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June 2022

2022 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE STAFF-MONITORED PROGRAM; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA-BISSAU

In the context of the 2022 Article IV Consultation and Third Review Under the Staff Monitored Program, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF following discussions that ended on April 21, 2022, with the officials of Guinea-Bissau on economic developments and policies. Based on information available at the time of these discussions, the Staff Report was completed on June 2, 2022.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Informational Annex**
- A Statement by the Executive Director for Guinea-Bissau.

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PRESS RELEASE

PR22/214

IMF Management Completes Third Review of the Staff-Monitored Program and IMF Executive Board Concludes 2022 Article IV Consultation with Guinea-Bissau

FOR IMMEDIATE RELEASE

- Guinea-Bissau's economy has recovered well from the Covid-19 pandemic. Growth is projected to reach 3.8 percent in 2022 supported by a continued strong performance of the cashew sector and a relatively stable political situation.

- The successful completion of the Staff Monitored Program (SMP) reflects the authorities' efforts to sustain strong fiscal management and to build a policy track record for an Extended Credit Facility (ECF) arrangement.

- The authorities recognize that sustained medium-term economic growth would benefit from additional governance reforms and economic diversification. Actions needed include increasing social spending to address human capital needs, improving the regulatory environment, increasing access to financial services, removing infrastructural bottlenecks, and maintaining political stability.

Washington, DC – June 20, 2022: IMF Management approved on May 25, 2022 the completion of the third and final review of Guinea Bissau's SMP[1] which was approved on July 19, 2021 to support an ambitious program of reforms aimed at stabilizing the economy, improving competitiveness, and strengthening governance.

The completion of the third and final review of the SMP is based on an overall satisfactory performance of the reform program despite the challenges caused by the COVID-19 pandemic and rising commodity prices associated with the war in Ukraine. Most quantitative targets assessed at end-March 2022 and structural benchmarks were met.

The authorities are committed to pursue fiscal consolidation in line with the 2022 budget objectives to continue securing overall debt sustainability. Combined with the successful conclusion of the SMP, this should provide a strong backing to the authorities' reform program and help catalyzing much-needed donor support. It is also essential to create more room for spending on pro-growth areas such as education, physical infrastructure, and health including vaccination-. The authorities are rightly determined to rein in the wage bill by finalizing the census of the public administration personnel and addressing irregular hiring. It is also necessary to mitigate fiscal risks stemming from state-owned enterprises, which could erode debt sustainability.

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

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Further addressing governance vulnerabilities and reducing corruption risks will strengthen economic policy and business confidence**.** Ongoing reforms aim at enhancing public finance transparency, accountability and efficiency through enhanced domestic revenue and expenditure management. A critical governance reform of public finances is the gradual establishment of a Treasury Single Account. The implementation of the amended asset declaration regime once approved by Parliament, and the strengthening of resources for the audit court, the financial intelligence unit and the public procurement authority could also be significant factors in enhancing governance oversight.

On June 17, 2022 the Executive Board of the International Monetary Fund (IMF) also concluded the 2022 Article IV consultation[2] with Guinea-Bissau.

After years of political turmoil and delayed reforms, the authorities started implementing in 2021 an ambitious fiscal consolidation and reform program to ensure debt sustainability, create fiscal space to address developmental needs, and strengthen state capacity.

Following a modest GDP growth of 1.5 percent in 2020, growth is estimated to have accelerated to 5 percent in 2021 on the back of record cashew nut production, public investment in infrastructure, the gradual lifting of COVID containment measures, and an improvement in business confidence associated with a more stable political situation. Average inflation accelerated to 3.3 percent in 2021, reflecting pressures on prices of imported goods, especially food and fuel due to disruptions in global supply chain and increase in maritime transportation costs.

A continued strong performance of the cashew sector and a relatively stable political support a moderate economic recovery this year, partially offsetting the effects of the COVID-19 pandemic and surge in energy and food prices associated with the war in Ukraine. Growth is expected to slow down to about 3.8 percent while average inflation is expected to accelerate to 5.5 percent in 2022, reflecting renewed pressures on prices of imported goods, especially food and fuel. The overall macroeconomic outlook is turning somewhat positive, but risks are tilted to the downside, including those stemming from the impact of the ongoing war in Ukraine, and the upcoming parliamentary elections at the national level.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' implementation of their fiscal consolidation and reform program under the SMP, as well as their successful vaccination campaign, despite challenging conditions. Directors noted the crucial role of the Rapid Credit Facility (RCF) and SDR allocation, underpinned by the SMP, in helping to address the adverse impact of the pandemic, improve spending transparency, and mitigate debt vulnerabilities. They stressed the need to sustain fiscal consolidation and accelerate reforms, including in governance, to promote inclusive growth and diversification.

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[2] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Directors recommended standing ready to implement additional measures should downside risks materialize, including from a protracted pandemic, food inflation, and climate shocks. They welcomed the authorities' request for an ECF arrangement to continue supporting the government's reform program and catalyzing much needed donor support.

Noting the country's debt vulnerabilities, limited fiscal space, and large development needs, Directors stressed the importance of revenue mobilization, non-priority expenditure control, and reliance on grants and highly concessional loans to support social and infrastructure spending. They welcomed in this regard measures to rein in the wage bill and mobilize additional tax revenue, including recent revisions to the general tax code and VAT statute, and the planned removal of distortionary tax exemptions and reform of the income tax regime. Directors encouraged the authorities to continue tax administration and public financial management reforms to underpin the efficient and transparent management of public resources. Strengthening debt management is also important to prevent new arrears accumulation, while improving governance of the utility state-owned enterprise is critical to mitigate fiscal risks.

Directors underlined the importance of fostering financial intermediation to boost growth. To this end, they urged measures to promote financial inclusion and manage banking sector vulnerabilities, including by addressing NPLs and designing a viable disengagement strategy of the large, undercapitalized bank.

Directors called for swift implementation of reforms to enhance the business climate, governance, and transparency. They welcomed the authorities' commitment to publishing audits of pandemic-related spending and public procurement contracts, and the amendment of the legal procurement framework. Directors encouraged the authorities to implement the new asset declaration regime and increase resources for the audit court, financial intelligence unit, and public procurement authority. They also called for strengthening the AML/CFT framework and general data provision.

It is expected that the next Article IV consultation with Guinea-Bissau will be held on the standard 12-month cycle.

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026
			Prel.			Proj.		
National accounts and prices								
Real GDP at market prices	4.5	1.5	5.0	3.8	4.5	5.0	5.0	5.0
Real GDP per capita	2.3	-0.7	2.7	1.5	2.3	2.8	2.9	2.9
GDP deflator	-3.5	-1.0	2.7	2.8	2.8	2.8	2.8	2.8
Consumer price index (annual average)	0.3	1.5	3.3	5.5	4.0	3.0	2.0	2.0
External sector								
Exports, f.o.b. (CFA francs)	-22.7	-15.6	28.4	7.1	9.2	4.3	3.2	3.5
Imports, f.o.b. (CFA francs)	20.5	-9.4	13.3	13.4	1.9	2.4	3.1	4.7
Terms of trade (deterioration = -)	-31.4	-3.7	-6.8	-15.7	6.1	4.8	2.8	2.5
Real effective exchange rate (depreciation = -)	-2.8	2.3	1.4	...	...	...	...	...
Exchange rate (CFAF per US$; average)	585.9	574.8	554.2	...	...	...	...	...
Government finances								
Revenue excluding grants	9.2	-5.5	22.7	4.7	17.0	9.7	9.0	7.3
Expenditure	-2.6	33.8	7.9	-9.9	11.4	4.3	6.0	7.6
Current expenditure	18.7	14.5	3.5	-4.8	6.7	5.4	7.1	7.1
Capital expenditure	-38.5	96.7	16.1	-18.4	20.7	2.5	4.0	8.4
Money and credit								
Domestic credit	13.8	-1.7	18.5	2.3	11.0	11.2	8.1	8.2
Credit to the government (net)	13.8	-19.7	53.4	-8.9	6.6	5.6	-7.3	-8.9
Credit to the economy	13.8	5.9	7.3	7.4	12.8	13.3	13.3	13.0
Net domestic assets	12.0	-13.8	21.0	3.4	16.3	15.8	10.9	10.8
Broad money (M2)	0.3	9.1	7.6	2.7	4.2	4.7	5.7	6.3
Investments and savings								
Gross investment	19.2	20.1	21.6	21.6	23.1	23.4	23.9	24.7
Of which: government investment	3.0	5.8	6.3	4.8	5.4	5.1	4.9	5.0
Gross domestic savings	5.4	5.7	7.5	6.1	9.4	10.7	11.8	12.8
Of which: government savings	-3.5	-7.6	-5.5	-3.1	-2.3	-2.0	-1.6	-1.6
Gross national savings	10.7	17.4	18.4	15.1	18.4	18.9	19.7	20.6
Government finances								
Revenue excluding grants	12.1	11.4	13.0	12.7	13.9	14.1	14.2	14.2
Domestic primary expenditure	13.5	16.0	14.9	14.2	14.3	13.6	13.5	13.7
Domestic primary balance	-1.4	-4.6	-1.9	-1.5	-0.4	0.5	0.7	0.4
Overall balance (commitment basis)								
Including grants	-3.9	-9.6	-5.7	-4.4	-4.0	-3.5	-3.0	-3.0
Excluding grants	-6.7	-13.6	-12.1	-8.4	-8.1	-7.1	-6.6	-6.6
External current account	-8.5	-2.7	-3.2	-6.5	-4.7	-4.5	-4.2	-4.1
Excluding official current transfers	-9.7	-5.8	-6.0	-8.6	-7.3	-6.7	-6.4	-6.3
Stock of public and publicly guaranteed debt[1]	64.0	76.5	78.5	78.4	76.4	73.9	71.2	68.8
Of which: external debt	36.5	40.4	40.1	40.3	37.7	35.4	32.8	30.4
Memorandum items:								
Nominal GDP at market prices (CFAF billions)	870.9	875.2	943.7	1006.5	1081.3	1167.1	1259.8	1359.8
WAEMU gross official reserves (billions of US$)	17.5	21.8	24.5	...	...	...	...	...
(percent of broad money)	34.1	33.2	30.2	...	...	...	...	...

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

[1] Coverage expanded to include legacy arrears.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

June 2, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE STAFF-MONITORED PROGRAM

EXECUTIVE SUMMARY

Context. After years of political turmoil and delayed reforms, the authorities started implementing in 2021 an ambitious fiscal consolidation and reform program to ensure debt sustainability, create fiscal space to address developmental needs and strengthen state capacity. A Rapid Credit Facility (RCF) disbursement of SDR 14.2 million (50 percent of quota) was approved in January 2021 to provide urgent financing to support critical spending in health. A 9-month Staff-Monitored Program (SMP) with three quarterly reviews was approved in July 2021 to support the government's reform program aimed at stabilizing the economy, strengthening governance, and building track record of policy implementation to underpin the authorities' request for an Extended Credit Facility (ECF) arrangement. The August 2021 SDR 27.2 million allocation and the reforms underpinned by the SMP have helped address the adverse impact of the pandemic, improve government spending transparency, mitigate debt vulnerabilities.

Policy challenges: Sustained and inclusive growth will require strengthening governance as well as revenue mobilization to enable priority and infrastructure spending. High levels of non-performing loans and a large undercapitalized bank need to be addressed to bolster financial intermediation. Also, diversification is needed to create job opportunities and reduce reliance on the cashew nut sector.

SMP review. Program performance at end-December 2021 towards establishing a track record was satisfactory. Five out of seven end-December quantitative targets were met. The two QTs of zero ceilings on new domestic and external arrears were missed because of the hiring of irregular workers in the health sector and operational issues in small external debt payments. One out of eleven structural benchmarks (SB) relating to design a credible exit strategy from a large public bank was missed but authorities are committed to completing the design in consultation with the Fund.

Staff views. Staff supports completion of the 2022 Article IV Consultation and the third review under the SMP based on program performance and the polices outlined in the attached Letter of Intent (LOI). The 2022 budget and its execution, and the implementation of the tax reform package approved by parliament supports the envisaged fiscal consolidation path. Downside risks remain, including a more protracted high energy and food prices and pandemic that could trigger social tensions and political instability.

Approved By

Montfort Mlachila (AFR) and Eugenio Cerutti (SPR)

An IMF team consisting of Jose Gijon (Head), Pedro Juca Maciel, Leonardo Pio Perez, Tomas Picca, Harold Zavarce (all AFR), Koon Hui Tee and Paulo Paz (FAD), Patrick Gitton (Resident Representative) and Gaston Fonseca (local economist) held discussions with the authorities. The mission met with H.E. President Sissoco Embaló, Prime Minister Nabiam, Vice-Prime Minister Sambú, the Minister of Finance Fadia, BCEAO National Director Embalo, Minister of Environment and Biodiversity Cassamá, Minister of Energy, Industry and Natural Resources Viegas, Minister of Public administration, Labor, Employment and Social Security Djaló, BCEAO National Director Embaló, President of the Court of Auditors Baldé, Members of the Economic Commission of the National Popular Assembly and High Commission for COVID-19. The team also met with officials from the Ministries of Finance, Economy, the National Institute of Statistics, the National Direction of the BCEAO, the National Institute of Statistics, the Financial Intelligence Unit, and other officials. In addition, the mission met representatives from private sector associations and public sector enterprises, and from key bilateral and international partners. The mission took place during April 5–21, 2022. Mr. Varela (Advisor to the Executive Director, OED) participated in the policy discussions. Fairoza Jaghori (AFR) contributed to the preparation of this report.

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