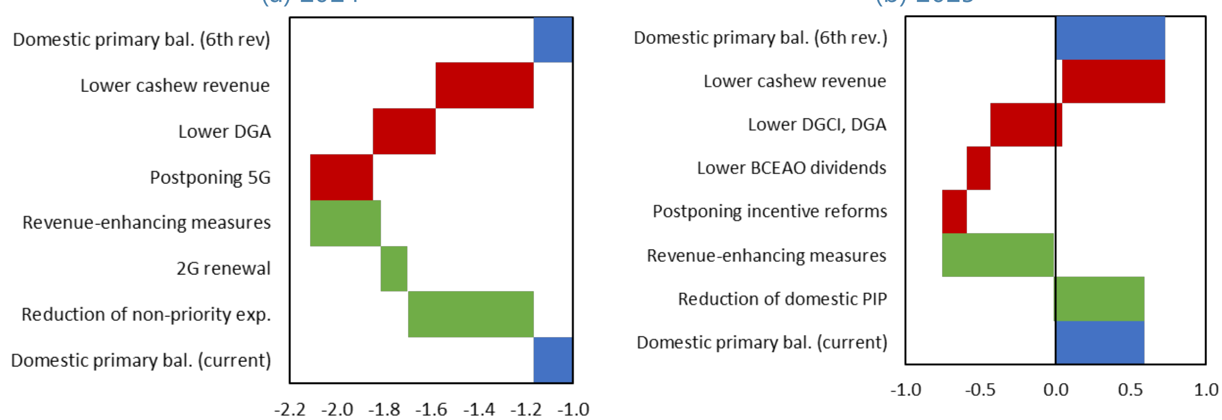
[5] For the SBs at end-June 2024, please see the Staff Report for the Sixth ECF Review (IMF Country Report No. 24/295). The authorities have also complied with non-introduction of exchange restrictions and multiple currency practices.

A. Fiscal Policy

11. Despite lower revenue, the authorities have taken measures to meet the domestic primary deficit target for 2024 agreed at the combined fourth and fifth review (Text Figure 1(a)). Without any measure, revenue would be lower than the sixth review by 0.9 percent of GDP because of: (i) lower cashew revenue; (ii) lower customs revenue (mainly from logistical constraints at the Bissau port); and (iii) postponement of 5G licenses. To compensate the impact of this revenue shortfall, the authorities will: (i) implement a prior action that requires the approval of expenditure by the COTADO within the spending limit in MEFP Text Table 1 and collection of tax arrears of the Directorate-General of Duties and Taxes (DGCI) (MEFP ¶7); (ii) collect fees for the 2G license renewal, in which the dominant telecom operator has interest; and (iii) reduce non-priority expenditure.

Text Figure 1. Domestic Primary Balance – Changes from Sixth Review (Percent of GDP)

(a) 2024 (b) 2025



Source: Staff calculations.

12. Despite the revenue base effects, the 2025 budget to be approved by the Council of Ministers (prior action) targets an overall deficit of 3 percent of GDP (Text Figure 1(b)). Without any measure, revenue would be lower than projected at time of the sixth ECF review by 1.3 percent of GDP, because of: (i) lower cashew revenue based on the updated export projections; (ii) weaker tax compliance during the presidential election year; and (iii) lower BCEAO dividends.[6] To sustain revenue mobilization, the 2025 budget includes ambitious revenue measures, which will generate 0.7 percent of GDP of additional revenue (Text Table 1). In addition, the authorities

Text Table 1. Revenue Measures, 2025 (Percent of GDP)

Measures	Impact
Draft 2025 budget (prior action)	
Increase in a tax reference price of cashew from \$800/ton to \$900/ton	0.08
No renewal of tax exemptions for CIMAF	0.09
Increase in a tax reference price of imported cement from CFAF 54/kg to 65/kg	0.01
Update of tax reference prices and other measures for used cars	0.05
Elimination of exemptions of fuels from sales taxes at the point of sales	0.32
Structural benchmarks	
Physical inspection of all trucks at Safim Entry Post	0.14
Connecting systems of hotels, supermarkets, coment venders and factories to DGCI	0.05
Total	0.75

Source: staff calculations.

[6] Expenditure is also higher by 0.2 percent of GDP due to postponement of reforms of tax collection incentives, as the modification of the incentive structure requires changes in the law.

will continue the strict no-new-hiring policy and minimize discretionary expenditure. If the World Bank Development Policy Financing (DPF) grant and other budget support that are not included in the baseline materialize, they will be used to finance priority investments. In this case, the domestic primary balance target will be increased accordingly through a proposed adjustor.

13. The authorities are committed to ambitious revenue mobilization measures. The 2025 budget increases tax reference prices of cashew, cement, and used cars, and also eliminates tax exemptions for cement production as well as those of fuels from DGCI's sales tax at the point of sales (MEFP ¶9).[7] In addition, new SBs will revamp the land border controls through physical inspection of all trucks and prevent under-declarations of sales taxes by connecting billing systems of major taxpayers to the DGCI's system (Kontaktu) (MEFP ¶10). These measures, which do not require parliamentary approval, are expected to have immediate revenue impact. The authorities are also committed to the fiscal structural reforms, which will have a positive revenue impact in the medium-term, including implementation of the VAT action plan (MEFP ¶12), harnessing of digitalization technologies to detect smuggling through SBs on the integrated system of monitoring of cashew nuts and strategic goods as well as Sydonia World, and development of basic infrastructure at the land border posts (MEFP ¶12). Since the introduction of the VAT will result in some revenue losses,[8] staff emphasized that the VAT implementation should move in tandem with ongoing reforms of other tax legislation to compensate any such revenue losses.

14. Continuing very tight expenditure controls is key for achieving the fiscal deficit target in 2025. Specifically, there is little space for increases in the wage bill and other domestic primary expenditure. The 2025 budget targets a reduction in overall spending by 1.4 percent of GDP from 2024, despite spending pressures in a presidential election year. Maintaining the strict wage bill control and adhering to the continuous SB on the COTADO will be the key to prevent spending overruns. The authorities will also implement other reform measures for public finance management, including the new census of public workers and the strengthened monitoring of public investment projects (MEFP ¶13).

Fiscal Risks from the Public Utility Company

15. Steps are being taken to achieve cost recovery for EAGB by December 2024. Since August 2024, the City of Bissau has been supplied solely by electricity of the regional hydropower project (OMVG). However, EAGB was receiving invoices of US$1.5 million per month from Karpower for its fixed capacity fee that accrues even when EAGB does not use Karpower electricity. Receiving two invoices widened EAGB's monthly losses to around CFAF 0.9 billion (Text Figure 2). Its arrears to Karpower increased from US$4.2 million at the end December 2023 to US$19.5 million in October

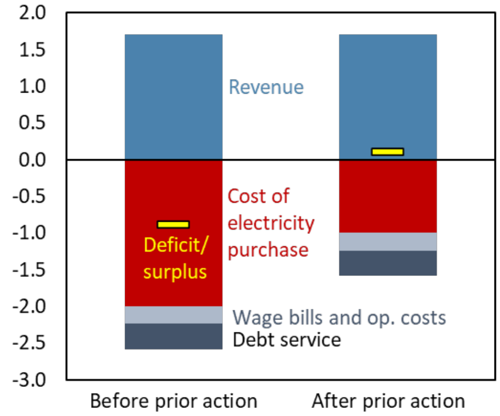
[7] Fuels currently pay sales taxes only at the point of import at the Bissau port, and have for years been exempted from sales taxes at the point of sales. The elimination of the exemption of sales taxes for fuel at the point of sales included in the 2025 budget, which paves the way for the planned implementation of the VAT, is expected to increase the CPI by about 0.2 percent; this is similar to the CPI impact from the increase in the tax reference price at the combined fourth and fifth reviews.

[8] A negative revenue impact from VAT implementation includes the exemptions to financial institutions, which currently pay around 0.3 percent of GDP of sales taxes, but will be mostly exempted from VAT.

2024. To resolve this unsustainable situation, the government has been restoring EAGB's cost recovery by December 2024 (**prior action**, MEFP ¶18).

16. The authorities should continue to push for further energy sector reforms. There has been progress in EAGB's revenue mobilization. The Council of Ministers issued a decision to eliminate free electricity of employees of EAGB and the Ministry of Energy, while the abusive interference into EAGB's tariff enforcement has stopped under the new Minister of Energy appointed in August. However, EAGB still has insufficient margin to meet urgent investment needs and reduce expensive debt. In addition, critical energy infrastructure is at high risk of failure due to quality issues. To mobilize EAGB's revenue and develop a backup for infrastructure, the authorities are committed to the following urgent actions (MEFP ¶19 to 21);

Text Figure 2. EAGB's Monthly Deficit/Surplus (CFAF billion)



Source: staff calculations.

- Installing 16,000 pre-paid meters[9] and enforcing tariff arrears from large clients (new SB, by end-June 2025);
- Contracting a backup of power supply from Senegal and/or other countries in the region;
- Completing the whole ring transmission line including the backup thermal power plant by resolving issues in project cost increases as soon as possible.

B. Financing and Debt

17. The stock of public and publicly guaranteed debt is expected to decline to 77.6 percent of GDP in 2024. The projection is based on the achievement of the program's fiscal targets and compliance with the QPC of the zero ceiling on new non-concessional borrowing and the QPC setting a limit to contracting of new concessional loans, which is consistent with the authorities' external borrowing plan (Text Table 2). The authorities have announced their intention to sign a new loan with the European Investment Bank (EIB) to finance the construction of the critical road project between Safim and Mpak (Senegal) supported by a highly concessional financial package from the European Union (EU), EIB and World Bank.[10] This project is expected to significantly enhance the logistics between Bissau and Dakar. Staff has incorporated the loan and disbursements schedule

[9] EAGB received 32,000 pre-paid meters in August 2024 and meter boxes and other materials in September. Initially, it planned to install 10,000 meters/month as with during 2023. However, once installation began, it found that the mass installation campaign in 2023 exhausted readily reachable new clients and that continuing installation requires concurrent fixing of distribution lines. The recalibrated plan expects installation of 2,000 pre-paid meters/month.

[10] The authorities are committed to significantly reducing the new borrowing limit for 2025 after accommodating the road project in 2024 to maintain public debt sustainability given that the country is at high risk of debt distress.

into the baseline and external borrowing plan,[11] based on which the QPC is proposed to be revised (¶23 and MEFP Table 1).

Text Table 2. External Borrowing Plan
(In USD million)

PPG external debt contracted or guaranteed	Volume of new debt[1]		Present value of new debt[1]	
	2024 (US$ million)	2025 (US$ million)	2024 (US$ million)	2025 (US$ million)
Sources of debt financing	**114.6**	**5.0**	**78.8**	**3.3**
Concessional debt[2]	114.6	5.0	78.8	3.3
Multilateral debt	114.6	5.0	78.8	3.3
Uses of debt financing	**114.6**	**5.0**	**78.8**	**3.3**
Infrastructure	114.6	3.0	78.8	2.0
Agriculture	-	2.0	-	1.3

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

Source: staff calculations.

18. Guinea-Bissau is at a high risk of debt distress, but debt is assessed as sustainable.[12] The DSA update shows that the PV of external debt-to-GDP and the external debt-service-to-revenue both remain below the indicative thresholds for the whole projection period. The PV of external debt-to-export ratio remains above the threshold for several years but gradually declines over the medium term and falls below the threshold by 2029. The external debt service-to-exports ratio breaches the threshold between 2030 and 2032 with a declining trend afterwards. Staff incorporated the new debt service schedule resulting from the recent BOAD's debt reprofiling into the baseline. The breaches observed are attributable to the prolonged effects of recent shocks to cashew exports, combined by the BOAD's debt reprofiling that reduces debt service obligations between 2024 and 2029. The PV of total public debt-to-GDP ratio is on a downward path under the baseline scenario, but it stays above its indicative benchmark of 35 percent throughout the entire forecast period. The authorities also plan to clear in the medium-term the audited legacy domestic arrears and are making progress in settling the legacy external arrears (¶29). The debt outlook remains vulnerable to a weaker economic recovery, further tightening of financial conditions, and authorities' failure to adhere to prudent fiscal policies.

19. The government is committed to enhancing controls on project loans disbursements and guarantees (MEFP ¶14 and ¶15). While the authorities met the IT for June 2024, the sixth review identified several projects that had already surpassed their budget limits for disbursements. In response, the authorities suspended under-executed and non-priority projects. Nonetheless,

[11] The proposed loan of US$114.6 million from EIB represents an increase of US$47.5 million from the previous borrowing plan for 2024-25. This loan is expected to be disbursed over five years. This increase is included in the baseline of the Debt Sustainability Analysis (DSA) and corresponds to an additional debt burden of approximately 0.3-0.4 percent of GDP per year that can be partially compensated with the reduction or reprioritization of other project disbursements. The total financial package for the project amounts to US$232 million which, in addition to the EIB loan, includes US$44.4 million in grants from the EU and US$70 million grants from the World Bank. The grant from the World Bank has already been contracted and the portion of the project financed from this grant is currently in the implementation phase. The terms of financing package of the portion of the project financed from the combined EU grant and EIB loan are concessional, with a grant element estimated at around 40 percent at current market interest rates (see also DSA Box 1).

[12] See attached DSA.

disbursements for December 2024 are expected to be higher by 0.5 percent of GDP compared to the sixth review, due to continued disbursements from some priority projects, which improve the electricity grid and diversify sources of power and thus cannot be suspended. To strengthen budget credibility for external loan-financed projects, the 2025 budget will mandate that all disbursement requests for such loans be approved by the Minister of Finance, with strict adherence to the budget limits for each project (prior action). Moreover, to mitigate future fiscal risks stemming from the state guarantees, the 2025 budget will prohibit the issuance of government guarantees, except for those on state-owned enterprises and ongoing infrastructure projects (prior action).[13] These actions will support convergence of the overall deficit and public debt to the WAEMU criteria (3 percent and 70 percent of GDP) by 2025 and 2027.

20. The authorities have improved debt management procedures (MEFP ¶16). Since the implementation of the new debt service procedure, which requires the Treasury to send a single batch of payment instructions to the BCEAO for all external debt services due each month—ten days prior to the start of the month—there have been no occurrence of new external debt service arrears. This procedure has streamlined the payment process and significantly reduced risks of communication and human errors. Additionally, the authorities have enhanced quality of the Net Treasury Position (PNT) report by reconciling data across various sources and establishing new consistency check routines. They have reiterated their request for an IMF-supported long-term resident expert to review all debt management processes and provide training to the staff of the Ministry of Finance.

C. Financial Sector Policy

21. The disengagement from the large and undercapitalized bank is progressing (MEFP ¶28). The dossier with the investor's purchase offer and capital increase proposal was submitted to the WAMU banking commission, which requested additional information about the projected financial situation of the bank and the new shareholder's financial group. The bank submitted its financial information and the investor is preparing its reports and documents. The WAMU banking commission is expected to announce its decision by end-March 2025 at the latest. Moreover, the third-party audit to assess the viability and solvency of the undercapitalized bank is progressing, and the audit report is expected to be submitted to the government by end-November 2024 — allowing the banking commission to consider its conclusions in its final decision on the purchase offer. If the disinvestment falls through, the authorities remain committed to proposing a new SB to prepare a report on a viable plan for resolving the bank by the end of the program based on IMF recommendations.

[13] In August 2024, the Treasury paid CFAF 1.6 billion out of the CFAF 1.9 billion of a called guarantee related to pilgrimage to Mecca. The government recovered CFAF 0.3 billion from the travelers until October. The payment was accounted as debt services.

D. Governance

22. The authorities continue to make progress in reforms for beneficial ownership and procurement transparency. The Directorate-General of Public Tenders (DGCP), which continues to publish beneficial ownership information of all public contracts, has configured the system for public contract registration and begun developing a register of all existing concession contracts, which will be published by end-December 2024. In order to gather beneficial ownership information of legal entities and include them in the company's register by June 2024, the Center of Formalization of Enterprises (CFE) has prepared the terms of reference for a census of companies, which will be approved by a ministerial order. Meanwhile, the authorities have completed most of the nation-wide stock-taking of government nonfinancial assets and requested IMF TA for their accounting and management. Staff recommends that the authorities broaden the scope of governance reforms especially after the formation of the new Parliament.[14] The Audit Court is resuming the priority audits of COVID-19 spending, EAGB, and irregular hiring process in 2021-22, which were delayed multiple times due to an internal labor dispute.

PROGRAM MODALITIES AND OTHER ISSUES

23. Several revisions are proposed to the QPCs and ITs. Program performance will be monitored through semi-annual reviews. Staff supports the following proposed revisions to the targets:

- The QPC on tax revenue and the IT on disbursements of external project loans are revised for December 2024 and March and June 2025 based on the updated macroframework.

- For the QPC on a domestic primary balance, the targets remain unchanged from the sixth review but an adjuster will lower the targets for 2025 by the amount of the budget support that is not included in the baseline.

- For the QPC on new concessional loans, the target for December 2024 is increased to the amount of the large road project loan, while those for March and June 2025 are decreased according to the revised borrowing plan. If contracting of the large road project loan is delayed from December 2024, an adjustor will raise the targets for 2025 only to accommodate the large road project loan.

- The QPC on social priority spending for December 2024 and March and June 2025 is decreased according the updated projections of project grants, which are reduced from the initial projections.[15] However, these changes do not affect allocations of domestic resources to priority

[14] Such reform includes implementation of the new asset declaration regime law to be approved by new Parliament as well as introduction of a package of legislation for the judicial reforms as mentioned in MEFP ¶25.

[15] The initial projections were based on the actual disbursements for 2023, which included around CFAF 5 billion of disbursements for donor's activities (preparation of the social protection policy) that were completed and no longer take place in 2024 or 2025.

spending, which would increase from 20 percent of total domestic primary expenditure in 2023 to 25 percent in 2024 and 2025.

- The IT on targeted projects and activities for December 2024 is decreased because of delay in implementation of two projects included in the target.[16]

24. Prior actions. Three prior actions include: (i) measures for expenditure controls and revenue mobilization in 2024 (¶11); (ii) the approval by the Council of Ministers of the draft 2025 budget including five revenue measures[17] and controls of disbursements and guarantees (¶12 and ¶19); and (iii) achievements of cost recovery for EAGB by December 2024 (¶15).

25. Structural benchmarks. For SBs by the end August or September 2024; (i) the missed SB on an Invitation to Apply for 5G licenses is proposed not to be reset as the dominant telecom operator lost interest in acquiring the license; (ii) the missed SB on the Treasury Single Account (TSA) is proposed to be replaced with a new SB to consolidate all tax revenue into the BCEAO account, aligned with the new decree on the TSA issued in October 2024; and (iii) the missed SB on audits of EAGB's power purchase contract with Karpower is reprogrammed to June 2025.[18] The SB on pre-paid electricity meters and tariff collection is proposed to be replaced with a new SB. Four new SBs are proposed to strengthen revenue administration and customs controls (MEFP Table 2). The revised continous SB on the Treasury Committee is proposed to strengthen controls of guarantees.

26. The program is fully financed. There are firm commitments of financing for the next 12 months. There are good prospects that financing will be adequate for the remainder of the program. In 2025, Guinea-Bissau is likely to receive additional budget support, including a World Bank DPF grant.[19]

27. Guinea-Bissau's capacity to repay is adequate but subject to significant risks. Outstanding Fund credit would peak in 2025 at 3.3 percent of GDP, while debt service to the Fund based on existing and prospective drawings would peak at 2.9 percent of revenues (excluding

[16] The following two projects have made little progress due to capacity constraint of the implementing agencies: the school cafeteria project (CFAF 150 million) and the Center of Access to Justice construction project (CFAF 100 million).

[17] They include (i) an increase in a tax reference price of cashew from $800/ton to $900/ton, (ii) elimination of tax exemptions for cement production, (iii) an increase in a tax reference price of imported cement from CFAF 54/kg to 65/kg, (iv) an update of tax reference prices of used cars and measures to stop the adjustments based on cars' conditions ("Ponderação") and ban imports of cars older than 40 years, and (v) elimination of exemptions of fuels from sales taxes at the point of sales.

[18] This audit will be undertaken by an independent firm with international expertise, with support from the World Bank.

[19] The updated framework includes the following budget support; for 2024, AfDB (CFAF 4.0 billion), Portugal (CFAF 2.0 billion), France (CFAF 3.5 billion), and Spain (0.7 billion); for 2025, AfDB (CFAF 4.0 billion), Portugal (CFAF 3.3 billion), France (CFAF 3.3 billion), and Spain (0.7 billion). Total budget support for two years remains broadly unchanged from the sixth review. The World Bank DPF grant (US$10 million) is expected to be discussed at the World Bank board in May 2025, provided the authorities implement on time the agreed reforms with World Bank staff.

grants) or 2.6 percent of exports in 2030. Capacity to repay the Fund is subject to significant downside risks including those from shocks to cashew exports. Risks are mitigated by the government's commitment to fully implement the program as well as its strong track record of servicing debt to the Fund. Reforms in the financial and energy sectors have been reducing contingent liability risks significantly.

28. Safeguards assessment. The last assessment of the BCEAO, completed in August 2023, found that the central bank continues to have well-established audit arrangements and a strong control environment. The BCEAO is in the process of addressing the safeguards assessment's recommendation to align its Statute with changes in the 2019 cooperation agreement with France.

29. Legacy external arrears. Guinea-Bissau has legacy external arrears, totaling US$4.1 million at end-2023, to Brazil and Pakistan.[20] Negotiations with Brazil (US$1.9 million) are pending final approval from the Brazilian parliament. Since November 2021, requests have been sent to Pakistan (US$2.2 million) to attempt resolving remaining external arrears.[21]

30. Statistical issues. The National Institute of Statistics should resolve the backlog of national accounts, which have not been published since those for 2018, by taking advantage of IMF TA.

STAFF APPRAISAL

31. The economy continues to show resilience, but adverse shocks to cashew exports and tight regional financial conditions are adding pressure to the balance of payments and the budget. Positive developments include increased competition among cashew exporters and stronger controls of smuggling, which resulted in high producer prices and increased farmers' incomes and consumption. However, lower-than-expected exports and tight regional financial conditions have weighed on the external sector and the budget. The outlook is for a recovery of cashew exports in the medium-term, robust GDP growth, and low inflation but risks remain tilted towards the downside.

32. Staff commends the authorities for strong program performance for the seventh review. All QPCs and ITs for June 2024 were met. For the QPC on external arrears, which were missed at the sixth review, a corrective action has been implemented. All continuous SBs and all three SBs for June 2024 were also met. With the agreed measures, the authorities are on track to meet the QPC on a domestic primary balance for December 2024 as well as the fiscal targets in 2025. The authorities are making good progress in meeting all SBs for December 2024 except for one proposed to be replaced.

[20] Legacy external arrears previously owed to Russia (US$1.5 million) were cancelled in October 2024 on signing of the agreement document.

[21] Staff has obtained from the relevant Executive Directors consent to move ahead with the completion of the review notwithstanding the arrears.

33. Meeting the fiscal consolidation targets for 2024 and 2025 is crucial to achieve the program objectives and reduce public debt. Staff supports the authorities' commitments to ambitious revenue mobilization in an election year. Staff welcomes the authorities' efforts for the VAT implementation and urges the authorities to move this reform in tandem with ongoing reforms of other tax legislation, to compensate the outright revenue losses from the VAT introduction. To meet the domestic primary deficit target for 2024 and the WAEMU convergence criteria on an overall deficit of 3 percent of GDP in 2025, the authorities should also maintain very tight expenditure controls, while mobilizing additional budget support to finance priority investments.

34. Strengthening debt management and containing debt vulnerabilities remains a priority. The authorities should continue adherence to the borrowing plan and the QPC on new concessional loans, which have very little space after signing the large road project loan from EIB. The authorities should also strengthen compliance with the IT on disbursements of project loans to prevent their overruns from widening the deficit. The authorities should tighten controls of government guarantees by limiting their issuance to SOEs and ongoing projects.

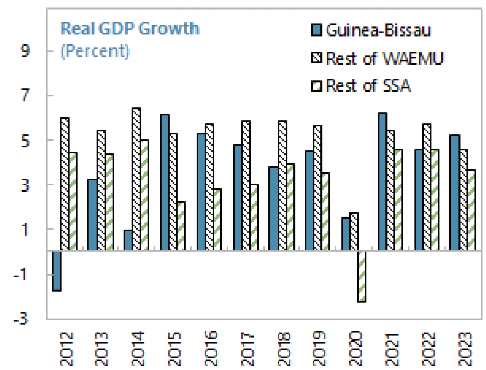
35. The diversification of energy sources is a critical milestone of energy sector reforms. Staff welcomes the authorities' decisive actions to reduce EAGB's costs of electricity purchase and restore cost recovery. Increased efforts are needed to mobilize EAGB's revenue through installation of pre-paid meters, elimination of free electricity to employees of EAGB and the Ministry of Energy, and tariff enforcement against delinquent large users. Staff urges the authorities to speed up delivery of the ring transmission line project, which is essential for energy security.

36. The momentum for structural reforms should be increased. For the fiscal reforms, the priorities include increasing taxpayer compliance and strengthening of customs controls. Staff encourages the authorities to develop infrastructure of the land border posts, which barely exists. Staff supports the authorities' endeavor to increase beneficial ownership transparency and encourages them to broaden the governance reforms.

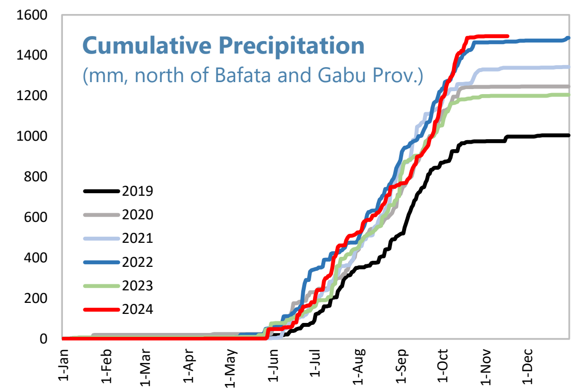
37. Staff supports the authorities' request for completion of the seventh review under the ECF arrangement. Staff also supports the authorities' request for modification of performance criteria and completion of the financing assurance review.

Figure 1. Guinea-Bissau: Growth and Inflation

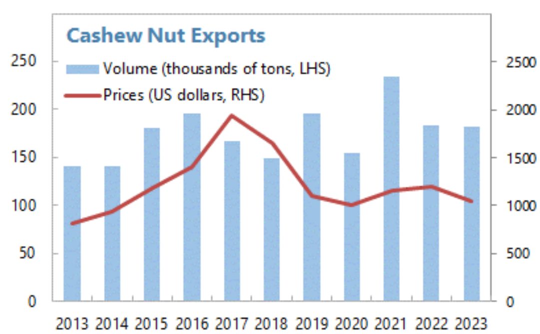
Growth was resilient in 2023 supported by higher agriculture production and private investments…



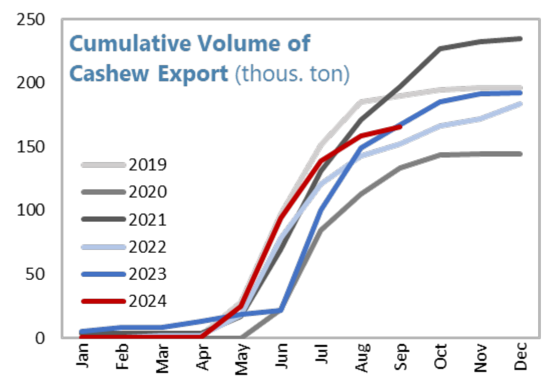
…and good weather conditions during the rainy season have supported subsistence agriculture and food…



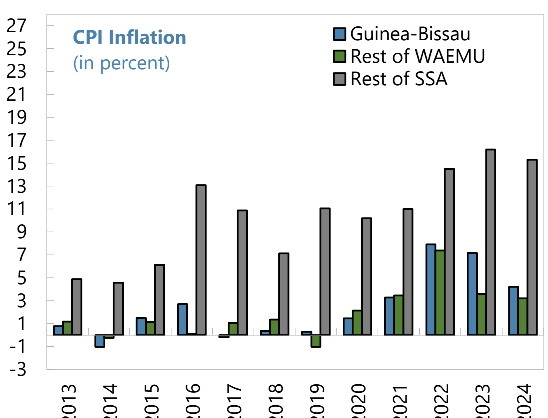
… although cashew exports were affected by decrease in cashew prices in 2023…



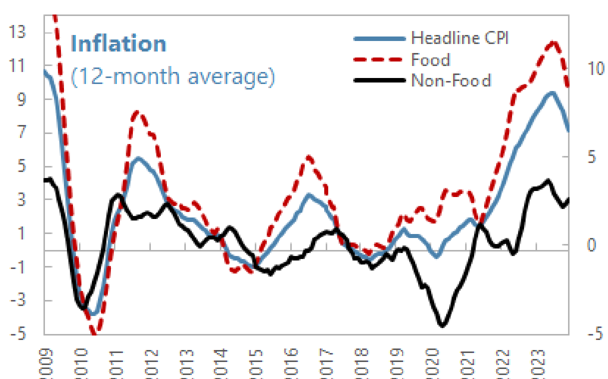
and the export volume is unlikely to recover in 2024 from the 2023 level.



Inflation reached 7.2 percent in 2023 pressured by imported fuel and food prices…



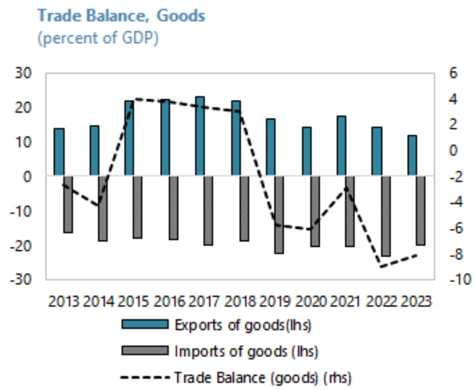
… however, inflation has eased in 2024 with lower food prices observed in the beginning of the year.



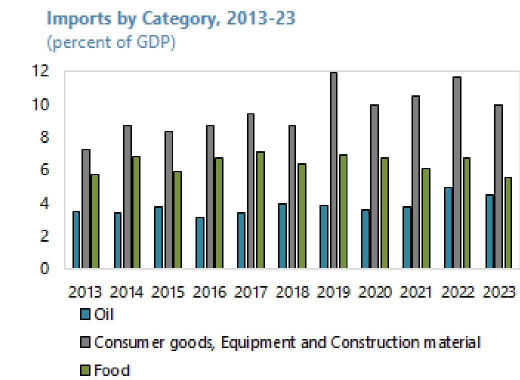
Sources: World Bank, Worldwide Development Indicators; EM-DAT, CRED database; NASA Giovanni database; Guinea-Bissau authorities; and IMF staff calculations.

Figure 2. Guinea-Bissau: External Sector

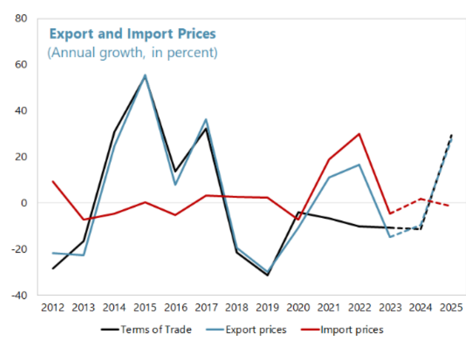
Trade balance improved in 2023, however it still accumulated a large deficit…



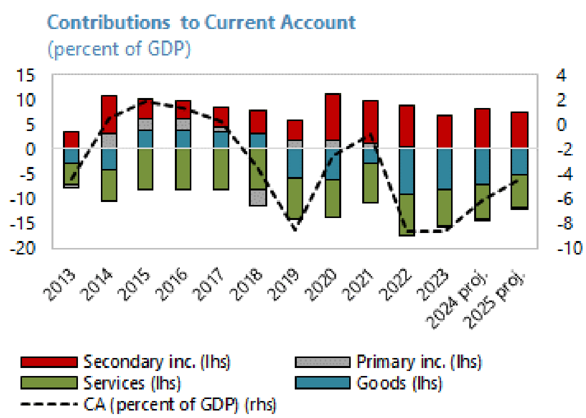
…due to continued high imports of fuel, food and equipment for infrastructure projects, and lower cashew



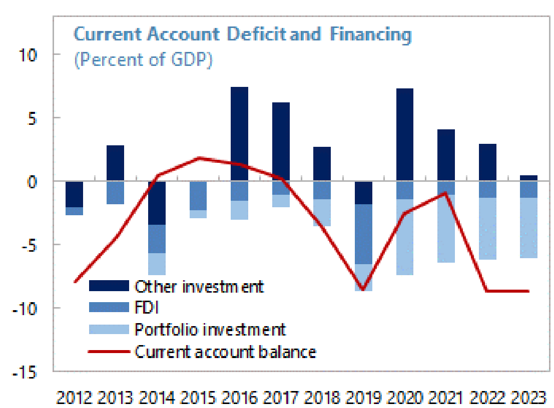
Terms of trade are expected to improve in the medium term with the recovery of the cashew nut prices…



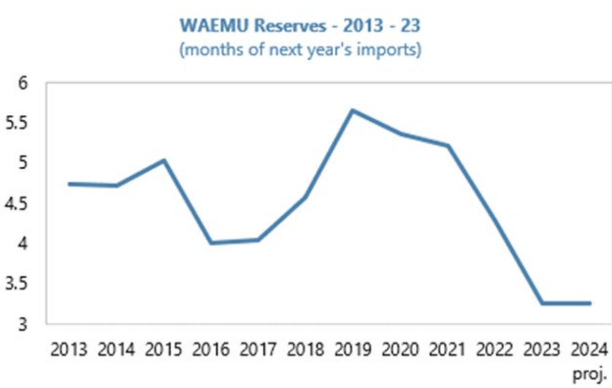
…and current account balance is expected to improve with higher cashew net exports and remittances.



External financing needs were mainly covered by regional market issuances and ECF disbursements.



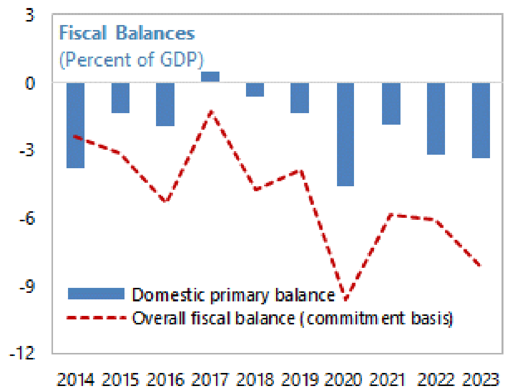
At the WAEMU level, international reserves declined sharply in 2023 and reached 3.2 months of imports.



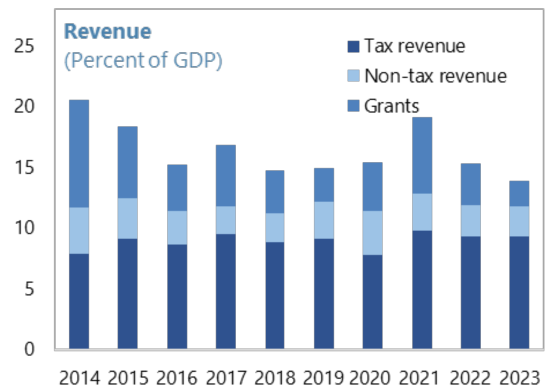
Sources: Guinea-Bissau authorities; BCEAO; and IMF staff calculations

Figure 3. Guinea-Bissau: Fiscal Developments

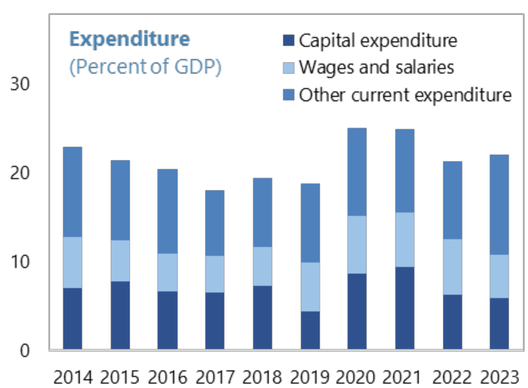
Fiscal deficit widened in 2023 relative to 2022...



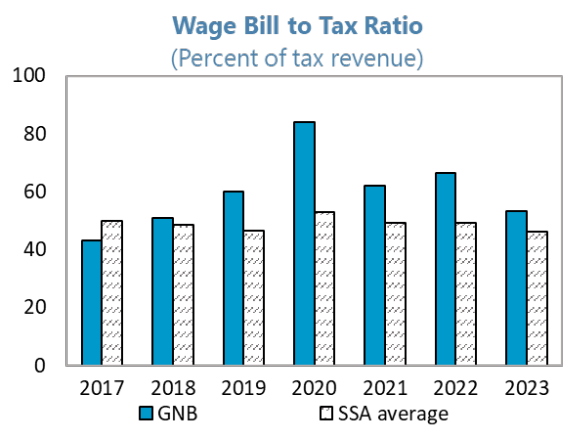
...due to lower-than-expected revenue...



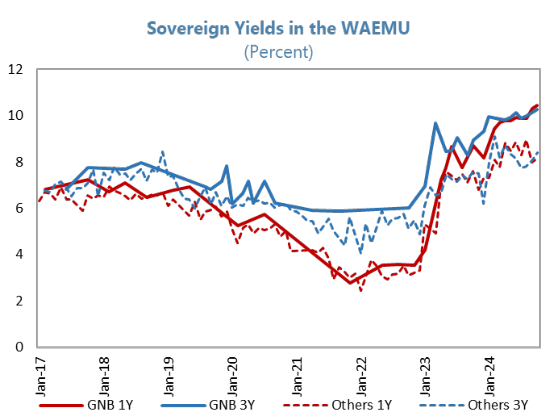
... and overrun of discretionary expenditures...



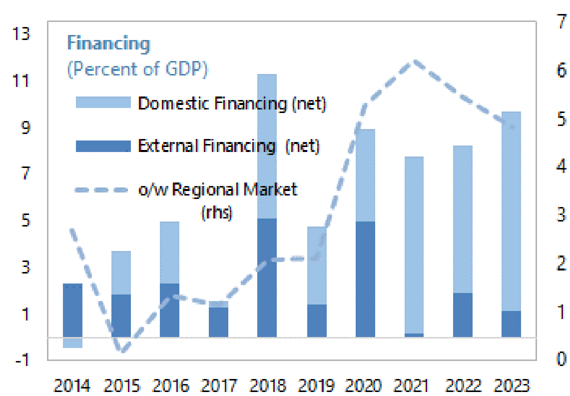
...although the wage bill was reduced by 10.6 percent in nominal terms.



Tightening of regional financial conditions increased interest rates and spreads relative to other WAEMU countries also increased ...



...while financing continued to rely on expensive domestic financing in 2023, mainly regional market and local banks.



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

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2021–29

	2021	2022	2023 6th Review	2023 Prel.	2024 6th Review	2024 Proj.	2025	2026	2027	2028	2029
									Proj.		
	(Annual percent change, unless otherwise indicated)										
National accounts and prices											
Real GDP at market prices	6.2	4.6	5.2	5.2	5.0	5.0	5.0	5.0	5.0	4.5	4.5
Real GDP per capita	3.9	2.3	3.0	3.0	2.8	2.8	2.9	2.9	2.9	2.4	2.5
GDP deflator	2.7	7.3	7.9	7.9	4.0	4.0	2.8	2.8	2.8	2.8	2.8
Consumer price index (annual average)	3.3	7.9	7.2	7.2	4.2	4.2	2.0	2.0	2.0	2.0	2.0
External sector											
Exports, f.o.b. (CFA francs)	35.1	-8.1	-5.9	-4.8	-0.3	-12.8	9.7	28.2	8.3	8.1	8.3
Imports, f.o.b. (CFA francs)	9.7	28.2	-2.6	-1.8	-1.5	-1.4	3.6	9.8	7.2	6.4	7.9
Terms of trade (deterioration = -)	-6.5	-10.2	-10.6	-10.6	-11.1	-10.6	8.4	20.2	2.9	2.6	3.0
Real effective exchange rate (depreciation = -)	1.3	-2.1	5.8	5.8	…	…	…	…	…	…	…
Exchange rate (CFAF per US$; average)	554.2	622.4	606.5	606.5	…	…	…	…	…	…	…
Government finances											
Revenue excluding grants	22.7	3.4	11.8	11.8	9.5	4.2	13.4	13.0	10.2	8.4	7.7
Expenditure	8.9	-4.5	16.8	16.8	-2.3	-1.3	0.2	10.0	9.6	8.3	8.2
Current expenditure	3.5	8.0	21.6	21.6	-5.4	-4.3	-2.1	6.3	7.3	5.4	6.7
Capital expenditure	19.3	-25.0	5.3	5.3	6.0	6.7	5.6	18.5	14.3	13.9	10.9
Money and credit											
Domestic credit	17.2	26.5	8.2	9.4	10.9	9.1	6.3	4.1	4.1	4.4	4.3
Credit to the government (net)	55.3	32.8	27.7	28.7	7.9	7.9	1.6	-4.5	-5.0	-4.6	-4.9
Credit to the economy	5.0	23.5	-1.8	-0.5	12.9	9.8	9.5	9.2	8.9	8.5	8.1
Net domestic assets	19.6	52.5	7.2	7.7	13.6	11.4	7.8	4.9	5.0	5.3	5.1
Broad money (M2)	20.9	3.5	-1.1	-1.1	8.0	7.0	4.7	5.4	6.1	6.6	6.9
	(Percent of GDP, unless otherwise indicated)										
Investments and savings											
Gross investment	18.3	18.1	17.2	17.2	17.7	17.8	18.3	19.3	20.3	21.3	22.3
Of which: government investment	6.4	4.3	4.0	4.0	3.8	3.9	3.8	4.2	4.4	4.7	4.8
Gross domestic savings	7.6	0.4	2.0	2.0	4.1	2.7	4.5	7.1	8.3	9.8	10.9
Of which: government savings	-5.5	-4.6	-6.2	-6.2	-2.9	-4.0	-2.1	-1.8	-1.5	-1.3	-1.3
Gross national savings	17.5	9.4	8.6	8.6	11.6	10.3	12.2	15.0	16.1	17.3	18.3
Government finances											
Revenue excluding grants	12.8	11.8	11.6	11.6	11.7	11.1	11.7	12.2	12.5	12.6	12.6
Domestic primary expenditure	14.7	15.0	15.0	15.0	12.8	12.3	11.1	11.2	11.5	12.0	11.9
Domestic primary balance	-1.9	-3.2	-3.4	-3.4	-1.2	-1.2	0.6	1.0	1.0	0.6	0.7
Overall balance (commitment basis)											
Including grants	-5.9	-6.1	-8.2	-8.2	-3.8	-5.0	-3.0	-3.0	-3.0	-3.0	-3.0
Excluding grants	-12.2	-9.5	-10.3	-10.3	-7.9	-8.7	-6.7	-6.5	-6.5	-6.6	-6.7
External current account	-0.8	-8.6	-8.7	-8.6	-6.1	-7.4	-6.1	-4.4	-4.2	-4.1	-4.0
Excluding official current transfers	-3.4	-11.0	-9.9	-10.0	-9.0	-10.0	-8.6	-6.7	-6.6	-6.4	-6.5
Stock of public and publicly guaranteed debt[1]	78.8	80.7	79.4	79.4	77.1	77.6	74.8	72.3	70.0	68.2	66.5
Of which: external debt	40.2	39.0	35.5	35.4	33.4	33.9	32.7	31.4	30.2	29.0	28.2
Memorandum items:											
Nominal GDP at market prices (CFAF billions)	954.5	1071.3	1216.1	1216.1	1327.9	1327.9	1433.4	1547.2	1670.0	1794.0	1927.3
WAEMU gross official reserves (billions of US$)	24.5	25.2	26.1	26.1	…	…	…	…	…	…	…
(percent of broad money)	30.2	30.6	32.6	32.6	…	…	…	…	…	…	…

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

[1] Coverage expanded to include legacy arrears.

Table 2a. Guinea-Bissau: Balance of Payments, 2021–29
(CFAF billions)

	2021	2022	2023		2024		2025	2026	2027	2028	2029
			6th Review	Prel.	6th Review	Proj.			Proj.		
Current Account Balance	-7.8	-92.5	-105.3	-104.5	-81.0	-98.7	-87.3	-67.6	-69.8	-72.8	-77.5
Goods and services	-101.6	-185.9	-186.0	-186.5	-186.0	-205.0	-205.1	-194.0	-202.7	-210.1	-221.7
Goods	-27.7	-96.0	-98.6	-98.8	-95.4	-114.1	-110.5	-95.6	-100.4	-103.5	-110.9
Exports, f.o.b	166.3	152.8	143.8	145.4	143.4	126.8	139.1	178.4	193.2	208.9	226.2
Of which : cashew nuts	154.4	138.6	128.8	128.8	127.0	108.7	119.5	157.3	170.4	184.4	199.5
Imports, f.o.b.	-194.0	-248.8	-242.4	-244.2	-238.8	-240.9	-249.6	-274.0	-293.6	-312.5	-337.1
Of which : food products	-57.6	-71.6	-67.3	-69.2	-71.9	-70.1	-74.3	-81.7	-89.3	-97.9	-104.3
petroleum products	-36.1	-52.5	-54.1	-54.1	-57.4	-54.8	-52.8	-54.3	-55.8	-59.8	-60.1
Services	-73.9	-89.9	-87.4	-87.7	-90.6	-90.9	-94.6	-98.4	-102.3	-106.5	-110.9
Credit	19.4	21.8	27.2	27.2	29.7	29.7	32.1	34.6	37.4	40.1	43.1
Debit	-93.3	-111.7	-114.6	-114.9	-120.3	-120.6	-126.7	-133.0	-139.7	-146.6	-154.0
Incomes	9.4	5.2	-1.9	-0.2	-4.3	-1.4	-0.9	3.7	3.6	4.6	4.4
Credit	17.3	20.8	21.9	21.9	21.9	22.6	23.0	24.4	25.8	27.1	28.2
Of which: EU fishing compensation	8.9	8.9	11.5	11.5	10.2	12.1	11.1	11.1	11.1	11.1	11.1
Other license fees	4.9	6.6	4.3	4.3	5.3	4.0	5.0	6.1	7.1	8.0	8.7
Debit	-7.9	-15.6	-23.8	-22.1	-26.2	-24.0	-23.9	-20.7	-22.3	-22.5	-23.8
Of which : government interest	-10.6	-7.5	-15.6	-15.6	-17.7	-17.5	-19.7	-20.7	-22.3	-22.5	-23.8
Current transfers (net)	84.4	88.2	82.6	82.2	109.3	107.7	118.7	122.7	129.3	132.7	139.8
Official	24.9	25.6	14.7	17.1	38.9	33.7	36.3	36.1	39.8	42.7	46.8
Private	59.5	62.6	67.9	65.1	70.4	74.0	82.4	86.6	89.6	90.0	93.0
Of which : remittances	56.7	59.5	64.6	61.8	67.0	70.0	76.4	80.4	83.2	83.5	86.3
Capital account	34.7	12.8	13.3	12.4	18.2	19.8	21.0	22.4	24.4	26.0	28.2
Of which : official transfers	33.6	10.8	10.8	8.4	15.7	15.7	16.8	18.1	19.9	21.4	23.4
Financial account	-21.8	-32.9	-67.5	-68.6	-48.1	-65.1	-59.5	-50.4	-55.3	-60.4	-66.8
FDI	-9.8	-13.2	-15.0	-15.0	-10.4	-15.4	-16.6	-17.9	-19.3	-20.8	-22.3
Other investment	-12.0	-19.7	-52.5	-53.6	-37.8	-49.7	-42.9	-32.5	-36.0	-39.6	-44.5
Official medium- and long-term disbursements	-26.5	-23.8	-26.8	-26.8	-15.4	-21.5	-22.0	-28.5	-31.5	-30.7	-37.7
Programs	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects	-26.4	-23.8	-26.8	-26.8	-15.4	-21.5	-22.0	-28.5	-31.5	-30.7	-37.7
Amortization	25.5	3.8	13.6	13.6	19.6	7.7	7.7	8.0	10.3	11.5	11.3
Treasury bills (regional financing)	-59.3	-58.1	-58.7	-58.7	-57.4	-56.0	-28.6	-32.0	-34.7	-40.5	-38.1
Commercial bank net foreign assets	5.9	-12.8	-6.4	-7.4	20.0	20.0	10.0	10.0	10.0	10.0	10.0
Other net foreign assets	42.4	71.1	25.9	25.9	-4.5	0.0	-10.0	10.0	10.0	10.0	10.0
Errors and Omissions	2.3	-3.7	8.6	7.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	51.0	-50.4	-15.9	-15.9	-14.7	-13.8	-6.8	5.2	9.9	13.6	17.5
Financing	-51.0	50.4	15.9	15.9	14.7	13.8	6.8	-5.2	-9.9	-13.6	-17.5
Net foreign assets excluding IMF (increase -)	-62.2	53.5	8.3	8.3	4.3	3.4	1.9	-1.8	-6.2	-10.7	-14.4
IMF purchases	11.2	0.0	10.7	10.7	13.7	13.7	7.6	0.0	0.0	0.0	0.0
IMF repurchases	-1.6	-3.1	-3.1	-3.1	-3.3	-3.3	-2.7	-3.4	-3.7	-2.9	-3.1
Grant for debt relief under the IMF CCRT	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Cashew export quantity (thousands of tons)	234	183	181	181	220	190	200	220	231	243	255
Cashew export prices (US$ per ton)	1,154	1,200	1,050	1,050	950	950	1,000	1,200	1,236	1,273	1,311
Import volume of goods (annual percentage change)	-5.8	-2.6	3.1	3.8	-2.2	-0.6	7.7	9.4	6.4	5.6	7.3
Oil prices (international, US$ per barrel)	69.2	96.4	80.6	80.6	81.3	81.3	72.8	70.2	68.6	67.6	…
Scheduled debt service											
Percent of exports and service credits	18.2	5.0	12.3	12.2	11.9	9.0	7.9	8.9	8.7	8.2	11.3
Percent of total government revenue	27.7	6.8	14.9	14.9	14.8	9.2	8.9	9.8	9.6	9.1	12.7
Current account balance (percent of GDP)	-0.8	-8.6	-8.7	-8.6	-6.1	-7.4	-6.1	-4.4	-4.2	-4.1	-4.0
Official transfers (percent of GDP)	6.1	3.4	2.1	2.1	4.1	3.7	3.7	3.5	3.6	3.6	3.6
WAEMU gross official reserves (billions of US$)	24.5	25.2	26.1	26.1	…	…	…	…	…	…	…
(percent of broad money)	30.2	30.6	32.6	32.6	…	…	…	…	…	…	…

Sources: BCEAO; and IMF staff estimates and projections.

Table 2b. Guinea-Bissau: Balance of Payments, 2021–29
(Percent of GDP)

	2021	2022	2023		2024		2025	2026	2027	2028	2029
			6th Review	Prel.	6th Review	Proj.			Proj.		
Current Account Balance											
Including all official transfers	-0.8	-8.6	-8.7	-8.6	-6.1	-7.4	-6.1	-4.4	-4.2	-4.1	-4.0
Excluding official transfers	-3.4	-11.0	-9.9	-10.0	-9.0	-10.0	-8.6	-6.7	-6.6	-6.4	-6.5
Goods and services	-10.6	-17.3	-15.3	-15.3	-14.0	-15.4	-14.3	-12.5	-12.1	-11.7	-11.5
Goods	-2.9	-9.0	-8.1	-8.1	-7.2	-8.6	-7.7	-6.2	-6.0	-5.8	-5.8
Exports, f.o.b	17.4	14.3	11.8	12.0	10.8	9.5	9.7	11.5	11.6	11.6	11.7
Of which : cashew nuts	16.2	12.9	10.6	10.6	9.6	8.2	8.3	10.2	10.2	10.3	10.4
Imports, f.o.b.	-20.3	-23.2	-19.9	-20.1	-18.0	-18.1	-17.4	-17.7	-17.6	-17.4	-17.5
Of which : food products	-6.0	-6.7	-5.5	-5.7	-5.4	-5.3	-5.2	-5.3	-5.3	-5.5	-5.4
petroleum products	-3.8	-4.9	-4.4	-4.5	-4.3	-4.1	-3.7	-3.5	-3.3	-3.3	-3.1
Services (net)	-7.7	-8.4	-7.2	-7.2	-6.8	-6.8	-6.6	-6.4	-6.1	-5.9	-5.8
Credit	2.0	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Debit	-9.8	-10.4	-9.4	-9.4	-9.1	-9.1	-8.8	-8.6	-8.4	-8.2	-8.0
Incomes (net)	1.0	0.5	-0.2	0.0	-0.3	-0.1	-0.1	0.2	0.2	0.3	0.2
Credit	1.8	1.9	1.8	1.8	1.6	1.7	1.6	1.6	1.5	1.5	1.5
EU fishing compensation	0.9	0.8	0.9	0.9	0.8	0.9	0.8	0.7	0.7	0.6	0.6
Other license fees	0.6	0.7	0.4	0.4	0.4	0.3	0.4	0.4	0.5	0.5	0.5
Debit	-0.8	-1.5	-2.0	-1.8	-2.0	-1.8	-1.7	-1.3	-1.3	-1.3	-1.2
Of which : external interest	-1.1	-0.7	-1.3	-1.3	-1.3	-1.3	-1.4	-1.3	-1.3	-1.3	-1.2
Current transfers (net)	8.8	8.2	6.8	6.8	8.2	8.1	8.3	7.9	7.7	7.4	7.3
Official[2]	2.6	2.4	1.2	1.4	2.9	2.5	2.5	2.3	2.4	2.4	2.4
Private	6.2	5.8	5.6	5.4	5.3	5.6	5.7	5.6	5.4	5.0	4.8
Of which : remittances	5.9	5.6	5.3	5.1	5.0	5.3	5.3	5.2	5.0	4.7	4.5
Capital account	3.6	1.2	1.1	1.0	1.4	1.5	1.5	1.4	1.5	1.4	1.5
Financial account	-2.3	-3.1	-5.6	-5.6	-3.6	-4.9	-4.2	-3.3	-3.3	-3.4	-3.5
FDI	-1.0	-1.2	-1.2	-1.2	-0.8	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Other investment	-1.3	-1.8	-4.3	-4.4	-2.8	-3.7	-3.0	-2.1	-2.2	-2.2	-2.3
Official medium- and long-term disbursements	-2.8	-2.2	-2.2	-2.2	-1.2	-1.6	-1.5	-1.8	-1.9	-1.7	-2.0
Amortization	2.7	0.4	1.1	1.1	1.5	0.6	0.5	0.5	0.6	0.6	0.6
Treasury bills and regional financing	-6.2	-5.4	-4.8	-4.8	-4.3	-4.2	-2.0	-2.1	-2.1	-2.3	-2.0
Commercial bank net foreign assets	0.6	-1.2	-0.5	-0.6	1.5	1.5	0.7	0.6	0.6	0.6	0.5
Other net foreign assets	4.4	6.6	2.1	2.1	-0.3	0.0	-0.7	0.6	0.6	0.6	0.5
Errors and Omissions	0.2	-0.3	0.7	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	5.3	-4.7	-1.3	-1.3	-1.1	-1.0	-0.5	0.3	0.6	0.8	0.9
Financing	-5.3	4.7	1.3	1.3	1.1	1.0	0.5	-0.3	-0.6	-0.8	-0.9
Net foreign assets excluding IMF (increase -)	-6.3	4.7	0.7	0.7	0.3	0.3	0.1	-0.1	-0.4	-0.6	-0.7
IMF purchases	1.2	0.0	0.9	0.9	1.0	1.0	0.5	0.0	0.0	0.0	0.0
IMF repurchases	-0.2	0.0	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Grant for debt relief under the IMF CCRT	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Cashew export quantity (thousands of tons)	234	183	181	181	220.0	190	200	220	231	243	255
Cashew export prices (US$ per ton)	1,154	1,200	1,050	1,050	950	950	1,000	1,200	1,236	1,273	1,311
Import volume of goods (annual percentage change)	-5.8	-2.6	3.1	3.8	-2.2	-0.6	7.7	9.4	6.4	5.6	7.3
Oil prices (international, US$ per barrel)	69.2	96.4	80.6	80.6	81.3	81.3	72.8	70.2	68.6	67.6	...
Scheduled debt service											
Percent of exports and service credits	18.2	5.0	12.3	12.2	11.9	9.0	7.9	8.9	8.7	8.2	11.3
Percent of total government revenue	27.7	6.8	14.9	14.9	14.8	9.2	8.9	9.8	9.6	9.1	12.7
Current account balance (percent of GDP)	-0.8	-8.6	-8.7	-8.6	-6.1	-7.4	-6.1	-4.4	-4.2	-4.1	-4.0
Official transfers (percent of GDP)	6.1	3.4	2.1	2.1	4.1	3.7	3.7	3.5	3.6	3.6	3.6
WAEMU gross official reserves (billions of US$)	24.5	25.2	26.1	26.1	...	...	...	...	...	...	...
(percent of broad money)	30.2	30.6	32.6	32.6	…	...	...	...	...	...	...

Sources: BCEAO; and IMF staff estimates and projections.

Table 2c. Guinea-Bissau: Financing Needs and Sources, 2021–29
(CFAF billions)

	2021	2022	2023		2024		2025	2026	2027	2028	2029
			6th Review	Prel.	6th Review	Proj.			Proj.		
Financing requirements	**-122.0**	**-71.4**	**-128.4**	**-130.0**	**-138.6**	**-140.1**	**-132.1**	**-116.9**	**-129.8**	**-140.6**	**-153.1**
Current account deficit excl. official transfers	-32.7	-118.1	-120.0	-121.6	-120.0	-132.4	-123.6	-103.7	-109.6	-115.5	-124.3
Public debt amortization	-25.5	-3.8	-13.6	-13.6	-19.6	-7.7	-7.7	-8.0	-10.3	-11.5	-11.3
Changes in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in official reserves	-62.2	53.5	8.3	8.3	4.3	3.4	1.9	-1.8	-6.2	-10.7	-14.4
IMF repurchases	-1.6	-3.1	-3.1	-3.1	-3.3	-3.3	-2.7	-3.4	-3.7	-2.9	-3.1
Available financing	**108.2**	**64.9**	**117.0**	**118.7**	**109.5**	**116.1**	**113.3**	**107.9**	**119.8**	**130.0**	**141.5**
Project grants	57.5	29.8	24.9	24.9	39.2	39.2	41.9	45.2	49.8	53.5	58.6
Net foreing direct investment	9.8	13.2	15.0	15.0	10.4	15.4	16.6	17.9	19.3	20.8	22.3
Treasury bills (regional financing)	59.3	58.1	58.7	58.7	57.4	56.0	28.6	32.0	34.7	40.5	38.1
Official creditors	26.5	23.8	26.8	26.8	15.4	21.5	22.0	28.5	31.5	30.7	37.7
Other net flows[1]	-44.8	-60.0	-8.5	-6.8	-13.0	-15.9	4.2	-15.7	-15.5	-15.4	-15.2
Financing needs	**13.8**	**6.6**	**11.4**	**11.4**	**29.2**	**23.9**	**18.8**	**9.0**	**9.9**	**10.6**	**11.7**
CCRT	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Budget support grants	1.0	6.6	0.7	0.7	15.4	10.2	11.2	9.0	9.9	10.6	11.7
o/w Multilateral grants	0.0	0.0	0.0	0.0	3.7	3.7	3.8	0.0	0.0	10.6	11.7
IMF disbursements	11.2	0.0	10.7	10.7	13.7	13.7	7.6	0.0	0.0	0.0	0.0
o/w ECF program	0.0	0.0	10.7	10.7	13.7	13.7	7.6	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: BCEAO, IMF staff estimates and projections.
[1] Includes net private capital transfers, changes in NFA of commercial banks and non-financial private sector, SDR allocations, and errors and omissions

Table 3a. Guinea-Bissau: Consolidated Operations of the Central Government, 2021–29
(CFAF billions)

	2021	2022	2023		2024		2025		2026	2027	2028	2029
			6th Review	Current Rev.	6th Review	Current Rev.	6th Review	Current Rev.	Proj.			
Revenue and grants	182.5	163.0	167.1	167.1	209.7	196.9	222.3	220.3	243.1	267.8	289.7	313.3
Tax revenue	93.5	99.7	111.3	111.3	123.2	117.7	142.0	136.0	158.7	175.8	191.1	206.7
Nontax revenue	28.9	27.0	30.3	30.3	31.9	29.8	33.4	31.2	30.2	32.4	34.5	36.4
Grants[1]	60.1	36.4	25.5	25.5	54.6	49.4	46.9	53.1	54.2	59.7	64.1	70.2
Budget support	1.0	6.6	0.7	0.7	15.4	10.2	5.0	11.2	9.0	9.9	10.6	11.7
Project grants	57.5	29.8	24.9	24.9	39.2	39.2	41.9	41.9	45.2	49.8	53.5	58.6
Expenditure	238.7	227.9	266.2	266.2	260.0	262.6	265.4	263.1	289.4	317.3	343.6	371.9
Expense	148.4	160.2	194.9	194.9	184.4	186.5	175.3	182.7	194.1	208.4	219.5	234.4
Wages and salaries[2]	58.2	66.3	59.2	59.2	61.0	60.0	63.5	62.0	65.1	70.4	75.5	81.1
Goods and services[2]	28.7	27.7	27.5	27.5	26.2	27.7	25.7	25.7	27.7	30.1	32.2	34.2
Transfers[3]	25.9	23.0	30.3	30.3	27.4	22.1	21.8	22.9	25.2	27.1	28.7	30.7
Interest	15.3	14.6	31.9	31.9	34.8	39.0	35.7	40.5	42.1	44.0	43.8	45.9
Other	20.2	28.7	45.8	45.8	35.0	37.7	28.6	31.6	34.1	36.8	39.5	42.5
Net acquisition of nonfinancial assets	90.3	67.7	71.3	71.3	75.6	76.1	90.1	80.4	95.2	108.9	124.1	137.5
Domestically financed	7.1	15.2	19.6	19.6	21.0	15.4	25.3	16.5	21.5	27.6	39.9	41.3
Foreign financed (including BOAD)	83.1	52.5	51.7	51.7	54.6	60.7	64.8	63.9	73.7	81.3	84.1	96.2
Overall balance, including grants (commitment)	-56.1	-64.9	-99.1	-99.1	-50.3	-65.7	-43.1	-42.8	-46.3	-49.5	-53.9	-58.6
Overall balance, excluding grants (commitment)	-116.2	-101.3	-124.6	-124.6	-104.9	-115.1	-90.0	-95.9	-100.5	-109.1	-118.0	-128.8
Change in arrears	-9.1	0.2	-6.8	-5.8	-10.0	-11.1	-2.2	-2.2	0.0	0.0	0.0	0.0
Domestic payment arrears[3]	-8.2	0.2	-6.8	-5.8	-10.0	-11.1	-2.2	-2.2	0.0	0.0	0.0	0.0
Accumulation current year	2.0	6.8	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-10.2	-6.7	-6.8	-6.8	-10.0	-11.1	-2.2	-2.2	0.0	0.0	0.0	0.0
(o/w) Legacy Arrears	0.0	0.0	0.0	0.0	-10.0	-10.0	-2.2	-2.2	0.0	0.0	0.0	0.0
Net external arrears	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net BOAD interest arrears	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancy	-8.5	-23.0	-11.8	-12.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-73.5	-87.7	-117.8	-117.8	-60.3	-76.8	-45.3	-45.0	-46.3	-49.5	-53.9	-58.6
Financing[4]	73.5	87.7	117.8	117.8	60.3	76.8	45.3	45.0	46.3	49.5	53.9	58.6
Net acquisition of financial assets (- = build up)	9.8	-1.3	-1.2	-1.2	-2.8	-2.8	0.0	0.0	0.0	0.0	0.0	0.0
Bank deposits	10.6	-0.1	-1.2	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	-4.1	1.1	3.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local commercial banks	14.7	-1.3	-4.1	-4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other[5]	-0.8	-1.2	0.0	0.0	-2.8	-2.8	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	62.7	69.1	105.7	105.7	67.3	65.9	41.5	30.7	25.8	28.2	34.7	32.3
BCEAO credit	30.7	-3.6	7.1	7.1	9.9	9.9	2.1	2.1	-6.2	-6.5	-5.7	-5.9
(o/w) IMF	9.6	-3.1	7.6	7.6	10.4	10.4	4.9	4.9	-3.4	-3.7	-2.9	-3.1
Other domestic (net)	32.0	72.7	98.6	98.6	57.4	56.0	39.4	28.6	32.0	34.7	40.5	38.1
Local commercial banks	-27.2	14.6	39.8	39.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	59.3	58.1	58.7	58.7	57.4	56.0	39.4	28.6	32.0	34.7	40.5	38.1
Foreign financing (net)	1.0	20.0	13.3	13.3	-4.2	13.7	3.8	14.3	20.5	21.3	19.1	26.3
Disbursements	26.5	23.8	26.8	26.8	15.4	21.5	22.9	22.0	28.5	31.5	30.7	37.7
Projects	26.4	23.8	26.8	26.8	15.4	21.5	22.9	22.0	28.5	31.5	30.7	37.7
Programs	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-25.5	-3.8	-13.6	-13.6	-19.6	-7.7	-19.1	-7.7	-8.0	-10.3	-11.5	-11.3
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:												
Domestic primary balance (commitment)[6]	-17.8	-34.2	-41.0	-41.0	-15.5	-15.5	10.5	8.5	15.3	16.2	9.9	13.3

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

[1] Includes capital grants from CCRT

[2] Adjusted for embassy salaries.

[3] Recorded as arrears when payments were not made for more than 30 days for wages and more than 90 days for other expenditures, excluding debt service payments.

[4] Financing is on currency basis.

[5] WARCIP project from 2018 onwards; in 2019 equity investment and bank recapitalization; in 2020 on-lending support to banks; in 2024 BOAD capital increase.

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

Table 3b. Guinea-Bissau: Consolidated Operations of the Central Government, 2021–29
(Percent of GDP)

	2021	2022	2023		2024		2025		2026	2027	2028	2029
			6th Review	Current Rev.	6th Review	Current Rev.	6th Review	Current Rev.	Proj.			
Revenue and grants	19.1	15.2	13.7	13.7	15.8	14.8	15.5	15.4	15.7	16.0	16.1	16.3
Tax revenue	9.8	9.3	9.2	9.2	9.3	8.9	9.9	9.5	10.3	10.5	10.7	10.7
Nontax revenue	3.0	2.5	2.5	2.5	2.4	2.2	2.3	2.2	2.0	1.9	1.9	1.9
Grants[1]	6.3	3.4	2.1	2.1	4.1	3.7	3.3	3.7	3.5	3.6	3.6	3.6
Budget support	0.1	0.6	0.1	0.1	1.2	0.8	0.3	0.8	0.6	0.6	0.6	0.6
Project grants	6.0	2.8	2.0	2.0	3.0	3.0	2.9	2.9	2.9	3.0	3.0	3.0
Expenditure	25.0	21.3	21.9	21.9	19.6	19.8	18.5	18.4	18.7	19.0	19.2	19.3
Expense	15.5	15.0	16.0	16.0	13.9	14.0	12.2	12.7	12.5	12.5	12.2	12.2
Wages and salaries[2]	6.1	6.2	4.9	4.9	4.6	4.5	4.4	4.3	4.2	4.2	4.2	4.2
Goods and services[2]	3.0	2.6	2.3	2.3	2.0	2.1	1.8	1.8	1.8	1.8	1.8	1.8
Transfers[3]	2.7	2.1	2.5	2.5	2.1	1.7	1.5	1.6	1.6	1.6	1.6	1.6
Interest	1.6	1.4	2.6	2.6	2.6	2.9	2.5	2.8	2.7	2.6	2.4	2.4
Other	2.1	2.7	3.8	3.8	2.6	2.8	2.0	2.2	2.2	2.2	2.2	2.2
Net acquisition of nonfinancial assets	9.5	6.3	5.9	5.9	5.7	5.7	6.3	5.6	6.2	6.5	6.9	7.1
Domestically financed	0.7	1.4	1.6	1.6	1.6	1.2	1.8	1.2	1.4	1.7	2.2	2.1
Foreign financed (including BOAD)	8.7	4.9	4.3	4.3	4.1	4.6	4.5	4.5	4.8	4.9	4.7	5.0
Overall balance, including grants (commitment)	-5.9	-6.1	-8.2	-8.2	-3.8	-5.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Overall balance, excluding grants (commitment)	-12.2	-9.5	-10.3	-10.3	-7.9	-8.7	-6.3	-6.7	-6.5	-6.5	-6.6	-6.7
Change in arrears	-1.0	0.0	-0.6	-0.5	-0.8	-0.8	-0.2	-0.2	0.0	0.0	0.0	0.0
Domestic payment arrears[3]	-0.9	0.0	-0.6	-0.5	-0.8	-0.8	-0.2	-0.2	0.0	0.0	0.0	0.0
Accumulation current year	0.2	0.6	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-1.1	-0.6	-0.6	-0.6	-0.8	-0.8	-0.2	-0.2	0.0	0.0	0.0	0.0
(o/w) Legacy Arrears	0.0	0.0	0.0	0.0	-0.8	-0.8	-0.2	-0.2	0.0	0.0	0.0	0.0
Net external arrears	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net BOAD interest arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancy	-0.9	-2.1	-1.0	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-7.7	-8.2	-9.7	-9.7	-4.5	-5.8	-3.2	-3.1	-3.0	-3.0	-3.0	-3.0
Financing[4]	7.7	8.2	9.7	9.7	4.5	5.8	3.2	3.1	3.0	3.0	3.0	3.0
Net acquisition of financial assets (- = build up)	1.0	-0.1	-0.1	-0.1	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Bank deposits	1.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	-0.4	0.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local commercial banks	1.5	-0.1	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other[5]	-0.1	-0.1	0.0	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	6.6	6.4	8.7	8.7	5.1	5.0	2.9	2.1	1.7	1.7	1.9	1.7
BCEAO credit	3.2	-0.3	0.6	0.6	0.7	0.7	0.1	0.1	-0.4	-0.4	-0.3	-0.3
(o/w) IMF	1.0	-0.3	0.6	0.6	0.8	0.8	0.3	0.3	-0.2	-0.2	-0.2	-0.2
Other domestic (net)	3.4	6.8	8.1	8.1	4.3	4.2	2.7	2.0	2.1	2.1	2.3	2.0
Local commercial banks	-2.9	1.4	3.3	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regional commercial banks	6.2	5.4	4.8	4.8	4.3	4.2	2.7	2.0	2.1	2.1	2.3	2.0
Foreign financing (net)	0.1	1.9	1.1	1.1	-0.3	1.0	0.3	1.0	1.3	1.3	1.1	1.4
Disbursements	2.8	2.2	2.2	2.2	1.2	1.6	1.6	1.5	1.8	1.9	1.7	2.0
Projects	2.8	2.2	2.2	2.2	1.2	1.6	1.6	1.5	1.8	1.9	1.7	2.0
Programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-2.7	-0.4	-1.1	-1.1	-1.5	-0.6	-1.3	-0.5	-0.5	-0.6	-0.6	-0.6
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:												
Domestic primary balance (commitment)[6]	-1.9	-3.2	-3.4	-3.4	-1.2	-1.2	0.7	0.6	1.0	1.0	0.6	0.7

Sources: Guinea-Bissau authorities; and IMF staff estimates and projections.
[1] Includes capital grants from CCRT
[2] Adjusted for embassy salaries.
[3] Recorded as arrears when payments were not made for more than 30 days for wages and more than 90 days for other expenditures, excluding debt service payments.
[4] Financing is on currency basis.
[5] WARCIP project from 2018 onwards; in 2019 equity investment and bank recapitalization; in 2020 on-lending support to banks; in 2024 BOAD capital increase.
[6] Excludes grants, foreign and BOAD financed capital spending, and interest.

Table 4. Guinea-Bissau: Monetary Survey, 2021–29[1]

	2021	2022	2023		2024		2025	2026	2027	2028	2029
			6th Review	Current Rev.	6th Review	Current Rev.			Proj.		
					(CFAF billions)						
Net foreign assets	329.9	266.7	244.4	243.3	249.7	249.5	252.7	267.9	287.8	311.4	338.9
Central Bank of West African States (BCEAO)	216.7	166.3	150.4	150.4	135.7	136.6	129.8	134.9	144.8	158.5	175.9
Commercial banks	113.2	100.4	94.0	92.9	114.0	112.9	122.9	132.9	142.9	152.9	162.9
Net domestic assets	152.7	232.9	249.6	250.8	283.6	279.3	301.2	316.0	331.7	349.1	367.1
Credit to the government (net)	73.4	97.4	124.5	125.4	134.3	135.3	137.4	131.2	124.7	118.9	113.1
BCEAO	66.8	64.8	75.0	75.0	84.8	84.9	87.0	80.8	74.2	68.5	62.7
Deposits (-)	5.5	5.8	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Credit	72.3	70.6	78.3	78.3	88.1	88.1	90.2	84.1	77.5	71.8	65.9
Commercial banks	6.6	32.6	49.5	50.4	49.5	50.4	50.4	50.4	50.4	50.4	50.4
Deposits (-)	25.4	23.5	16.8	15.8	16.8	15.8	15.8	15.8	15.8	15.8	15.8
Credit	32.0	56.1	66.2	66.2	66.2	66.2	66.2	66.2	66.2	66.2	66.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the economy	154.4	190.8	187.3	189.8	211.4	208.5	228.2	249.2	271.5	294.6	318.5
Other items (net)	-75.1	-55.3	-62.1	-64.4	-62.1	-64.4	-64.4	-64.4	-64.4	-64.4	-64.4
Money supply (M2)	482.7	499.6	494.0	494.1	533.3	528.8	553.9	583.8	619.4	660.5	706.0
Currency outside banks	305.2	298.0	287.6	287.7	310.5	307.9	322.5	340.0	360.7	384.6	411.1
Bank deposits	177.4	201.6	206.4	206.4	222.8	220.9	231.4	243.9	258.8	275.9	294.9
Base money (M0)	350.4	324.1	311.1	311.1	335.9	333.0	348.7	367.6	390.1	415.9	444.5
					(Change in percent of beginning-of-period broad money)						
Contribution to the growth of broad money (M2)											
Net foreign assets	14.6	-13.1	-4.5	-4.7	1.1	1.2	0.6	2.7	3.4	3.8	4.2
BCEAO	13.2	-10.5	-3.2	-3.2	-3.0	-2.8	-1.3	0.9	1.7	2.2	2.6
Commercial banks	1.5	-2.7	-1.3	-1.5	4.0	4.0	1.9	1.8	1.7	1.6	1.5
Net domestic assets	6.3	16.6	3.3	3.6	6.9	5.8	4.1	2.7	2.7	2.8	2.7
Credit to the central government	6.5	5.0	5.4	5.6	2.0	2.0	0.4	-1.1	-1.1	-0.9	-0.9
Credit to the economy	1.8	7.5	-0.7	-0.2	4.9	3.8	3.7	3.8	3.8	3.7	3.6
Other items (net)	-2.1	4.1	-1.4	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Broad money (M2, annual percentage change)	20.9	3.5	-1.1	-1.1	8.0	7.0	4.7	5.4	6.1	6.6	6.9
Base money (M0, annual percentage change)	27.6	-7.5	-4.0	-4.0	8.0	7.0	4.7	5.4	6.1	6.6	6.9
Credit to the economy (annual percentage change)	5.0	23.5	-1.8	-0.5	12.9	9.8	9.5	9.2	8.9	8.5	8.1
Velocity (GDP/M2)	2.0	2.1	2.5	2.5	2.5	2.5	2.6	2.6	2.7	2.7	2.7
Money multiplier (M2/M0)	1.4	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6

Sources: BCEAO; and IMF staff estimates and projections.

[1] End of period.

Table 5. Guinea-Bissau: Selected Financial Soundness Indicators, 2019–23[1]

	2019	2020	2021	2022	2023	Excluding undercapitalized bank[2]			
						2020 Dec	2021 Dec	2022 Dec	2023 Jun
Capital Adequacy									
Capital to risk-weighted assets	-2.0	-3.6	-1.4	-4.0	-17.3	25.6	25.5	26.6	24.9
Tier 1 capital to risk weighted assets	-2.0	-3.6	-1.4	-4.0	-17.3	25.6	25.5	26.6	24.9
Provisions to risk-weighted assets	26.0	20.4	20.3	9.9	7.4	2.3	8.0	4.3	8.1
Capital to total assets	-0.7	-1.3	-0.5	-1.3	-5.8	12.8	7.2	12.1	5.6
Asset Composition and Quality									
Total loans to total assets	46.7	40.4	38.1	45.5	48.4	36.5	36.8	45.5	47.1
Concentration: loans to 5 largest borrowers to capital	-748.5	-379.3	-2344.0	-273.5	-221.9	...	216.5	...	...
Sectoral distribution of loans									
Agriculture and fishing	0.5	0.8	1.4	1.5	2.0	...	0.8	1.5	2.0
Extractive industries	0.0	1.2	1.1	0.8	0.5	...	0.0	0.8	0.8
Manufacturing	0.7	15.7	14.8	15.4	6.0	...	18.1	15.4	14.4
Electricity, water and gas	0.7	10.5	10.7	4.9	12.2	...	0.0	4.9	7.4
Construction	1.7	7.7	8.1	3.2	8.3	...	8.4	3.2	1.4
Retail and wholesale trade, restaurants and hotels	29.4	25.2	24.1	40.5	35.7	...	54.0	40.5	29.7
Transportation and communication	1.1	7.1	7.4	7.1	9.4	...	7.0	7.1	10.5
Insurance, real state and business services	8.2	1.1	1.1	1.0	2.3	...	0.7	1.0	1.2
Other services	57.8	30.7	31.5	25.6	23.6	...	10.9	25.6	32.8
Gross NPLs to total loans	25.4	21.8	19.4	10.4	13.9	10.3	9.0	5.9	9.4
General provisions to gross NPLs	65.3	68.8	80.8	61.6	35.0	35.2	64.1	71.4	50.4
Net NPLs to total loans	10.6	8.0	4.4	4.3	9.5	2.1	3.4	1.7	4.6
Net NPLs to capital	-680.0	-257.0	-333.9	-154.5	-79.9	16.7	17.5	6.5	8.5
Earnings and profitability									
Average cost of borrowed funds	0.9	1.9	1.3	1.6	2.3	...	1.3	1.6	...
Average interest rate on loans	9.7	9.4	7.4	9.3	11.0	...	7.4	9.3	...
Average interest margin[1]	8.8	7.5	6.1	7.7	8.7	...	6.1	7.7	...
After-tax return on average assets (ROA)	4.2	0.5	0.7	1.7	1.7	1.8	1.5	1.7	...
After-tax return on average equity (ROE)	77.2	6.5	8.7	21.3	16.4	13.8	11.2	21.3	...
Non-interest expenses to net banking income	75.5	71.0	67.3	69.2	68.0	...	61.6	69.2	...
Personnel expenses to net banking income	32.1	32.0	29.2	29.9	30.2	...	26.7	29.9	...
Liquidity									
Liquid assets to total assets	18.9	17.3	18.0	24.9	24.0	...	20.1	24.9	24.9
Liquid assets to total deposits	35.9	30.4	31.3	46.7	41.4	...	44.4	46.7	44.3
Total loans to total deposits	106.5	83.6	78.9	91.0	87.8	92.5	86.0	92.7	88.5
Total deposits to total liabilities	52.6	56.9	57.3	53.4	58.0	39.4	45.3	47.3	56.2

Source: BCEAO.

[1] Excluding tax on banking operations.

[2] The FSI excluding the undercapitalized bank comprise only two subsidiaries of regional banks.

Table 6. Guinea-Bissau: Indicators of Capacity to Repay the Fund, 2024–35

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
	Projections											
	(SDR millions, unless otherwise indicated)											
Fund obligations based on existing credit												
Principal	4.12	3.41	4.26	4.66	3.62	6.11	7.82	6.40	4.98	4.50	1.71	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	0.00
Fund obligations based on existing and prospective credit												
Principal	4.12	3.41	4.26	4.66	3.62	6.11	9.38	9.37	7.95	7.48	4.68	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	0.00
Total obligations based on existing and prospective credit												
SDR millions	4.12	3.41	4.26	4.66	3.62	6.11	9.38	9.37	7.95	7.48	4.68	1.42
CFAF billions	3.30	2.73	3.41	3.74	2.91	4.92	7.55	7.55	6.40	6.02	3.77	1.14
Percent government revenue	2.24	1.63	1.81	1.80	1.29	2.03	2.90	2.69	2.13	1.88	1.10	0.31
Percent exports of goods and services	2.11	1.60	1.60	1.62	1.17	1.83	2.60	2.41	1.87	1.62	0.94	0.27
Percent debt service	25.31	17.75	20.24	18.26	13.49	22.28	22.90	22.08	19.10	17.59	10.74	3.39
Percent GDP	0.25	0.19	0.22	0.22	0.16	0.26	0.37	0.34	0.27	0.24	0.14	0.04
Percent quota	14.50	12.00	15.00	16.40	12.74	21.52	33.01	33.00	28.00	26.33	16.48	4.99
Outstanding Fund credit												
SDR millions	52.88	58.92	54.66	50.00	46.39	40.28	30.90	21.53	13.58	6.10	1.42	0.00
CFAF billions	42.38	47.24	43.80	40.17	37.36	32.44	24.89	17.34	10.93	4.91	1.14	0.00
Percent government revenue	28.73	28.25	23.19	19.30	16.56	13.35	9.55	6.19	3.64	1.53	0.33	0.00
Percent exports of goods and services	27.08	27.60	20.56	17.42	15.00	12.05	8.56	5.53	3.20	1.32	0.29	0.00
Percent debt service	325.01	306.91	259.76	196.01	172.94	146.85	75.48	50.73	32.60	14.35	3.25	0.00
Percent GDP	3.19	3.30	2.83	2.41	2.08	1.68	1.21	0.79	0.47	0.20	0.04	0.00
Percent quota	186.19	207.46	192.46	176.07	163.33	141.81	108.80	75.80	47.80	21.47	4.99	0.00
Net use of Fund credit	13.03	6.08	-4.26	-4.66	-3.62	-6.11	-9.38	-9.37	-7.95	-7.48	-4.68	-1.42
Disbursements	17.15	9.48	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repayments and repurchases	4.12	3.41	4.26	4.66	3.62	6.11	9.38	9.37	7.95	7.48	4.68	1.42
	(CFAF billions, unless otherwise indicated)											
Memorandum items:												
Nominal GDP	1,327.9	1,433.4	1,547.2	1,670.0	1,794.0	1,927.3	2,054.3	2,189.7	2,334.0	2,475.9	2,626.4	2,786.1
Exports of goods and services	156.5	171.2	213.0	230.6	249.1	269.3	290.6	313.6	341.9	371.3	400.4	428.9
Government revenue	147.5	167.2	188.9	208.2	225.6	243.1	260.6	280.2	300.7	320.9	342.4	366.0
External debt service	13.0	15.4	16.9	20.5	21.6	22.1	33.0	34.2	33.5	34.2	35.1	33.6
CFAF/SDR (period average)	801.4	801.7	801.3	803.3	805.4	805.4	805.4	805.4	805.4	805.4	805.4	805.4
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	28.4

Source: IMF staff estimates and projections.

Table 7. Guinea-Bissau: Public Debt Holder Profile, 2023–25[1]

	Debt Stock (end of period)			Debt Service					
	2023			2023	2024	2025	2023	2024	2025
	(In US$ million)	*(Percent of total debt)*	*(Percent of GDP)* [5]	*(In US$ million)*			*(Percent of GDP)*		
Total	1,604.7	100.0	79.4	216.7	256.9	134.8	10.8	11.6	5.6
External	714.8	44.5	35.4	34.8	21.7	25.2	1.7	1.0	1.1
Multilateral creditors[2]	585.4	36.5	29.0	31.2	17.4	21.2	1.6	0.8	0.9
IMF	53.3	3.3	2.6						
World Bank	215.9	13.5	10.7						
AfDB	57.4	3.6	2.8						
BOAD	204.4	12.7	10.1						
Other Multilaterals	54.4	3.4	2.7						
o/w: Islamic Development Bank	23.6	1.5	1.2						
BADEA	9.2	0.6	0.5						
Bilateral Creditors	129.4	8.1	6.4	3.6	4.3	4.1	0.2	0.2	0.2
Paris Club	9.3	0.6	0.5	0.5	1.3	1.4	0.0	0.1	0.1
o/w: Brazil	1.9	0.1	0.1						
Russia	1.5	0.1	0.1						
Non-Paris Club	120.0	7.5	5.9	3.1	3.0	2.7	0.2	0.1	0.1
o/w: Angola	49.1	3.1	2.4						
Kuwait	28.9	1.8	1.4						
EximBank India	22.1	1.4	1.1						
Saudi Fund	13.1	0.8	0.6						
Libya	4.6	0.3	0.2						
Pakistan	2.2	0.1	0.1						
Domestic	889.9	55.5	44.0	181.8	235.2	109.6	9.1	10.7	4.6
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Regional T-bills	534.1	33.3	26.4	128.6	206.8	92.2	6.4	9.4	3.8
BCEAO	215.1	13.4	10.6	1.2	1.2	4.9	0.1	0.1	0.2
Loans local commercial banks[3]	118.6	7.4	5.9	40.7	8.7	8.8	2.0	0.4	0.4
Payment Arrears	22.1	1.4	1.1	11.3	18.4	3.7	0.6	0.8	0.2
Memo items:									
Collateralized debt[4]	0	0.0	0.0						
Contingent liabilities	31.2	1.9	1.5						
Public guarantees	31.2	1.9	1.5						
Nominal GDP	2,005.1			2,005.1	2,206.0	2,398.2			

1/ As reported by the country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).
3/ Including public guarantees.
4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.
5/ Calculated based on the amounts in CFA francs.

Table 8. Guinea-Bissau: Schedule of Disbursements Under the ECF Arrangement, 2023-25

Available Date	Disbursements		Conditions for Disbursement
	In millions of SDR	In percent of Quota	
January 30, 2023	2.37	8.3	Executive Board approval of the three-year ECF arrangement.
April 17, 2023	2.37	8.3	Observance of the performance criteria for January 31, 2023 and completion of the first review under the arrangement.
July 17, 2023	2.37	8.3	Observance of the performance criteria for March 31, 2023 and completion of the second review under the arrangement.
October 17, 2023	6.16	21.7	Observance of the performance criteria for June 30, 2023 and completion of the third review under the arrangement.
January 17, 2024	6.16	21.7	Observance of the performance criteria for September 30, 2023 and completion of the fourth review under the arrangement.
April 17, 2024	0.01	0.0	Observance of the performance criteria for December 31, 2023 and completion of the fifth review under the arrangement.
August 17, 2024	5.44	19.2	Observance of the performance criteria for April 30, 2024 and completion of the sixth review under the arrangement.
October 17, 2024	5.43	19.2	Observance of the performance criteria for June 30, 2024 and completion of the seventh review under the arrangement.
April 17, 2025	4.73	16.7	Observance of the performance criteria for December 31, 2024 and completion of the eighth review under the arrangement.
October 17, 2025	4.72	16.7	Observance of the performance criteria for June 30, 2025 and completion of the nineth review under the arrangement.
Total Disbursements	**39.76**	**140.0**	

Source: IMF staff estimates and projections.

Annex I. External Sector Assessment

Overall assessment: *Guinea-Bissau's external position in 2023 was weaker than the level implied by fundamentals and desirable policies. The current account deficit was estimated to be 8.7 percent of GDP in 2023, much higher than the average between 2019-2021. The large current account deficit was caused mainly by a decrease in exports by 2.5 percent of GDP from 2022 due to a decline in cashew nuts prices, which account for 90 percent of total exports. Capital flows were also constrained by tightening of regional financial conditions, which contributed to an increase in Treasury securities interest for Guinea Bissau from around 3 percent in 2022 to 9 percent in 2023.*

The current account deficits are expected to improve gradually in 2024-2025. Exports are likely to continue facing shocks to international cashew prices, but significant fiscal consolidation under the IMF ECF program will provide adjustments to imports and mobilize external grants, both of which will have a positive impact on the current account balance. In the medium-term, cashew exports are expected to recover from shocks and the current account deficits will be reduced to around 4.0 percent of GDP.

Potential Policy responses: *Sustained fiscal consolidation is expected to bring an overall fiscal deficit down to the WAEMU convergence criteria of 3 percent of GDP in 2025. This will be supported by strict controls of the wage bill and other expenditures and mobilization of domestic revenues. Continuing structural reforms is the key to attract foreign direct investments, mobilize budget support needed for meeting financing needs, and facilitate diversification of the export sector from high dependence on cashew nuts.*

Current Account

Background. The current account deficit was estimated to be 8.7 percent of GDP in 2023, slightly higher than 8.6 percent of GDP deficit recorded in 2022, and much higher than its average of 4.0 percent of GDP during 2019-21. The current account deficit for 2023 was negatively affected by a decrease in exports by 2.5 percent of GDP from 2022 due to a decline in cashew nut prices as well as an increase in interest expense due to tightening of global and regional financial conditions.

Assessment. The EBA-lite CA model indicates a CA norm of -4.8 percent of GDP in 2023 for Guinea Bissau, compared to a cyclically-adjusted CA of -8.6 percent of GDP, resulting in a CA gap of -3.8 percent of GDP. This result suggests that the external position of Guinea-Bissau in 2023 was weaker than the level implied by fundamentals and desirable policies. The policy gap is estimated to be -1.2 percent of GDP, with the largest contribution from a decline of the regional WAEMU reserves. This result does not take into account factors that are not captured by the model, such as significant cyclical contributions from the fluctuation of cashew nuts exports.

Guinea-Bissau: Model Estimates for 2023

(Percent of GDP)

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-8.7**	
Cyclical contributions (from model) (-)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-8.6**	
CA Norm (from model) 2/	**-4.8**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-4.8**	
CA Gap	**-3.8**	**-0.5**
o/w Relative policy gap	-1.2	
Elasticity	-0.2	
REER Gap (in percent)	**22.9**	**2.7**

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Guinea-Bissau is part of the WAEMU currency union with CFA franc (CFAF) pegged to the euro. The country's real effective exchange rate appreciated by 5.8 percent in 2023, driven by an appreciation of euro against the US dollar.

Assessment. The EBA-lite CA model indicates an REER gap of 22.9 percent in 2023, derived from the elasticity of REER with respect to the CA gap (-0.2). This suggests over-valuation of REER by 22.9 percent, subject to the same model limitation as the CA gap estimation. The REER model estimates the CA gap of -0.5 percent of GDP and the REER gap of 2.7 percent in 2023. Because the fit of this model tends to be not as good as the CA model, the baseline assessment is based on the CA model.

Capital and Financial Accounts: Flows and Policy Measures

Background. Capital flows of Guinea-Bissau are mainly composed by issuance of Treasury securities in the regional market, official loans to the government from multilateral and bilateral donors, and FDI. In 2023, the issuance of Treasury securities decreased by 0.6 percent of GDP from 2022, even though the overall fiscal deficit increased by 0.8 percent of GDP during this period. This reduction was mainly explained by tightening of regional financial conditions, which sharply raised interest rates from around 3 percent in 2022 to 9 percent in 2023. Official loans and FDI in 2023 remained unchanged from the 2022 levels.

Assessment. Tightening of regional financial conditions continues to pose constraints on external financing in 2024. The country's external financing needs will be met mainly through IMF disbursements and grant budget support from bilateral and multilateral creditors. Sustained fiscal consolidation is the key to reduce external financing needs, while staying on track with the IMF program will help the country to catalyze additional budget support from bilateral and multilateral creditors.

FX Intervention and Reserve Level

Background. Guinea-Bissau is part of the WAEMU currency union where the reserves are pooled at the regional level. The regional WAEMU reserves declined to about 3.3 months of import cover at end-2023, from 4.1 months at end-2022 and 4.9 months at end-2021, because of challenging external financing conditions. Guinea-Bissau's contribution to changes in the regional WAEMU reserves since 2022 is limited to about 1 percent.

Assessment. The WAEMU Regional Consultation Staff Report in April 2024 assesses that the Assessment of Reserve Adequacy Credit Constrained (ARA-CC) approach based on 2022 data estimates a range for the minimum level of adequate reserves of 4.0 to 6.0 months of prospective import coverage for the WAEMU, with the lower end calibrated on fragile states and the higher end calibrated on non-resource rich countries. Based on this model, the level of reserves estimated for end-2023 is below the level assessed as adequate. Growth-friendly fiscal consolidation, tighter monetary policy, and implementation of structural reforms will be key to quickly returning reserves to the adequate range.

Appendix I. Letter of Intent

Bissau, November 25, 2024

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

Dear Ms. Georgieva,

Guinea-Bissau continues to face challenging economic and political environments. Recently, the cashew nut sector has been exposed to extreme weather conditions during the harvesting season. As a result, cashew exports have been lower than projected during the sixth review under the Extended Credit Facility (ECF) arrangement. This has added to the existing challenges from tightening of regional financial conditions, which has tripled interest rates of Treasury securities since 2022. With our efforts to facilitate the cashew campaign, producer farmgate prices of cashew nuts doubled from 2023, supporting in turn broad-based and strong economic growth. The legislative election, originally scheduled on November 24, 2024, has been postponed as more time is needed to complete preparatory steps required by law, with the new date to be announced later in consultation with the political parties and civil society.

Despite the above challenges, I am pleased to inform you that program performance was strong for the seventh review. In particular, we have maintained strict control on the wage bill including by continuing the freeze of new hirings. The expenditure committee (COTADO) has also been tightly controlling expenditure despite mounting spending pressures in the runup to the Presidential elections planned for late-2025. With our fiscal consolidation efforts, all nine Quantitative Performance Criteria (QPC) were met for June 2024. For the QPC on external arrears, which was missed at the sixth review, we have implemented a corrective action, which has substantially improved the debt service payment process and has prevented recurrence of technical arrears. Consequently, for the first time under the current program, we are not requesting a waiver of non-observance of a missed QPC during this review.

I assure you that the government's commitment to the program will remain unwavering. This reflects the consensus on critical reforms across the political spectrum, which was facilitated by the current government including members from all major parties. To compensate revenue losses from lower cashew exports and demonstrate our resolute commitments to fiscal consolidation, we will implement as prior actions steps to minimize expenditure and mobilize urgently additional revenue for 2024, and to accelerate revenue mobilization for 2025 consistent with maintaining public debt sustainability. Based on recent strides in diversifying sources of power, we have been implementing another prior action to restore the break-even position of the public utility company (EAGB). With these and other measures agreed under the program, we will meet our target for a domestic primary balance for 2024 and the WAEMU convergence criteria on an overall fiscal deficit of 3 percent of GDP in 2025. On this basis, we request modification of program conditionality for end-

December 2024, end-March 2025, and end-June 2025.

We will continue our ambitious structural reforms agenda under the program. We are making progress in implementing structural benchmarks (SBs), which enshrine important reforms with a particular focus on mobilizing revenue, reducing fiscal risks, and strengthening governance. We are committed to strengthening the revenue and customs administration. We are also determined to mobilize EAGB's revenue through installation of pre-paid meters and collection of tax arrears from large clients. We have been publishing beneficial ownership information on all public contracts and are committed to expanding the transparency requirements. We firmly believe that continuing structural reforms under the program will be the key to catalyze budget support and project grants, which are critical for financing development expenditure without increasing public debt.

The government believes that the policies outlined in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the program objectives. We stand ready to take additional measures when necessary. The government will consult with the IMF before making any revision to the policies contained in the MEFP. We will provide timely information for monitoring economic development and policy implementation, as agreed under the attached Technical Memorandum of Understanding, or upon the IMF's request.

We hereby request the completion of the seventh review under the ECF arrangement and the financing assurances review, and the disbursement of SDR 5.43 million. We agree to the publication of this letter and its attachments, as well as the related staff report, on the IMF's website.

Yours sincerely,

/s/
Ilídio VIEIRA TÉ

Minister of Finance
Guinea-Bissau

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

Attachment I. Memorandum of Economic and Financial Policies

Recent Development and Program Performance

A. Introduction

1. Implementing policies and reforms committed under the Extended Credit Facility (ECF) supported program has continued, supporting inclusive growth and poverty reduction. Our objectives and policies for growth and poverty reduction are described in the National Development Plan (PND). The existing PND was approved in 2020 and has been extended until the middle of 2025. Preparation of the next PND will begin after the next legislative election. Policies and reforms under the ECF-supported program are consistent with the objectives of the PND. The engagement through the ECF-supported program has been essential to build a reform momentum and catalyze highly concessional financing for meeting the long-waited development needs and fostering macroeconomic stability and sustainable growth.

B. Economic Development and Outlook

2. Since the sixth review, there have been downward shocks to cashew exports. The volume of exports was 166,000 tonnes at end October and is now projected to be reach 170,000 tonnes at end-December, compared to the budget projection of 200,000 tonnes. The lower-than-expected exports were due mainly to adverse weather conditions to cashew production. This decrease in exports will widen the current account deficit to around 7.4 percent of GDP and add pressures on the balance of payments, which have already been adversely affected by tightening of regional financial conditions.

3. Despite lower cashew exports, we expect growth to be resilient. In 2024, the growth is expected to be around 5 percent, supported by high producer prices of cashew nuts, which increased farmers' incomes and consumption, as well as continued strong private investments, including construction of the new airport building. The high producer prices for cashews were achieved by new entry of exporters increasing competitions and steps taken by the government to prevent smuggling. Inflation for 2024 is projected to be 4.2 percent, which is higher than the WAEMU convergence criteria, reflecting in part the cancellation of price controls of rice and fuels introduced by the previous government in September 2023.

4. The outlook faces significant downside risks. Risks arise from further tightening of regional financial conditions, terms-of-trade shocks, and adverse weather conditions. Moreover, a challenging political context could hinder fiscal consolidation efforts. The materialization of contingent liabilities in state-owned enterprises and the banking system would also increase fiscal costs. If these risks materialize, we will further rationalize expenditure and seek additional donor support, particularly budget support.

C. Program Performance

5. We met all nine Quantitative Performance Criteria (QPC) for June 2024 (Table 1). Two Indicative Targets (IT) for June 2024 were also met. For the QPC on external payment arrears, which was missed at the sixth review, we have implemented a corrective action, which has substantially improved the debt service payment process and prevented recurrence of technical arrears.

6. We met all three structural benchmarks (SBs) for the end-June 2024 and have also met both continuous SBs. Since the sixth review, we have met the continuous SB on the Technical Committee of Arbitration of Budgetary Expenditure (COTADO), which has been strengthened by the agreed measure to obtain the prior authorization by the Prime Minister of expenditure for real estate, vehicles, and major rehabilitation works under Article 17(1) of the Budget Law. We have also met the continuous SB on debt service payments, supported by the corrective action to send to the BCEAO a single batch of payment instructions for all external debt services ten days before the beginning of each month.

Economic and Financial Policies

D. Fiscal Policy and Reforms

Fiscal Consolidation Measures

7. Despite lower-than-expected revenue, we are resolute to meet the target for the domestic primary deficit for 2024. Without any new measures, tax revenue would be 0.7 percent of GDP lower than the previous projection because of the drop of cashew revenue and low collection of other customs revenue. In addition, non-tax revenue is affected by the postponement of the 5G licensing process, which causes 0.4 percent of GDP of revenue losses. However, we will make maximum efforts to meet the target for the domestic primary deficit through a series of strong measures, as follows:

- **Tax revenue.** We have been upscaling tax audits by the Directorate-General of Duties and Taxes (DGCI), which have identified CFAF 4.7 billion of tax arrears from the beginning of 2024. Collection of some of these arrears will take place in 2025, given that some taxpayers do not have enough cash. However, we will collect at least CFAF 1.0 billion of these tax arrears by end-November (**prior action**) and around CFAF 2 billion more by end-December. Smuggling is the largest underlying cause of weak performance of customs revenue. As an urgent measure, we will compare Bills of Landing (BLs) and Invoices of the Directorate-General of Customs (DGA) and customs brokers for imports of beverage between January-December 2024 (**proposed SB, end-March 2025**).

- **Non-tax revenue.** We will make an urgent request to speed up disbursements of EU fishing compensation under the new agreement, which was signed in September 2024 and increases the compensation by EUR 1.6 million per year. In addition, we will collect CFAF 1.5 billion of fees for renewal of 2G licenses, in which the dominant telecom operator maintains a strong interest.

- **Expenditure.** We will reduce spending by 0.6 percent of GDP in 2024 relative to the previous projection. As shown in Text Table 1, there is little space for expenditure for the remainder of the year to meet the target for the domestic primary deficit for December 2024. To that end, we will tighten sharply expenditure controls, and the COTADO will approve domestic primary expenditure in November and December 2024 within the spending limit in Text Table 1 (**prior action**). Meanwhile, we will continue to adhere strictly to the no-new-hiring policy and prevent any increase in the wage bill.

Text Table 1. Non-Wage Domestic Primary Spending, 2024
(CFAF billion)

	Execution until Sep	Amount in 4Q	Framework for Dec
Non-wage domestic primary spending	**76.7**	**20.4**	**97.1**
Indicative breakdown			
Goods and service	21.7	2.0 per month	27.7
Transfers	17.3	1.6 per month	22.1
Other current expenditure	25.9	-	31.8
Tax collection incentives	11.2	1.3 per month	15.1
"Other Common Expenditure"	14.7	1.5 for Oct and 0.25 per month in Nov and Dec	16.7
Domestic investments spending	11.7	0.5 for Oct and 3.2 for existing commitments	15.4

8. **The 2025 budget targets an overall deficit of 3 percent of GDP through ambitious revenue mobilization and tight expenditure controls.** Without any measures, revenue for 2025 would be lower than the previous projection by 1.3 percent of GDP because of: (i) lower cashew revenue based on the updated export projections; (ii) lower revenue of the DGA and DGCI due mainly to decline in tax compliance that is usually the case in presidential election years; and (iii) lower dividends from the BCEAO. In order to make strides towards domestic revenue mobilization before the end of the program and to meet the fiscal consolidation target, we will implement a series of ambitious revenue measures. These measures will raise CFAF 10.7 billion or 0.7 percent of GDP of additional tax revenue (Text Table 2). Furthermore, we will implement strict expenditure controls and make significant adjustments to non-priority expenditure to complement the above revenue measures, in order to meet the overall deficit target. Specifically, we will continue to adhere strictly to the no-new-hiring policy and maintain tight controls of the wage bill. In addition, through the COTADO, we will minimize non-priority expenditure, especially “Other Common Expenditure”, which will be reduced by 0.4 percent of GDP from 2024. Meanwhile, we will bolster our efforts to mobilize budget support grants to finance priority spending. If the World Bank Development Policy Financing (DPF) grant or other budget support that is not included in the baseline is materialized, we will increase domestic investment expenditure and reduce the target for the domestic primary balance by the same amount through the adjuster included in the Technical Memorandum of Understanding (TMU).

Text Table 2. Revenue Measures, 2025
(CFAF billion)

Measures	Impact
Draft 2025 budget (prior action)	
Increase in a tax reference price of cashew from $800/ton to $900/ton	1.1
No renewal of tax exemptions for CIMAF	1.3
Increase in a tax reference price of imported cement from CFAF 54/kg to 65/kg	0.2
Update of tax reference prices and other measures for used cars	0.7
Elimination of exemptions of fuels from sales taxes at the point of sales	4.6
Structural benchmarks	
Physical inspection of all trucks at Safim Entry Post	2.1
Connecting systems of hotels, supermarkets, coment venders and factories to DGCI	0.7
Total	10.7

9. The 2025 budget will include the following revenue-enhancing measures (prior action):

- **Increasing the tax reference price of cashew nuts from $800/ton to $900/ton** – While cashew export prices in 2025 are expected to be around the same as in 2024, the draft 2025 budget will increase the tax reference price to support revenue collection from cashew nuts.

- **Not renewing tax exemptions for CIMAF** – CIMAF is the cement producer which dominates the cement markets in Guinea-Bissau. Despite generous tax exemptions given by the convention, the prices of CIMAF's cement are almost double the level of cement prices in Senegal, and are more expensive than imported cement that pay all taxes and logistical costs. Revenue losses from tax exemptions of CIMAF amount to CFAF 14.0 billion or 1.4 percent of GDP since 2017. In the 2025 budget, the government commits to not renew the convention with CIMAF, which will expire in July 2025.

- **Increasing a tax reference price of imported cement** – After tax exemptions of CIMAF expire, we expect that competition in the cement market will increase, which will boost cement imports. The current tax reference price of imported cement (CFAF 54/kg) has not been updated for many years and is now lower than market prices in Senegal (around CFAF 70/kg), the main originating country. To prevent revenue losses, the draft 2025 budget will increase the tax reference price for imported cement to CFAF 65/kg.

- **Updating tax reference prices and taking other measures for used cars** – Used cars are popular import items and important sources of customs revenue. For used cars with 5 years or older age, which typically do not have reliable invoice values, we use reference prices to determine their values. Because these reference prices have not been revised for years, we will update them based on the market values observed in the originating countries in Europe. Currently, we conduct a practice of "Ponderação", which reduces tax reference prices in the tables based on the cars' conditions. This practice had significant negative impact on revenue collection. Because tax reference prices in the tables are based on the cars' ages and thus already take into account the cars' conditions, we will stop this practice. In addition, we will ban imports of extremely old cars such as those more than 40 years old, which do not raise any revenue but crowd out newer models with negative impact on local carbon emissions. In order to effect these changes, the 2025 budget includes an annex with updated tables of tax reference prices for cars, and describes measures to stop the practice of "Ponderação" and ban imports of cars older than 40 years.

- **Eliminating exemptions of sales taxes on fuels at the point of sales** – Since April 2024, when we reversed tax cuts introduced by the previous government, we have significantly increased tax reference prices of fuels (from CFAF 170/liter in September 2023 to CFAF 411/liter in May 2024 and CFAF 437/liter in October 2024 for diesel). This decisive action has increased DGA's revenue, including sales taxes from fuels collected at the port. However, for years, fuels have been exempted from DGCI's sales taxes collected at a point of sales. This exemption, which is provided by the ministerial order that determines the cost structure of fuels, creates revenue losses equivalent to a sales tax rate times difference between the prices at the port and point of sales. The 2025 budget will include elimination of these exemptions of fuels from sales taxes at the point of sales, which will generate significant additional revenue in 2025. This step will lay the foundation for implementing the VAT for fuel sales, which envisages the elimination of these exemptions.

10. We will also implement the following revenue-enhancing measures included in SBs.

- **Undertaking physical inspection of all trucks at the Safim Entry Post** – Revenue losses from smuggling at the land border have been chronical issues, but appear to be increasing in recent years. In 2024, revenue collection at the land border posts has increased from 2023, while that at the port has decreased by a larger amount. This fact supports our concern that import traffic is shifted from the port to the land border, as more tax evaders take advantage of weak controls at the land border. To a significant extent this reflects weak infrastructure at the land border entry points, which prevent the required physical inspection of trucks transporting imported goods through offloading and opening ("desconsoliar") their cargos. To that end, as a first step to develop basic infrastructure and controls, we will complete pavement and begin physical inspection of all trucks at the Safim Entry Post (**proposed SB, end-March 2025**).

- **Connecting systems of hotels, supermarkets, and cement venders and factories to the DGCI** – One of challenges in tax collection arises from many taxpayers under-declaring sales to evade sales taxes. This problem is particularly prominent in hotels to which the reduced sales tax rate applies and supermarkets which have significant sales tax credits from purchases. After elimination of tax exemptions for cement, the cement factory and vendors are likely to have more incentive to under-declare their sales. In order to obtain accurate sales data on a real-time basis, we will connect Point of Sales (POS) or billing systems of large taxpayers that are hotels, supermarkets, and cement venders and factories to the DGCI's electronic filing and payment system (Kontaktu) (**proposed SB, end-June 2025**), possibly through Application Programming Interface.

11. We will maintain our strict adherence to the approval by the COTADO of all expenditure except for wages and debt service. The COTADO has been meeting regularly since January 2024 and has taken a central role in meeting the QPC on a domestic primary deficit. After some expenditure bypassed the COTADO's authorization in March-May 2024, the COTADO process was strengthened at the sixth review through the prior-authorization by the Prime Minister of expenditure for real estate, vehicles, and major rehabilitation works. Since then, no expenditure has bypassed the COTADO. We assure that commitments of all expenditures, except for the wage and debt service, are approved by the COTADO and obtain the prior authorization of the Prime Minister as required under Article 17(1) of the Budget Law and the monthly report is sent to the President and Prime Minister (existing continuous SB).

Fiscal Structural Reforms

12. We will implement the following reforms to support domestic revenue mobilization and improve fiscal governance:

- **Operationalizing Sydonia World.** The DGA's infrastructure and operations need to be revamped to strengthen the ongoing customs administration reform. Sydonia World is an essential system to streamline clearance and inspection processes and enhance their efficiency and accuracy. The platform accelerates the movement of goods across borders and improves trade flow and revenue collection. The integration with other systems in neighboring countries fosters coordination with their customs administrations. We are committed to operationalizing Sydonia World in DGA (existing SB, end-June 2025). Recently, the African Development Bank has approved grants to finance the technical assistance project which is expected to accelerate the operationalization process.

- **Operationalizing the integrated system for monitoring of cashew nuts and strategic goods.** For the cashew export campaign, we are facing challenges in gathering essential data, such as volume of cashew nuts in transit or their inventories in warehouses. Lack of these data hinder controls of logistics by the Ministry of Commerce or collection of revenue by the DGCI and DGA. Similar challenges also affect controls of, and revenue collection from, imports of strategic goods such as rice, wheat, sugar, and cooking oil. It is the government's priority to strengthen monitoring of stock and flow of cashew nuts and strategic goods, which is undertaken only in an unstructured manner at this moment. To create necessary infrastructure, with support of the IMF, we will develop and operationalize the integrated system of monitoring of cashew nuts, rice, wheat, sugar, and cooking oil (**proposed SB, end-June 2025**), which will systemize reporting from cashew nut inspectors ("fiscais") and regional delegations of commerce and automate data compilation and analysis at the headquarters of the Ministry of Commerce.

- **Placing a tax officer of the DGCI at the Port Authority of Guinea-Bissau (APGB) for daily sales tax collection.** The APGB has accumulated significant amount of sales tax arrears, which amount to around CFAF 5.0 billion. To prevent additional arrears, the DGCI will station at the APGB office a tax officer who will verify port fee collection and require transfer of the sales taxes to the Treasury on a daily basis.

- **Building infrastructure for border controls and regularizing gradually employees of the DGA and Fiscal Brigade (BAF).** In the 2025 budget, we will include an allocation to design and begin construction of the Border Post with paved parking, fences, and scales, and warehouses in São Domingos, which has the highest traffic volume from Senegal and requires urgent improvements to its infrastructure. We will also mobilize development partners' support to acquire scanners to be installed at the Bissau Port and the land border posts. We will gradually undertake regularization ("efetivação") of employees of the DGA and BAF who are performing essential roles but kept on a probational status with low pay for a decade. This will facilitate professionalization and reduce incentives for corruption.

- **VAT implementation.** In October 2024, we issued a ministerial order to start VAT implementation on January 1, 2025, although four to six months would be needed just to complete administrative steps, including deployment of a new invoicing model and form, sensitization and training of taxpayers, and review of the initial credit balances. Furthermore, fully materializing revenue gains from VAT implementation requires approval of a package of new legislation, including the revised stamp duties law to compensate revenue losses from financial institutions, which are the biggest payers of sales taxes but are mostly exempted from VAT, the new law on a "single tax" for small taxpayers to formalize them and expand the taxpayer base, and the new general exemption regime law to streamline exemptions that were given by other laws and are not supported by the VAT law. Because Parliament is unlikely to approve such legislative package before end-2025, the 2025 budget does not include any revenue impact from VAT implementation. Meanwhile, we are committed to speeding up the administrative steps in accordance with the action plan to be prepared shortly.

- **Ongoing and other reforms.** To strengthen the management of the DGCI, a redeployment plan will be prepared by the Minister of Finance to reallocate the existing unqualified managers to other positions outside the DGCI (existing SB, end-December 2024), which will open up space to hire qualified managers for DGCI through an open competitive process. We will submit to the new Parliament the revised income tax and stamp duties bills (existing SB, end-June 2025). To facilitate tax fraud detection and electronic filing and payments, we will implement data exchange between the DGCI and National Institute of Social Security (INSS), roll out Kontaktu to a tax on vehicles and regional and district tax offices, and simplify functions of data exports (**proposed SB, end-June 2025**).

13. We will improve public finance management through the following measures:

- **Census of public workers.** Based on the new terms of reference, which was prepared with leadership of an independent entity (National Institute of Statistics —INE), we will complete the new census of public workers by end-December 2024, which is expected to generate savings to allow limited new hirings in social and priority sectors. To monitor attendance of employees, a biometric control system connected to the payroll system has been installed at the Ministry of Finance (MoF).

- **Commitment controls and cash management.** To reintroduce systemic commitment controls, we will require the approval by the MoF of public contracts for all purchases of four key food items (rice, cooking oil, meat, and fish) and fuel (existing SB, end-March 2025). To enhance cash management function, we will revise cash forecasting methodologies and processes (existing SB, end-June 2025). Based on the new decree on the Treasury Single Account (TSA) approved in October 2024, we will transfer to the TSA held with the BCEAO all tax revenue deposited into commercial bank accounts at the end of every day (**proposed SB, end-June 2025**, replacing the existing SB).

- **Public investment management** – Strengthening monitoring of loan-financed projects is needed to prevent overrun of these projects' disbursements and ensure compliance with the IT. We have revised the template of the Public Investment Program (PIP) to present additional data on project periods, total costs, accumulated disbursements, and multi-year projections. We will also operationalize the ministerial order No.06/MEPIR/2023 of March 29, which increases reporting frequency from quarterly to monthly for largest externally financed projects, and begin utilizing the online reporting system from Project Implementation Units developed with support of the IMF.

Debt Management Reforms

14. The government is committed to mitigating fiscal risks from guarantees. In May 2024, the government issued a guarantee on borrowing by the High Commission for Pilgrimage, which organizes travels of pilgrims from Bissau to Mecca. However, this guarantee was called after default of the High Commission due to problems in collecting reimbursements from travelers. This cost the Treasury CFAF 1.6 billion of debt service payments. To mitigate fiscal risks going forward, the 2025 budget will prohibit the issuance of government guarantees other than those on state-owned enterprises and ongoing infrastructure projects (**prior action**).

15. We will strengthen budget controls over disbursements of external project loans to ensure compliance with the IT and the overall deficit target. We met the IT for June 2024, but at the sixth review there were already several projects that exceeded the budget limits of disbursements and spending. In response, we took a strong measure to suspend under-executed and non-priority projects, which would otherwise widen an overall deficit by 0.5 percent of GDP. Nonetheless, some projects, especially those in the energy sector, continued to make disbursements significantly exceeding the budget limits. Because these are priority projects, their disbursements cannot be suspended for the rest of 2024. To improve the budget credibility for spending of external loan-financed projects, the 2025 budget will require the approval by the Minister of Finance of disbursement requests for external project loans, which should be approved only within the budget limits for each project (**prior action**).

16. We continue to improve debt management procedures by implementing the following measures (**proposed continuous SB**, replacing existing continuous SB):

- **A single batch of payment instructions for all external debt services, ten days before the**

beginning of each month. Since the incurrence of small external debt service arrears at the sixth review, we have been implementing this corrective action, which has simplified the payment process and reduced risks of communication and human errors. We reiterate our request for an IMF-supported long-term expert resident in Bissau to review all debt management processes and provide training to the MoF's staff.

- **Data reconciliation for Net Treasury Situation (PNT) reports.** We have improved our PNT data quality by reconciling data with different sources and creating new consistency checks. We will continue to submit to the Treasury Committee a monthly PNT report that includes breakdowns to each loan contract and bank account and calculates discrepancies of the fiscal balance between above and below the lines. With the support of IMF, we have made progress in improving our capacity for data reconciliation, but issues remain on fiscal and financial data collection, recording and sharing, which we are committed to address in the coming months.

- **Prohibition of government guarantees other than those on state-owned enterprises and ongoing infrastructure projects.** We are committed to complying with this new restriction through the continued SB. Copies of all guaranteed contracts should be sent to the Treasury Committee for their monitoring.

17. The government will reduce debt vulnerabilities through sustained fiscal consolidation and prudent borrowing. In 2023, total public debt of Guinea-Bissau is estimated to be 79.4 percent and external debt to be 35.4 percent of GDP, respectively. The share of credits from the IMF, World Bank, and African Development Bank in total external public debt is estimated at 45.7 percent in 2023. While the share of all multilateral creditors in total external public debt is relatively high (81.9 percent in 2023), the World Bank became the largest holder of external debt, with reduction of non-concessional borrowing from the BOAD during the program period. Through our commitments to the fiscal consolidation path and the zero ceiling on new non-concessional borrowing, total public debt and external debt will decline steadily to 66.5 percent and 28.2 percent of GDP, respectively, by 2029. We will address ongoing issues as follows:

- **The government is committed to clearing outstanding domestic arrears.** The government plans to clear the stock of domestic legacy arrears accumulated between 1974 and 1999 (CFAF 12.2 billion) in the medium-term.

- **The government remains committed to solving all legacy external arrears.** The outstanding legacy external arrears (US$4.1 million) include those to Brazil and Pakistan. We signed an agreement with Russia to settle the arrears (US$1.5 million). The settlement of arrears with Brazil (US$1.9 million) is pending final approval from the Brazilian parliament. Since November 2021, we have sent to Pakistan several requests to resolve our arrears (US$2.2 million) to them.

- **The government will contract external debt only on highly concessional terms.** To ensure that the risk of debt stress remains manageable, the government is committed not to contract non-concessional external loans. The government will consult with the IMF on evaluation of the financial terms of new proposed loans.

- **The government will improve debt transparency.** We will expand the coverage of the published annual debt bulletin to cover debt from the two largest SOEs that pose the largest fiscal risks (EAGB and the civil aviation authority) and publish quarterly debt bulletins that include central government debt and guarantees.

Energy Sector Reforms

18. We have been taking steps that will achieve a break-even point for EAGB by December 2024. Since August 2024, the City of Bissau has been fed solely by electricity of the regional hydropower project (OMVG). With the current level of revenue (CFAF 1.7 billion per month), EAGB is right at the break-even after paying the OMVG (CFAF 1.0 billion per month), the wage bill (CFAF 0.2 billion per month), debt service (CFAF 0.4 billion per month), and other operating costs (CFAF 0.1 billion per month). However, EAGB has been receiving invoices of US$1.5 million per month from Karpower for its fixed capacity fee, even though we have not used its electricity since August. Because it is impossible for EAGB to pay two invoices with the current level of revenue, Karpower's invoices add to the stock of arrears, which have increased from US$4.2 million at the end December 2023 to US$19.5 million in October 2024. Continuing receiving electricity from Karpower is technically infeasible because it supplies 33KV of electricity, which cannot be distributed through our ring transmission line designed for 30KV. For this reason and other breaches of contractual obligations by Karpower, we will send a notification to Karpower of our decision to terminate the existing contract between them and EAGB. As a prior action for the completion of the seventh review, we will provide Fund staff information on the EAGB's revenue and costs to confirm that it has achieved cost recovery by December 2024.

19. We will contract with Senegal and/or other countries in the region for a backup of power supply. We are at an advanced stage of negotiation with the Senegalese power company, which can supply power with fees based on actual usage and without any fixed fees. We are also receiving positive responses from Cote d'Ivoire and other countries about backup of power supply. We will sign a backup contract by December 2024, which should be ready before a dry season when dams of the OMVG tend to run short of water, causing the power supply to be somewhat unstable.

20. We will speed up completion of the ring transmission line to provide a backup of lines. The ring transmission lines between Antula, where electricity of the OMVG enters, and the Central Substation, from which the main distribution grid begins, have been working well since they were connected in August 2024. However, there are concerns about the quality of the lines between Antula-Central that give rise to failure risks. To mitigate such risks, it is important to complete the BOAD project, which is constructing the ring lines between Bra-Bor-Central Substations as well as the Bor Thermal Power Plant with capacity of 15MW. While the lines between Bra and Bor were completed, construction of the lines between Bor and Central has not started and would take around 8 months. By December 2024, we will assess and make decisions on CFAF 2.0 billion of cost increases claimed by the contractors, which have been bottlenecks to the project progress and could be factored into the 2025 budget.

21. We will accelerate revenue mobilization of EAGB. After cancellation of the Karpower contract, EAGB would restore the break-even point but without any margin. Mobilizing revenue remains critical to meet dire investment needs, reduce expensive debt, and solve a precarious financial situation. To this end, we are committed to the SB that enshrines the following revenue mobilization measures (**proposed SB, end-June 2025**, replacing the existing SB):

- **Installation of 16,000 pre-paid meters:** EAGB received 32,000 pre-paid meters in August 2024 and meter boxes and other materials in September 2024. However, the installation process has been slower than expected, mainly because the campaign in 2023, which installed around 10,000 pre-paid meters per month, exhausted easily reachable new clients. There remain many new clients who seek connection but the distribution lines to reach them are in bad conditions, and installing pre-paid meters without fixing lines creates high risks of fraud and illegal connection. Therefore, we will prioritize the installation of pre-paid meters to replace around 15,000 post-paid meters. We will also install pre-paid meters for around 1,000 employees of the Ministry of Energy and EAGB to implement the Council of Minister's decision in October 2024, which eliminated free electricity given to these employees. Meanwhile, we will gradually install pre-paid meters with new clients while simultaneously fixing distribution lines. Following this plan, we will install around 2,000 pre-paid meters per month.

- **Enforcement of CFAF 0.7 billion of verified arrears from large clients:** The interference in EAGB's collection of payment for supplied energy has been curtailed over the past year. However, there remain large clients who continue to not pay electricity bills on time. Verified arrears to EAGB from large clients reached around CFAF 2.0 billion in October 2024, CFAF 0.7 billion of which were incurred by five commercial clients including two hotels, a supermarket, an ice factory, and the port authority. EAGB will recover at least arrears from these clients and will cut power supply if the clients continue to be delinquent on their electricity bills.

22. We will continue to improve the energy sector governance. Especially, we will complete and publish an audit of EAGB's power purchase agreement with Karpower and its amendments (**SB, reprogrammed to end-June 2025**), to assess legal issues in the contracting process. This audit will be undertaken by an independent firm with support from the World Bank.

E. Governance Reforms

23. We will continue to strengthen public procurement transparency and external audits. The Directorate-General of Public Tenders (DGCP) has been publishing beneficial ownership information of all public contracts in its website. For COVID-19 spending, the report of the independent third-party audit of the High Commissioner for COVID-19 (AC) was published in the MoF's website in December 2022, and the audit report by the Audit Court of the AC was published in the website in November 2023. The audits of EAGB, COVID-19 spending by other entities, and the irregular hiring process in 2021-22 have been delayed multiple times and are expected to be completed in 2025.

24. We will enhance the AML/CFT effectiveness. In the 2022 Mutual Evaluation Report (MER), the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) gave

Guinea-Bissau low effectiveness ratings in all 11 criteria. To coordinate implementation of recommendations of MER and the 2020 National Risk Assessment (NRA), we have established the Inter-ministerial Committee. After the next legislative election, we will: (i) update the NRA based on MER recommendations; (ii) publish the national AML/CFT policy and finalize the action plan to address findings of MER and NAR; and (iii) prepare the legal framework for designating CENTIF as the AML/CFT supervisor for designated non-financial businesses and professions (DNFBPs).

25. The government will strengthen the anti-corruption framework. The priority reforms include the following:

- **Disclosure of beneficial ownership information in the company's register:** Building on progress in public procurement reforms, we will expand beneficial ownership transparency to legal persons in general. We will include in the company's register maintained by the Center of Formalization of Enterprises (CFE) beneficial ownership information of legal entities included in the electronic register (called "platform") (existing SB, end-June 2025). The CFE's platform, operationalized in 2020, includes data fields for beneficial owners, which however have not been filled yet. To gather beneficial ownership information and update the register, we will undertake the census of legal entities in Bissau, which will be led by the CFE and participated by the DGCI and the Ministry of Economy. The joint ministerial order to approve the terms of reference of the census will be issued in December 2024.

- **Transparency in concession contracts:** The DGCP has begun publishing beneficial ownership information of concession contracts. To improve transparency, we will publish a register of concession contracts submitted to the DGCP, including detailed information on contracts' durations, concessionaires' rights, obligations, and beneficial ownership, and tax and other benefits provided by the government (existing SB, end-December 2024). The DGCP has configured its system for public contract registration to create a new module for concession contracts and begun filling data on existing concession contracts.

- **Medium-term reforms:** After the inauguration of the new Parliament, we will submit a package of legislation to strengthen independence of the Supreme Court Judges and Prosecutor-General through the improved nomination process and strengthen the legal framework for asset recovery and cooperation in economic crime investigations. We will also implement the new asset declaration regime after the new Parliament approves the new law, which was submitted in October 2023 but not approved yet when Parliament was dissolved in December 2023. We will also implement measures against economic crimes, including revival of the inspectorate of non-governmental organizations, some of which were reportedly abused to obtain tax exemptions, and registration of financial accounts at the DGCI, which is required by law but complied with by few legal entities.

26. We will continue improving the rule of law. The government has established the Center for Access to Justice (CAJ), which has programs for supporting public access to the judicial system. The government is planning to construct buildings for the CAJ in Bubaque and Catio, the two remaining provinces that do not have the CAJ. We will also continue to provide financial resources to meet operational costs without delay. To improve access to CAJ, we will develop a mobile app that includes basic information on legal awareness and functionality to request services from CAJ. The justice sector in Guinea-Bissau is in dire financial conditions. Several regional courts have closed because of lack of rent payments or magistrates. To develop minimum infrastructure, we will construct three Houses of Justice which accommodate regional courts, Identity Services, and all other justice-related services.

27. We will accelerate reforms of the State property management. We have completed most of the nation-wide inventory-taking of State property with support of the IMF. During this exercise, we took an innovative approach to use a GPS device for delimiting lands and buildings of the State. We request technical assistance from the IMF to create an account of non-financial assets, which is an obligation under the WAEMU Directive, based on the results of the inventory-taking. We have continued our efforts to fight against abuse of State property. For the last few months, we have recovered 7 ministers' houses, which were illegally occupied by former ministers and their family for decades after the appointment ended, and are recovering 4 more in coordination with the Ministry of Interior. To solve the problem of *casas avaliadas sem pagamentos*, which are government houses sold to public servants who continue to live without paying the value, we have been recovering payments by withholding their salaries. In June 2024, the Council of Ministers approved the new directive on use of government vehicles. To implement this directive, we will begin transmitting communication in social media to solicit whistleblowing by the public of abuse of government vehicles and property. We will continue to make investments to support activities of the National Secretary of State Property (SNPE), including development of a parking lot for confiscated vehicles and installation of GPS devices at government vehicles to monitor their abuse.

F. Financial Sector Reforms

28. The assessment of the undercapitalized bank's sales proposal is progressing in the regional banking commission. The dossier with the investor's purchase offer and capital increase proposal was submitted to the WAEMU regional banking commission which requested additional information about the projected financial situation of the bank and the new shareholder's financial group. The bank submitted its financial information and the investor is preparing its reports and documents. We expect the decision to be made by the end-March 2025 at the latest. Moreover, the third-party audit to assess the viability and solvency of the undercapitalized bank is progressing, and the audit report is expected to be submitted to the government by end-November 2024. If the purchase offer ultimately does not materialize, the government remains committed to a new SB requiring the preparation of a viable recapitalization or resolution plan for the bank, to be implemented by the end of the program period at the latest.

G. Statistics Reforms

29. The government is committed to implementing statistical reforms. We will help the INE speed up publication of the national accounts for 2019 and 2020. To strengthen the institutional capacity of the INE, we approved a decree enhancing the organizational structure and human and technological resources of the INE. We implemented the Enhanced General Data Dissemination System (e-GDDS) by launching the National Summary Data Page in June 2024. The participation in this initiative will support our efforts to publish, in a timely manner, key macroeconomic and financial data which are aligned with the common indicators required for IMF surveillance. In addition, the e-GDDS will contribute to enhancing interagency coordination and statistical development in support of our program objectives.

H. Program Monitoring

30. The program will be monitored through QPCs and ITs (Table 1) and structural benchmarks (Table 2). Assessment will be on a semi-annual basis using bi-annual performance criteria (end-June and end-December) and continuous performance criteria throughout the program period as presented in Table 1. The eighth review is expected to take place on or after April 17, 2025, based on the end-December 2024 targets; and the ninth review is expected to take place on or after October 17, 2025, based on the end-June 2025 targets. The TMU defines the scope and frequency of data to be reported for program monitoring purposes and presents the detailed definitions that form a basis for the performance assessments. The government will:

- **i.** Adhere to the QPCs on the floors on domestic tax revenues, the domestic primary balance and social and priority spending; the ceilings on wages and salaries and new concessional external debt contracted or guaranteed by the central government; and the zero ceilings on new non-concessional external debt contracted or guaranteed by the central government, new external payments arrears, new domestic payments arrears, and non-regularized expenditures.
- **ii.** Prepare an external borrowing plan to facilitate assessment of the QPCs on external debt.
- **iii.** Refrain entering or guaranteeing new external borrowing contracts at non-concessional rates.
- **iv.** Agree not to: (1) impose or intensify restrictions on payments and transfers for current international transactions; (2) introduce or modify multiple currency practices; (3) enter into bilateral payment agreements that are inconsistent with Article VIII of the IMF Articles of Agreement; and (4) impose or intensify import restrictions for balance of payments purposes; and
- **v.** Adopt any new financial or structural measures that may be necessary for the success of its policies, in consultation with the IMF.

Table 1. Guinea-Bissau: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) Under the ECF, 2024-25
(Cumulative from beginning of a calendar year to end of month indicated, CFAF billion, unless otherwise indicated)

	2024												2025			
	End-Mar IT			End-Apr QPC			End-Jun QPC			End-Sep IT	End-Dec QPC		End-Mar IT		End-Jun QPC	
	Target	Actual	Status	Target	Actual	Status	Target	Actual	Status	Target	Target	Revised Target	Target	Revised Target	Target	Revised Target
Quantitative Performance Criteria																
Total domestic tax revenue (floor)	18.3	22.5	Met	26.0	31.3	Met	48.9	57.2	Met	85.5	122.2	117.7	21.3	20.4	56.8	54.4
Wages and salaries (ceiling)	15.3	14.7	Met	20.3	19.7	Met	30.5	29.8	Met	45.8	61.0	61.0	15.9	15.9	31.7	31.7
Ceiling on new non-concessional external debt contracted or guaranteed by the central government (US$ millions)[1]	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new concessional external debt contracted or guaranteed by the central government (US$ millions)[1,2,6]	3.0 adjusted to 33.0	0.0	Met	3.0 adjusted to 33.0	0.0	Met	3.0 adjusted to 33.0	0.0	Met	3.0 adjusted to 33.0	3.0 adjusted to 33.0	114.6	34.1	5.0	34.1	5.0
New external payment arrears (US$ millions, ceiling)[1]	0.0	0.3	Not met	0.0	0.4	Not met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New domestic arrears (ceiling)	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social and priority spending (floor)[3]	13.5	14.7	Met	17.2	17.5	Met	28.1	30.5	Met	42.0	55.8	51.6	13.8	12.5	28.7	26.0
Domestic primary balance (commitment basis, floor)[4,5]	-12.3	-8.9	Met	-17.3	-11.0	Met	-22.3	-14.5	Met	-18.8	-15.5	-15.5	-18.9	-18.9	-24.0	-24.0
Non regularized expenditures (DNTs, ceiling)	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets																
Ceiling on disbursements of external project loans	7.7	6.4	Met	10.0	9.0	Met	12.3	11.2	Met	13.9	15.4	21.5	11.5	11.0	18.3	17.6
Spending for targeted projects and activities (CFAF millions, floor)[7]	46	69	Met	62	116	Met	93	143	Met	139	464	185	47	47	95	95

[1] These apply on a continuous basis.

[2] Adjusted upward by the amount of budget support loans not included in the baseline. For March, June, and September 2024, adjusted also upward by the amount of cancellation of existing concessional external debt contracted after the approval of the ECF arrangement but undisbursed, up to USD 33.0 million. For March and June 2025, adjusted upwared by US$ 114.6 million if contracting of the EIB loan for the Safim-Mpak road project is delayed from Decembre 2024, provided that the increased amount can be used only for contracting of the said EIB loan.

[3] Defined as spending by the Ministries of Health, Education and the Ministry of Women, Family and Social Assistance. Status of March IT and Aprl QPC is revised as "met" from the sixth review based on updated data of externally financed spending.

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

[5] For March and June 2025, adjusted downward by the amount of budget support that is not included in the baseline.

[6] Excludes IMF disbursements.

[7] The actual amounts for March and April 2024 were increased from the sixth review based on updated data

Table 2. Guinea-Bissau: Prior Actions and Structural Benchmarks

Measures	Rationale	Status	Date	Comments
Prior Action				
Approve by the COTADO domestic primary expenditure in November and December 2024 within the spending limit in MEFP Text Table 1 and collect at least CFAF 1.0 billion of DGCI's tax arrears identified by tax audits completed during 2024 (MEFP ¶7)	Revenue mobilization and expenditure controls		Prior Action	
Approve by the Council of Ministers the draft 2025 budget law that is in line with the program parameters and includes (i) five revenue measures described in MEFP ¶9, (ii) prohibition of government guarantees other than those on state-owned enterprises and ongoing infrastructure projects, and (iii) requirements of the approval by the Minister of Finance of disbursement requests for external project loans within the budget limits (MEFP ¶9, ¶14, and ¶15)	Revenue mobilization		Prior Action	
The authorities to provide Fund staff information on the EAGB revenue and costs to confirm that it has achieved cost recovery by December 2024 (MEFP ¶18)	SOE oversight		Prior Action	

Table 2. Guinea-Bissau: Prior Actions and Structural Benchmarks
(Continued)

Measures	Rationale	Status	Date	Comments
Structural Benchmarks (August-September 2024)				
Publish an Invitation to Apply for the 5G licensing process	Revenue mobilization	Not met	August 2024	Proposed not to be reset. The predominant operator has lost interest in obtaining the 5G license.
Undertake tax audits of 25 large taxpayers selected on a risks basis and focusing on divergence of amounts of IGV paid at customs and included in tax returns	Revenue mobilization	Met	September 2024	
Undertake an audit of telecom operators based on difference in the data submitted to the DGCI and ARN	Revenue mobilization	Met	September 2024	
Inspector-General of Finance should assess legality and justifications of tax exemptions given to the largest beneficiaries consistent with domestic and regional legislation	Revenue mobilization	Met	September 2024	
Execute expenditure from the TSA, starting with the wage bill.	Wage bill Control	Not met	September 2024	Proposed to be replaced with the SB for 9th rev.
Submit to the Prime Minister and publish a report that (i) calibrates negative economic and financial impact of delay in the Ring Line Project, (ii) presents the testing and inspection results of the Antula-Central line, and (iii) recommends remedial works that the contractor should undertake	SOE oversight/EAGB	Not met	September 2024	Completed in November 2024 See the link
Complete and publish an audit of EAGB's power purchase agreement and its amendments	SOE oversight/fiscal transparency	Not met	September 2024	Reprogrammed to June 2025, for an independent firm to undertake the audit.

Table 2. Guinea-Bissau: Prior Actions and Structural Benchmarks
(Continued)

Measures	Rationale	Status	Date	Comments
Structural Benchmarks (December 2024)				
Prepare by the Minister of Finance a redeployment plan to reallocate DGCI's directors and chiefs who were not appointed through an open and competitive process to other positions outside the DGCI.	Revenue mobilization		December 2024	Reprogrammed ahead of original deadline (December 2023)
Complete installation of additional 35,000 pre-paid meters to residential clients, install a software to monitor manipulation of meters, and issue an order of Prime Minister to eliminate electricity tariff exemptions of employees of the Ministry of Energy and EAGB and require the prior authorization of the Prime Minister when ordering EAGB to stop tariff enforcement, provide tariff exemptions, and employ a specific person.	SOE oversight		December 2024	Proposed to be replaced with the SB for 9th rev.
Prepare and publish an annual report on SOEs' performance, starting with the most relevant SOEs.	SOE oversight		December 2024	
Prepare a report with strategy to reestablish the financial viability of EAGB, including an action plan and reinstate a functional accounting department (to avoid hiring third parties to prepare accounts).	SOE oversight/EAGB	Met	December 2024	Reprogrammed after missing original deadline (Sep. 2023)
Publish a register of concession contracts submitted to the DGCP, including detailed information on contracts' durations, concessionaires' rights, obligations and beneficial ownership, and tax and other benefits provided by the government.	Anti-corruption		December 2024	

Table 2. Guinea-Bissau: Prior Actions and Structural Benchmarks
(Continued)

Measures	Rationale	Status	Date	Comments
Structural Benchmarks (March-June 2025)				
Compare Bills of Landing (BLs) and Invoices of DGA and customs brokers for imports of beverage between January-December 2024 and complete pavement and begin physical inspection of all trucks at the Safim Entry Post	Revenue mobilization		March 2025	**Proposed**
Conclude public contracts for all purchase of four food items (rice, cooking oil, meat, fish) and fuel and obtain the MoF's approval	Expenditure control/transparency		March 2025	Reprogrammed ahead of original deadline (March 2024)
Operationalize the Sydonia World	Revenue mobilization		June 2025	Monitored by trade data generated from the Sydonia World
Operationalize the integrated system for monitoring of cashew nuts, rice, wheat, suger, and cooking oil	Revenue mobilization		June 2025	**Proposed**
Connect POS or billing systems of large taxpayers that are hotels, supermarkets, and cement venders and factories to Kontaktu	Revenue mobilization		June 2025	**Proposed**
Implement data exchange between DGCI and INSS, roll out Kontaktu to taxes on vehicles and regional and district tax offices, and simplify its functions of data exports	Revenue mobilization		June 2025	**Proposed**
Approve by Council of Ministers and submit to Parliament the revised income tax and stamp duties bills.	Strengthen tax framework		June 2025	
Transfer to the TSA held with the BCEAO all tax revenue deposited into commercial bank accounts at the end of every day	Cash management		June 2025	**Proposed**
Revise processes and forecasting methodologies enhancing the forecasting of cash flows.	Cash management		June 2025	
Install 16,000 pre-paid electricity meters at residential clients and enforce CFAF 0.7 billion of verified tariff arrears from large clients	SOE oversight		June 2025	**Proposed**
Include in the company's register maintained by the Center for Formalization of Enterprises beneficial ownership information of legal entities included in the electronic register ("platform").	Anti-corruption, AML/CFT		June 2025	

Table 2. Guinea-Bissau: Prior Actions and Structural Benchmarks
(Concluded)

Measures	Rationale	Status	Date	Comments
Continuous Structural Benchmarks				
Commitments of all expenditure, except for the wage and debt service, should be approved by the COTADO and obtain the prior authorization of the Prime Minister as required under Article 17(1) of the Budget Law and the monthly report of the Treasury Committee should be sent to the President of Republic and Prime Minister	Expenditure control	Met	Continuous	
(i) Issue to BCEAO, 10 days before the beginning of a month, a single batch of payment instructions for all external debt services that become due during the month and send their copies to the Treasury Committee and (ii) submit to the Treasury Committee a monthly PNT report that includes breakdowns to each loan contract and bank account and calculates discrepancies of the fiscal balance between above and below the line.	Debt management	Met	Continuous	Proposed to be modified (see below)
(i) Issue to BCEAO, 10 days before the beginning of a month, a single batch of payment instructions for all external debt services that become due during the month and send their copies to the Treasury Committee, (ii) submit to the Treasury Committee a monthly PNT report that includes breakdowns to each loan contract and bank account and calculates discrepancies of the fiscal balance between above and below the line, and (iii) issue government guarantees only to state-owned enterprises and ongoing infrastructure projects and send copies of all guarantee contracts to the Treasury Committee.	Debt management		Continuous	**Proposed**

Attachment II. Technical Memorandum of Understanding

Introduction

1. This memorandum sets out the understandings between the Bissau-Guinean authorities and the International Monetary Fund (IMF), regarding the definitions of the Quantitative Performance Criteria (QPCs), Indicative Targets (ITs) and structural benchmarks (SBs) supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).

2. Program exchange rates[1]. For the purpose of the program, foreign currency denominated values will be converted into local currency (CFAF) using program exchange rates of CFAF 601/US$ for 2024 and CFAF 600/US$ for 2025.

Quantitative Performance Criteria/Indicative Target

A. Total Domestic Tax Revenue

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

B. Wage Bill

4. Definition. For the purpose of program monitoring, the wage bill is defined to include (i) personnel expenditure ("despesas de pessoal"), such as staff salaries and benefits, subsidies, and gratuities, and (ii) 50 percent of transfers to embassies. These definitions are as presented in the central government financial operations table.

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

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

6. Definition. Those are defined as all forms and maturities of new non-CFAF denominated debt contracted or guaranteed by the central government and CFAF denominated debt contracted

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

with BOAD. For program purposes, a debt is considered to be contracted when all conditions for its entry into effect have been met, including approval by the Minister of Finance.[2] For this purpose, new non-concessional external debt will exclude normal trade credit for imports and other debt denominated in CFAF, but will include domestically held foreign exchange (non-CFAF) debts. This QPC applies not only to debt as defined in the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Decision No. 16919-(20/103), adopted October 28, 2020, point 8, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this QPC are disbursements from the IMF and those debts subject to rescheduling or for which verbal agreement has been reached. This QPC will apply on a continuous basis. For program purposes, a 'guaranteed debt' is an explicit promise by the public sector to pay or service a third-party obligation (involving payments in cash or in kind).

7. Concessionality. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD Secured Overnight Financing Rate (SOFR) and the six-month Euro Interbank Offered Rate (EURIBOR) are, respectively, 2.73 percent and 2.00 percent and will remain fixed for the duration of the program. Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR and the six-month EURIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR will be added.

8. Reporting requirement. The government will report any new external borrowing and its terms to Fund staff before external debt is contracted or guaranteed by the government.

D. New Concessional External Debt Contracted or Guaranteed by the Central Government

9. Definition. This QPC applies to the nominal value in US dollars of new external debt contracted or guaranteed by the central government which is not considered non-concessional as defined in ¶5, 6 and 7 of TMU. Excluded from this QPC are disbursements from the IMF and those debts subject to rescheduling.

10. Adjustor. The ceiling on new concessional external debt contracted or guaranteed by the central government will be adjusted upward by the amount by which budget support loans exceed

[2] Contracting of credit lines (which can be drawn at any time and entered into effect) with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

the projected amount. For March, June, and September 2024, the ceiling was also adjusted upward by the amount of cancellation of existing concessional external debt that was contracted after the approval of the ECF arrangement but remains undisbursed, up to USD 33.0 million. From January 1, 2025, the ceiling will be adjusted upward by US$ 114.6 million if contracting of the EIB loan for the Safim-Mpak road project is delayed beyond December 2024, provided that the increased amount can be used only for contracting of the said EIB loan.

E. Ceiling on Disbursement of External Project Loans

11. Definition. This IT applies to disbursements of external loans allocated to finance investment projects, including those contracted before the program approval date.

F. New External Payment Arrears of the Central Government

12. Definition. For the purposes of this quantitative target, external payment arrears, based on the currency test, are debt service payments that have not been paid on due dates (taking into account the contractual grace periods, if any) and that have remained unpaid 30 days after the due dates. Arrears not to be considered arrears for the quantitative target, or "non-program" arrears, are defined as: (i) arrears accumulated on the service of legacy HIPC external debt for which there is a pre-existing request for rescheduling or restructuring; and/or (ii) the amounts subject to litigation. For the purposes of this QPC, central government is as defined in paragraph 5 above. This QPC will apply on a continuous basis effective on the date of approval of the ECF arrangement.

13. Reporting. The government will provide copies of a batch of payment instructions to the BCEAO for external debt services to be issued 10 days before the beginning of a month as required under the continuous SB as well as any other payment instructions for external debt services, within one week after the issuance.

G. New Domestic Arrears of Central Government

14. Definition. Domestic arrears are defined as CFAF-denominated accounts payable (*resto-a-pagar*) accumulated during the year, and still unpaid by three months after the end of the month for wages and salaries (including pensions), and three months after the due dates for goods, services and transfers. Domestic arrears also include CFAF-denominated debt service payments that have not been paid on due dates (taking into account the contractual grace periods, if any) and that have remained unpaid 30 days after the due dates and non-CFAF denominated accounts payable that remains unpaid three months after the due dates. For the purposes of this QPC, central government is as defined in paragraph 5 above.

H. Social and Priority Spending

15. Definition. Social and Priority spending is defined to include spending in the Ministries of Health, Education and the Ministry of Women, Family and Social Assistance.

I. Domestic Primary Balance (Commitment Basis)

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

17. Adjuster. For 2025, the floor for the domestic primary balance will be adjusted downward by the amount of disbursements of budget support that is not included in the following baseline estimate; African Development Bank (CFAF 4.0 billion), Portugal (CFAF 3.3 billion), France (CFAF 3.3 billion), and Spain (CFAF 0.7 billion).

J. Non-Regularized Expenditure (DNTs)

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

19. Reporting requirement. The government will report any non-regularized expenditures on a continuous basis.

K. Floor on Spending for targeted projects and activities

20. Definition. Targeted project and activities spending is defined as total of expenditure measured on a commitment basis for projects and activities described as follows:

- **a.** Transfers to Social Protection under the Ministry of Women, Family, and Social Assistance (Chapter 661210101: Item 6439)
- **b.** Transfers to the National Institute of Agricultural Research (INPA) (Chapter 843420101: Item 6312)
- **c.** Project to Expand the INPA
- **d.** Project to Build School Cafeteria (Project ID 411920301)
- **e.** Transfers to the Office of Judicial Information and Consultation (GICJU) (Chapter 192292201: Item 6312)
- **f.** Construction of Center of Access to Justice in Catio and Babuque (Project ID 341920401)

21. Reporting requirement. The government will report spending of each project and activity monthly.

Table 1. Guinea-Bissau: Summary of Reporting Requirements

Information	Frequency	Reporting Deadline	Responsible
Fiscal Sector			
Central Government budget and execution	Monthly	30 days after the end of the month	DGPEE[1]/MF[2]
Budgetary grants	Quarterly	30 days after the end of the quarter	DGPEE/MF
Project grants	Quarterly	30 days after the end of the quarter	DGPEE/MF
Change in the stock of domestic arrears	Monthly	30 days after the end of the month	DGPEE/MF
Unpaid claims	Monthly	30 days after the end of the month	DGPEE/MF
Arrears on interest and principal	Monthly	30 days after the end of the month	DGPEE/MF
Proceeds from bonds issued in the regional WAEMU market	Monthly	30 days after the end of the month	DGPEE/MF
Social and priority spending	Quarterly	30 days after the end of the quarter	DGPEE/MF
Non-regularized expenditure	As occuring		DGPEE/MF
Extrabudgetary expenditure for force majeure	As occuring		DGPEE/MF
All decisions to change tax reference prices and tax exemptions	As occuring		DGPEE/MF
All bank instructions for external debt service	Weekly	7 days after the payments	DGPEE/MF
Real and External Sector			
Updates on annual National Accounts by sector	Annually	30 days after approval	DGPEE/MF
Balance of Payments data	Annually	30 days after approval	BCEAO[3]
Balance of Payments data	Quarterly	45 days after the end of the quarter	BCEAO
Commercial data	Monthly	45 days after the end of the month	DGPEE/MF
CPI Monthly	Monthly	45 days after the end of the month	DGPEE/MF
Debt sector			
External and domestic debt and guaranteed debt by creditor	Monthly	30 days after the end of the month	DGPEE/MF
Disbursements	Monthly	30 days after the end of the month	DGPEE/MF
Amortization	Monthly	30 days after the end of the month	DGPEE/MF
Interest payments	Monthly	30 days after the end of the month	DGPEE/MF
Stock of external debt	Monthly	30 days after the end of the month	DGPEE/MF
Stock of domestic debt	Monthly	30 days after the end of the month	DGPEE/MF
Exceptional domestic financing	Monthly	30 days after the end of the month	DGPEE/MF
Copies of any new agreements of domestic and external loans	As occuring		DGPEE/MF
Copies of any new agreements of government guarantees	As occuring		DGPEE/MF
Monetary/Financial sector			
Detailed consolidated balance sheet of commercial banks	Monthly	45 days after the end of the month	BCEAO
The monetary survey	Monthly	45 days after the end of the month	BCEAO
Detailed net position of central government (PNG/PNT)	Monthly	45 days after the end of the month	BCEAO
Financial soundness indicators	Semi-annually	90 days after the end of the half year	BCEAO
Interest rates	Monthly	45 days after the end of the month	BCEAO
Deposit rates on all types of deposits at commercial banks	Monthly	45 days after the end of the month	BCEAO
Short- and long-term lending rates of commercial banks	Monthly	45 days after the end of the month	BCEAO

[1] Directorate General for Projections and Economic Studies
[2] Ministry of Finance
[3] Central Bank of West African States

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

November 27, 2024

SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW —DEBT SUSTAINABILITY ANALYSIS

Approved By
Montfort Mlachila and Fabian Bornhorst (IMF) and Abebe Adugna and Manuela Francisco (IDA)

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

Guinea-Bissau: Joint Bank-Fund Staff Debt Sustainability Analysis	
Risk of external debt distress	*High*[3]
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgment	*No*

Guinea-Bissau's risks of external and overall debt distress remain high, as in the November 2023 Debt Sustainability Analysis (DSA). The PV of external debt-to-GDP and the external debt-service-to-revenue both remain below the indicative threshold for the whole projection period. The PV of external debt-to-export ratio remains above the threshold for several years but gradually declines over the medium term and falls below the threshold by 2029. The external debt service-to-exports ratio breaches the threshold between 2030 and 2032 with a declining trend afterwards. This DSA incorporates into the baseline the new debt service schedule resulting from the recent reprofiling of BOAD's debt.[4] *The breaches observed to public and external debt levels are attributable to the prolonged effects of recent shocks to cashew exports, while BOAD's debt reprofiling reduces debt service obligations and improves*

[1] The previous DSA was dated November 10, 2023 (IMF Country Report No. 23/403) and accompanied the Request for an Augmentation of Access in the Third Review under the Extended Credit Facility (ECF).

[2] The DSA compares the evolution of debt-burden indicators against thresholds and benchmarks pre-determined by the country's debt-carrying capacity. Guinea-Bissau's Composite Indicator (CI) index, based on October 2024 WEO update and the World Bank's 2023 World Bank's Country Policy and Institutional Assessment (CPIA), indicates that the country's debt carrying capacity remains weak (Para.15).

[3] This DSA follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries of February 2018 and its Supplement of August 2024.

[4] Approved by the Banque Ouest Africaine de Developpement on March 25, 2024.

liquidity indicators between 2024 and 2029. The PV of total public debt-to-GDP ratio is on a downward path under the baseline scenario, but it stays above its indicative benchmark of 35 percent throughout the entire forecast period. However, public debt is assessed as sustainable with high risk of debt distress reflecting that: (i) the country benefits from WAEMU currency union safeguards that provide for financial and technical support from the regional debt market institutions and larger regional members with strong debt carrying capacity; (ii) the ongoing fiscal consolidation strategy includes marginal additional net issuance, and the rollover of maturing domestic debt should be supported by country's minor role in the regional market; (iii) the PV of public debt shows a consistent downward trend from 2024 onwards under the baseline scenario; and (iv) the external DSA indicators are trending downwards consistent with sustainability over the medium-term.

This conclusion is contingent on the authorities' continued commitment to an ambitious, yet feasible, fiscal adjustment that aims to bring the fiscal deficit within the 3 percent of GDP WAEMU convergence criterion by 2025. This fiscal adjustment is supported by the Extended Credit Facility (ECF) arrangement. Risks include political instability, uncertainty around the forthcoming elections, limited state capacity, weaker cashew nut exports, tighter global and regional financial conditions, higher global food and oil prices, and natural disasters. Financial stress in state-owned enterprises and high NPLs are a source of contingent liabilities and pose macro financial risks. The downward trend of the baseline debt indicators would further improve with full multilateral donor re-engagement and a further shift towards debt obligations on concessional terms. The authorities are also following IMF/WB advice on improving debt management and dedicating efforts to resolve legacy external arrears.

DEBT COVERAGE

1. **The perimeter of public debt is limited to the central government, the central bank and government-guaranteed debt.**[5] Data limitations preclude the inclusion of other units of general government and state-owned enterprises (SOEs) (Text Table 1). The main source of risk from SOEs comes from the electricity and water utility *Eletricidade e Águas da Guiné-Bissau* (EAGB),[6] and as such its guaranteed debt is included in the DSA baseline. EAGB's non-publicly guaranteed debt, estimated at 0.6 percent of GDP at end-2023, is considered in the contingent liabilities shock, which has been increased from the standard 2 percent of GDP to 3.2 percent.[7] Beyond EAGB, other SOEs

[5] Debt management was strengthened after the approval by the Council of Ministers in July 2021 of decrees related to the creation of a National Committee of Debt Policy and the organization and functioning of the Debt Directorate. The authorities use the Debt Management and Financial Analysis system (DMFAS) to record external debt and seek to start incorporating domestic debt into the system. Guinea-Bissau continues to receive technical assistance from the IMF and the World Bank to improve debt reporting to the International Debt Statistics (IDS) and the Quarterly External Debt Statistics (QEDS).

[6] Government clearance of EAGB debt amounted to CFAF 6.6 billion in 2017, CFAF 2.5 billion in 2018, CFAF 5.9 billion in 2019, CFAF 3.6 billion in 2020, and CFAF 6.1 billion in 2023. Also, the government guaranteed loans to EAGB with a total value of CFAF 7.4 billion in 2021 and CFAF 15.0 billion in 2022 as part of debt service restructuring agreements with local commercial banks. In 2023, guarantees reduced to CFAF 14.4 billion. These guarantees are included in the DSA.

[7] Non-publicly guaranteed debt of EAGB is mainly composed of unpaid invoices owed to the former sole power supplier (Karpower). With the government's implementation of the repayment plan, this amount was significantly reduced to US$4.2 million in late 2023. However, unpaid invoices to Karpower increased to US$17.2 million in September 2024 given (i) the increase in capacity provided by Karpower (30MW to 33MW) in January 2024 and (ii) the prioritization of payments to OMVG – EAGB's main source of energy - since April 2024. The authorities are in the

(continued)

have relatively small non-guaranteed debt, based on the limited available information, and are not expected to represent a significant contingent liability. Their guaranteed debt is included in the baseline and accounted for about 0.3 percent of GDP as of end 2023.

2. **Debt classification follows a hybrid approach in which debt to the West African Bank for Development (*Banque Ouest Africaine de Développement* or BOAD) is classified as external and bonds issued in the regional market are classified as domestic.** The debt denominated in *Communauté Financière Africaine* francs (CFAF) to BOAD, amounting to 10.1 percent of GDP at end-2023, is classified as external whereas the remaining debt sources follow a currency-based classification. Treasury securities issued in CFA francs in the regional market remain treated as domestic for the purpose of this DSA.[8] The stock of such treasury securities (held by both local and regional banks) at end-2023 was CFAF 321.3 billion, equivalent to 60 percent of domestic debt or 26.4 percent of GDP (Text Table 2).

Text Table 1. Guinea-Bissau: Public Debt Coverage Under the Baseline Scenario

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

3. **The authorities are benefiting from technical assistance from international partners to improve their capacity for debt recording, monitoring, and overall debt management.** The World Bank, through the Performance and Policy Actions (PPAs) under the International Development Association's (IDA) Sustainable Development Finance Policy (SDFP), has supported the authorities with the publication and expansion of the debt bulletin (in FY23). It is also providing technical assistance on debt management following the Debt Management Performance Assessment (DeMPA) carried out in 2021.[9] Additionally, a new management team composed of 5 international experts has been recruited to continue the efforts of improving the performance of operations of EAGB, and the team is supported through capacity building and technical assistance. IMF's AFRITAC West undertook two technical assistance missions in 2023 and 2024 to strengthen debt management capacities, and the Statistics Department organized two technical assistance missions in the same period to support the authorities to improve debt recording and data coverage expansion.

process of renegotiating arrears with Karpower. The remainder of EAGB's balance sheet includes only non-debt liabilities such as: (i) taxes and social security arrears and legacy Treasury on-lending, which are consolidated out for DSA purposes; and (ii) unverified payables, which include invalid claims and are not serviceable until auditing of these is completed.

[8] In 2023, local banks held 8.3 percent of outstanding domestic debt issued in the regional market.

[9] This includes the operationalization of the National Public Debt Committee, forthcoming support to prepare the Annual Borrowing Plan in FY25 .

BACKGROUND

4. Guinea-Bissau's public debt declined to 79.4 percent of GDP in 2023, reflecting a strong decline in external debt that was partially offset by an increase in domestic debt. The ratio of public debt to GDP decreased by an estimated 1.3 percentage points with respect to 2022. This reduction was driven by a strong decline in external debt due to the concentration of BOAD's debt schedule payments in 2023, strengthened controls on non-concessional debt borrowing and external project disbursements under the ECF arrangement, as well as strong nominal GDP growth in the same year.[10] BOAD and the World Bank are the main lenders of Guinea-Bissau's external debt (Text Table 2 and Debt Holder Profile Table in Annex). Domestic debt increased in 2023 as the regional market and local banks became the main sources of financing for the government's gross financing needs (Text Table 2 and Debt Holder Profile Table in Annex). Part of the resources raised on the regional market financed payments to the BOAD's debt service schedule in 2023. The stock of debt also reflects the authorities' efforts to resolve legacy external arrears following advice from the IMF and the World Bank.[11]

Text Table 2. Guinea-Bissau: Total Public Debt

	2021 Act.	2022 Act.	2023 Est.	2024 Proj.	2021 Act.	2022 Act.	2023 Est.	2024 Proj.
	(Billions of CFAF)				*(Percent of GDP)*			
Central Government Debt	**752.1**	**864.4**	**965.4**	**1,030.4**	**78.8**	**80.7**	**79.4**	**77.6**
External	**383.9**	**417.6**	**430.0**	**449.5**	**40.2**	**39.0**	**35.4**	**33.9**
Multilateral	306.0	335.8	352.2	374.4	32.1	31.3	29.0	28.2
IMF	26.4	25.1	32.1	42.2	2.8	2.3	2.6	3.2
IDA	100.4	118.2	129.9	136.9	10.5	11.0	10.7	10.3
BOAD	122.0	127.4	123.0	127.6	12.8	11.9	10.1	9.6
AfDB	27.7	33.4	34.5	35.8	2.9	3.1	2.8	2.7
Others (IDB, BADEA, IFAD, etc)	29.5	31.8	32.7	31.9	3.1	3.0	2.7	2.4
Bilateral	77.9	81.8	77.8	75.1	8.2	7.6	6.4	5.7
of which Legacy Arrears [1]	3.3	3.5	3.4	3.0	0.3	0.3	0.3	0.2
Paris Club	5.9	6.1	5.6	4.8	0.6	0.6	0.5	0.4
Non-Paris Club [2]	72.1	75.7	72.2	70.3	7.5	7.1	5.9	5.3
Domestic	**368.2**	**446.9**	**535.4**	**579.8**	**38.6**	**41.7**	**44.0**	**43.7**
Local Banking System	156.7	178.8	209.3	208.8	16.4	16.7	17.2	15.7
BCEAO	130.5	130.0	129.4	128.9	13.7	12.1	10.6	9.7
Loans local commercial banks	12.0	26.5	52.6	52.6	1.3	2.5	4.3	4.0
Treasury Securities held by local banks	14.2	22.4	27.3	27.3	1.5	2.1	2.2	2.1
Treasury Securities held by regional banks	179.2	229.0	294.0	350.0	18.8	21.4	24.2	26.4
Payment Arrears	18.9	19.1	13.3	2.2	2.0	1.8	1.1	0.2
Guarantees	13.5	20.0	18.8	18.8	1.4	1.9	1.5	1.4

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

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

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

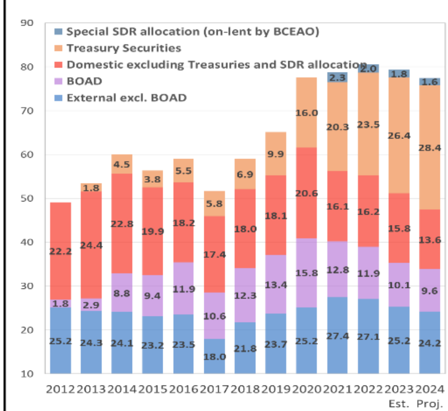
[10] The 2023 nominal GDP growth was driven by increased cashew nut production, completion of a large electricity project connecting Guinea-Conakry to Bissau, and higher observed deflator.

[11] Guinea-Bissau has legacy external arrears, totaling US$4.1 million at end-2023, to Brazil and Pakistan. The authorities signed an agreement with Russia to renegotiate the debt (US$1.5 million). Negotiations with Brazil (US$1.9 million) are pending final approval from the Brazilian parliament. Since November 2021, requests have been sent to Pakistan (US$2.2 million) to attempt resolving remaining external arrears. This DSA includes some conservative repayment assumptions that will be revised once rescheduling agreements are reached.

5. The authorities drew on their SDR allocation to lower financing costs and meet financing driven by the emergency response to the pandemic in 2021. In line with the WAEMU agreement, the BCEAO on-lent the counterpart of the SDR allocation.[12] Despite being treated as domestic debt, the DSA calculates the present value of the loan to incorporate its highly concessional nature, which reduces its initial impact on the DSA's assessment of the overall risk of debt distress.[13] The concessional terms of the on-lending operation provided an alternative to more costly financing such as contracting non-concessional debt and issuing Treasury bills in the WAEMU regional market. The authorities used most of those resources to pre-pay non-concessional debt to BOAD, due at end-2021 and in 2022.[14] The remaining amount financed part of the emergency response to the pandemic.

6. Conversely, financing needs in 2023 were mainly covered by higher reliance on the regional market and local banks (Text Table 2). Central government domestic debt amounted to 44.0 percent of GDP at end-2023, increasing its share as a proportion of total debt. The largest source of net borrowing was Treasury securities, the stock of which rose by 2.9 percentage points of GDP in 2023 relative to 2022, with the bulk purchased mainly by financial institutions from elsewhere in the WAEMU region. Given the tightening conditions in the regional market, the government resorted to the local financial institutions to cover the remaining financing needs, and the stock of debt with local banks increased by 1.8 percentage points of GDP in 2023.

Public Debt Stock
(Percent of GDP)



Sources: Guinea-Bissau authorities and IMF staff calculations.

7. External borrowing declined in 2023 due to concentrated debt service schedule with BOAD, improved control on non-concessional external borrowing and lower project loans disbursements. Debt to BOAD decreased by 1.8 percentage points of GDP, primarily because of the concentration of payments scheduled for 2023. New concessional financing was secured to complete an important electricity project that connects Bissau to the regional grid (OMGV) and projects to support rural transportation, put the World Bank as the main creditor in 2023.[15] Put together, multilaterals held 82 percent of Guinea-Bissau's external debt at end-2023. The remaining external debt was bilateral, mainly

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[12] The end-August SDR 27.2 million allocation was transferred by the BCEAO, as a currency repo operation of CFAF 21.6 billion (2.3 percent of GDP) with 20-year maturity and a single bullet payment at end-period. With an interest rate fixed at 0.05 percent, this operation is equivalent to a loan with a grant element of 62 percent. At maturity, this operation could be renewed for 20-years at an interest rate linked to SDR interest rate.

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

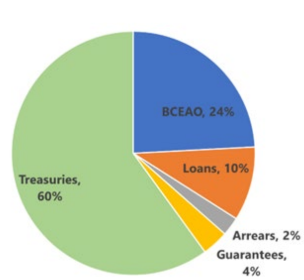
[14] Out of the total amount, CFAF 14.8 billion (69 percent) was used to pre-pay BOAD principal due in September 2021–December 2022, and CFAF 2 billion (9 percent) to pre-pay BOAD interest due in the same period. The remaining amount, CFAF 4.8 billion (22 percent), was used to finance COVID-related expenditures.

[15] Additional World Bank financing includes projects to support food security, improve health service delivery, enhance the quality of education, and boost social safety nets. These operations are all grants, consistent with the country's debt risk rating. Financing approved prior to the change in the country's risk rating was on loan terms – and thus explain the stock of outstanding debt to the institution.

to non-Paris Club creditors – including India, Kuwait, and Libya. External debt includes legacy arrears that the authorities have been actively seeking to resolve.

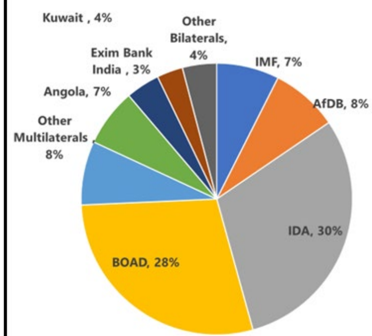
8. Debt service to revenues increased to 79.8 percent in 2023 affected by tighter financial conditions. The country faced higher borrowing costs in the regional market and lower demand for medium and long-term bonds from investors. The shortening of debt maturity forced the government to request additional debt rollover operations and increased interest payments accounted for 2023. It is expected that the debt service-to-revenue ratio will decline over the medium-term with the fiscal consolidation strategy in place and the materialization of domestic revenue mobilization (outlined in paragraph 10). In 2021, the authorities requested to join the Debt Service Suspension Initiative (DSSI) though this did not result in any debt suspension.[16] Despite this, debt sustainability prospects are expected to be enhanced through the commitment to limit non-concessional borrowing to levels agreed under IMF programs and IDA's SDFP and to disclose all public sector financial commitments involving debt.

CG Domestic Debt, 2023
(Percent of Total)



Sources: Guinea-Bissau authorities and IMF staff

CG External Debt, 2023
(Percent of Total)



Sources: Guinea-Bissau authorities and IMF staff

9. Regional institutions provide support to Guinea-Bissau's debt management capacity. WAEMU currency union regional institutions, which have stronger capacity, help 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 almost 84 percent of Guinea-Bissau's domestic debt at end-2023. Moreover, Guinea-Bissau's borrowing through WAEMU sovereign securities market is expected to account for an insignificant share of available regional financing to the eight countries in this currency union.[17]

MACROECONOMIC ASSUMPTIONS

10. The near-term outlook projects a moderate recovery and sustained growth over the medium term, but risks are tilted to the downside. The main changes relative to the previous DSA of November 2023 (Text Table 3) include an upward adjustment in real GDP growth in 2023, higher inflation

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

[17] Guinea-Bissau represented only 2 percent of the total regional issuances in 2023.

and a worsened external imbalance in the near term. The main baseline macroeconomic assumptions are as follows:

- **Real GDP growth** Despite multiple shocks, growth has been resilient in Guinea-Bissau. In 2022, the cashew export volume decreased by 22 percent from the record-high export in 2021. Notwithstanding, growth remained moderate, at 4.6 percent, supported by positive subsistence agriculture production and strong private sector investments. While delays in starting the cashew campaign in 2023 led to limited recovery of exports, real GDP growth increased to 5.2 percent due to continued strong growth of agriculture production and private investments, as well as higher-than-expected artisanal fishing output. [18] Developments in 2024, point to a lower-than-expected volume of cashew exports due to shocks to production from high temperature during a dry season and lower demand from main import markets. However, growth is projected at 5.0 percent supported by the income effects of high producer prices for cashews, which doubled from 2023, and continued strong private investments including the construction of the new airport terminal. Growth is expected to remain resilient over the medium term, supported by a moderate recovery of cashew exports and continued strong growth of private sector investments. This growth momentum will be sustained through improved access to electricity, which is supported by the recent completion of the connection to the regional hydropower project (OMVG), as well as improved governance and business environments through structural reforms, such as SOE oversight reforms, anti-corruption reforms, and revenue mobilization reforms. Long-term growth is projected at 4.1 percent, in line with the economy's growth potential.[19]

Text Table 3. Guinea-Bissau: Key Macroeconomic Projections
(Percent of GDP, Unless Otherwise Indicated)

	2022	2023	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.	Long Term[1]
Real GDP growth (percent)									
Previous DSA	4.2	4.2	5.0	5.0	5.0	5.0	4.5	4.5	4.1
Current DSA	4.6	5.2	5.0	5.0	5.0	5.0	4.5	4.5	4.1
CPI inflation (percent)									
Previous DSA	7.9	8.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0
Current DSA	7.9	7.2	4.2	2.0	2.0	2.0	2.0	2.0	2.0
Primary fiscal balance									
Previous DSA	-4.7	-3.2	-1.0	-0.8	-0.8	-0.7	-1.3	-0.9	-0.4
Current DSA	-4.7	-5.5	-2.0	-0.2	-0.3	-0.3	-0.6	-0.7	-0.5
Overall fiscal balance (commitment)									
Previous DSA	-6.1	-5.6	-3.5	-3.0	-3.0	-3.0	-3.0	-3.0	-2.9
Current DSA	-6.1	-8.2	-5.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Tax revenues									
Previous DSA	9.3	9.6	9.7	10.2	10.5	10.8	10.9	11.0	12.1
Current DSA	9.3	9.2	8.9	9.5	10.3	10.5	10.7	10.7	11.4
Domestic primary expenditures									
Previous DSA	15.0	14.4	13.1	12.3	12.6	12.7	12.8	12.9	13.6
Current DSA	15.0	15.0	12.3	11.1	11.2	11.5	12.0	11.9	12.5
Non-interest current account balance									
Previous DSA	-8.9	-7.6	-3.7	-3.7	-3.3	-3.0	-2.8	-2.8	-2.7
Current DSA	-7.9	-7.3	-6.1	-4.7	-3.0	-2.8	-2.8	-2.8	-2.7
External debt									
Previous DSA[2]	39.2	34.9	33.3	31.6	29.5	27.5	25.9	24.5	19.6
Current DSA	39.0	35.4	33.9	32.7	31.4	30.2	29.0	28.2	23.7
Domestic debt									
Previous DSA[2]	41.2	41.6	40.7	40.0	39.9	39.8	39.8	40.1	40.5
Current DSA	41.7	44.0	43.7	42.1	40.9	39.8	39.1	38.3	37.1

Source: Bissau-Guinean authorities and staff estimates.
[1] Covers the period 2029-43 for current DSA, and 2028-42 for the previous DSA.
[2] Adjusted based on the reclassification of BOAD as external debt.

[18] The cashew nut sector is crucial to the economy of Guinea-Bissau, which ranks among the world's largest producers. As the country's primary cash crop, cashew nuts account for an impressive 98 percent of Guinea-Bissau's total exports. This sector also plays a vital role in employment, providing job opportunities for a significant portion of the population, particularly in rural regions where approximately 350,000 farmers are engaged in cashew cultivation.

[19] Potential growth is estimated at around 4.1 percent based on standard techniques such as the Hodrick-Prescott Filter and estimation using an aggregate production function. These estimates use historical data of the existing drivers of the economy: subsistence agriculture, cashew nut sector and commerce.

- **Inflation.** Average inflation reached 7.9 percent in 2022 due to high food and fuel prices. In 2023, average inflation fell to 7.2 percent, partly reflecting tax cuts for fuels and also rice subsidies. Estimates suggest that, with the significant increase in international rice prices (38 percent in 2023), the main staple food, inflation would have reached 10 percent without the fuel tax cut and the rice subsidies. In 2024, inflation is projected to be 4.2 percent, which remains above the 2 percent convergence criteria set by WAEMU. The elevated level of inflation reflects in part the reversal of tax cuts on fuels and the elimination of rice subsidies in April 2024. In the medium-term, inflation is expected to converge to the 2 percent WAEMU target.

- **Current account deficit.** The non-interest current account deficit is projected to be 6.1 percent of GDP for 2024, much higher than under the previous DSA. This deterioration is caused by a decline of cashew exports projections, which were reduced by 3.7 percentage points of GDP from the previous DSA, due to stagnating international cashew prices and little recovery of export volume. Moreover, the country has experienced a terms-of-trade shock, with the average price of cashew dropping from US$1,050 per ton in 2023 to US$950 per ton in 2024, coupled with slightly higher import prices. Conversely, higher remittances have alleviated the current account deterioration. In 2025, the non-interest current account deficit is projected to be higher than the previous DSA, because of slow recovery of cashew export prices and volume, and imports are expected to decline as a share of GDP with more favorable terms of trade. In the medium-term, the current account deficit is expected to improve gradually due to sustained fiscal consolidation and more favorable terms of trade.

11. The fiscal deficit is on track to decline sharply in 2024, and the 2025 budget targets a further significant reduction through a combination of revenue-raising measures and expenditure restraint:

- **Recent fiscal performance.** The overall fiscal deficit widened to 8.2 percent of GDP in 2023, from 6.1 percent of GDP in 2022, driven by a high level of budget overrun, especially during a period between the legislative election in June 2023 and the formation of the government in August 2023. The authorities' strict no-new-hiring policy contributed to reducing the wage bill by 11 percent in 2023 (in nominal terms) though further efforts are required to ensure accurate classification and reporting on wage bill spending. While non-cashew tax revenue increased by 0.5 percent of GDP due to higher corporate incomes taxes from large taxpayers, such as telecom operators and banks, and improved revenue administration, lower-than-expected budget support disbursements further constrained fiscal space. This lower amount resulted as the government at the time was largely disengaged from the main bilateral donors and did not formally request aid disbursements.

- **Expected fiscal consolidation.** Lower-than-expected cashew revenue (resulting from lower-than-expected exports) and non-tax revenue (as the sale of 5G licenses has not materialized) will constrain revenue collection in 2024. However, the authorities' adherence to a strict no-new-hiring policy and application of tight expenditure controls through the Technical Committee of Arbitration of Budgetary Expenditure (COTADO) will reduce domestic primary expenditure by 2.7 percent of GDP in 2024 relative to 2023. The overall reduction in the fiscal deficit—to 5 percent of GDP—is also driven by significant grant inflows, reflecting the resumption of close policy engagement by the current government and catalytic effects of the ECF program. The overall deficit (commitment basis) is expected to narrow further to 3.0 percent of GDP in 2025. This reduction of about 2 percent of GDP relative to its 2024 level is driven by a combination of revenue-raising measures and expenditure restraint. The authorities are committed to maintain the fiscal consolidation path to achieve a domestic primary surplus and meet the WAEMU convergence criteria of 3 percent of GDP. Further detail on key drivers of this fiscal consolidation – including revenue mobilization measures and continued strict controls of the wage bill and discretionary expenditure – are described below:

- **Enhancing revenue mobilization.** In 2024, customs revenue mobilization was supported by an increase in tax reference prices for fuels, which were brought very close to market prices, while inland revenue was mobilized through strengthening of tax audits of large taxpayers, including telecom operators. In 2025, revenue mobilization will be accelerated by the elimination of tax exemptions granted to a cement company, which is the largest beneficiary causing around 0.1-0.2 percent of GDP of revenue loss per year, higher cashew nut reference price, increase in tax on luxury goods and strengthening of tax audits and enforcements. Operationalization of the Sydonia World, which automates data-matching with the customs of other countries in the region and strengthening border controls are also expected to reduce smuggling and increase customs revenue. In the medium-term, implementation of the new VAT law, together with broadening of the tax base, will be the key to achieve revenue mobilization. Additional tax revenue will be also mobilized through revisions to the telecommunication tax structure and by streamlining the income tax and stamp duties legislation.

- **Strengthening PFM and expenditure control.** The authorities have made good progress in strengthening the wage bill controls, beginning with firing of all irregular workers, eliminating discrepancies in the payroll databases of two ministries (the Ministries of Finance and Public Administration), and streamlining expensive advisor positions at the Presidency and other high-level offices in 2022. Building on these measures, the authorities are maintaining strict no-new-hiring policy throughout the program period, which will reduce the wage bill by 1.9 percent of GDP in three years. In order to increase efficiency in public services, in 2024 the authorities are also undertaking the new census of public workers which aims to detect ghost workers and those on leave for an excessive period. Any saving identified through the new census could be used to make limited new hiring in the priority sector without increasing the headcount. Controls of discretionary expenditure hinge on the COTADO, abandonment of which always triggered overshooting of expenditure in the past. Since the current government resumed the COTADO in January 2024, it has been meeting regularly and successfully controlling upward spending pressures during the period ahead of the legislative election. In the medium-term, rollout of biometric IDs will detect workers who are not working on a real time basis and enhance efficiency in public services.

- **Improving SOE oversight and mitigating fiscal risks.** Fiscal risks associated with SOEs are concentrated in the public utility company (EAGB).[20] Significant progress in mitigation of fiscal risks includes a diversification of sources of power through the OMVG project, which connects Bissau to a hydropower plant in Guinea. Since August 2024, the city of Bissau has been supplied solely by electricity from the OMVG, which has a price around half of that of Karpower, the former sole power supplier. The government is taking actions to achieve cost recovery for EAGB by the end of the year

[20] The other SOEs are Administration of the Ports of Guinea-Bissau (APGB); Civil Aviation Agency of Guinea-Bissau (AACGB); and National Petroleum Exploration and Exploration Company of Guinea-Bissau (PetroGuin). Their guaranteed debt is included in the DSA and the amount of non-guaranteed debt is negligible. For example, apart from guaranteed debt, the APGB's balance sheet for 2021 had only non-debt liabilities (tax arrears and unverified payables).

and reestablish its financial viability. The authorities will also speed up completion of the ring transmission line, which connects Bissau to the OMVG, including a line to the new Bor power station, which is an important backup during the dry season. To mobilize EAGB's revenue, the government will eliminate free electricity and tariff discounts given to large clients and employees of the Ministry of Energy and EAGB, while EAGB will install around 6,000 pre-paid meters in 2024, in addition to 32,700 meters that were installed in 2023, and also seek to collect on arrears from its users.

- **Safeguarding social and priority spending and investment.** The authorities are committed to safeguard social and priority spending as well as public investment over the medium term. While the fiscal space is very tight, in 2024 the authorities plan to safeguard at least 4 percent of GDP for social and priority spending and to maintain a similar level over the medium-term. Public investment is projected to increase gradually from 5.7 percent of GDP in 2024 to 7.1 percent of GDP in 2029.

12. Public debt to GDP is expected to decrease by 1.8 percentage points in 2024 due to significant fiscal consolidation. The stock of domestic debt is projected to decrease by 0.3 percent points of GDP compared to 2023 due to lower financing needs to serve BOAD's debt given the recent reprofiling[21] and the payment of legacy arrears scheduled for the year. However, as the authorities continue to rely on financing through the issuance of treasury bills, the stock of securities (held by local and regional commercial banks) is still projected to grow further, while the stock of other domestic debt sources is expected to fall in 2024. The stock of external debt is projected to decrease by 1.5 percentage points of GDP in 2024 and steadily decline in the medium-term, mostly driven by fiscal consolidation efforts, as well as the appreciation of the CFA against the US dollar.[22]

13. Domestic debt remains high throughout the projection period. The domestic debt-to-GDP is projected to continue declining after 2024 under the baseline scenario and stabilize around 38 percent, however it remains above the LIC average (Figure 3). Domestic debt service-to-revenues increases until 2027, reflecting higher borrowing cost observed in the regional market due to tighter financial conditions and a heavier reliance on short-term debt, and assumes a declining trajectory over the medium-term. This indicator also remains above the LIC average during the projection period. Given the fiscal consolidation strategy in the baseline scenario and lower gross financing needs, the indicator of net domestic debt issuances declines over time and reaches negative values as a share of GDP after 2025.

14. The authorities have improved debt service payments and reporting processes. In the past, the authorities repeatedly incurred a small amount (less than US$1 million) of technical external debt service arrears. These were caused by inadequate payment processes where the authorities did not send payment instructions for debt services before the due dates, unrelated to availability of cash or capacity to repay. Since the conclusion of the ECF sixth review in August 2024, and as a corrective action, the Treasury has been sending a single batch of payment instructions for all external debt services, ten days before the

[21] BOAD has reprofiled the principal repayments by Guinea Bissau on outstanding obligations, requiring only interest payments for the period 2025-29, and the resumption of principal payments from 2030 onwards with an average maturity of 20 years. This reprofiling improved the debt service indicators, as the lower principal repayments for the next five years improved debt service to exports and to revenue.

[22] The WAEMU's CFA is pegged to the euro, which is expected to appreciate by 0.8 percent against the US dollar in 2024 relative to 2023.

beginning of each month. This has greatly improved the debt service payment and reporting processes and has prevented reemergence of technical arrears since then.

REALISM OF THE BASELINE ASSUMPTIONS

15. The DSA assumes that authorities will implement a prudent borrowing strategy and prioritize medium-term investment-related borrowing in concessional terms. The ECF program includes Quantitative Performance Criteria (QPC) of zero non-concessional borrowing and a ceiling on contracting of new concessional loans, as well as an Indicative Target (ceiling) on disbursements of all existing and new external project loans. These two program targets will enforce the strict adherence to the authorities' borrowing plan. During the ECF seventh review, the authorities have announced their intention to sign a new loan to finance the construction of the critical road project between Safim and Mpak (Senegal) supported by a highly concessional financial package from the EU, EIB and World Bank (see Box 1).[23] This project is expected to significantly enhance the logistics between Bissau and Dakar. The staff has incorporated the loan and disbursements schedule into the baseline and external borrowing plan (Text Table 4). In the medium term, in line with the government's policy to prioritize low-cost funding, multilateral creditors are expected to provide most project financing on grant or concessional terms. The baseline assumes better investment planning and execution to ensure value for money and better alignment with the budget process. Treasury securities with longer maturities are expected to fill most non-investment-related financing needs in the medium-term (from 2025 onwards). For 2024, interest rates are projected to average 8.7 percent for bonds with maturities of one to three years, and to 9 percent for bonds with maturities of four to seven years, in line with developments so far during the year. These interest rates reflect the effect of the recent tightening of financial conditions in the WAEMU.[24]

Text Table 4. Guinea-Bissau: 2024-25 Borrowing Plan

PPG external debt contracted or guaranteed	Volume of new debt[1]		Present value of new debt[1]	
	2024 (US$ million)	2025 (US$ million)	2024 (US$ million)	2025 (US$ million)
Sources of debt financing	**114.6**	**5.0**	**78.8**	**3.3**
Concessional debt[2]	114.6	5.0	78.8	3.3
Multilateral debt	114.6	5.0	78.8	3.3
Uses of debt financing	**114.6**	**5.0**	**78.8**	**3.3**
Infrastructure	114.6	3.0	78.8	2.0
Agriculture	-	2.0	-	1.3

Source: Guinea-Bissau authorities and IMF staff estimates.

1/ Contracting and guaranteeing of new debt excluding IMF. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.

2/ Debt with a grant element of at least 35 percent.

16. The macroeconomic scenario is broadly realistic. The non-interest current account deficit in 2024-28 is projected to contribute to external debt accumulation, in line with debt dynamics over the past five years. This driver of debt is expected to be offset by sustained growth, increased reliance on committed grants (captured in the residual of the drivers of debt dynamics in Figure 4[25]) and higher-than-expected

[23] The authorities are committed to significantly reducing the new borrowing limit for 2025 after accommodating the road project in 2024 to maintain public debt sustainability given that the country is at high risk of debt distress.

[24] In addition, interest rates on short-term T-bills are projected to average to 8.3 percent in 2024, and to fall to 7.5 percent in 2025 and further to 6 percent from 2026 onwards.

[25] For 2019-2023, the reclassification of BOAD debt from domestic to external accounts for the large unexplained increase in external debt (Figure 4). For the 5-year forecast period, the residual is also affected by the financing from

(continued)

inflation. It is assumed that multilateral donors will prioritize grant disbursements considering the structural fragility of the country, its large development needs, and limited access to alternative financing sources. Fiscal consolidation and improvements in governance are also expected to crowd in grants.

Box 1. The Safim-Mpak Road Project

This DSA includes a loan from European Investment Bank (EIB) of €105 million, which has already been approved by the EIB Board. The loan agreement between the EIB and the Guinea Bissau authorities is expected to be signed in the second half of December 2024.

The loan is part of a set of financing instruments to upgrade the 115 km Safim-Mpak road, which is a crucial transportation corridor connecting Bissau to Senegal and serving as the sole paved road for both trade and passenger travel in the region. This corridor plays a significant role in stimulating economic activity in the fertile northern regions, particularly in the agriculture sector with products such as cashew nuts. The road has deteriorated considerably due to insufficient maintenance and overloading since its construction in 1989, resulting in extensive damage characterized by potholes and compromised bridges. Its strategic value is further highlighted by its essential role in regional trade, as Senegal serves as a vital source of imports. Ongoing infrastructure projects indicate potential for increased traffic flow and urgent rehabilitation is necessary to restore connectivity and foster economic growth.

The project will be financed by the EU, EIB and WB and involves the road rehabilitation works including road safety and climate resilience measures, reconstruction of bridges and culverts and construction of ancillary facilities such as water points, toll stations, a weighing station, market spaces, cross-border infrastructure, and parking areas. Additionally, six unpaved rural access roads connected to the project corridor will be rehabilitated. The road will be widened to meet WAEMU standards, increasing from 6.0 m to 7.2 m, with a designed load capacity for heavy traffic over 20 years.

The overall financing for this project amounts to €213.03 million and is structured as follows:

- Government's own resources: €1.8 million
- EU Investment Grant (EIB): €37.4 million
- EU Technical Assistance Grant: €3.35 million
- World Bank Grant (IDA window): €65.48 (US$ 70 million)
- EIB Loan: €105 million with a 30-year tenor and a 10-year grace period

The grant from IDA has already been contracted and the portion of the project financed from this grant is currently in the implementation phase (from Safim to Antotinha). The blended financing package of the combined EU grant and EIB loan is assessed as concessional, with a grant element estimated at around 40 percent at current market interest rates.

17. **The public debt outlook is dominated by developments of the primary fiscal balance and real GDP growth.** Both factors are expected to have a greater debt-containment effect than in the past, due to increased authorities' commitment to fiscal and governance reforms. The projected three-year adjustment in the primary deficit is marginally larger than the 25th percentile observed in historical data from low-income countries (LICs) with Fund-supported programs (Figure 5), which is consistent with the expected significant fiscal adjustment in 2024 and the authorities' commitment to continued fiscal

treasury securities in the regional market, which are considered domestic debt in the DSA, but account for sizable capital inflows in the financial account.

consolidation during the IMF financial program as targeted under the 2025 budget that was approved by the Cabinet in November 2024. Actual fiscal results, however, tend to be highly volatile in Guinea-Bissau. Political economy factors, including the planned Presidential and parliamentary elections during 2025, pose a risk achieving the fiscal consolidation targeted in the 2025 budget. Real GDP growth is projected at 5 percent in 2024 consistent with a small fiscal multiplier (Figure 5), 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.

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TEST SCENARIOS

18. **Guinea-Bissau is assessed to have weak debt carrying capacity, unchanged from the November 2023 DSA.** The Composite Indicator (CI) score for Guinea-Bissau is 2.65, based on data on macroeconomic indicators from the October 2024 WEO and from the 2023 Country Policy and Institutional Assessment (CPIA) of the World Bank (Text Table 5). This score is below the 2.69 cutoff, thus resulting in a weak debt-carrying capacity.

Text Table 5. Guinea-Bissau: Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.528	0.97	37%
Real growth rate (in percent)	2.719	4.650	0.13	5%
Import coverage of reserves (in percent)	4.052	39.462	1.60	60%
Import coverage of reserves^2 (in percent)	-3.990	15.573	-0.62	-23%
Remittances (in percent)	2.022	8.677	0.18	7%
World economic growth (in percent)	13.520	2.967	0.40	15%
CI Score			2.65	100%
CI rating			Weak	

19. **The magnitude of the combined contingent liability shock is standard** (Text Table 6). This DSA runs a stress test with a contingent liability shock for SOE debt of 3.2 percent of GDP instead of the default value of 2 percent. The 1.2 percent of GDP in the shock reflects the potential fiscal costs of operational losses of the electricity utility (EAGB), EAGB's non-guaranteed debt, and contingent liabilities linked with increased public guarantees.[26] The DSA includes 5.0 percent of GDP to capture a potential shock in financial markets, which includes the potential liabilities related to the possible recapitalization needs of a systemic bank that does not meet the WAEMU's minimum capital requirements (estimated at 2 percent of

[26] Although the EAGB arrears with Karpower accounted for 0.2 percent of GDP at the end-2023, this value has been increasing (see footnote above) and expected to reach 1 percent of GDP by end November. The DSA assumes the amount of 1.2 percent of GDP based on the EAGB's projected accumulation of arrears until the end of 2024, when the Karpower's negotiation process is expected to be concluded.

GDP).[27] Additionally, the DSA included an additional shock of 2 percent of GDP for other elements of the general government to capture the possibility of the domestic arrears being larger than what is already included in the debt stock (1.0 percent of GDP at end-2023).

Text Table 6. Guinea-Bissau: Combined Contingent Liabilities Shock

1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	2	Domestic arrears (2 percent)
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	3.2	Increased from 2 to 3.2 to reflect potential liabilities linked to EAGB/Increased public guarantees (1.2 percent).
4	PPP	35 percent of PPP stoc	0	
5	Financial market (the default value of 5 percent of GDP is the minimum v	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		10.2	

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

20. Guinea-Bissau's risk of external debt distress remains high, as in the November 2023 DSA. The external debt-to-GDP indicator based on PV ratios and external debt service-to-revenue remain below the relevant indicative thresholds throughout the projection period (2024–44) under the baseline scenario. However, the PV of debt-to-exports ratio remains above the threshold for several years but gradually declines and falls below the threshold by 2029. Due to BOAD reprofiling Guinea-Bissau's debt and rescheduling principal debt service payments, the debt service-to-revenue ratio has improved since the previous DSA and the baseline scenario remains below the threshold throughout the projection period despite a marked increase in 2030, when BOAD amortization payments resume.[28] However, 2030 does see a breach of the threshold for the debt service-to-revenue ratio in the most extreme shock case. The debt-service-to-export ratio also improves from the previous DSA due to the BOAD reprofiling and normalization cashew nut exports in the medium-term. However, the debt-service-to-export ratio indicator breaches its indicative thresholds under the baseline between 2030-2032. These breaches of thresholds imply a mechanical 'high' risk rating (Figure 1 and Table 3).[29] That said, since Guinea-Bissau is in a currency union with FX reserve pooling, the effective impact of these indicators is rather limited.

[27] The process of the government's disengagement of the undercapitalizes bank is progressing. The potential investor submitted an offer to purchase government's stake and recapitalize the bank. The bank has approved the offer in June 2024 and submitted it to the WAEMU Regional Commission for approval.

[28] BOAD reprofiled Guinea-Bissau's debt, pausing principal payments from 2024 to 2029 and resuming payments in 2030. Some loans are scheduled to be paid fully towards the end of 2030s while others are scheduled to be paid in the 2050s.

[29] For the standard export shock, nominal export growth is set to its historical average (5.5 percent) minus 0.5 standard deviation (SD), instead of 1 SD (default parameter, which amounts to 28 percent in Guinea-Bissau). This reflects the fact that the ten-year lagged standard deviation of export growth (excluding the covid-shock of 2020) is half of the historical standard deviation. This scenario results in an annual drop of 8.6 percent in exports both in 2025 and 2026 (as opposed to 5.8 percent average export growth in the baseline).

21. The adverse commodity price stress test was designed to reflect Guinea-Bissau's vulnerability to cashew price fluctuations. The analysis shows the debt sustainability prospects after a hypothetical 25 percent fall in cashew export prices in the first year of the projection (Figure 1). This stress test is based on historical volatility of the cashew nut price.[30]

B. Public Debt Sustainability Analysis

22. Guinea-Bissau's overall public debt remains sustainable, and the risk of debt distress is assessed as high. The PV of total public debt-to-GDP shows a consistent downward trend from 2024 onwards under the baseline scenario. Nonetheless, the ratio stays above its indicative benchmark (35 percent) through 2034, a substantial and prolonged breach (Table 4 and Figure 2).[31] Moreover, debt service as a percentage of revenues and grants increases to 99 percent in 2027 impacted by the need to roll over costly short-term debt from regional market, and then begins a declining trajectory reaching 46 percent in 2034. The debt service-to-revenues indicator has deteriorated since the previous DSA due to the tighter financial conditions observed in the regional market that have resulted in shorter tenures and higher interest rates for new debt. However, the risk is mitigated by the fiscal consolidation strategy which includes a marginal additional net issuance, while rollover of maturing domestic debt should be supported by country's minor role in the regional market and the large regional banks is expected to maintain their exposure to the public sector. Despite the expected improvement in revenues and authorities' efforts to shift to concessional financing, this increase is projected because of higher future amortization of existing debt in the medium run.

23. Public debt sustainability is vulnerable to a commodity price shock. After a 25 percent drop in cashew prices, the present value of the debt-to-GDP ratio reaches 77 percent in 2030 and stabilizes slightly below that value, and the debt service-to-revenue ratio reaches 136 percent in 2027 before stabilizing at around 79 percent.

CONCLUSION

24. Public debt is considered sustainable based on the authorities' commitment to the fiscal consolidation towards the WAEMU deficit convergence criterion and the support provided by the regional institutions with strong capacity to help manage debt. Guinea-Bissau's external debt burden indicators follow a downward trend over the medium-term. While the present value of total public debt-to-GDP show large and prolonged breach of the indicative benchmarks, the country benefits from financial and technical support from the regional institutions and debt markets and much larger regional currency union members with stronger debt carrying capacity. The supportive WAEMU context bolsters the country's capacity to carry domestic/regional debt beyond what is captured by the standard composite

[30] In the last ten years, 25 percent shock is roughly one standard deviation of the cashew nut price.

[31] Under the most extreme (commodity price) shock, (equivalent to a one SD shock to the cashew price) the PV of debt-to-GDP ratio increases to 76 percent in 2029, and the PV of debt-to-revenue ratio increases to 540 percent in 2027. The impact of the most extreme shock on debt service-to-revenue increases this ratio from 79 percent in 2024 to 136 percent in 2027.

indicator. Taking this into consideration and contingent on the authorities' commitments to sound policies, Guinea-Bissau's public debt is assessed as sustainable.

25. Under the staff's baseline scenario, Guinea-Bissau's public debt is kept on a sustainable path, with the overall public debt burden falling below the regional convergence criterion of 70 percent by 2027. If the policy agenda is successfully executed and barring an unexpected external shock, total public debt would decline from 79.4 percent of GDP estimated at end-2023 to 66.5 percent of GDP by 2029.

26. The current Fund-supported program and strong multilateral donor engagement underpins the policy actions necessary for achieving the baseline projection. Key policy actions include: (i) continued fiscal consolidation efforts including revenue enhancement measures and strictly controls of discretionary spending and the wage bill; (ii) prudent borrowing policies, including the avoidance of non-concessional project financing and strict adherence to the borrowing plan enshrined in the targets under the ECF program for contracting of new concessional loans and disbursements of all existing and new project loans; (iii) enhanced debt management, with more rigorous compilation and monitoring of debt statistics, upgraded procedures and publication of regular debt reports to improve transparency; and (iv) improved management of the existing loan pipeline and application of recognized assessment procedures to ensure criticality of investment projects. The baseline debt dynamics could further improve with more donor engagement leading to: (i) a substantial scaling up of grants by multilateral institutions; and (ii) a reprofiling of selected debt obligations to extend maturities and reduce interest rates when financing terms are favorable.

27. There are significant downside risks to the baseline scenario. Strong and sustained political commitment is needed to deliver the envisaged medium-term fiscal adjustment. Therefore, there are significant downside risks from election outcomes if this political commitment weakens. The debt outlook remains highly vulnerable to a weaker economic recovery as well as the materialization of unexpected contingent liabilities, particularly from the SOEs. More broadly, lack of data to identify contingent fiscal liabilities pose a risk to the fiscal outlook. Since the November 2023 DSA, downside risks from a deteriorating global outlook remain. A further tightening of financial conditions in the regional bond market, weakening global demand, and continued pressure on BCEAO's international reserves pose risks for debt sustainability. Risks also arise from disappointing cashew exports due to lower prices or climate events, geopolitical fragmentation, high global food and oil prices, and climate change-related natural disasters. Financial stress in state-owned enterprises could generate contingent liabilities, adding to fiscal pressures. If realized, these downside risks could lead to higher external and overall public debt burden indicators and increase the risk of arrears accumulation. Risks could also lead to social tensions, triggering political instability that may constrain the fiscal adjustment and increase debt vulnerabilities.

AUTHORITIES' VIEWS

28. 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 the fiscal consolidation envisioned during the program. They emphasized: (i) their commitment to the agreed fiscal consolidation path and reforms, while strictly controlling contracting of new concessional loans and disbursements of project loans in accordance with the ECF targets and borrowing plan; (ii) the need to carefully calibrate the financing of the public investment plan and select investment projects with critical contributions to growth only within the tight budget limits and program targets and with prudential borrowing terms; and (iii) continued strengthening of debt management process, especially process for debt service payments and reporting. The authorities recognize the risks to the debt outlook and expect that the continued satisfactory performance during the ECF-supported program will contribute to mitigate the country's high risk of debt distress.

Figure 1. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2024–34[1]

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

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

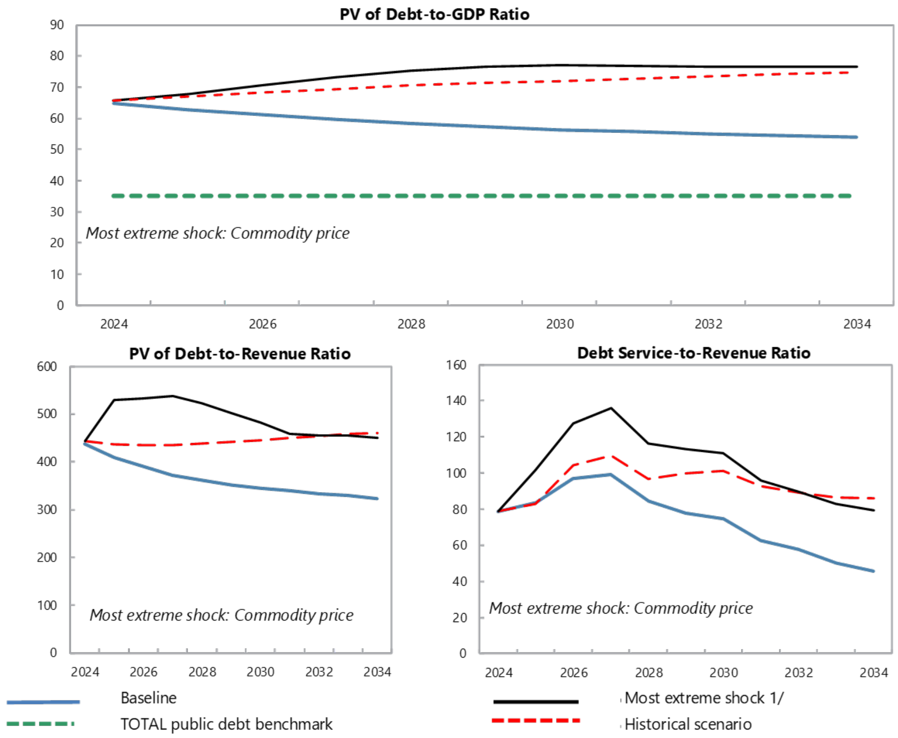
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.5%	1.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	7	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 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Guinea-Bissau: Indicators of Public Debt Under Alternative Scenarios, 2024–34



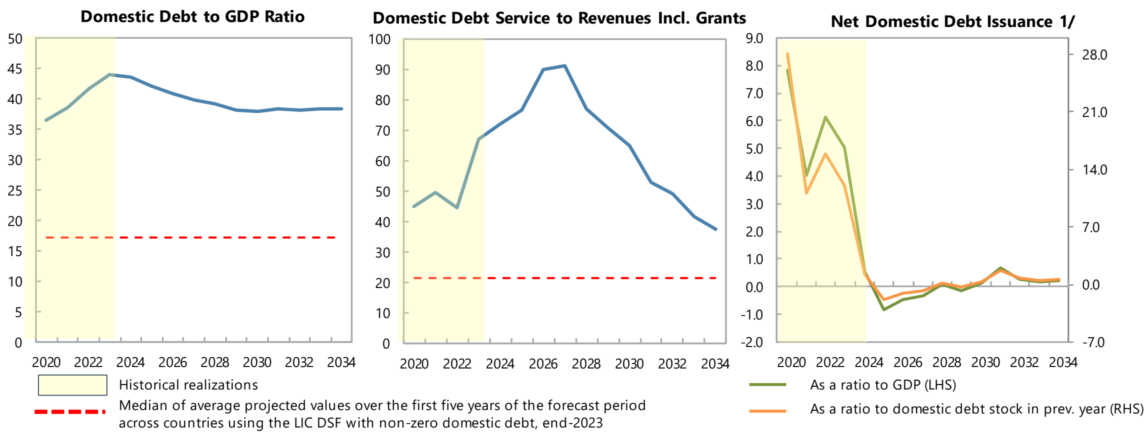
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	16%	16%
Domestic medium and long-term	53%	53%
Domestic short-term	32%	32%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.5%	1.5%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	7	10
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.2%	4.2%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.8%	3.8%

* 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 2034. 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: Indicators of Domestic Public Debt, 2020–34
(in Percent)

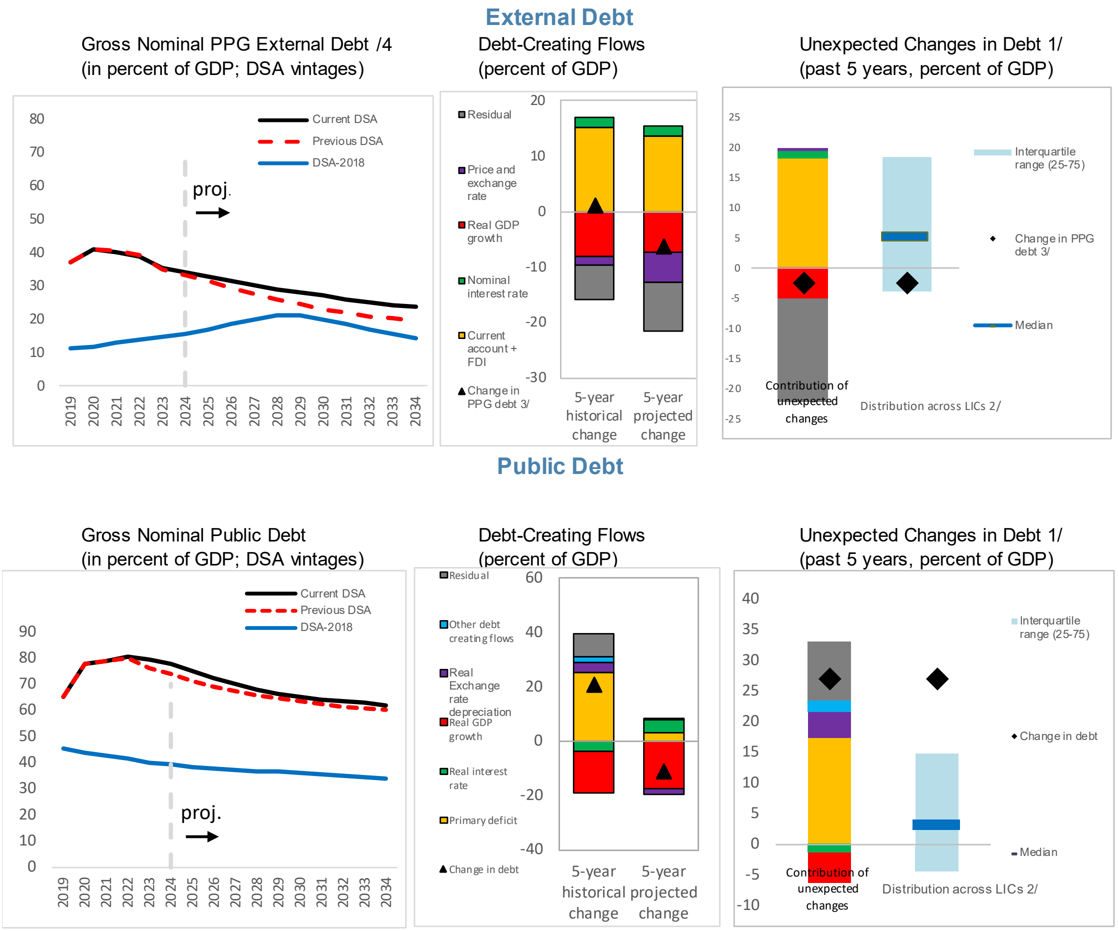


Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	63%
Short-term	37%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	4.2%
Avg. maturity (incl. grace period)	4
Avg. grace period	3
Domestic short-term debt	
Avg. real interest rate	3.8%

Sources: Country authorities; and staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

Figure 4. Guinea-Bissau: Drivers of Debt Dynamics - Baseline Scenario



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

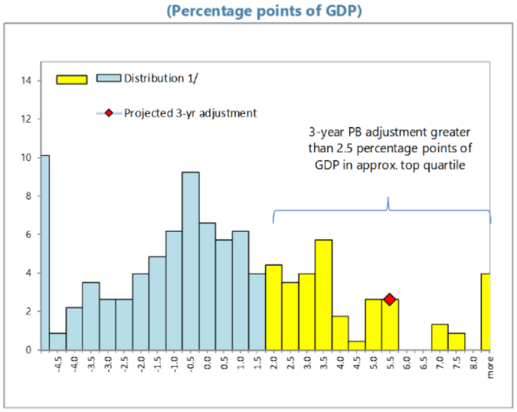
2/ Distribution across LICs for which LIC DSAs were produced.

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

4/ Difference between current and previous DSA due to the reclassification of debt to BOAD as external.

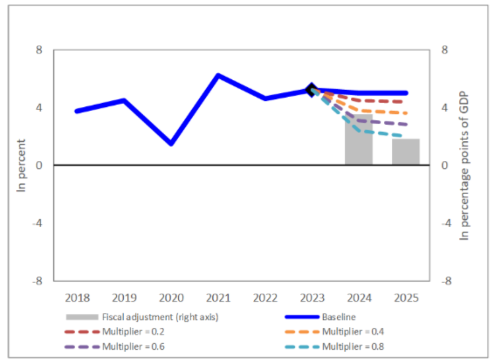
Figure 5. Guinea-Bissau: Realism Tools

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



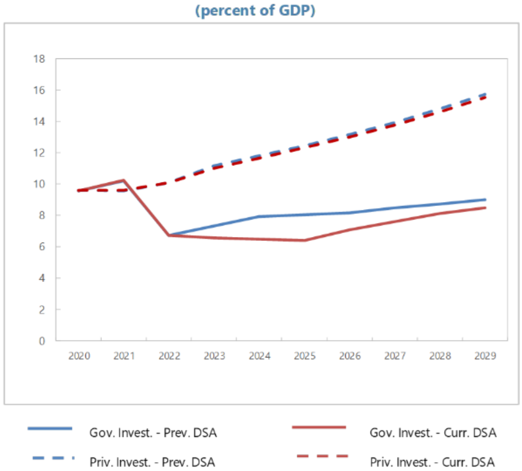
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

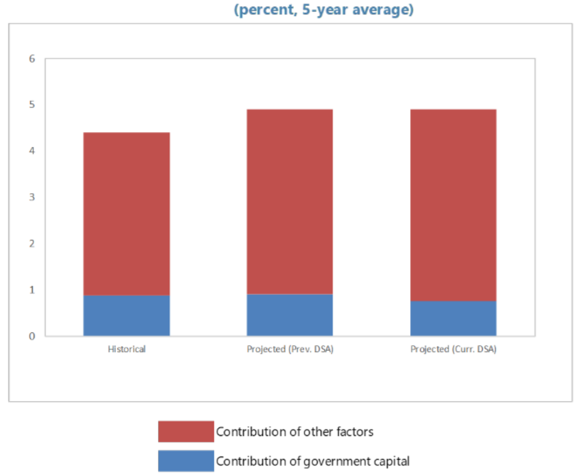
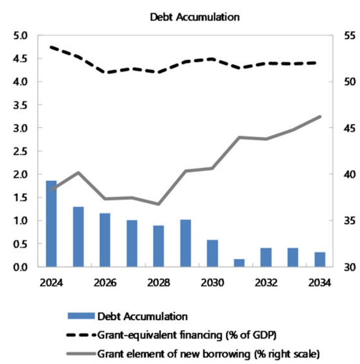


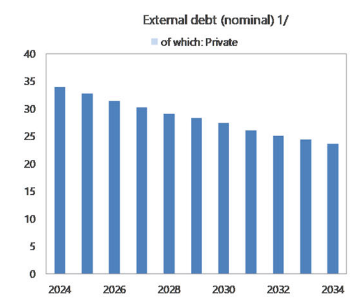
Table 1. Guinea-Bissau: External Debt Sustainability Framework, Baseline Scenario, 2021–44

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	**40.2**	**39.0**	**35.4**	**33.9**	**32.7**	**31.4**	**30.2**	**29.0**	**28.2**	**23.6**	**22.5**	**35.6**	**28.4**
of which: public and publicly guaranteed (PPG)	**40.2**	**39.0**	**35.4**	**33.9**	**32.7**	**31.4**	**30.2**	**29.0**	**28.2**	**23.6**	**22.5**	**35.6**	**28.4**
Change in external debt	-0.8	-1.2	-3.6	-1.4	-1.2	-1.3	-1.2	-1.2	-0.8	-0.8	-0.1		
Identified net debt-creating flows	**-5.5**	**6.9**	**1.0**	**3.5**	**2.3**	**0.7**	**0.6**	**0.8**	**0.8**	**1.0**	**1.0**	**-1.1**	**1.2**
Non-interest current account deficit	**-0.3**	**7.9**	**7.3**	**6.1**	**4.7**	**3.0**	**2.8**	**2.8**	**2.8**	**2.7**	**2.7**	**2.2**	**3.3**
Deficit in balance of goods and services	10.6	17.3	15.3	15.4	14.3	12.5	12.1	11.7	11.5	10.6	8.7	**10.0**	**12.0**
Exports	19.5	16.3	14.2	11.8	11.9	13.8	13.8	13.9	14.0	15.2	13.7		
Imports	30.1	33.6	29.5	27.2	26.2	26.3	25.9	25.6	25.5	25.9	22.4		
Net current transfers (negative = inflow)	-8.8	-8.2	-6.8	-8.1	-8.3	-7.9	-7.7	-7.4	-7.3	-6.5	-5.0	**-6.1**	**-7.3**
of which: official	-2.6	-2.4	-1.4	-2.5	-2.5	-2.3	-2.4	-2.4	-2.4	-2.4	-1.8		
Other current account flows (negative = net inflow)	-2.1	-1.2	-1.3	-1.2	-1.3	-1.6	-1.5	-1.5	-1.5	-1.4	-1.1	**-1.7**	**-1.4**
Net FDI (negative = inflow)	**-1.0**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.8**	**-1.2**
Endogenous debt dynamics 2/	**-4.1**	**0.2**	**-5.1**	**-1.5**	**-1.2**	**-1.2**	**-1.1**	**-0.9**	**-0.8**	**-0.5**	**-0.5**		
Contribution from nominal interest rate	0.6	0.2	0.4	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4		
Contribution from real GDP growth	-2.2	-1.9	-1.7	-1.6	-1.6	-1.5	-1.5	-1.3	-1.2	-0.9	-0.9		
Contribution from price and exchange rate changes	-2.5	1.9	-3.8	...	...	...	...	...	...	...	...		
Residual 3/	**4.7**	**-8.1**	**-4.6**	**-4.9**	**-3.5**	**-2.0**	**-1.8**	**-2.0**	**-1.6**	**-1.8**	**-1.2**	**2.3**	**-2.3**
of which: exceptional financing	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	**22.7**	**22.3**	**21.7**	**21.1**	**20.5**	**20.0**	**19.5**	**15.9**	**14.5**		
PV of PPG external debt-to-exports ratio	...	...	**159.8**	**189.2**	**181.7**	**153.3**	**148.7**	**143.7**	**139.7**	**104.1**	**105.9**		
PPG debt service-to-exports ratio	**17.7**	**5.0**	**12.5**	**8.3**	**9.0**	**7.9**	**8.9**	**8.7**	**8.2**	**8.8**	**8.5**		
PPG debt service-to-revenue ratio	**26.8**	**6.9**	**15.2**	**8.8**	**9.2**	**8.9**	**9.8**	**9.6**	**9.1**	**10.3**	**8.5**		
Gross external financing need (Million of U.S. dollars)	36.7	129.5	157.4	131.0	111.0	76.9	81.6	85.5	89.5	127.0	211.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.2	4.6	5.2	5.0	5.0	5.0	5.0	4.5	4.5	4.0	4.0	**4.3**	**4.6**
GDP deflator in US dollar terms (change in percent)	6.5	-4.5	10.7	4.8	3.5	3.1	2.6	2.7	2.8	2.0	2.0	**1.9**	**2.7**
Effective interest rate (percent) 4/	1.7	0.4	1.2	0.5	1.1	1.2	1.3	1.4	1.5	1.7	1.7	**1.3**	**1.4**
Growth of exports of G&S (US dollar terms, in percent)	44.0	-16.3	1.5	-8.7	10.2	24.8	8.0	7.9	8.1	7.8	4.3	**6.3**	**8.3**
Growth of imports of G&S (US dollar terms, in percent)	17.8	11.7	2.2	1.4	4.8	8.5	6.3	5.9	7.0	7.0	4.2	**8.6**	**6.1**
Grant element of new public sector borrowing (in percent)	...	...	...	38.3	40.2	37.3	37.5	36.8	40.3	46.2	39.4	**...**	**40.9**
Government revenues (excluding grants, in percent of GDP)	12.8	11.8	11.6	11.1	11.7	12.2	12.5	12.6	12.6	13.0	13.8	**11.8**	**12.5**
Aid flows (in Million of US dollars) 5/	153.7	99.9	90.5	104.1	109.1	102.3	112.2	115.7	136.9	209.4	342.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.7	4.5	4.2	4.3	4.2	4.4	4.4	4.3	**...**	**4.4**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	74.3	78.6	78.4	78.4	79.5	79.2	83.8	78.2	**...**	**79.8**
Nominal GDP (Million of US dollars)	1,722	1,721	2,005	2,206	2,398	2,597	2,798	3,004	3,227	4,397	7,934		
Nominal dollar GDP growth	13.1	-0.1	16.5	10.0	8.7	8.3	7.7	7.3	7.4	6.1	6.1	**6.3**	**7.4**
Memorandum items:													
PV of external debt 7/	...	...	22.7	22.3	21.7	21.1	20.5	20.0	19.5	15.9	14.5		
In percent of exports	...	...	159.8	189.2	181.7	153.3	148.7	143.7	139.7	104.1	105.9		
Total external debt service-to-exports ratio	17.7	5.0	12.5	8.3	9.0	7.9	8.9	8.7	8.2	8.8	8.5		
PV of PPG external debt (in Million of US dollars)			**454.8**	**491.9**	**520.4**	**548.1**	**574.3**	**599.3**	**629.8**	**697.7**	**1146.9**		
(PVt-PVt-1)/GDPt-1 (in percent)				**1.9**	**1.3**	**1.2**	**1.0**	**0.9**	**1.0**	**0.3**	**0.7**		
Non-interest current account deficit that stabilizes debt ratio	0.5	9.2	10.9	7.5	5.9	4.3	4.1	4.0	3.6	3.5	2.8		

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





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

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

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

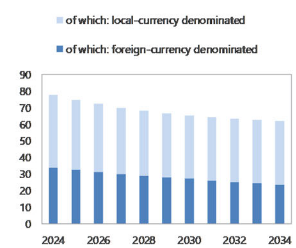
Table 2. Guinea-Bissau: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–44

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	78.8	80.7	79.4	77.6	74.8	72.3	70.0	68.2	66.5	62.1	57.6	66.8	67.9
of which: external debt	40.2	39.0	35.4	33.9	32.7	31.4	30.2	29.0	28.2	23.6	22.5	35.6	28.4
Change in public sector debt	1.2	1.9	-1.3	-1.8	-2.8	-2.5	-2.3	-1.8	-1.7	-0.6	-0.3		
Identified debt-creating flows	2.6	0.8	-2.5	-2.0	-2.8	-2.5	-2.3	-1.8	-1.7	-0.6	-0.3	0.7	-1.6
Primary deficit	4.3	4.7	5.5	2.0	0.2	0.3	0.3	0.6	0.7	0.5	0.6	4.0	0.6
Revenue and grants	19.1	15.2	13.7	14.8	15.4	15.7	16.0	16.1	16.3	16.7	17.3	16.4	16.1
of which: grants	6.3	3.4	2.1	3.7	3.7	3.5	3.6	3.6	3.6	3.7	3.5		
Primary (noninterest) expenditure	23.4	19.9	19.3	16.8	15.5	16.0	16.4	16.7	16.9	17.2	17.8	20.3	16.7
Automatic debt dynamics	-2.0	-4.8	-7.9	-4.0	-2.9	-2.8	-2.6	-2.4	-2.3	-1.1	-0.8		
Contribution from interest rate/growth differential	-5.6	-7.1	-5.5	-3.3	-2.6	-2.5	-2.4	-2.1	-2.1	-0.6	-0.4		
of which: contribution from average real interest rate	-1.1	-3.7	-1.5	0.5	1.1	1.1	1.0	0.9	0.9	1.8	1.8		
of which: contribution from real GDP growth	-4.5	-3.5	-4.0	-3.8	-3.7	-3.6	-3.4	-3.0	-2.9	-2.4	-2.2		
Contribution from real exchange rate depreciation	3.6	2.3	-2.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.3	0.9	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.3	0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-1.4	1.1	1.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3	-0.2
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	65.4	64.8	62.9	61.2	59.6	58.5	57.2	54.1	49.6		
PV of public debt-to-revenue and grants ratio	...	...	476.2	437.1	409.1	389.7	371.8	362.1	352.1	323.6	287.0		
Debt service-to-revenue and grants ratio 3/	67.5	49.9	79.8	78.8	83.4	96.8	99.0	84.6	78.0	45.7	20.1		
Gross financing need 4/	17.5	13.2	16.4	13.7	13.0	15.5	16.2	14.2	13.3	8.1	4.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.2	4.6	5.2	5.0	5.0	5.0	5.0	4.5	4.5	4.0	4.0	4.3	4.6
Average nominal interest rate on external debt (in percent)	1.6	0.5	1.2	0.5	1.1	1.2	1.3	1.4	1.5	1.7	1.7	1.3	1.4
Average real interest rate on domestic debt (in percent)	0.2	-3.6	-1.6	2.8	3.2	3.2	3.1	2.6	2.6	3.8	4.3	-1.2	3.2
Real exchange rate depreciation (in percent, + indicates depreciation)	9.6	6.5	-6.7	...	...	...	...	...	...	...	...	1.5	...
Inflation rate (GDP deflator, in percent)	2.7	7.3	7.9	4.0	2.8	2.8	2.8	2.8	2.8	2.0	2.0	4.0	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	5.6	-11.0	1.8	-8.2	-3.2	8.1	7.5	6.7	5.8	4.5	4.3	11.6	3.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.1	2.8	6.8	3.8	2.9	2.8	2.6	2.4	2.3	1.1	0.8	4.2	2.2
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		

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

Public sector debt 1/



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, 2024–34

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	22	22	21	21	20	20	19	18	17	17	16
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	22	20	19	18	17	17	15	14	12	11	10
B. Bound Tests											
B1. Real GDP growth	22	23	23	22	22	21	20	19	18	18	17
B2. Primary balance	22	22	22	22	21	21	21	20	19	19	19
B3. Exports	22	23	25	24	24	23	22	21	20	20	19
B4. Other flows 3/	22	25	27	26	26	25	24	23	22	22	21
B5. Depreciation	22	27	23	22	22	21	21	19	19	18	17
B6. Combination of B1-B5	22	27	27	27	26	25	24	23	22	22	21
C. Tailored Tests											
C1. Combined contingent liabilities	22	23	22	22	21	21	21	20	19	19	18
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	22	22	22	21	21	20	19	17	16	15	14
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	**189**	**182**	**153**	**149**	**144**	140	133	125	117	110	104
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**189**	**171**	**141**	133	125	118	108	96	85	75	66
B. Bound Tests											
B1. Real GDP growth	**189**	**182**	**153**	**149**	**144**	140	133	125	117	110	104
B2. Primary balance	**189**	**186**	**162**	**159**	**154**	**152**	**148**	**140**	133	127	122
B3. Exports	**189**	**220**	**275**	**266**	**257**	**249**	**238**	**224**	**210**	**199**	**188**
B4. Other flows 3/	**189**	**209**	**198**	**191**	**185**	**179**	**171**	**161**	**152**	**144**	136
B5. Depreciation	**189**	**182**	134	130	126	122	116	108	101	95	90
B6. Combination of B1-B5	**189**	**227**	**181**	**238**	**230**	**223**	**213**	**200**	**188**	**178**	**169**
C. Tailored Tests											
C1. Combined contingent liabilities	**189**	**189**	**162**	**158**	**153**	**152**	**147**	138	131	125	120
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	**189**	**182**	**158**	**154**	**148**	**142**	132	120	108	98	89
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	8	9	8	9	9	8	**11**	**11**	10	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	8	9	8	9	9	8	**11**	**11**	10	9	8
B. Bound Tests											
B1. Real GDP growth	8	9	8	9	9	8	**11**	**11**	10	9	9
B2. Primary balance	8	9	8	9	9	8	**12**	**11**	**10**	10	9
B3. Exports	8	**10**	**12**	**15**	**14**	**13**	**18**	**17**	**16**	**15**	**14**
B4. Other flows 3/	8	9	8	10	10	9	**12**	**12**	**11**	10	9
B5. Depreciation	8	9	8	8	8	8	**11**	**11**	9	9	8
B6. Combination of B1-B5	8	10	**12**	**13**	**13**	**12**	**16**	**16**	**14**	**13**	**13**
C. Tailored Tests											
C1. Combined contingent liabilities	8	9	8	9	9	8	**12**	**11**	**10**	10	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	8	9	8	9	9	9	**12**	**11**	**10**	10	9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	9	9	9	10	10	9	13	12	11	11	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	9	9	9	10	10	9	13	12	11	10	10
B. Bound Tests											
B1. Real GDP growth	9	10	10	11	10	10	14	13	12	12	11
B2. Primary balance	9	9	9	10	10	9	13	13	12	11	11
B3. Exports	9	9	9	11	10	10	13	13	12	11	11
B4. Other flows 3/	9	9	10	11	11	10	14	13	12	12	11
B5. Depreciation	9	12	11	12	11	11	**15**	**15**	13	13	12
B6. Combination of B1-B5	9	10	11	12	11	11	**15**	**14**	13	12	12
C. Tailored Tests											
C1. Combined contingent liabilities	9	9	9	10	10	9	13	13	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	9	12	12	13	12	11	**14**	13	12	11	11
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, 2024–34
(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	**65**	**63**	**61**	**60**	**58**	**57**	**56**	**56**	**55**	**55**	**54**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**66**	**67**	**68**	**69**	**71**	**71**	**72**	**73**	**73**	**74**	**75**
B. Bound Tests											
B1. Real GDP growth	**66**	**67**	**68**	**67**	**67**	**66**	**66**	**66**	**66**	**67**	**67**
B2. Primary balance	**66**	**69**	**73**	**71**	**69**	**68**	**67**	**66**	**65**	**64**	**63**
B3. Exports	**65**	**64**	**65**	**63**	**62**	**61**	**60**	**59**	**58**	**58**	**57**
B4. Other flows 3/	**65**	**66**	**67**	**66**	**64**	**63**	**62**	**61**	**60**	**60**	**59**
B5. Depreciation	**66**	**66**	**63**	**61**	**59**	**57**	**55**	**53**	**52**	**50**	**49**
B6. Combination of B1-B5	**66**	**67**	**66**	**63**	**61**	**60**	**58**	**57**	**56**	**55**	**55**
C. Tailored Tests											
C1. Combined contingent liabilities	**66**	**73**	**71**	**69**	**68**	**66**	**65**	**64**	**63**	**62**	**62**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**66**	**68**	**71**	**74**	**76**	**78**	**78**	**78**	**77**	**77**	**77**
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	437	409	390	372	362	352	345	339	333	329	324
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	444	436	435	434	439	442	446	449	453	458	461
B. Bound Tests											
B1. Real GDP growth	444	430	427	413	407	401	398	396	394	395	393
B2. Primary balance	444	450	463	441	430	418	408	400	392	387	379
B3. Exports	437	415	413	394	383	372	365	358	351	347	341
B4. Other flows 3/	437	430	429	408	397	386	378	371	364	360	353
B5. Depreciation	444	441	411	386	371	354	342	330	318	309	299
B6. Combination of B1-B5	444	438	421	391	379	367	358	349	341	336	329
C. Tailored Tests											
C1. Combined contingent liabilities	444	477	453	432	421	407	398	390	383	377	370
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	444	539	545	551	534	512	490	465	461	460	455
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	79	83	97	99	85	78	75	63	58	50	46
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	79	83	104	110	97	100	101	93	89	86	86
B. Bound Tests											
B1. Real GDP growth	79	86	104	108	93	88	87	75	71	64	61
B2. Primary balance	79	83	110	118	95	99	104	82	70	65	64
B3. Exports	79	83	97	100	85	78	75	63	58	50	46
B4. Other flows 3/	79	83	97	100	86	79	75	63	58	51	46
B5. Depreciation	79	80	93	94	82	75	72	62	57	50	45
B6. Combination of B1-B5	79	82	96	106	87	79	84	68	60	51	49
C. Tailored Tests											
C1. Combined contingent liabilities	79	83	119	109	91	108	95	75	66	67	61
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	79	103	130	139	119	116	113	98	91	84	81
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Annex I. Debt Holder Profile Table

Guinea-Bissau: Public Debt Holder Profile, 2023–25[1]

	Debt Stock (end of period)			Debt Service					
	2023			2023	2024	2025	2023	2024	2025
	(In US$ million)	*(Percent of total debt)*	*(Percent of GDP)* [5]	*(In US$ million)*			*(Percent of GDP)*		
Total	1,604.7	100.0	79.4	216.7	256.9	134.8	10.8	11.6	5.6
External	714.8	44.5	35.4	34.8	21.7	25.2	1.7	1.0	1.1
Multilateral creditors[2]	585.4	36.5	29.0	31.2	17.4	21.2	1.6	0.8	0.9
IMF	53.3	3.3	2.6						
World Bank	215.9	13.5	10.7						
AfDB	57.4	3.6	2.8						
BOAD	204.4	12.7	10.1						
Other Multilaterals	54.4	3.4	2.7						
o/w: Islamic Development Bank	23.6	1.5	1.2						
BADEA	9.2	0.6	0.5						
Bilateral Creditors	129.4	8.1	6.4	3.6	4.3	4.1	0.2	0.2	0.2
Paris Club	9.3	0.6	0.5	0.5	1.3	1.4	0.0	0.1	0.1
o/w: Brazil	1.9	0.1	0.1						
Russia	1.5	0.1	0.1						
Non-Paris Club	120.0	7.5	5.9	3.1	3.0	2.7	0.2	0.1	0.1
o/w: Angola	49.1	3.1	2.4						
Kuwait	28.9	1.8	1.4						
EximBank India	22.1	1.4	1.1						
Saudi Fund	13.1	0.8	0.6						
Libya	4.6	0.3	0.2						
Pakistan	2.2	0.1	0.1						
Domestic	889.9	55.5	44.0	181.8	235.2	109.6	9.1	10.7	4.6
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Regional T-bills	534.1	33.3	26.4	128.6	206.8	92.2	6.4	9.4	3.8
BCEAO	215.1	13.4	10.6	1.2	1.2	4.9	0.1	0.1	0.2
Loans local commercial banks[3]	118.6	7.4	5.9	40.7	8.7	8.8	2.0	0.4	0.4
Payment Arrears	22.1	1.4	1.1	11.3	18.4	3.7	0.6	0.8	0.2
Memo items:									
Collateralized debt[4]	0	0.0	0.0						
Contingent liabilities	31.2	1.9	1.5						
Public guarantees	31.2	1.9	1.5						
Nominal GDP	2,005.1			2,005.1	2,206.0	2,398.2			

1/ As reported by the country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).
3/ Including public guarantees.
4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.
5/ Calculated based on the amounts in CFA francs.

Statement by the Staff Representative on Guinea-Bissau
December 16, 2024

This staff statement provides an update on information since the Staff Report was issued. This information does not change the thrust of the staff appraisal.

All three prior actions have been met. The following actions have been taken by the authorities since the issuance of the Staff Report:

- **Revenue and expenditure measures for 2024.** The Technical Committee of Arbitration of Budgetary Expenditure (COTADO) approved domestic primary expenditure for November and December 2024 within the spending limits in Memorandum of Economic and Financial Policy (MEFP) Text Table 1. The authorities also collected CFAF 1.3 billion of tax arrears by end-November 2024.

- **The draft 2025 budget.** The Council of Ministers approved on November 28, 2024 the draft 2025 budget law in line with the program parameters and including: (i) five revenue measures described in MEFP ¶9; (ii) prohibition of government guarantees other than those on state-owned enterprises and ongoing infrastructure projects; and (iii) requirements of the approval by the Minister of Finance of disbursement requests for external project loans within the budget limits.

- **Cost recovery of the public utility company.** The *Electricidade e Águas da Guiné-Bissau* (EAGB) terminated on December 15, 2024 the power purchase agreement with Karpower, restoring cost recovery for EAGB effectively in December 2024.

Statement by Ouattara Wautabouna, Executive Director for Guinea-Bissau, and Romao Lopes Varela, Advisor to the Executive Director
December 16, 2024

Introduction

On behalf of the Bissau-Guinean authorities, we would like to extend our gratitude to Staff for their invaluable collaboration, insightful policy discussions, and strong support in navigating the intricate economic challenges confronting the country. Amid persistent fragility, the authorities are particularly appreciative of the steadfast support from their partners and the continued guidance and assistance from the Board, Management, and Staff, which have been instrumental in achieving recent gains in economic stabilization and strengthening national institutions.

The authorities have made significant strides in addressing the multitude of economic disarray and political tension, including adverse shocks to cashew exports. Their resolute actions demonstrate unwavering commitment to strong program performance and in tackling these challenges in support of robust, stable, and inclusive economic growth. They will continue to take decisive measures to keep the country on its fiscal consolidation path, reduce public debt, and meet essential social and developmental demands.

Recent Economic Developments and Outlook

Recent Developments

Despite the ongoing challenges and drop in cashew exports, Guinea-Bissau's economy has shown resilience, with growth prospects for 2024 remaining strong. Real GDP growth is expected to hold steady at 5 percent, fueled by rising producer prices for cashews, which have doubled since 2023. Public and private investments continue to thrive, especially in the energy sector and a new airport terminal. Average inflation is expected to stabilize at 4.2 percent, reflecting the reversal of rice and fuel price subsidies introduced in May 2024. The current account deficit is projected at 7.4 percent of GDP in 2024, an improvement from last year despite being higher than previous estimates. Increased remittances have offset the dwindling effects of lower cashew nut export volumes and prices. The government is actively using the regional bond market to meet financing needs and the disbursements from the Extended Credit Facility (ECF), which have been crucial in this regard.

The authorities' fiscal consolidation efforts are commendable, highlighting their commitment to fiscal discipline by maintaining the domestic primary deficit at 1.2 percent of GDP in 2024, as previously agreed. Nevertheless, the increase in the overall deficit by 1.2 percentage points is primarily driven by rising global borrowing costs and lower-than-anticipated budget support, issues affecting nations worldwide. Additionally, due to invoice processing delays, the need for higher disbursements for critical foreign-financed infrastructure projects, also contributed to this increase. Public debt as a percent of GDP is projected to moderate to 77.6 percent by the end of 2024, from 79.4 percent recorded in 2023.

The authorities recognize the challenges faced by the financial sector in 2023, notably from external factors like the poor cashew harvest, which impacted credit availability and increased non-performing loans. They are mindful that addressing these issues requires implementing strategies to diversify the economy, enhance the business environment, and improve financial stability. Furthermore, the authorities stand ready to implement any proposal from regional supervisory bodies to strengthen the sector's resilience. They remain committed to transparency and will provide updated financial indicators as soon as they become available.

Outlook and Risks

Looking ahead, the authorities are enacting a series of strategic reforms to drive economic growth and foster a favorable business environment. Supported by the ECF arrangement, these initiatives aim to reduce vulnerabilities while promoting investment and improving governance. The projected GDP growth rate of about 5 percent in the medium-term is based on these reforms, and the expected inflation stabilization at around 2 percent reflects a commitment to price stability. Additionally, efforts to reduce the current account deficit to approximately 4 percent of GDP underscore a focus on fiscal consolidation and improved trade terms. However, the authorities are well aware of the potential risks stemming from political instability, limited state capacity, terms-of-trade shocks, adverse weather conditions, and tighter financial conditions. Therefore, they remain committed to maintaining strong reform momentum to ensure strong and inclusive economic growth and mitigate risks to the outlook. They are also prepared to consider further expenditure rationalization and seek additional donor funding to address these challenges.

Program Performance

The authorities have successfully met all nine Quantitative Performance Criteria (QPC) and both Indicative Targets for June 2024, highlighting their steady commitment to fiscal discipline and program objectives. This consistent observance of performance benchmarks reflects prudent management, considering the difficulties brought on by the downturn in cashew exports. The authorities have taken decisive measures to avert future technical difficulties that previously caused the missed QPC on external arrears during the last review. Their rapid response with support from staff illustrates their openness to learn from past experiences and adapt strategies to improve the debt management process.

They have diligently met all three Structural Benchmarks (SBs) for end-June, along with both continuous SBs. Four out of seven SBs for August-September 2024 were met or completed, although with delays in certain cases. The authorities have strengthened the Technical Committee of Arbitration of Budgetary Expenditure (COTADO) by requiring the Prime Minister's prior approval for key expenditures under the Budget Law. They also ensured timely payment instructions for external debt services. Meeting these continuous SBs following the sixth review reflects their determination to tighten discretionary spending, improve expenditure controls, and address external debt service arrears risks. The authorities agree that one missed SB will be rescheduled, and another will be replaced with a new one.

Policies and Reforms for 2025 and the Medium-Term

Strengthening Fiscal and Debt Sustainability

The authorities are implementing several key fiscal consolidation measures in response to declining export revenues, aiming to achieve their program targets and reduce debt. Despite the decrease in export revenue caused by lower cashew earnings and logistical challenges at the main port, the authorities remain committed to meeting the domestic primary deficit target for 2024. To this end, they have made remarkable efforts to collect outstanding tax arrears from the tax office (DGCI). As a result, initial data suggest they have recovered slightly more than expected for November. Additionally, they are stepping up their efforts to compare customs documentation to combat smuggling. The authorities held a productive discussion with the EU to expedite EU fishing compensation, resulting in an agreement for an additional EUR 1.6 million annually, with disbursement expected soon. Furthermore, they have followed through on their commitment to cut expenditures by 0.6 percent of GDP. They have prioritized continued enforcement of strict expenditure controls, including the approval of spending by COTADO within predefined limits while limiting non-essential expenses to ensure that resources are directed toward much-needed priority areas.

Going forward, the authorities' approach in the 2025 budget reflects their decisive efforts to consolidate their fiscal position through enhanced revenue mobilization and better expenditure management. The 2025 budget, recently approved by the Council of Ministers, aims to bring down the deficit to 3 percent of GDP, which aligns with the WAEMU criterion. The authorities are mindful that revenue could fall by 1.3 percent of GDP without intervention due to lower cashew revenue, reduced tax compliance during elections, and smaller BCEAO dividends. To address this, they introduced significant measures to support the revenue target in the 2025 budget that is expected to generate an extra 0.7 percent of GDP. This includes adjusting the taxable value of goods, such as raising tax reference prices for cashew, cement, and used cars, along with reducing tax and customs exemptions. Improved border controls and linking major taxpayers' billing systems to the DGCI also aim to improve fiscal position. The authorities are also focusing on the use of digital technologies to combat smuggling and ensuring that VAT implementation aligns with broader tax reforms while mitigating potential revenue losses, beginning from next year. *On the expenditure side*, the authorities recognize the challenges ahead, particularly in the election year, where demands for increased spending are high. However, they are fully committed to maintaining strong expenditure controls, vital for achieving the 2025 fiscal deficit target. In this regard, the 2025 budget also plans a 1.4 percent reduction in overall spending despite election-year pressures. They will uphold tight wage bill management and continue adhering to ongoing COTADO standards to avoid overruns while strengthening budget execution.

The authorities continue to prioritize Public Financial Management (PFM) reforms as they strive to meet their fiscal objectives. They are implementing measures for the public workers census, cash management, and public investment management. To this end, a comprehensive census of public workers is set to be completed by the end of December, and it is expected to yield significant savings. The Public Investment Program is being updated for better oversight, with monthly reporting enforced for major projects.

The authorities firmly believe that their strong commitment to fiscal discipline and robust project loan controls significantly reduce the risks associated with debt distress. The anticipated decline in public debt as a percentage of GDP reflects their firm commitment to meeting the program's targets and achieving the WAEMU criteria of 70 percent of GDP by 2027. By strategically suspending under-executed and non-priority projects, they demonstrate a clear focus on upholding sustainable debt levels. Additionally, the implementation of rigorous approval processes for external loan disbursements ensures strict adherence to established borrowing limits and controls, further strengthening their budget management framework.

Mitigating Fiscal Risks

The government is implementing strong measures to reduce the financial risks associated with the public utility company, *Eletricidade e Águas da Guiné-Bissau (EAGB*). To achieve cost recovery for EAGB by December 2024, the government has recognized the urgency of addressing the financial strain caused by Karpower's fixed capacity fee, which has led to significant monthly losses for EAGB, despite the transition to electricity sourced solely from the OMVG hydropower project since August 2024. In addition, the government has implemented measures to enhance EAGB's revenue, such as eliminating free electricity for employees and ceasing wrongful tariff interference while addressing the vital need for investment and maintenance of energy infrastructure. To further this effort, the authorities plan to install additional 16,000 pre-paid meters, enforce tariff collections from major clients, secure backup power supplies from regional partners, and complete essential transmission line projects, emphasizing their commitment to restoring financial stability and infrastructure integrity in the energy sector.

Enhancing the Integrity of the Financial Sector

The authorities have made substantial progress in withdrawing from the undercapitalized bank while prioritizing the financial system's integrity. The submission of the investor's purchase offer to the WAMU Banking Commission and provision of the necessary financial information requested, demonstrate the commitment of all parties to moving forward with the process. The government expects the regional body to review and approve the submission by March 2025. Meanwhile, the third-party audit is still underway due to the complexity of the work and the need for a thorough evaluation of the bank's assets, viability, and solvency. However, they plan to submit their findings to the government before the end of this year. Should there be any unexpected delays in the disinvestment process, the authorities are prepared to propose a robust resolution plan in line with Fund recommendations.

Strengthening Governance

The authorities are making significant progress in enhancing transparency in beneficial ownership and public procurement. The Directorate-General of Public Tenders (DGCP) is publishing beneficial ownership data and developing a register for existing concession contracts, due by December 2024. Meanwhile, the Center of Formalization of Enterprises (CFE) plans to conduct census of companies and is currently gathering ownership information for its company register. With ongoing assessments of government assets and a focus on governance reforms following the new Parliament's formation, the Audit Court is also set to resume key audits on COVID-19 spending and other irregularities, demonstrating a strong commitment to accountability.

Conclusion

The Bissau-Guinean authorities have made tough choices to tackle the ongoing challenges and have demonstrated strong ownership to the program. However, they are cognizant that much work remains to effectively advance their development agenda and achieve profound gains in poverty reduction. As they face these challenges in the coming period, the authorities are steadfast in their commitment to implement critical reforms aimed at establishing political and institutional stability and achieve fiscal consolidation under the Fund-supported program. Given the significant progress made so far and the bold measures taken to keep the program on track, we would appreciate Executive Directors' support for the completion of the seventh review under the ECF-supported program. Additionally, we seek Board endorsement of the authorities' requests for modification of performance criteria and the completion of the financing assurance review.