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2017 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA-BISSAU

In the context of the combined Article IV Consultation and Fourth Review Under the Extended Credit Facility Arrangement, and Request for Extension and Augmentation of Access, 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 and summarizing the views of the Executive Board as expressed during its December 11, 2017 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 11, 2017, following discussions that ended on October 3, 2017, 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 21, 2017.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- An **Informational Annex** prepared by the IMF.
- A **Statement by the Executive Director** for Guinea-Bissau.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Guinea-Bissau*
Memorandum on Economic and Financial Policies by the authorities of Guinea-Bissau*
Technical Memorandum of Understanding*
Selected Issues Paper

* Also included in Staff Report.

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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Press Release No. 17/481
FOR IMMEDIATE RELEASE
December 11, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under the ECF Arrangement, Approves US$ 4.3 Million Disbursement, and Concludes 2017 Article IV Consultation with Guinea-Bissau

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of the arrangement under the Extended Credit Facility (ECF).[1] The completion enables the release of SDR 3.03 million (about US$4.3 million), bringing total disbursements under the arrangement to SDR14.01 million (about US$19.8 million). The Executive Board also concluded the 2017 Article IV Consultation.[2]

Guinea-Bissau's three-year ECF arrangement for SDR 17.04 million (60 percent of quota) was approved by the Executive Board on July 10, 2015 (see Press Release No. 15/331). The ECF-supported program aims to restore macroeconomic stability and improve efficiency in public service delivery to foster inclusive growth.

Guinea-Bissau's commitment to the ECF-supported program is strong and the results are apparent. All performance criteria and indicative targets for end-June were met as were most structural benchmarks. Two benchmarks, relating to debt management operations and financial reporting on the public electricity company, were not met but are likely to be implemented with delay.

The economy is growing strongly and the fiscal position has improved markedly. Supported by favorable terms of trade, real GDP growth averaged almost 6 percent in 2015-2016, with a surplus on the external current account and inflation below 2 percent a year. Public financial management has improved and the 2017 fiscal deficit is projected to fall under 2 percent of GDP, more than halving the 2016 level.

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[1] The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems. For more details, see http://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/04/Extended-Credit-Facility.

[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.

The outlook is broadly favorable, with growth projected at 5 percent over the medium term. Ongoing investments in road and other infrastructure, improvements in electricity and water supply, and policies to improve the business environment are contributing to the positive momentum. The outlook is, however, subject to significant risks stemming from the country's history of fragility, continued political tensions, and undiversified export base. Moreover, weak financial intermediation, with banks burdened by high levels of nonperforming loans and still unresolved issues from the voided 2015 bank bailout, are a drag on growth.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

"Economic policy implementation in Guinea-Bissau has been satisfactory and in line with the objectives of the Fund-supported program. Economic growth has remained strong, buoyed by high cashew prices, while improvements in fiscal management have bolstered macroeconomic stability.

"The authorities' determination to minimize the costs to the state while following through with needed steps to resolve the voided 2015 bank bailout, as well as ensure compliance with prudential norms, is welcome. Strengthening the banking system is critical for financial sector stability and healthy financial intermediation, and minimum capital requirements should be rigorously enforced.

"Low government revenue indicates a need to strengthen tax and customs administration and carefully manage public expenditures. Tailored structural reforms will be necessary to create fiscal space for priority infrastructure and social spending and ensure that stepped-up spending delivers the desired results. Borrowing for priority projects should continue to be contained and rely to the maximum extent possible on concessional financing. Plans to improve the management of the public electricity and water utility companies and ensure financial transparency in state-owned enterprises are welcome.

"Improvements in the business environment will be critical to maintaining the growth momentum, creating jobs, and reducing poverty. To encourage private investment and enable economic diversification, stepped-up efforts are needed to entrench the rule of law, promote policy stability, and instill transparency in government affairs. In parallel, the authorities need to advance their initiatives to reduce corruption and rent seeking, and combat money laundering and the financing of terrorism."

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the authorities' commitment to the Fund-supported program and progress achieved, including strong economic growth and an improved fiscal position. Directors noted the buoyant cashew sector activity, supported by rising sales prices, which has helped improve incomes and alleviate poverty. They encouraged the authorities to leverage the currently favorable economic conditions to advance reforms to strengthen foundations for longer-term development, by addressing gaps in infrastructure, strengthening social spending, and improving the business environment.

Directors welcomed the authorities' commitment to accelerate structural reforms to reinforce domestic revenue mobilization, further fiscal discipline, and improve the quality of public spending. This would enable a step up in priority infrastructure and social spending. Considering the recent strengthening of public financial management, Directors encouraged the authorities to steadfastly adhere to their weekly cash management meetings while also enhancing procedures for project selection and developing a supporting planning and execution framework.

To sustain strong and inclusive economic growth, Directors underlined the need for private sector development and diversification. They highlighted the need to address gaps in electricity and transport infrastructure. They also stressed the importance of policy stability and rule of law. Directors encouraged the authorities to seek support of their development partners, notably through technical assistance, to improve management of the public power and water utility, EAGB, and to ensure value for money in public investments.

Directors emphasized the importance of anchoring debt sustainability by seeking grants and loans on highly-concessional terms for financing priority projects. Careful borrowing will be essential in the light of Guinea-Bissau's high level of public debt and its vulnerability to shocks. Directors welcomed recent progress on resolving long-standing external arrears. They encouraged the authorities to further strengthen debt management, shun contingent liabilities, and instill financial discipline in state-owned enterprises through regular financial reporting and audits.

Directors underscored that strengthening the banking system and financial inclusion are critical for the business environment and poverty alleviation. They commended the authorities' commitment to minimizing costs to the state while following through with necessary steps to resolve the voided bank bailout of 2015 and ensure adequate capitalization of banks. Directors emphasized the need to safeguard financial stability through remedial

[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.

actions and strict enforcement of prudential norms in collaboration with the regional bank regulator. They noted that developing a national plan for financial inclusion would support efforts to deepen the financial system.

Directors viewed that Guinea-Bissau’s structural reform agenda remains appropriate to support macroeconomic stability and inclusive growth. They urged the authorities to firmly entrench good and transparent governance to strengthen the business environment and encourage private investment. Directors encouraged the authorities to move forward with initiatives to reduce corruption, including by strengthening the AML/CFT framework.

Directors stressed the importance of improving the quality and timeliness of Guinea-Bissau’s economic statistics. They encouraged the authorities to continue to improve coordination across institutions and ensure adequate allocation of resources for the compilation and dissemination of statistical data.

It is expected that the next Article IV Consultation with Guinea-Bissau will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Table 1. Guinea-Bissau: Selected Economic Indicators[1]

Population (mln, 2016): 1.7	Main products and exports: Cashew nuts	Literacy rate (% total, 2015): 59.8
Quota (mln SDR, % total): 28.4 (0.01%)	Key export markets: India and Europe	Poverty rate (% total, 2010): 69.3
Per capita GDP (US$, 2016): 694		

	2014	2015	2016	2017		2018	2019	2020	2021	2022
			Prel.	EBS/17/66	Proj.	Projections				
	(Annual percent change, unless otherwise indicated)									
National accounts and prices										
Real GDP at market prices	1.0	6.1	5.8	5.0	5.5	5.0	5.0	5.0	5.0	5.0
Real GDP per capita	-1.2	3.8	3.5	2.7	3.2	2.7	2.7	2.7	2.7	2.7
GDP deflator	-0.1	10.8	6.6	2.4	7.2	1.6	1.9	2.1	2.2	2.5
Consumer price index (annual average)	-1.0	1.5	1.5	2.0	2.2	2.3	2.5	2.6	2.8	3.0
External sector										
Exports, f.o.b. (based on US$ values)	8.8	54.6	6.8	5.7	24.5	7.1	7.1	9.3	9.4	9.7
Imports, f.o.b. (based on US$ values)	17.3	-3.6	6.9	2.2	30.0	13.2	9.3	9.0	8.5	8.2
Export volume	-4.9	26.3	10.7	-4.5	-8.6	5.5	5.1	7.0	7.1	7.3
Import volume	30.5	15.6	9.7	9.4	18.6	10.3	7.1	7.1	6.4	6.6
Terms of trade (deterioration = -)	23.2	54.4	13.9	11.4	28.7	-0.1	0.6	0.9	0.8	1.3
Real effective exchange rate (depreciation = -)	-0.8	-2.6	1.9	...	...	...	...	...	...	...
Exchange rate (CFAF per US$; average)	493.6	591.2	592.7	...	...	...	...	...	...	...
Government finances										
Domestic revenue (excluding grants)	59.4	29.4	-0.6	15.1	8.7	22.9	11.7	11.0	10.4	11.8
Domestic revenue (excluding grants and one-offs)	47.7	30.4	5.2	16.5	10.0	22.9	11.7	11.0	10.4	11.8
Total expenditure	89.1	11.3	0.9	-2.3	-5.2	15.7	10.9	10.2	9.5	10.6
Current expenditure	79.5	5.0	8.8	-8.0	-12.2	12.3	10.8	11.8	10.1	12.6
Capital expenditure	115.4	25.5	-14.2	11.6	11.7	22.3	11.3	7.6	8.4	7.1
Money and credit										
Net domestic assets[2]	7.8	18.2	-2.5	-2.0	-9.7	0.6	1.3	2.0	1.0	1.2
Of which:										
Credit to government (net)	9.1	4.6	1.8	0.0	-0.5	0.0	0.0	0.0	0.0	0.0
Credit to the economy	-2.6	13.0	2.2	0.7	-8.3	1.5	1.2	2.0	1.0	1.1
Velocity (GDP/broad money)	2.2	2.0	2.1	2.1	2.3	2.3	2.2	2.2	2.2	2.1
	(Percent of GDP, unless otherwise indicated)									
Investments and savings										
Gross investment	11.4	8.2	8.0	11.1	8.5	8.7	9.1	9.1	9.2	9.2
Of which: government investment	7.6	8.1	6.2	6.5	6.1	7.0	7.2	7.3	7.3	7.3
Gross domestic savings	0.2	3.9	4.0	5.8	2.9	2.5	2.4	2.7	3.1	3.7
Of which: government savings	-0.1	-0.5	-2.5	0.4	0.6	1.5	1.6	1.6	1.7	1.7
Gross national savings	12.0	10.7	9.3	10.5	7.8	6.4	6.3	6.1	6.3	6.7
Government finances										
Total revenue	12.6	13.8	12.2	13.2	11.7	13.5	14.1	14.6	15.0	15.6
Total domestic primary expenditure	16.7	15.4	14.3	12.6	11.3	12.8	13.2	13.7	14.2	14.8
Domestic primary balance	-4.1	-1.5	-2.1	0.6	0.4	0.8	0.9	1.0	0.9	0.8
Overall balance (commitment basis)										
Including grants	-2.6	-3.0	-4.7	-1.9	-1.7	-1.9	-2.0	-2.1	-2.1	-2.1
Excluding grants	-12.1	-9.5	-8.7	-6.0	-5.8	-5.5	-5.6	-5.7	-5.7	-5.7
External current account	0.5	2.5	1.3	-0.6	0.0	-2.3	-2.8	-3.0	-2.9	-2.6
Excluding official current transfers	-3.9	1.6	1.3	-0.6	-0.4	-2.3	-2.8	-3.0	-2.9	-2.6
Stock of central government debt	55.1	52.8	54.1	50.2	49.2	48.3	47.3	46.1	44.7	43.4
Of which: external debt	15.0	15.2	14.4	13.3	12.5	13.0	13.7	14.5	15.3	16.0
Memorandum item:										
Nominal GDP at market prices (CFAF billions)	520.9	612.5	690.5	734.1	780.7	832.7	890.9	955.1	1025.4	1103.5

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

[1] Values exclude the 2015 bank bailout of CFA 34.2 billion. A final determination by the courts on the legality of the bailout contracts is still pending.

[2] Contribution to the growth of broad money in percent.

GUINEA-BISSAU

November 21, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Background: The three-year arrangement under the Extended Credit Facility (ECF) was approved on July 10, 2015. Guinea-Bissau obtained a primary disbursement (SDR 2.84 million, 10 percent of quota) upon approval of the arrangement and additional disbursements (totaling SDR 8.14 million, 29 percent of quota) following approval of the combined first and second review on December 2, 2016, and the third review on July 6, 2017.

Context: A fragile state, Guinea-Bissau has seen a strong pickup in economic activity since 2014, despite continued political tensions and reduced external financial assistance. Growth has been supported by a calm security situation and favorable terms of trade developments. Political tensions resulted in multiple changes of government during 2015–16 and Parliament has not been sitting since late 2015.

Policy challenges: Sustained and inclusive growth will require improvements in the business environment as well as a strengthening of revenue mobilization to enable priority social and infrastructure spending. High levels of non-performing loans and legacies from the voided bank bailout of 2015 need to be addressed to bolster financial intermediation, and export diversification is needed to reduce reliance on cashew nuts.

Program performance: Program implementation has been good, with all performance criteria and indicative targets for the fourth review met. Two structural benchmarks, relating to debt management operations and financial reporting on the public electricity company, were not met but are likely to be implemented with delay.

Staff supports completion of the 2017 Article IV Consultation, fourth review under the ECF arrangement, and the financing assurances review: The equivalent of SDR 3.03 million (11 percent of quota) will be made available upon Executive Board completion of the fourth review.

Approved By
Roger Nord (AFR) and Johannes Wiegand (SPR)

Discussions took place in Bissau during September 10–October 3, 2017. The staff team comprised Tobias Rasmussen (head), Elena Arjona Pérez, Cristina Cheptea, Francis Kumah, Torsten Wezel (all AFR). Keyra Primus (FAD), and Oscar Melhado (IMF Resident Representative in Bissau). Romão Varela (OED) participated in the discussions. Gaston Fonseca and Gemilia Pereira (both IMF Res Rep office) assisted the mission. The team met with His Excellency, the President of Guinea-Bissau, José Mário Vaz; Prime Minister, Umaro Sissoco Embaló; Finance Minister, João Fadia; National Director of the *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO), Helena Nosolini Embaló; Chairman of the Joint Chiefs of Staff, Biaguê Na N'Tam; Attorney General, António Mam; and other senior officials and representatives of the private sector, civil society, and development partners. The team organized presentations of analytical work and participated in a conference on sustainable inclusive growth.

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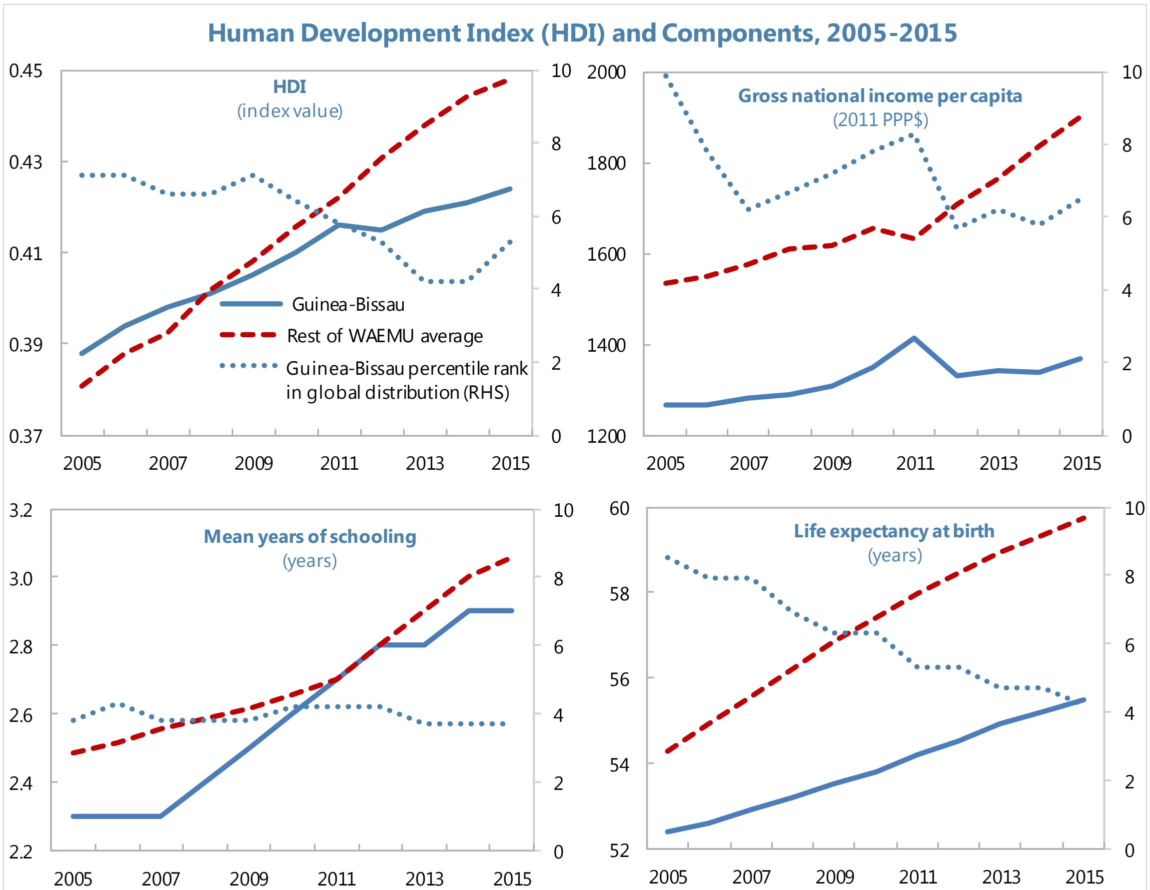
Acronyms

AfDB	African Development Bank
AML/CFT	Anti-Money Laundering and Combatting Financing of Terrorism
ASYCUDA	Automated Systems for Customs Data
BADEA	Arab Bank for Economic Development in Africa
BCEAO	Central Bank of West African States
BOAD	*Banque Ouest Africaine de Développement*
CFAF	*Communauté Financière Africaine Franc* (CFA Franc)
DNTs	*Despesas Não Tituladas*
DSA	Debt sustainability analysis
EAGB	*Eletricidade e Águas da Guiné-Bissau*
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EU	European Union
CENTIF	Financial Intelligence Unit
FATF	Financial Action Task Force
FUNPI	Fund to promote the industrialization of agricultural products
GDP	Gross domestic product
GIABA	Intergovernmental Action Group against Money Laundering
MFI	Micro finance institution
NGO	Non-government organization
NPL	Non-performing loan
PFM	Public financial management
PIP	Public investment program
PRSP	Poverty Reduction Strategy Paper
SIGRHAP	Personnel Management System
SB	Structural Benchmark
SIGFIP	*Système Intégré de Gestion des Finances Publiques*
SSA	Sub-Saharan Africa
SYDONIA	*Système de Gestion de Douanes Automatisé*
SYGADE	Debt Management System
TA	Technical Assistance
TOFE	*Tableau des Opérations Financières de l'Etat*
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
VAT	Value added tax
WAEMU	West African Economic and Monetary Union

CONTEXT: OVERCOMING FRAGILITY

1. **A resource-rich but longstanding fragile state, Guinea-Bissau faces a wide range of developmental challenges.** The country has abundant natural resources for agriculture, forestry, fisheries, and tourism. Nevertheless, it has in past decades trailed its peers in the West African Economic and Monetary Union (WAEMU) and ranks in the bottom decile globally on average income and on key social indicators. Political instability (including civil war in 1998–99 and military coups in 2003 and 2012) and weak governance have held back progress. Moreover, with agriculture accounting for about 40 percent of GDP and a narrow export base consisting largely of unprocessed cashew nuts, the country is highly exposed to weather and commodity price shocks. Poverty, last measured at around 70 percent in 2010, is endemic.



Source: United Nations Development Programme.

2. **Resumption of constitutional order in 2014 brought prospects for better outcomes.** Elections in mid-2014 helped anchor peace. The incoming government launched an ambitious 10-year plan for social progress targeting political stability, inclusive development, good governance, and preservation of biodiversity. While the security situation has remained calm, political instability has, however, persisted. Divisions within the largest political party led to four changes of government since mid-2015 and Parliament has not been sitting since late 2015.

3. The economy has rebounded strongly, despite continued political tensions and reduced external financial assistance. Supported by the calm security situation and improvements in electricity supply, growth averaged almost 6 percent in 2015–16, up sharply from an average of 0.8 percent during 2012–14 and double the average since 1980. Moreover, higher cashew prices and lower prices for imported food and oil products boosted the country's terms of trade, prompting a swing in the current account from a deficit of 5 percent of GDP in 2013 to a surplus in 2014–16. This occurred even as donors, in part reflecting the continued political instability, did not increase financial assistance as planed after the last elections. Total budget and project support (excluding IMF) fell from 12 percent in 2014 to 6 percent of GDP in 2016 before recovering somewhat in the first half of 2017.

Guinea-Bissau: Official Financial Assistance[1]

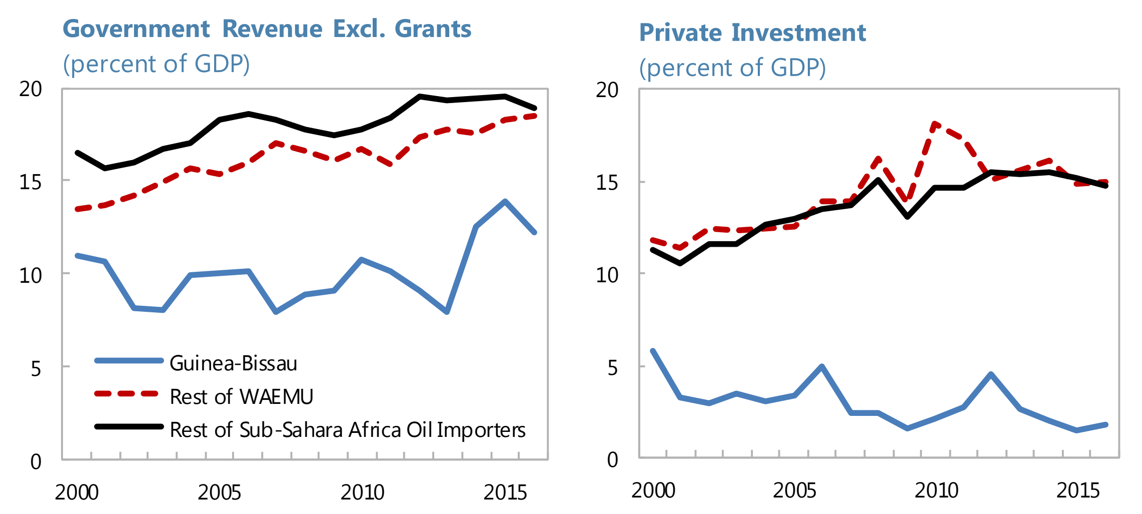
(percent of annual GDP)

	2014	2015	2016	2017H1
Total	12.5	8.6	6.6	4.3
Grants	9.5	6.6	4.0	3.1
Budget	4.5	0.9	0.0	0.4
Project	5.0	5.6	4.0	2.8
Loans	3.0	2.0	2.6	1.1
IMF	0.5	0.4	0.6	0.0
Project	2.5	1.6	2.0	1.1

Source: Guinea-Bissau authorities.

[1] Includes only aid to the government sector.

4. The currently favorable economic conditions offer an opportunity to advance reforms to strengthen foundations for longer-term development. Low and volatile government revenue is an obstacle to necessary infrastructure and social spending, and a weak business environment is holding back private sector investment and economic diversification. Building on past Fund advice and ongoing technical assistance (TA) (Annexes I–II), the 2017 Article IV discussions have focused on priorities to tackle the key developmental constraints and anchor macroeconomic stability.



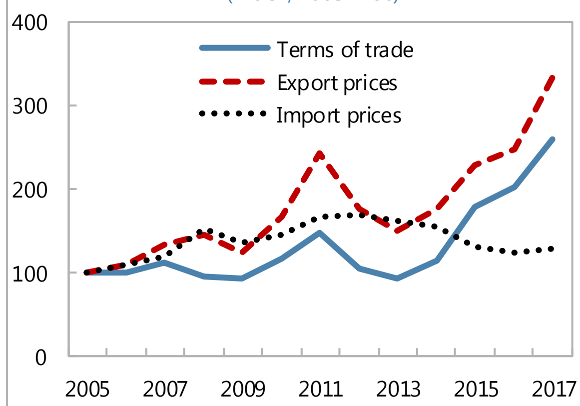
Source: IMF, *World Economic Outlook* database.

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

5. **Helped by higher cashew prices, the strong economic growth of the previous two years continued into 2017 (Table 1).**[1] Cashew producers' income rose, as record high prices outweighed a small decline in output (Selected Issues, The Cashew Economy and the Unfolding of the 2017 Campaign). The increased income from cashew supported growth in other sectors, as seen by a surge in imports of construction material. CPI inflation has remained subdued at around 2 percent overall, although with high demand leading to mid-year price pressures for rice and other foodstuffs.

6. **Favorable price developments boosted Guinea-Bissau's exports, extending gains from previous years (Table 2).** The country's terms of trade improved by 14 percent in 2016, helping keep the trade balance broadly steady despite cessation of timber exports due to concerns about illegal logging. The current account surplus narrowed to 1.3 percent of GDP in 2016 from 2.5 percent in 2015 due mainly to a reduction in official grants. In 2017, the large increase in cashew prices resulted in a further improvement in the terms of trade of about 30 percent and partly compensated for the surge in imports, leaving the current account broadly in balance.

Export, Import Prices and Terms of Trade
(index, 2005=100)



Sources: Guinea-Bissau authorities; IMF staff claculations

7. **Government revenue exceeded expectations for the first half of 2017 (Table 3).** Robust economic activity supported revenue mobilization, and the timing of the cashew campaign meant that receipts came earlier in the year than anticipated. Tax revenue exceeded the program target for the first half of 2017 by 0.8 percent of annual GDP, with strong collections of import duties, sales tax and corporate income tax. At the same time, a dividend payment (0.7 percent of GDP) from the Central Bank of West African States (BCEAO) more than offset lower nontax revenues from fishing licenses, fees, and

Guinea-Bissau: Summary of Central Government Finances
(percent of GDP)

	2016	2017H1	
		Prog.	Prel.
Revenue and grants	16.2	7.4	10.0
Tax revenue	9.2	4.6	5.3
Nontax revenue	3.0	1.1	1.6
Grants	4.0	1.8	3.1
Expenditure	20.9	9.8	10.3
Expense	14.8	6.4	6.3
Net acquisition of nonfinancial assets	6.2	3.4	4.0
Change in arrears	-0.2	-0.1	-0.3
Overall balance, including grants (cash)	-4.3	-2.6	-0.6
Memorandum item:			
Domestic primary balance (commitment)	-2.1	-0.7	0.7

Sources: Ministry of Finance; and IMF staff estimates.

[1] Overall real GDP growth was revised to 6.1 percent in 2015 and 5.8 percent in 2016 from previously 5.1 percent in both years.

penalties, leaving nontax revenue 0.5 percent of GDP above the end-June program target. In addition, the authorities received a budget support grant (0.4 percent of GDP) from Saudi Arabia and project grants were 1 percent of GDP higher than programmed. Altogether, this pushed total revenue and grants 2.6 percent of GDP above the end-June program target.

8. **Spending has been tightly controlled and fiscal balances have improved sharply.** Domestic spending has generally followed the budget closely, with total current expenditure in the first half of 2017 slightly (0.1 percent of GDP) below program due to lower outlays on wages and interest. At the same time, capital spending was 0.6 percent of GDP above program, as foreign financed investment spending exceeded expectations. Combined with above-expectation revenue and higher clearance of arrears (0.2 percent of GDP above the program target), this meant an overall cash balance of -0.6 percent of GDP against the program target of -2.6 percent of GDP.

9. **Better public financial management (PFM) has underpinned the improved fiscal position.** The twice-weekly Treasury Committee meetings since the start of 2017 have greatly improved budget execution and expenditure control. Notable accomplishments include the elimination of non-regularized expenditures ("DNTs"), no new accumulation of arrears, retirement of expensive bank overdraft facilities, and reprofiling of debts to reduce servicing costs. Moreover, the authorities created a fiscal buffer by building up deposits of 0.6 percent of GDP at the central bank.

10. **In the private sector, financial intermediation remains weak against a backdrop of large non-performing loans (NPLs) (Tables 4–5).** Before provisions, commercial bank credit to the private sector expanded on average by 9.4 percent a year during 2014–16, but shrunk by 0.8 percent (year-on-year) at end-June 2017 despite the arrival of a new bank that has been expanding rapidly. The weak extension of credit to the private sector despite strong economic growth reflects risk aversion by banks in the context of high levels of NPLs and still unresolved questions relating to the voided bank bailout of 2015 (Box 1).

11. **While financial soundness indicators point to a broadly satisfactory situation for the banking system overall, one bank is seriously undercapitalized.** Provisioning for the NPL portfolio transferred to government under the voided bailout, as required by the WAEMU Banking Commission (BC), caused in early 2017 a large drop in regulatory capital of one bank. The shareholders of the bank subsequently failed to make good on their decision to inject the fresh capital needed to meet the CFAF 10 billion minimum capital requirement that came into force on July 1, 2017. Discussions with potential investors that would raise capital to the required minimum are ongoing. Moreover, the BC is expected to announce in the coming weeks remedial measures for all non-compliant banks in WAEMU.

Box 1. The 2015-Bank Bailouts and Aftermath

The problems of the two commercial banks bailed out in 2015 stemmed mainly from loans that became non-performing in 2013–14, in the wake of the 2012 coup and falling cashew prices in 2012–13. The bailouts involved government taking over at face value NPLs totaling CFAF 34.2 billion (about 5 percent of GDP), financed by 10-year credit lines with the same banks in a non-cash transaction. The bailouts were done against IMF advice and raised serious governance concerns.

In mid-2016, government declared the bailouts null and void, noting that the contracts had not followed proper procedures and lacked required signatures. The legality of the bailout contracts is still being evaluated in court. Nevertheless, following recommendations by the Banking Commission in early 2017, the banks were obliged to fully provision the bailout NPLs. The subsequent provisions resulted in negative earnings and large drops in equity capital of both banks. Shareholders in the banks subsequently resolved to inject funds to meet the new capital requirement that came into force on July 1, 2017 (CFAF 10 billion, up from 5 billion previously). One of the two banks did not implement the increase, however, and remains significantly undercapitalized.

Guinea-Bissau: Selected Commercial Banking Sector Indicators[1]
(percent of GDP, unless otherwise indicated)

	2012	2013	2014	2015	2016	June 2017
Total Assets [2]	16.4	14.5	16.5	19.2	17.9	13.6
o/w credit to private sector (gross	14.1	14.0	15.3	14.6	13.7	13.7
Total Deposits [2]	14.0	13.7	17.3	17.4	15.1	14.3
Non-Performing Loans (NPLs, gross)	3.2	3.8	6.0	1.2	1.5	4.4
Provisions for Loan Loss	1.3	1.9	3.4	0.7	0.8	3.3
Memorandum items:						
Nominal GDP (CFAF billions)	505.1	516.7	520.9	612.5	690.5	780.7
Broad Money (M2, CFAF billions)	164.5	169.2	241.5	301.4	328.1	338.8
NPLs (percent of total loans) [2]	22.6	27.0	39.4	8.2	10.8	31.7

Sources: BCEAO; and IMF staff estimates.
[1] Values for 2015 and 2016 have been adjusted to exclude the bailout.
[2] Values for 2017 include entries for the new bank, Banque Atlantique.

While the ratio of gross NPLs to total loans remains near its pre-bailout level, NPLs net of provisioning are now at a more manageable level. With recognition of the bailout NPLs, the latest data show a system-wide gross NPL ratio of 32 percent at end-June 2017 compared to a ratio of 39 percent at end-2014. The still very high NPL ratio reflects limited progress towards collecting on the large stock of NPLs that prompted the original bailouts. After provisioning, however, the ratio of provisions to gross NPLs rose to 65 percent compared to 46 percent at end-2014.

Program Performance

12. Performance relative to program targets for the fourth review was good (Tables 6–7).

- **All performance criteria for end-June were met.** The domestic tax revenue floor was exceeded by CFAF 8 billion (24 percent) and net domestic bank credit to central government was CFAF 9 billion below the program ceiling. In addition, consistent with their zero-ceilings, there was no new non-concessional nor short-term external borrowing; and no external arrears were accumulated.
- **All indicative targets for end-June 2017 were met.** There were no new domestic arrears, social and priority spending was CFAF 1.5 billion above the floor, the domestic primary balance registered a surplus rather than the programmed deficit, and there were no non-regularized expenditures.

- **Five out of seven structural benchmarks (SBs) for 2017 were observed as envisaged.** Two benchmarks were not met on time. Application of upgraded debt management software (SB for September 2017) was delayed due to problems in the procurement process but is now expected to be effected by end-2017. Submission of monthly financial reports for the public electricity and water utility (EAGB) (SB for July 2017) was also delayed but accomplished in October 2017, although with weaknesses in the quality of data.

Box 2. Quantitative Performance Criteria and Indicative Targets[1]

(Cumulative from beginning of calendar year; CFAF billions)

	June 2017		
	Prog.	Prel.	Status
Performance criteria			
Total domestic tax revenue (floor)	33.4	41.4	met
Net domestic bank credit to the central government (ceiling)	6.4	-2.6	met
Ceiling on new nonconcessional external debt (US$ millions)[2]	0.0	0.0	met
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[2]	0.0	0.0	met
External payment arrears (ceiling)[2]	0.0	0.0	met
Indicative targets			
New domestic arrears (ceiling)	0.0	0.0	met
Social and priority spending (floor)	21.7	23.2	met
Domestic primary balance (commitment basis, floor)	-5.1	5.6	met
Non regularized expenditures (DNTs, ceiling)	0.4	0.0	met

[1] The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU).

[2] These apply on a continuous basis.

OUTLOOK AND RISKS

13. **Based on continued strong policies and effective fiscal management, the economic expansion is likely to remain robust into the medium term (MEFP ¶¶14–15).** With a continued calm security situation, Guinea-Bissau's largely untapped economic potential—especially in agriculture, tourism, and fisheries—coupled with ongoing improvements in public administration, offer the prospect of rapid development. The program assumes that:

- Real GDP growth, projected at 5.5 percent in 2017, remains steady at 5 percent a year over the medium term (2018–22). Growth is supported by continued high cashew prices, public investments in road and other infrastructure, improvements in electricity and water supply, and policies to improve the business environment.

- Consumer price inflation increases somewhat, given buoyant demand and higher global oil prices, from 2.2 percent in 2017 to 3 percent at the end of the medium term, but staying within the WAEMU convergence criterion.
- The external current account moves from broad balance in 2017 to a deficit of 2–3 percent of GDP over the medium term because of higher investment and expanding economic activity.

Guinea-Bissau: Performance on WAEMU Convergence Criteria

	2016	2017
First-order criteria		
Overall balance/GDP[1] (≥ - 3 percent)	-4.3	-1.8
Average consumer price inflation (≤ 3 percent)	1.5	2.2
Total debt/GDP (≤ 70 percent)	54.1	49.2
Second-order criteria		
Wages and salaries/tax revenue (≤ 35 percent)	54.8	45.7
Tax revenue/GDP (≥ 20 percent)	9.2	9.3

Sources: WAEMU; Guinea-Bissau authorities, and IMF staff estimates.
[1] Showing cash balance.

- Improvements in revenue administration along with restrained growth in expenditure keeps the overall fiscal deficit well within the WAEMU convergence criterion. The overall fiscal (cash basis) deficit is projected to widen slightly from 1.8 percent of GDP in 2017 to 2.3 percent of GDP in 2018, due to higher domestic capital spending, and then remain at that level.

Guinea-Bissau: Economic Performance and Medium-Term Program Scenario

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Real GDP growth (%)	1.0	6.1	5.8	5.5	5.0	5.0	5.0	5.0	5.0
Real per capita income growth (%)	-1.2	3.8	3.5	3.2	2.7	2.7	2.7	2.7	2.7
Consumer price inflation (% annual average)	-1.0	1.5	1.5	2.2	2.3	2.5	2.6	2.8	3.0
Total revenue (incl. grants, % of GDP)	22.1	20.4	16.2	15.9	17.2	17.8	18.2	18.6	19.2
Total expenditures (% of GDP)	24.7	23.4	20.9	17.6	19.0	19.7	20.3	20.7	21.3
Overall fiscal balance (incl. grants, commitment basis, % of GDP)	-2.6	-3.0	-4.7	-1.7	-1.9	-2.0	-2.1	-2.1	-2.1
Overall fiscal balance (excl. grants, commitment basis, % of GDP)	-12.1	-9.5	-8.7	-5.8	-5.5	-5.6	-5.7	-5.7	-5.7
External current account balance (incl. grants, % of GDP)	0.5	2.5	1.3	0.0	-2.3	-2.8	-3.0	-2.9	-2.6
Total public sector debt (gross, % of GDP)	55.1	52.8	54.1	49.2	48.3	47.3	46.1	44.7	43.4

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

14. The baseline outlook is subject to significant risks (Annex III). A reescalation of political tensions with attendant disruptive government changes could undermine progress in institution building, dent investor confidence, and erode support from development partners. In addition, the fiscal outlook and public debt sustainability could deteriorate if courts rule against the voiding of the bank bailout, and banking sector instability could ensue if undercapitalization is not properly addressed. Further, agricultural output is vulnerable to adverse weather conditions, and the high dependence on cashew (90 percent of exports) means that the economy is highly exposed to international cashew price movements. On the upside, the possible start of a FDI-financed phosphate mining project could boost exports, there is substantial scope for greater value-addition in agriculture, and the nascent tourism industry offers large potential.

15. Staff's external balance assessment suggests that the external position is stronger than implied by economic fundamentals (Box 2). EBA-lite methodologies indicate that the real exchange rate is moderately undervalued relative to fundamentals, with estimates in the 5–10 percent range to be interpreted cautiously given shortcomings in the data. What is more clear from the analysis is that achieving political stability and undertaking structural reforms to improve the business environment and advance diversification would help bolster external stability. It is also notable that the IMF's most recent WAEMU assessment (SM/17/58) found that the exchange rate for the union was broadly in line with fundamentals, albeit with shrinking external buffers. More recent data indicate that this shrinking of buffers has been partially reversed, with WAEMU official reserves increasing by $3.3 billion (to 4.6 months of imports) in the first half of 2017 following Eurobond issuances in Senegal and Côte d'Ivoire.

Box 3. External Stability Assessment

An application of EBA-lite methodologies suggests a moderate undervaluation of Guinea-Bissau's exchange rate in the range of 5-10 percent in 2016 (Annex IV). The CA approach compares Guinea-Bissau's actual current account balance to a norm implied by macroeconomic fundamentals and policies. The norm is calculated at -2.2 percent of GDP, 3.5 percent of GDP lower than the actual current account balance, implying an estimated exchange rate undervaluation of 7.2 percent. The ES and REER approaches give broadly similar results.

These estimates should be interpreted with caution. Data for Guinea-Bissau, not least those relating to its balance of payments statistics, are associated with a high degree of uncertainty. Moreover, by relying on coefficients estimated for other countries, the EBA-lite models do not fully capture the implications of Guinea-Bissau's exceptionally high dependence on a single agricultural export commodity or that it is a member of a currency union with a fixed exchange rate to the Euro.

Guinea-Bissau: External Balance Assessment

Methodology	CA gap (percent GDP)	REER gap (percent)
EBA-lite Current account (CA) approach	3.5	-7.2
EBA-lite External sustainability (ES) approach	3.2	-6.2
EBA-lite Real effective exchange rate (REER) approach		-9.0

Note: A positive CA gap indicates undervaluation. A positive REER gap indicates overvaluation. Estimates are based on data available as of October 2017.

Authorities' views

16. The authorities broadly concurred with staff's assessment of the medium-term outlook and risks, although they were more optimistic on growth prospects. They emphasized the improvements in infrastructure, including road construction and electricity supply, that have been achieved in the past three years, and the substantial further improvements planned for the medium term. They also highlighted policy initiatives underway to unlock the country's potential in rice production, tourism, fisheries, and minerals extraction. The authorities acknowledged the risks associated with cashew as the sole export produce, but noted that the increasing trend in global cashew demand should keep prices from falling.

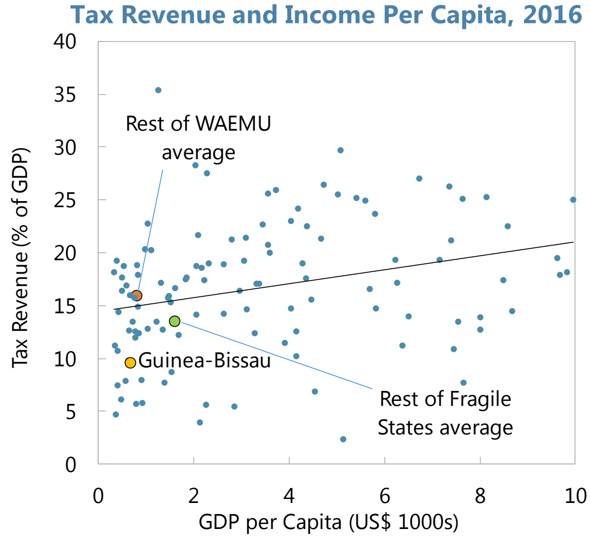
ARTICLE IV POLICY DISCUSSIONS: DEEPENING REFORMS FOR INCLUSIVE GROWTH

17. Staff argued for a medium-term focus on economic policies to support sustained and inclusive growth in line with the country's development objectives.[2] The emphasis was on private sector development through healthy financial intermediation and supportive improvements in the business environment. This would be backed by a parallel strengthening of revenue mobilization to ensure adequate government financing. Discussions centered on required reforms, tailored to the country's institutional capacity and supported by TA and training from the Fund and other development partners, as well policies to ensure macroeconomic and debt sustainability.

A. Building Capacity and Expanding Fiscal Space

18. The primary fiscal challenge in Guinea-Bissau is revenue mobilization (Selected Issues, Tax Revenue Mobilization in Guinea-Bissau). Low revenue is a binding constraint for needed social and infrastructure spending. Efforts to strengthen customs and tax administration are gradually making inroads but operations suffer from widespread deficiencies, including lack of basic equipment, undefined work procedures, and insufficiently trained staff. Despite some increases over the last decade, domestic revenue in Guinea-Bissau falls far behind that of comparators. In 2016 tax revenue amounted to just 9.2 percent of GDP, below the averages of other WAEMU countries and fragile states by 6.7 and 4.2 percentage points, respectively. With grants and concessional loans (excluding IMF) projected to increase slightly to 6.1 percent of GDP in 2017 from 6 percent in 2016, the previous years' decline in donor assistance looks to have turned. Continued strong economic policies could encourage donors to provide additional support going forward. A large increase in resources would, however, need to rely mainly on strengthening domestic revenue mobilization.

Tax Revenue and Income Per Capita, 2016



Source: IMF, *World Economic Outlook* database.

19. On the expenditure side, tight control of spending has helped strengthen the fiscal position but there is scope to improve the composition and quality of spending (Selected Issues, Government Expenditure Management in Guinea-Bissau). The wage bill is relatively high compared to current spending (34 percent in 2016). "Other current expenses", a residual category,

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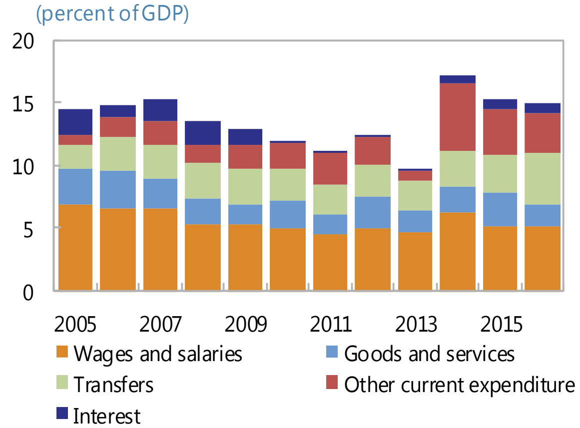
[2] The government's latest program, covering 2016–18, reiterates the objectives of the broader *Terra Ranka* development strategy from March 2015, highlighting creation of employment opportunities through sustained and inclusive growth.

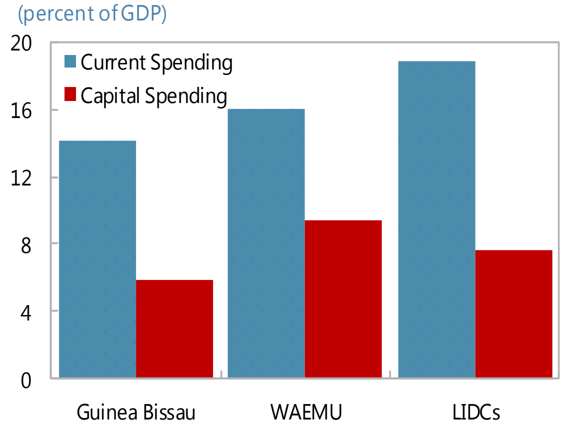
is also significant (20 percent). Conversely, social and priority spending (encompassing spending on education, health and gender affairs) is low (4.7 percent of GDP). Capital expenditure, having had only a minimal domestically financed component, is also lower than the regional average and has been low for years. This has left large gaps in critical infrastructure. Moreover, outcomes are often poor even considering the low level of spending.

Guinea-Bissau: Composition of Current Expenditure
(percent of GDP)



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

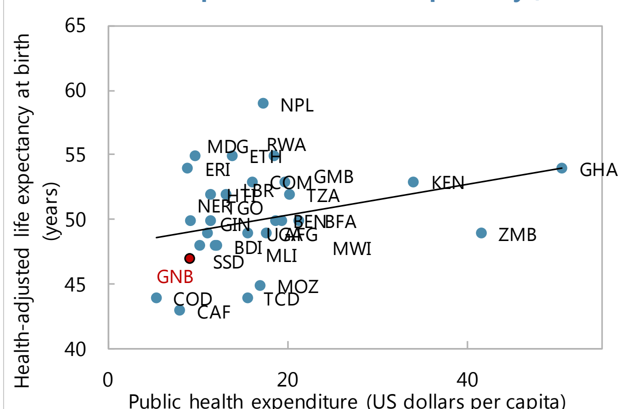
Guinea Bissau: Components of Government Spending, 2016
(percent of GDP)



Source: IMF, *FAD Expenditure Assessment Tool (EAT).*

20. A distinct concern is apparent low efficiency of spending coinciding with low levels of spending in social areas. In healthcare, Guinea-Bissau not only spends less than almost any other African country but also appears to be achieving relatively low results for each dollar spent. It has, among others, relatively high infant mortality and low life expectancy. In education, Guinea-Bissau has the lowest level of public spending in WAEMU and outcomes are mostly also on the low side. Data from national surveys and UNESCO indicate that 44 percent of primary school age children are out of school, almost double the WAEMU average.

Public Health Expenditure and Life Expectancy (2010-14)



Source: World Bank, *World Development Indicators*; and World Health Organization

21. An immediate challenge is that revenue in the second half of 2017 is likely to be lower than planned, leaving less room for spending even as savings are being realized in some areas. Total revenue and grants in 2017 are projected to be 1.4 percent of GDP below program, despite overperforming in the first part of the year. Cashew exports had largely wound down by August, raising the prospect of a drop in related activity and tax revenue. In addition, non-tax revenue has been revised down sharply, mainly because of lower fishing receipts. EU fishing compensation (previously projected at 0.8 percent of GDP) is not expected to materialize this year due to protracted negotiations, and other fishing-related revenues have underperformed. Compensating for the lower revenue, transfer payments are expected to be lower than previously projected due to reduced financial pressures at EAGB. In addition, a recent review of civil service staffing records is expected to reduce the wage bill. Even with these savings, however, the financial position is likely to be strained and other expenses may have to be scaled back slightly (0.1 percent of GDP) to meet program targets.

Guinea-Bissau: Summary of Central Government Finances
(percent of GDP)

	2016	2017	
		Prog.	Proj.
Revenue and grants	16.2	17.3	15.9
Tax revenue	9.2	9.3	9.3
Nontax revenue	3.0	3.9	2.4
Grants	4.0	4.1	4.1
Expenditure	20.9	19.2	17.6
Expense	14.8	12.8	11.5
Wages and salaries	5.0	4.7	4.3
Goods and services	1.7	2.1	2.4
Transfers	4.1	3.9	3.0
Interest	0.7	0.4	0.4
Other	2.9	1.5	1.4
Net acquisition of nonfinancial assets	6.2	6.5	6.1
Domestic financing (net)	2.9	0.7	0.4
Of which: Net domestic bank credit	2.3	0.0	-0.2
External financing (net)	1.4	1.6	1.4

Sources: Ministry of Finance; and IMF staff estimates.

Staff's assessment

22. Reforms to tax and customs administration should be extended and broadened. Measures to strengthen revenue administration (MEFP ¶18) are supporting a projected increase in the ratio of tax revenue to GDP. These activities need to be properly resourced, however, including by finalizing contracts for recently hired staff and ensuring that infrastructure is in place for extending the SYDONIA system to customs posts across the country. Moreover, there is a need to review elements of tax policy, including excise rates, to identify discrepancies from regional peers, modernize outdated legislation, and broaden the tax base. Also, while tax revenue is performing well, the underperformance of non-tax revenue requires closer attention, especially in areas such as fisheries that have showed a notable decline in transfers to the treasury.

23. Accommodating more spending in priority areas will require improvements in the planning framework. Stepped-up social and infrastructure spending should be backed by continued efforts to strengthen budget processes and contain non-priority spending, as well as clearer processes for vetting investment projects and other new spending initiatives. Supporting reforms are taking place in relation to PFM and expenditure management (MEFP ¶19). The recent step to ensure accurate staffing records, together with the development of a wage policy, can help to better control the wage bill. Extending the coverage of the SIGFIP information management system is key to ensuring better oversight and control and it will be important that this is done comprehensively to cover all categories of revenue and expenditure. To enhance prioritization, it will be important to develop a planning and execution framework that effectively steers in-year spending decisions toward meeting medium-term social and investment policy objectives.

24. To anchor prudent fiscal policy and debt sustainability, the authorities should adhere to the budgeted target for the overall balance in 2017 and continue to strictly limit net domestic bank credit over the medium term. This would entail a domestic (i.e. excluding grants and foreign-financed capital spending) primary surplus of about 0.4 percent of GDP in 2017 and 0.8–1 percent of GDP over the medium term, sufficient to put the ratio of government debt to GDP on a clear downward trajectory. Underpinning this outturn, increased revenue from steadfast implementation of the administrative reform agenda would enable a steady increase in priority capital and social spending, which with careful prioritization and execution would allow for a narrowing of infrastructure and social gaps. Overall deficits should largely be filled by low-cost foreign project financing, helping address the country's investment needs.

Authorities' views

25. The authorities concurred with staff's views on the fiscal stance and direction of reforms. They stressed their devotion to fiscal prudence, noting how domestic bank debt had been essentially eliminated during 2017. While viewing staff's projection of revenue as conservative and emphasizing infrastructure development as the main priority for additional spending, they stressed that the level of expenditure would be based on the level of revenue mobilized to keep the deficit within program targets (MEFP ¶20). They underscored their dedication to advancing fiscal structural reforms, and were appreciative of supporting Fund TA and committed to implementing the advice received. Going forward, they intend to review the tax policy system, with a view to modernization and simplification, and to develop frameworks for fiscal management of natural resources. On the expenditure side, they were keen to extend reforms to improve recording and management of expenditure and to undertake initial steps towards a medium-term framework to help guide development initiatives.

Selected Social Indicators[1], 2006-2015

	Per capita income	Poverty headcount	Income distribution	Adult literacy rate (%, 15 and older)	Human development index
Benin	753	53.1	43.4	33.6	0.46
Burkina Faso	585	49.5	37.5	30.9	0.38
Cote d'Ivoire	1,278	29.0	43.2	42.1	0.44
Guinea Bissau	**518**	**67.1**	**50.7**	**59.3**	**0.41**
Mali	689	49.9	36.0	31.0	0.41
Niger	357	56.0	34.4	17.3	0.33
Senegal	994	38.0	40.3	48.4	0.46
Togo	510	54.9	44.1	60.2	0.46
Regional average [2]	711	49.7	41.2	40.3	0.42
Sub-Saharan Africa	1,556	44.1	…	60.9	…

Sources: World Development Indicators; and IMF staff estimates.

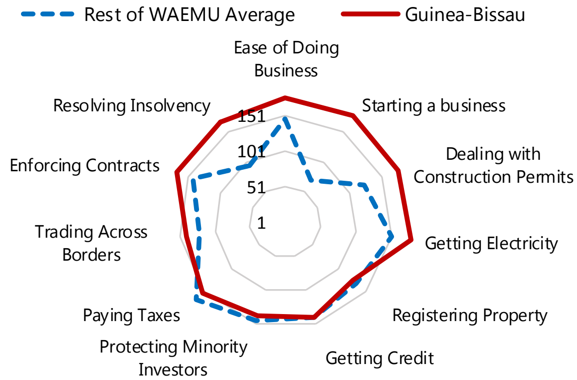
[1] Poverty headcount measures percent of population that earn less than $1.9 a day (in PPP terms). Income distribution is measured by the GINI coefficient (lower value = more equal income/wealth distribution). Human development is a composite index of three basic dimensions of human development - a long and healthy life, knowledge and a decent standard of living. Per capita income measures GDP per Capita (at constant 2010, US$).

[2] A simple average: for Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.

B. Promoting Strong and Inclusive Growth

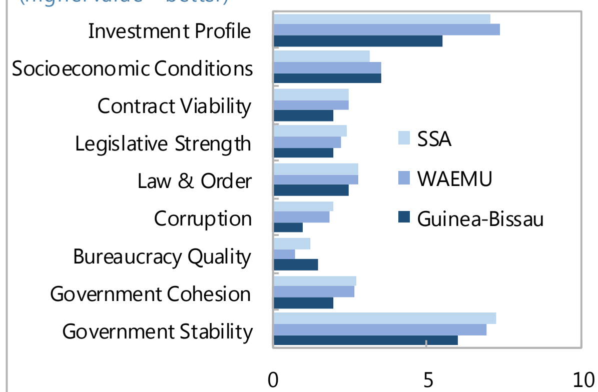
26. Guinea-Bissau's legacy of conflict and weak governance has left an underdeveloped economy and widespread poverty. Poor government services, low human capital, and inadequate infrastructure, coupled with an unfriendly business environment, corruption, and chronic political instability, have over past decades fed a vicious cycle of low economic growth, dependence on basic commodity exports, rent seeking, and unmet social needs. Thus, the country has fallen behind comparator countries in human development indicators and poverty alleviation. The calm security situation since the 2012 coup, improved electricity supply in 2014–16, and strengthened macroeconomic management in 2017 have alleviated some of the most pressing obstacles to progress. However, Guinea-Bissau continues to rank near the bottom on a range of doing business indicators, including frameworks for starting a business and resolving insolvency. Moreover, the country is ranked weaker than other WAEMU countries on a range of governance indicators.

Doing Business Indicators, 2018
(rank among 190 economies, higher=worse)



Source: World Bank, *Doing Business* database.

Governance Indicators, 2016
(higher value = better)



Source: International Country Risk Guide (ICRG).

Staff's assessment

27. The growth performance of recent years represents marked progress but the business environment needs further improvement to ensure durable and inclusive growth. Significant investment in infrastructure and social services along with reforms aimed at enforcing the rule of law and enhancing governance are needed to kindle a break from the past. A key task will be to enhance electricity provision, which remains deeply inadequate (Box 3). Transforming EAGB to an autonomous entity operated under a service contract (MEFP ¶27), as planned under a World Bank supported project, would be instrumental in this regard and should be done as soon as possible.

28. Fostering diversification and reducing the reliance on cashew for exports would help develop new income streams and make the economy more resilient. Growth in sectors where the poor are active, including cashew production, helps alleviate poverty, as the recent strong cashew performance has shown. However, a more diversified growth path that raises productivity has the potential to reduce poverty more quickly, with a more even income distribution and lower risk of poverty persistence (Selected Issues, Impact of Economic Structure and Policy on Poverty Incidence and Distribution). As one of the least diversified economies globally, both in terms of number of products and partners, there is large scope for improvement in this area. Reform areas that would support diversification include investing in human capital, improving the business environment, promoting financial deepening, and improving the quality of infrastructure (Selected Issues, Diversification in Guinea-Bissau).

Box 4. Electricity Supply

Electricity supply is a major constraint to economic development in Guinea-Bissau. The public electricity and water utility, EAGB, only covers the capital, and power generation is entirely from diesel generators under a lease arrangement with an international provider of emergency power. Capacity of around 15 MW, although having increased sharply since 2013, covers only about half of demand, resulting in frequent outages. Electricity tariffs, unchanged since 1997, are among the highest in the world at US$0.37–0.50 per kWh.

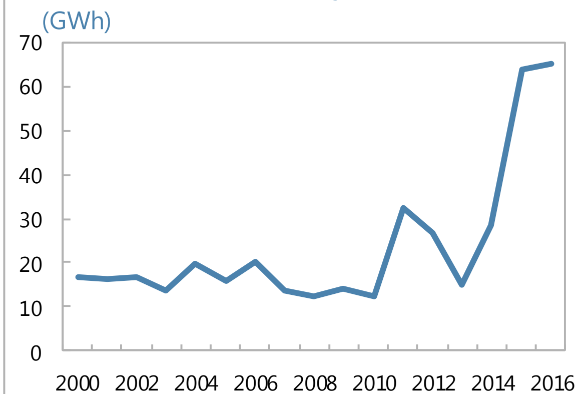
Several initiatives to tackle Guinea-Bissau's chronic electricity problems are underway. A World Bank project is focusing on distribution infrastructure and reform of EAGB. In addition, financing from BADEA and BOAD has been secured towards adding 37 MW of new generation to come online in 2018–19 and replace the current lease agreement. A project for solar-powered generation is also being considered. Finally, the OMVG (Gambia River Basin Development Organization) hydroelectric project should come online in 2019–20, promising to substantially reduce the cost of power.

Selected Indicators of Electricity Provision, 2014

	Access (% of population)	Time required (days)
Guinea-Bissau	12	455
Rest of WAEMU	36	116
Rest of Fragile States	47	134

Source: World Bank, World Development Indicators.

Guinea-Bissau: Electricity Production



Source: EAGB.

29. Regulatory frameworks should target stability, transparency, and promotion of free competition. A recent draft bill for regulation of the cashew sector was meant to encourage development and value-addition in the sector but was rightly rejected for concern that it would have hampered free competition. A cashew policy framework that brings clarity and stability to the cashew sector without undercutting competition is still needed. In addition, the price cap on rice, which was introduced mid-year in response to spiking prices, should be removed as scheduled by end-2017 to avoid distorting market mechanisms and attendant inefficiencies. The policy framework for fuel pricing should be adhered to with regular and automatic adjustments.

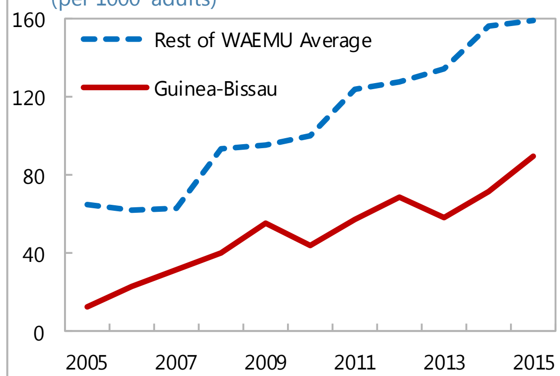
Authorities' views

30. The authorities agreed with the need to encourage private sector-led development and diversification, emphasizing the positive developments underway in this area (MEFP ¶26). They stressed their commitment to promoting healthy competition. They highlighted reforms underway to improve electricity supply and strengthen management of public enterprise, as well as initiatives to encourage promotion of non-cashew agriculture, including mechanisms for helping farmers access inputs and equipment. They further pointed to recent private investments, including a cement factory and warehouse facilitates, as signs of the positive momentum.

C. Strengthening Financial Intermediation and Inclusion

31. Guinea-Bissau's financial sector remains shallow, with a range of challenges that limit effective intermediation and inclusion (Selected Issues, Recent Credit Developments and Obstacles to Financial Deepening). The number of people with bank accounts has increased in recent years, owing in part to the government's decision to pay salaries only through the banking sector. However, use of financial services remains low, and the stock of credit to the private sector, at just 14.5 percent of GDP at end-2016, is far below the WAEMU average of 26 percent of GDP. The increased prevalence of mobile phones along with remittances from abroad have not been fully leveraged to raise financial inclusion. Moreover, traditional land ownership practices and the large informal economy are holding back the availability and use of collateral, and weak accounting practices make it difficult for banks to evaluate loan requests.

Depositors with Commercial Banks
(per 1000 adults)



Source: IMF, *Financial Access Survey* database.

32. Steps to deepen financial markets, bolster financial sector stability, and enhance financial inclusion are underway. With support of regional authorities, the government is undertaking a series of initiatives to improve financing for SMEs (in accordance with measures adopted by the WAEMU Council of Ministers in September 2015) (MEFP ¶25). In parallel, the BCEAO is at an advanced stage of implementing projects to foster financial safety nets and banking system stability. Specifically, a deposit guarantee fund has been established, and principles for contribution and access to fund resources are being developed; the full size of the fund is to be built over a ten-year period. Furthermore, an official regional credit bureau has been created, providing more debtor information than the existing national office, including on loan defaults. Finally, elements of the Basel II/III framework will be introduced in January 2018, with BCEAO having trained banks in complying with the new prudential standards.

Staff's assessment

33. Resolving the disputed bailout and related overhang of legacy NPLs would help boost credit to the private sector. The undercapitalized bank used to be instrumental in providing credit to the private sector, including in rural areas, but is now scaling back lending under the burden of high NPLs, negative capital, and lack of recourse to BCEAO facilities. Once recapitalized the bank would be in a much better position to support a rebound of credit to the private sector. Stakeholders should move swiftly to secure fresh capital and achieve compliance with prudential norms. If the necessary capital injection is not achieved very quickly, the Banking Commission is expected to act promptly by taking all necessary action to protect financial stability, in line with its regulations.

Authorities' views

34. The authorities shared staff's assessment of the need to develop the financial sector, enhance access to credit, and reduce financial sector vulnerabilities. They intend to revise the national strategy document for the microfinance sector by consolidating existing initiatives and by signing a partnership agreement with the African Microfinance Network to boost the development of microfinance in rural areas as well as credit facilities for small- and medium-sized enterprises, consistent with the regional initiative. In line with staff's recommendation and following through on the regional initiative, they also intend to draft a national strategy for financial inclusion. They are also encouraging use of the banking system (including for private real estate transactions) to bolster financial intermediation, and are strengthening their credit information bureau with support of regional authorities.

D. Maintaining Prudent Borrowing Policies

35. Improved fiscal performance, enhanced debt management, and progress in resolving external debt arrears are helping reduce Guinea-Bissau's debt burden. With a lower fiscal deficit, government debt as a ratio to GDP is projected to fall from 54.1 percent of GDP in 2016 to 49.2 percent of GDP at end-2017. In addition, the interest burden of the overall debt stock has been reduced by eliminating expensive domestic debts and obtaining more favorable terms on borrowings from BOAD (MEFP ¶22). External legacy arrears have also been reduced, with the government obtaining 3.2 percent of GDP in debt relief following a recent agreement with the Exim Bank of Taiwan Province of China, which cancels 90 percent of debts originating from two 1990 loans (MEFP ¶21). Contingent liabilities have proven to be a risk, however, with calls on government debt guarantees (to Guiné-Telecom (1.4 percent of GDP) last year and to EAGB (0.8 percent of GDP) this year) leaving less resources for other spending.[3]

Staff's assessment

36. The debt sustainability analysis (DSA) indicates moderate risk of debt distress. Guinea-Bissau's economy is highly vulnerable to export shocks, and the poor financial state of public enterprises and generally weak debt management also represent risks. The assessment of moderate risk is unchanged from the previous DSA, as updated in December 2016. The trajectories of external debt indicators remain below their respective thresholds in the baseline scenario, with only the PV of debt-to-exports ratio exceeding its threshold in an extreme export shock scenario. The PV of public debt-to GDP ratio breaches its benchmark in all scenarios until 2023, while debt-service ratios remain comfortable throughout the projection period.

[3] An inventory of outstanding debt guarantees shows a total of 4 guarantees totaling CFAF 5.4 billion (0.7 percent of GDP).

Guinea-Bissau: Borrowing Plan, 2016–18
(New public debt, contracted or guaranteed, in billions of CFAF)[1]

	2016	2017		2018	
	Volume	Volume	Present value	Volume	Present value
Sources of debt financing	**28.7**	**20.6**	**15.6**	**21.2**	**14.8**
Foreign Currency	10.2	11.9	6.7	12.9	6.5
Concessional	10.2	11.9	6.7	12.9	6.5
AfDB	1.5	1.7	0.9	2.6	1.3
IDA	2.7	3.1	1.4	4.7	2.1
IMF	4.2	4.9	3.3	2.4	1.6
Other	1.8	2.1	1.1	3.2	1.5
Non-concessional	0.0	0.0	0.0	0.0	0.0
Domestic Currency (net)	18.5	8.7	8.9	8.3	8.3
Concessional	0.0	0.0	0.0	0.0	0.0
Non-concessional	18.5	8.7	8.9	8.3	8.3
Domestic banks	5.9	-11.7	-11.7	0.0	0.0
BOAD[2]	7.6	8.7	8.6	8.3	8.3
Other regional (T-bills)	10.0	10.0	10.1	0.0	0.0
Government guarantees	0.3	1.7	1.9	0.0	0.0
Uses of debt financing	**28.7**	**20.6**		**21.2**	
Infrastructure	4.9	5.7		6.9	
Social sector	5.4	5.6		6.7	
Fisheries and rural development	2.0	2.3		2.7	
Budget financing[3]	14.9	3.2		2.4	
Other	1.5	3.8		2.5	

Source: Bissau-Guinean authorities.

[1] Includes only aid to the government sector. PV of all borrowing is evaluated at a 5-percent discount rate.

[2] BOAD financing (shown on gross basis) is a mix of concessional and non-concessional loans.

[3] IMF, bank financing, and regional T-bills.

37. **Domestic currency debt is relatively high but associated risks are moderate.** Domestic currency debt of the central government amounted to 39.7 percent of GDP at end-2016, with the largest exposures being to BOAD (12.9 percent of GDP) and BCEAO (14.2 percent of GDP, largely reflecting debts to the previous central bank from before Guinea-Bissau joined WAEMU). These debts have zero interest and amortization due in 2017-18 following recent rescheduling, and debt servicing will only increase gradually over the medium term given relatively low interest rates. Debts to domestic commercial banks (2.9 percent of GDP at end-2016) were in 2017 reduced and consolidated into cheaper Treasury securities scheduled for re-payment over three years.

38. **While arrears accumulation has been stopped, there is an outstanding stock of old arrears that should be resolved.** This includes $42.2 million (3.1 percent of GDP) in external arrears to Angola, Brazil, Libya, Russia, and Pakistan that were not covered in the HIPC process. Domestically, government faces claims totaling over 13 percent of GDP, most of which are more

than a decade old and never validated (MEFP ¶23).[4] A plan for comprehensively resolving legitimate domestic arrears should be developed but claims should be carefully vetted first, as many could be spurious.

39. Staff emphasized need to address operational risks and for continued prudent borrowing policies. To support debt sustainability, it will be critical for the authorities to maintain prudent borrowing policies, as per the borrowing plan (see text table), and to the maximum extent seek grants and concessional loans for priority projects. This should be supported by further strengthening of debt management capacity and procedures, including regular production of reports on external debt developments. Contingent liabilities should be contained and monitored, including by requiring all state-owned enterprises to produce audited financial statements.

Authorities' views

40. The authorities broadly concurred with staff's views on debt. While noting the urgent need to address the country's infrastructure gap, they stressed that that the pace of public investment would be determined by available external concessional resources. They would continue to avoid non-concessional and short-term foreign currency debt. They also recognized the need to strengthen debt management and explained that the debt management unit had for this reason been elevated to a full Directorate of the Finance Ministry. Moreover, the upgraded debt management software (DMFAS 6.0) would be operational by end-2017. They explained that the CFAF 1.7 billion government guarantee issued this year for borrowing by Bissau City to finance construction of a market would be secured by vendor fees deposited directly in an escrow account. They further noted their best efforts to: (i) negotiate with bilateral creditors for outright cancellation and/or rescheduling of legacy arrears; and (ii) carefully vet outstanding domestic claims with a view to permanently resolving legitimate arears. Moreover, audits of public enterprises have been comprehensively expanded and accelerated for completion by end-2017 (MEFP ¶28).

E. Statistical Issues

41. Quality and timeliness of economic data. Weaknesses in economic statistics continue to hamper surveillance, with different datasets often inconsistent and subject to large revisions. TA has helped the production of national accounts and government finance statistics, and ongoing initiatives are expected to help improve balance of payments and international investment position statistics. Still, many data issues remain. The authorities underscored the role of TA in strengthening statistics, and pointed to their progress in improving national accounts source data and plans to publish by March 2018 revised national accounts with an updated base year (MEFP ¶31).

[4] Based on an audit of domestic arrears from 2000, extended by net arrears accumulation recorded in the fiscal table, the debt figures reported in Table 1 include domestic arrears of 5 percent of GDP.

F. Governance

42. The authorities have taken steps to strengthen their framework for Anti-Money Laundering and Financing of Terrorism (AML/CFT) with assistance from development partners (MEFP ¶30). They have approved a national strategic plan and enhanced the autonomy of the Financial Intelligence Unit (CENTIF). On its part, CENTIF has intensified information dissemination with TA from the Inter-Governmental Group against Money Laundering in West Africa (GIABA), resulting in some initial declarations of suspicious financial transactions. In addition, ongoing IMF TA is helping develop capacity at CENTIF to undertake its core functions, and at the Ministry of Economy and Finance to undertake AML/CFT supervision of exchange houses.

43. Staff advised further strengthening of the legal and institutional framework to combat corruption. Important steps are required to improve governance, in particular the implementation of a comprehensive asset disclosure regime for public officials. The authorities were encouraged to (i) ensure that the *Inspeção Superior de Luta Contra a Corrupção* has the necessary resources and support to effectively carry out its mandate, (ii) prepare a comprehensive template for the declaration of assets and interests by all officials concerned, and (iii) prepare amendments to Law 7/99 to cover all politically exposed persons per Financial Action Task Force (FATF) standards. The authorities expressed support for such actions but noted that aspects that require the enactment of legislation are under the control of Parliament.

G. Other Surveillance Issues

44. Safeguards Assessment. The latest safeguards assessment of the BCEAO from December 2013 found that the bank continued to have a strong control environment. An updated safeguards assessment is planned to take place in the coming months, in line with a four-year cycle for regional central banks.

45. Exchange System and Exchange Rate Arrangement. Guinea-Bissau accepted the obligations of Article VIII, Sections 2, 3, and 4 with effect from January 1, 1997. It joined the WAEMU in 1997, and has no separate legal tender. The exchange system is free of multiple currency practices and exchange restrictions on the making of payments and transfers for current international transactions.

PROGRAM ISSUES

46. Program performance will continue to be assessed semi-annually (MEFP ¶32, Tables 6-8). Performance criteria for end-December 2017 are unchanged. The performance criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU) along with the relevant adjustors. The fifth (and last) program review will be based on the end-December 2017 performance criteria and is scheduled to be completed on or after April 15, 2018.

47. The program envisages structural measures for the remainder of 2017 and 2018 (Table 7b and MEFP ¶¶18-19):

- Completing a draft law for a new small taxpayer regime with technical assistance from the IMF to improve tax administration and facilitate small taxpayer compliance (SB for December 2017).
- Preparing (i) a monthly rolling treasury cash-flow projection table consistent with the 2017 budget; (ii) quarterly reports on ministry-level budget execution with details along economic classification of expenses; (iii) quarterly reports on external debt commitments, agreements, and disbursements; and (iv) monthly reports detailing financial flows for EAGB (all ongoing SBs).
- Completing the upgrade of debt management software (DMFAS 6.0) and commencing its use for effective debt analysis and debt service projections (SB for December 2017, reset from September 2017).
- In addition, the authorities are proposing two new structural benchmarks involving submission to the Council of Ministers of: (i) a draft budget for 2018 in line with the understandings outlined above (SB for end-December 2017); and (ii) a management improvement plan for EAGB to pave the way for implementation of a service contract around mid-2018 (SB for March 2018).

48. Financing assurances are in place for the fourth review. The program is fully financed until its expiry In July 2018, with the bulk of the financing expected to be met through external support. Guinea-Bissau owes arrears to Angola, Brazil, Russia, Libya, Pakistan, [all of whom have consented to Fund financing notwithstanding these arrears]. In addition to resolving its arrears to Taiwan Province of China, Guinea-Bissau has this year cleared its arrears to the UAE. It remains current on its remaining external debt service obligations while pursuing negotiations for rescheduling and/or outright cancellation of its arrears. Adequate safeguards remain in place for the further use of Fund resources, and Guinea-Bissau's adjustment efforts have not been undermined by developments in debtor-creditor relations.

49. Guinea-Bissau's capacity to repay the Fund is adequate. The use of Fund resources under the ECF arrangement will have a negligible impact on debt and debt service ratios, increasing Guinea-Bissau's obligations to the Fund to 85¼ percent of quota or 2.28 percent of GDP at the end of the current ECF-supported program in 2018 (Table 9). Guinea-Bissau's risk of debt distress remains moderate.

STAFF APPRAISAL

50. Guinea-Bissau's economy has continued to register strong growth. Increased cashew prices and improved terms of trade have boosted incomes of rural households and supported generally buoyant economic activity. The external current account is broadly balanced, overall inflation has remained low, and real GDP growth is projected at 5.5 percent in 2017. Financial intermediation has, however, remained subdued, with banks burdened by high levels of non-performing loans and still unresolved issues from the voided 2015 bank bailout.

51. Fiscal management has strengthened, supporting macroeconomic stability. Notable accomplishments this year include elimination of non-regularized expenditures, avoidance of new arrears, reduced debt servicing costs, and creation of a cash buffer. Moreover, expenditure is being better controlled. The fiscal deficit has narrowed sharply and the debt-to-GDP ratio is set to fall by several percentage points in 2017.

52. Ensuring sustained and inclusive growth will require investments in physical and human capital alongside improvements in the business environment. Guinea-Bissau cannot rely on continued terms of trade gains to support growth. Instead, the large gaps in the country's infrastructure and social services must be filled. Rule of law, good and transparent governance, and policy stability all need to be more firmly entrenched to encourage private investment, expand and diversify the economy, and create more and better paying jobs. Steps to combat corruption should be supported by strengthening of AML/CFT efforts.

53. Obstacles to effective financial intermediation should be tackled. Rapid action towards a solution that recapitalizes the undercapitalized bank and resolves the ongoing court case is in the interest of all parties. At this point, however, it is incumbent on the regional Banking Commission to take strong action to safeguard financial stability. This should involve quickly laying out a firm time-bound action plan, backed by sanctions and interventions, to end regulatory non-compliance by the undercapitalized bank. Developing a national plan for financial inclusion would support efforts to deepen the financial system.

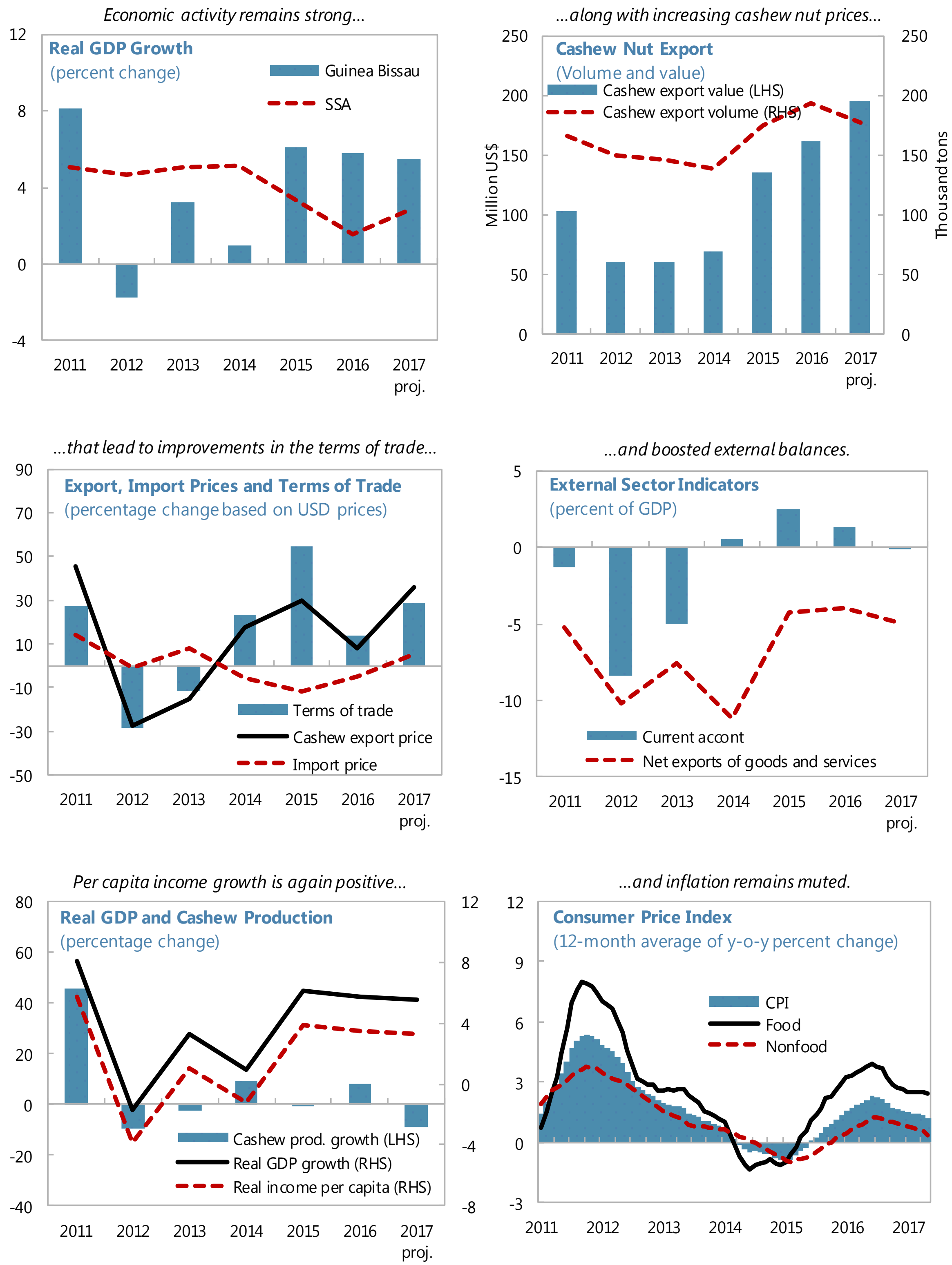
54. To anchor debt sustainability, the authorities should maintain over the medium term the low fiscal deficits set to be achieved in 2017. It will be important to maintain prudent borrowing policies and to the maximum extent seek grants and concessional loans for priority projects. This would be supported by further strengthening of debt management capacity and procedures. Contingent liabilities should be contained and monitored, including by requiring all state-owned enterprises to produce audited financial statements on a regular annual basis.

55. A needed step up in social and investment spending will require continued progress on domestic revenue mobilization as well as improvements in the planning framework. Reforms in tax and customs administration should be extended and broadened, and tax policy reviewed with a view to simplification and modernization. Efforts to strengthen public financial management should be deepened, and it will also be important to enhance procedures for project selection and to develop a supporting planning and execution framework.

56. The authorities' reform agenda, as articulated in their MEFP, remains appropriate. The outlined policies support attainment of macroeconomic stability and inclusive growth. The authorities are encouraged to place emphasis on improving statistics and bolstering transparency and healthy competition in all areas.

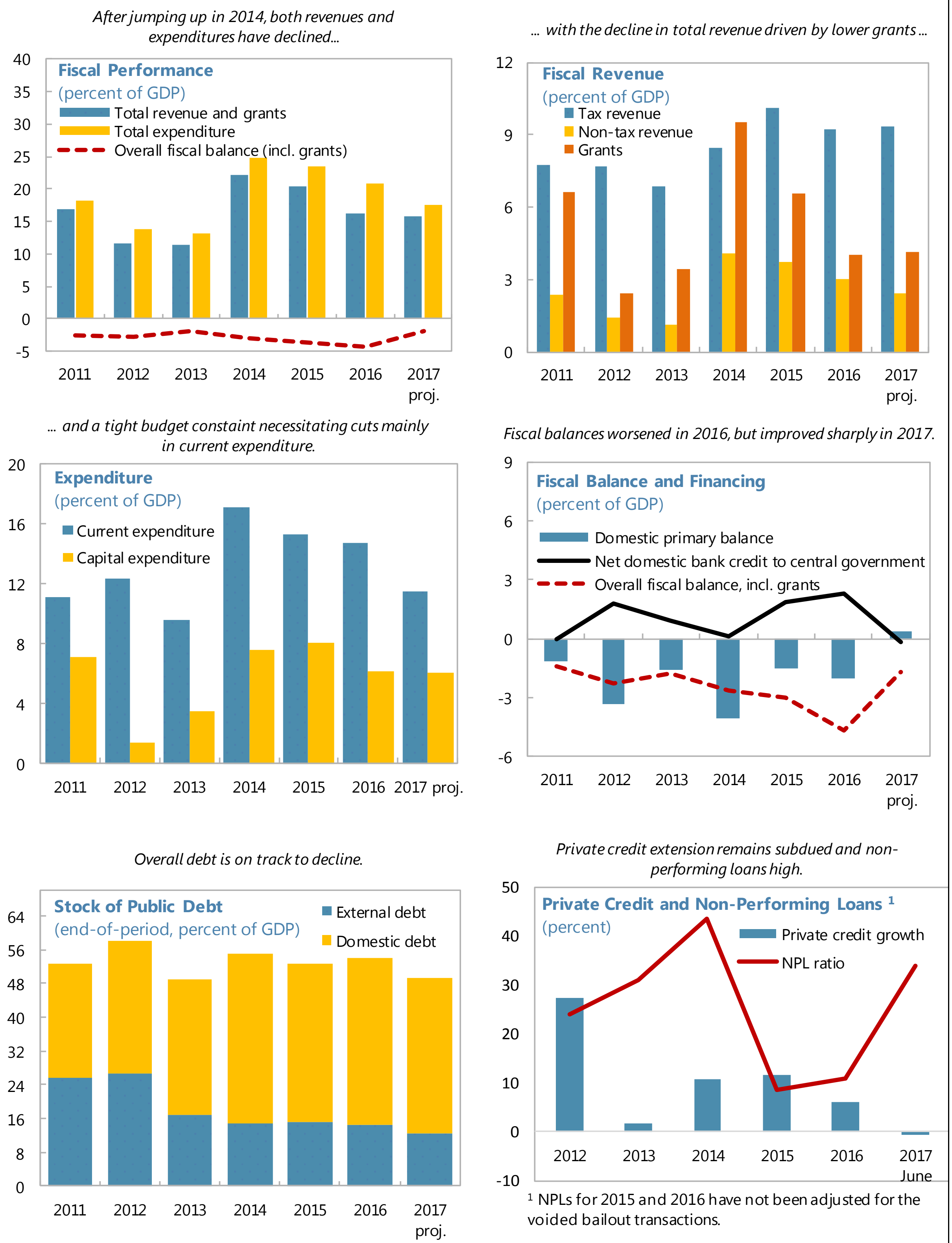
57. Staff recommends conclusion of the 2017 Article IV Consultation, and completion of the fourth program review and financing assurances review. This recommendation is based on the strong progress made under the program, including structural reforms to ensure lasting progress. It is recommended that the next Article IV consultation with Guinea-Bissau be held on the 24-month cycle, in accordance with Decision No. 14747– (10/96) on consultation cycles.

Figure 1. Guinea-Bissau: Recent Economic Developments



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

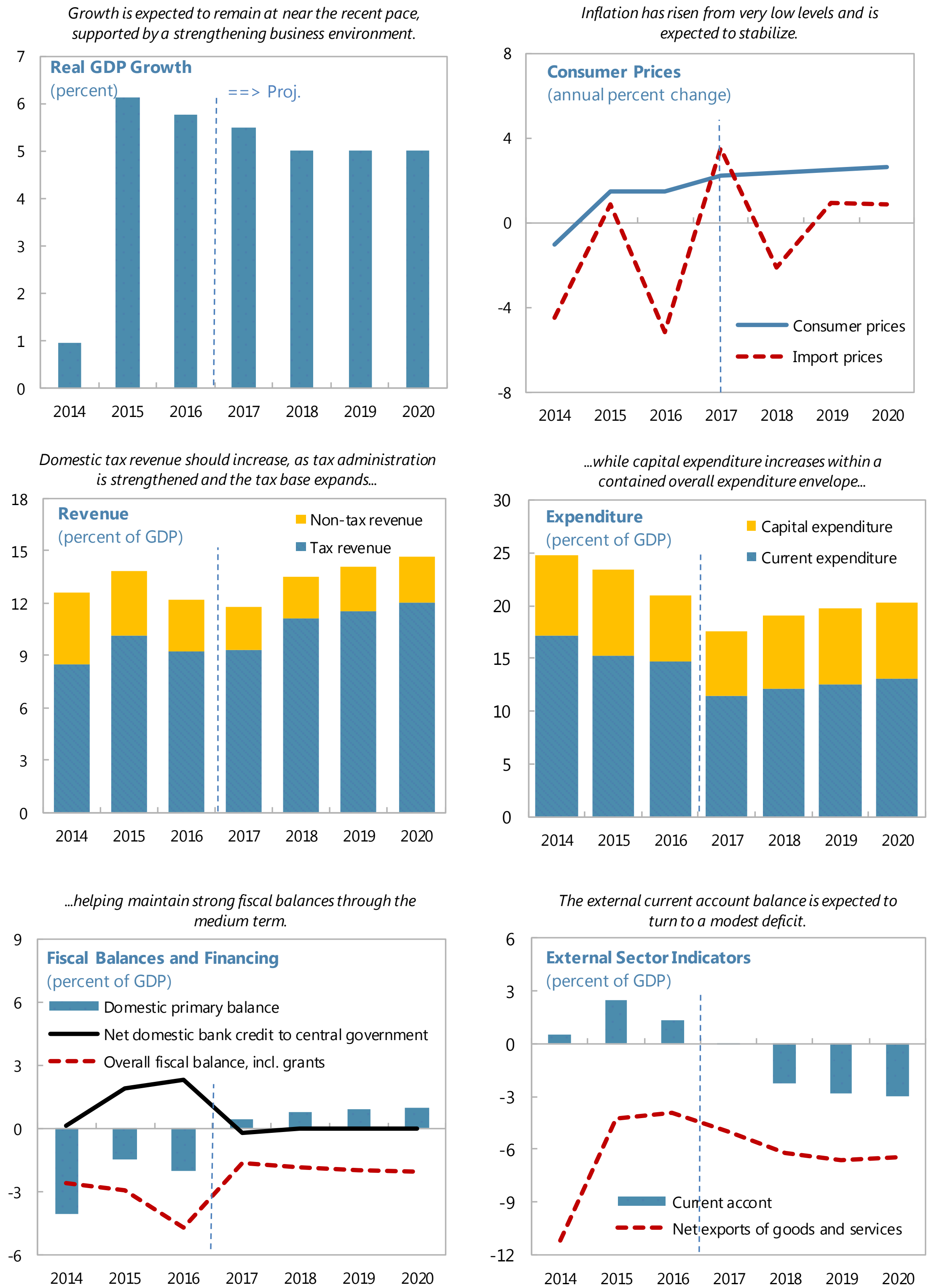
Figure 2. Guinea-Bissau: Fiscal and Credit Developments



[1] NPLs for 2015 and 2016 have not been adjusted for the voided bailout transactions.

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

Figure 3. Guinea-Bissau: Medium-Term Outlook



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

Table 1. Guinea-Bissau: Selected Economic Indicators[1]

	2014	2015	2016	2017		2018	2019	2020	2021	2022
			Prel.	EBS/17/66	Proj.	Projections				
	(Annual percent change, unless otherwise indicated)									
National accounts and prices										
Real GDP at market prices	1.0	6.1	5.8	5.0	5.5	5.0	5.0	5.0	5.0	5.0
Real GDP per capita	-1.2	3.8	3.5	2.7	3.2	2.7	2.7	2.7	2.7	2.7
GDP deflator	-0.1	10.8	6.6	2.4	7.2	1.6	1.9	2.1	2.2	2.5
Consumer price index (annual average)	-1.0	1.5	1.5	2.0	2.2	2.3	2.5	2.6	2.8	3.0
External sector										
Exports, f.o.b. (based on US$ values)	8.8	54.6	6.8	5.7	24.5	7.1	7.1	9.3	9.4	9.7
Imports, f.o.b. (based on US$ values)	17.3	-3.6	6.9	2.2	30.0	13.2	9.3	9.0	8.5	8.2
Export volume	-4.9	26.3	10.7	-4.5	-8.6	5.5	5.1	7.0	7.1	7.3
Import volume	30.5	15.6	9.7	9.4	18.6	10.3	7.1	7.1	6.4	6.6
Terms of trade (deterioration = -)	23.2	54.4	13.9	11.4	28.7	-0.1	0.6	0.9	0.8	1.3
Real effective exchange rate (depreciation = -)	-0.8	-2.6	1.9	...	...	...	...	...	...	...
Exchange rate (CFAF per US$; average)	493.6	591.2	592.7	...	...	...	...	...	...	...
Government finances										
Domestic revenue (excluding grants)	59.4	29.4	-0.6	15.1	8.7	22.9	11.7	11.0	10.4	11.8
Domestic revenue (excluding grants and one-offs)	47.7	30.4	5.2	16.5	10.0	22.9	11.7	11.0	10.4	11.8
Total expenditure	89.1	11.3	0.9	-2.3	-5.2	15.7	10.9	10.2	9.5	10.6
Current expenditure	79.5	5.0	8.8	-8.0	-12.2	12.3	10.8	11.8	10.1	12.6
Capital expenditure	115.4	25.5	-14.2	11.6	11.7	22.3	11.3	7.6	8.4	7.1
Money and credit										
Net domestic assets[2]	7.8	18.2	-2.5	-2.0	-9.7	0.6	1.3	2.0	1.0	1.2
Of which:										
Credit to government (net)	9.1	4.6	1.8	0.0	-0.5	0.0	0.0	0.0	0.0	0.0
Credit to the economy	-2.6	13.0	2.2	0.7	-8.3	1.5	1.2	2.0	1.0	1.1
Velocity (GDP/broad money)	2.2	2.0	2.1	2.1	2.3	2.3	2.2	2.2	2.2	2.1
	(Percent of GDP, unless otherwise indicated)									
Investments and savings										
Gross investment	11.4	8.2	8.0	11.1	8.5	8.7	9.1	9.1	9.2	9.2
Of which: government investment	7.6	8.1	6.2	6.5	6.1	7.0	7.2	7.3	7.3	7.3
Gross domestic savings	0.2	3.9	4.0	5.8	2.9	2.5	2.4	2.7	3.1	3.7
Of which: government savings	-0.1	-0.5	-2.5	0.4	0.6	1.5	1.6	1.6	1.7	1.7
Gross national savings	12.0	10.7	9.3	10.5	7.8	6.4	6.3	6.1	6.3	6.7
Government finances										
Total revenue	12.6	13.8	12.2	13.2	11.7	13.5	14.1	14.6	15.0	15.6
Total domestic primary expenditure	16.7	15.4	14.3	12.6	11.3	12.8	13.2	13.7	14.2	14.8
Domestic primary balance	-4.1	-1.5	-2.1	0.6	0.4	0.8	0.9	1.0	0.9	0.8
Overall balance (commitment basis)										
Including grants	-2.6	-3.0	-4.7	-1.9	-1.7	-1.9	-2.0	-2.1	-2.1	-2.1
Excluding grants	-12.1	-9.5	-8.7	-6.0	-5.8	-5.5	-5.6	-5.7	-5.7	-5.7
External current account	0.5	2.5	1.3	-0.6	0.0	-2.3	-2.8	-3.0	-2.9	-2.6
Excluding official current transfers	-3.9	1.6	1.3	-0.6	-0.4	-2.3	-2.8	-3.0	-2.9	-2.6
Stock of central government debt	55.1	52.8	54.1	50.2	49.2	48.3	47.3	46.1	44.7	43.4
Of which: external debt	15.0	15.2	14.4	13.3	12.5	13.0	13.7	14.5	15.3	16.0
Memorandum item:										
Nominal GDP at market prices (CFAF billions)	520.9	612.5	690.5	734.1	780.7	832.7	890.9	955.1	1025.4	1103.5

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

[1] Values exclude the 2015 bank bailout of CFA 34.2 billion. A final determination by the courts on the legality of the bailout contracts is still pending.

[2] Contribution to the growth of broad money in percent.

Table 2. Guinea-Bissau: Balance of Payments[1]

(CFAF billions)

	2014	2015	2016	2017		2018	2019	2020	2021	2022
			Prel.	EBS/17/66	Proj.	Projections				
Current Account Balance										
Including official current transfers	2.8	15.2	9.3	-4.3	-0.1	-19.0	-25.2	-28.8	-29.9	-28.2
Excluding official current transfers[2]	-20.5	9.6	9.0	1.6	-2.9	-19.0	-25.2	-28.8	-29.9	-28.2
Goods and services	-58.2	-26.2	-27.2	-38.6	-38.7	-52.1	-59.2	-61.7	-62.3	-61.2
Goods	-23.8	29.6	31.6	9.8	31.6	22.7	20.1	22.5	26.7	33.0
Exports, f.o.b	82.1	151.9	162.7	179.1	198.8	204.2	217.7	237.6	260.9	287.9
Of which: cashew nuts	69.2	135.8	161.7	177.4	195.6	200.8	214.1	233.8	256.9	283.6
Imports, f.o.b.	-105.9	-122.3	-131.1	-169.3	-167.2	-181.5	-197.6	-215.1	-234.2	-254.9
Of which: food products	-46.0	-48.7	-54.1	-50.7	-67.0	-71.5	-76.1	-80.9	-86.0	-91.3
petroleum products	-23.2	-31.0	-27.2	-36.1	-36.0	-38.3	-41.3	-44.7	-48.7	-53.5
Services	-34.4	-55.8	-58.8	-48.4	-70.3	-74.8	-79.4	-84.1	-89.1	-94.2
Credit	23.2	21.5	19.2	21.1	19.2	20.7	22.3	24.0	25.8	27.8
Debit	-57.6	-77.3	-78.0	-69.5	-89.5	-95.5	-101.6	-108.1	-114.9	-122.0
Incomes	18.5	15.0	15.0	14.0	13.8	13.9	14.2	12.2	11.0	10.8
Credit	19.2	16.4	16.8	14.7	15.8	14.7	14.8	14.8	14.9	14.9
EU fishing compensation	5.7	4.1	4.1	5.9	0.0	5.9	5.9	5.9	5.9	5.9
Other license fees	6.3	8.7	8.1	8.7	8.8	8.8	8.9	8.9	8.9	9.0
Debit	-0.8	-1.4	-1.8	-0.7	-2.0	-0.8	-0.6	-2.6	-3.8	-4.1
Of which: external interest	-0.8	-1.4	-1.8	-0.7	-2.0	-0.8	-0.6	-2.6	-3.8	-4.1
Current transfers (net)	42.6	26.4	21.5	20.3	24.8	19.2	19.9	20.6	21.4	22.2
Official[2]	23.3	6.5	0.3	0.0	2.8	0.0	0.0	0.0	0.0	0.0
Private	19.3	19.9	21.2	20.3	22.0	19.2	19.9	20.6	21.4	22.2
Of which: remittances	19.2	19.9	18.3	19.2	18.5	19.2	19.9	20.6	21.4	22.2
Capital account[2]	30.0	35.4	27.6	30.3	53.8	30.5	32.6	34.6	37.1	39.9
Of which: official transfers	26.2	34.5	27.4	30.1	29.5	30.3	32.4	34.4	36.9	39.7
Financial account	-35.2	-11.8	29.2	3.3	11.2	-16.6	-20.8	-23.1	-24.9	-27.4
FDI	-12.9	-9.6	-9.8	-8.9	-11.3	-19.2	-20.5	-22.0	-23.6	-25.4
Other investment	-22.3	-2.2	39.0	12.2	22.5	2.5	-0.3	-1.1	-1.3	-2.0
Official medium- and long-term disbursements	-13.1	-10.0	-13.5	-15.4	-15.6	-18.8	-22.4	-24.7	-25.7	-27.7
Amortization[3]	2.9	1.1	4.0	1.0	29.9	2.4	2.2	2.9	2.8	3.1
Treasury bills (regional financing)	-15.0	-1.0	-10.0	0.0	-10.0	0.0	0.0	0.0	0.0	0.0
Commercial bank net foreign assets	8.6	-23.5	40.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other net foreign assets	-5.7	31.2	18.0	26.6	18.2	19.0	19.8	20.7	21.6	22.6
Errors and Omissions	-6.9	-22.2	-14.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	61.1	40.2	-7.0	22.6	42.4	28.1	28.2	28.9	32.1	39.2
Financing	-61.1	-40.2	7.0	-22.6	-42.4	-28.1	-28.2	-28.9	-32.1	-39.2
Net foreign assets (increase = -)	-63.9	-39.3	6.4	-22.6	-42.4	-28.1	-28.2	-28.9	-32.1	-39.2
Debt relief	2.5	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)	139	175	195	200	177	186	195	209	225	242
Cashew export prices (US$ per ton)	1,000	1,300	1,400	1,680	1,900	1,938	1,977	2,016	2,057	2,098
Import volume of goods (annual percentage change)	30.5	15.6	9.7	9.4	18.6	10.3	7.1	7.1	6.4	6.6
Scheduled debt service										
Percent of exports and service credits	-1.4	1.9	0.7	1.4	1.5	1.3	1.2	1.4	1.3	1.3
Percent of total government revenue	-2.2	3.9	1.5	2.8	3.6	2.5	2.2	2.6	2.3	2.3
Current account balance (percent of GDP)										
Including official current transfers	0.5	2.5	1.3	-0.6	0.0	-2.3	-2.8	-3.0	-2.9	-2.6
Excluding official current transfers	-3.9	1.6	1.3	-0.6	-0.4	-2.3	-2.8	-3.0	-2.9	-2.6
WAEMU gross official reserves (billions of US$)	13.2	12.4	10.4	…	…	…	…	…	…	…
(percent of broad money)	46.7	43.6	34.5	…	…	…	…	…	…	…
(months of WAEMU imports of GNFS)	4.8	5.1	4.1	…	…	…	…	…	…	…

Sources: BCEAO; and IMF staff estimates and projections.

[1] Balance of Payments Manual 6 format. Reflects revised historical data.

[2] Project grants for EBS/17/66 have been reclassified into capital account.

[3] The figure for 2017 includes CFAF 25 billion in debt relief from Taiwan Province of China.

Table 3a. Guinea-Bissau: Central Government Operations[1]

(CFAF billions)

	2014	2015	2016	2017				2018		2019	2020	2021	2022
			Prel.	June		December		Jun.	Dec.				
				EBS/17/66	Prel.	EBS/17/66	Proj.	Projections					
Revenue and grants	115.0	125.0	112.0	54.3	78.2	127.1	123.9	64.4	142.9	158.3	174.1	191.2	212.2
Tax revenue	44.2	61.9	63.5	33.4	41.4	68.6	72.9	42.3	92.6	102.7	114.7	127.0	143.1
Nontax revenue	21.4	22.9	20.8	7.9	12.3	28.4	18.8	7.1	20.1	23.1	25.1	27.2	29.3
Grants	49.5	40.1	27.6	13.0	24.5	30.1	32.3	15.0	30.3	32.4	34.4	36.9	39.7
Budget support	23.3	5.6	0.3	0.0	2.8	0.0	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	26.2	34.5	27.4	13.0	21.7	30.1	29.5	15.0	30.3	32.4	34.4	36.9	39.7
Expenditure	128.7	143.3	144.5	72.2	80.6	141.2	137.0	76.1	158.6	175.9	194.0	212.4	234.9
Expense	89.2	93.7	102.0	47.0	49.3	93.8	89.6	49.2	100.5	111.4	124.5	137.0	154.2
Wages and salaries	32.3	31.8	34.8	17.1	17.1	34.9	33.3	18.5	36.5	39.6	42.9	46.9	51.5
Goods and services	11.0	16.2	12.0	7.9	9.3	15.3	18.6	9.8	21.7	23.5	25.7	28.4	31.8
Transfers[2]	14.5	18.9	28.3	13.6	14.8	28.8	23.3	9.8	19.7	21.8	24.0	26.2	28.5
Non regularized spending	1.8	2.7	1.9	0.4	0.0	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Interest	2.7	4.6	5.1	2.7	2.1	3.1	3.3	1.6	3.1	3.3	4.5	4.4	4.3
Other	26.9	19.4	20.0	5.3	5.9	10.7	10.6	9.5	19.5	23.2	27.4	31.1	38.2
Net acquisition of nonfinancial assets	39.5	49.5	42.5	25.1	31.3	47.4	47.5	27.0	58.1	64.6	69.5	75.3	80.7
Domestically financed	0.2	4.9	1.6	2.0	0.9	2.0	2.4	4.0	8.9	9.8	10.4	12.7	13.3
Foreign financed	39.2	44.6	40.9	23.1	30.4	45.4	45.1	23.0	49.1	54.8	59.1	62.6	67.4
Overall balance, including grants (commitment)	-13.7	-18.3	-32.5	-17.9	-2.4	-14.1	-13.1	-11.7	-15.7	-17.7	-19.8	-21.2	-22.8
Overall balance, excluding grants (commitment)	-63.1	-58.4	-60.1	-30.9	-26.9	-44.2	-45.3	-26.7	-45.9	-50.1	-54.2	-58.1	-62.5
Change in arrears	-1.8	-6.1	-1.5	-1.0	-2.2	-4.4	-3.0	-1.8	-3.2	-2.5	-2.0	-1.8	-1.9
Domestic arrears[3]	-1.8	-5.2	-2.1	-0.4	-1.4	-3.8	-2.2	-1.8	-3.2	-2.5	-2.0	-1.8	-1.9
Accumulation current year	2.2	2.2	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-4.0	-7.4	-6.1	-0.4	-1.4	-3.8	-2.2	-1.8	-3.2	-2.5	-2.0	-1.8	-1.9
External arrears	0.0	-0.9	0.6	-0.6	-0.8	-0.6	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	-0.4	0.3	-0.3	-0.3	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	-0.5	0.3	-0.3	-0.5	-0.3	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancies	-0.7	1.6	4.1	0.0	-0.5	2.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-16.2	-22.7	-29.9	-18.9	-5.1	-16.5	-14.1	-13.5	-18.8	-20.2	-21.9	-22.9	-24.7
Financing	16.2	22.7	29.9	18.9	5.1	16.5	14.1	13.5	18.8	20.2	21.9	22.9	24.7
Domestic financing	3.2	13.8	20.4	8.9	-2.5	5.1	3.2	6.2	2.4	0.0	0.0	0.0	0.1
Bank financing[4]	3.2	13.8	20.4	8.9	-2.5	5.1	3.2	6.2	2.4	0.0	0.0	0.0	0.1
BCEAO credit	2.7	2.3	4.4	2.5	0.2	5.1	4.9	2.4	2.4	0.0	0.0	0.0	0.0
(o/w) IMF	2.7	2.3	4.4	2.5	0.0	5.1	4.9	2.4	2.4	0.0	0.0	0.0	0.0
Deposits at the BCEAO (- = build up)	-7.9	2.7	5.3	0.0	-4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	8.5	8.8	10.7	6.4	2.0	0.0	-1.7	3.8	0.0	0.0	0.0	0.0	0.1
(o/w) foreign holdings of treasury securities	15.0	1.0	10.0	4.5	9.7	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing (net)	12.7	8.9	9.5	10.0	7.6	11.4	10.8	7.4	16.4	20.2	21.8	22.9	24.6
Disbursements	13.1	10.0	13.5	10.1	8.7	15.4	15.6	8.0	18.8	22.4	24.7	25.7	27.7
Projects	13.1	10.0	13.5	10.1	8.7	15.4	15.6	8.0	18.8	22.4	24.7	25.7	27.7
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	0.0
Amortization	-2.9	-1.1	-4.0	-0.2	-1.2	-3.9	-29.9	-0.6	-2.4	-2.2	-2.9	-2.8	-3.1
Debt relief[5]	2.5	0.0	0.0	0.0	0.0	0.0	25.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
One-off revenues[6]	4.8	5.6	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic bank credit to central government[7]	0.5	11.5	15.9	6.4	-2.6	0.0	-1.7	3.8	0.0	0.0	0.0	0.0	0.1
Domestic primary balance (commitment)[8]	-21.2	-9.3	-14.2	-5.1	5.6	4.4	3.1	-2.1	6.3	7.9	9.4	8.9	9.2

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

[1] Values exclude the voided 2015 bank bailout of CFAF 34.2 billion.

[2] Transfers in 2016 include a CFAF 10.0 billion debt repayment on behalf of Guinea-Telecom. In 2017, it includes a CFAF 6.6 billion debt repayment for EAGB.

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

[4] From 2016, domestic financing is sourced from the monetary survey.

[5] In 2017 the government received 90 percent debt relief on loans from Exim Bank of Taiwan Province of China.

[6] For 2014 refers to FUNPI's proceeds; for 2015 sale of 3G licenses, sale of seized illegal wood, and Euroatlantico receipts; for 2016 sale of 3G licenses.

[7] For 2017, NCG as shown does not include the CFAF 1.7 billion loan guarantee to Bissau City.

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

Table 3b. Guinea-Bissau: Central Government Operations[1]

(Percent of GDP)

	2014	2015	2016	2017				2018		2019	2020	2021	2022
			Prel.	June		December		Jun.	Dec.				
				EBS/17/66	Prel.	EBS/17/66	Proj.	Projections					
Revenue and grants	22.1	20.4	16.2	7.4	10.0	17.3	15.9	7.7	17.2	17.8	18.2	18.6	19.2
Tax revenue	8.5	10.1	9.2	4.6	5.3	9.3	9.3	5.1	11.1	11.5	12.0	12.4	13.0
Nontax revenue	4.1	3.7	3.0	1.1	1.6	3.9	2.4	0.9	2.4	2.6	2.6	2.7	2.7
Grants	9.5	6.6	4.0	1.8	3.1	4.1	4.1	1.8	3.6	3.6	3.6	3.6	3.6
Budget support	4.5	0.9	0.0	0.0	0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	5.0	5.6	4.0	1.8	2.8	4.1	3.8	1.8	3.6	3.6	3.6	3.6	3.6
Expenditure	24.7	23.4	20.9	9.8	10.3	19.2	17.6	9.1	19.0	19.7	20.3	20.7	21.3
Expense	17.1	15.3	14.8	6.4	6.3	12.8	11.5	5.9	12.1	12.5	13.0	13.4	14.0
Wages and salaries	6.2	5.2	5.0	2.3	2.2	4.7	4.3	2.2	4.4	4.4	4.5	4.6	4.7
Goods and services	2.1	2.6	1.7	1.1	1.2	2.1	2.4	1.2	2.6	2.6	2.7	2.8	2.9
Transfers[2]	2.8	3.1	4.1	1.9	1.9	3.9	3.0	1.2	2.4	2.4	2.5	2.6	2.6
Non regularized spending	0.3	0.4	0.3	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.5	0.8	0.7	0.4	0.3	0.4	0.4	0.2	0.4	0.4	0.5	0.4	0.4
Other	5.2	3.2	2.9	0.7	0.8	1.5	1.4	1.1	2.3	2.6	2.9	3.0	3.5
Net acquisition of nonfinancial assets	7.6	8.1	6.2	3.4	4.0	6.5	6.1	3.2	7.0	7.2	7.3	7.3	7.3
Domestically financed	0.0	0.8	0.2	0.3	0.1	0.3	0.3	0.5	1.1	1.1	1.1	1.2	1.2
Foreign financed	7.5	7.3	5.9	3.2	3.9	6.2	5.8	2.8	5.9	6.1	6.2	6.1	6.1
Overall balance, including grants (commitment)	-2.6	-3.0	-4.7	-2.4	-0.3	-1.9	-1.7	-1.4	-1.9	-2.0	-2.1	-2.1	-2.1
Overall balance, excluding grants (commitment)	-12.1	-9.5	-8.7	-4.2	-3.4	-6.0	-5.8	-3.2	-5.5	-5.6	-5.7	-5.7	-5.7
Change in arrears	-0.3	-1.0	-0.2	-0.1	-0.3	-0.6	-0.4	-0.2	-0.4	-0.3	-0.2	-0.2	-0.2
Domestic arrears[3]	-0.3	-0.8	-0.3	-0.1	-0.2	-0.5	-0.3	-0.2	-0.4	-0.3	-0.2	-0.2	-0.2
Accumulation current year	0.4	0.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-0.8	-1.2	-0.9	-0.1	-0.2	-0.5	-0.3	-0.2	-0.4	-0.3	-0.2	-0.2	-0.2
External arrears	0.0	-0.2	0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	-0.1	0.1	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancies	-0.1	0.3	0.6	0.0	-0.1	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-3.1	-3.7	-4.3	-2.6	-0.7	-2.2	-1.8	-1.6	-2.3	-2.3	-2.3	-2.2	-2.2
Financing	3.1	3.7	4.3	2.6	0.7	2.2	1.8	1.6	2.3	2.3	2.3	2.2	2.2
Domestic financing	0.6	2.3	2.9	1.2	-0.3	0.7	0.4	0.7	0.3	0.0	0.0	0.0	0.0
Bank financing[4]	0.6	2.3	2.9	1.2	-0.3	0.7	0.4	0.7	0.3	0.0	0.0	0.0	0.0
BCEAO credit	0.5	0.4	0.6	0.3	0.0	0.7	0.6	0.3	0.3	0.0	0.0	0.0	0.0
(o/w) IMF	0.5	0.4	0.6	0.3	0.0	0.7	0.6	0.3	0.3	0.0	0.0	0.0	0.0
Deposits at the BCEAO (- = build up)	-1.5	0.4	0.8	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	1.6	1.4	1.5	0.9	0.3	0.0	-0.2	0.5	0.0	0.0	0.0	0.0	0.0
(o/w) foreign holdings of treasury securities	2.9	0.2	1.4	0.6	1.2	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing (net)	2.4	1.5	1.4	1.4	1.0	1.6	1.4	0.9	2.0	2.3	2.3	2.2	2.2
Disbursements	2.5	1.6	2.0	1.4	1.1	2.1	2.0	1.0	2.3	2.5	2.6	2.5	2.5
Projects	2.5	1.6	2.0	1.4	1.1	2.1	2.0	1.0	2.3	2.5	2.6	2.5	2.5
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	0.0
Amortization	-0.6	-0.2	-0.6	0.0	-0.1	-0.5	-3.8	-0.1	-0.3	-0.2	-0.3	-0.3	-0.3
Debt relief[5]	0.5	0.0	0.0	0.0	0.0	0.0	3.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
One-off revenues[6]	0.9	0.9	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic bank credit to central government[7]	0.1	1.9	2.3	0.9	-0.3	0.0	-0.2	0.5	0.0	0.0	0.0	0.0	0.0
Domestic primary balance (commitment)[8]	-4.1	-1.5	-2.1	-0.7	0.7	0.6	0.4	0.0	0.8	0.9	1.0	0.9	0.8

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

[1] Values exclude the voided 2015 bank bailout of CFAF 34.2 billion.

[2] Transfers in 2016 include a CFAF 10.0 billion debt repayment on behalf of Guinea-Telecom. In 2017, it includes a CFAF 6.6 billion debt repayment for EAGB.

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

[4] From 2016, domestic financing is sourced from the monetary survey.

[5] In 2017 the government received 90 percent debt relief on two loans from Exim Bank of Taiwan Province of China.

[6] For 2014 refers to FUNPI's proceeds; for 2015 sale of 3G licenses, sale of seized illegal wood, and Euroatlantico receipts; for 2016 sale of 3G licenses.

[7] For 2017, NCG as shown does not include the CFAF 1.7 billion loan guarantee to Bissau City.

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

Table 4. Guinea-Bissau: Monetary Survey[1]

	2014	2015	2016	2017			2018
			Prel.	June	EBS/17/66	Proj.	Proj.
	(CFAF billions)						
Net foreign assets	151.6	167.4	201.5	217.4	224.8	243.9	272.0
Central Bank of West African States (BCEAO)	120.3	159.5	153.1	183.8	175.8	195.5	223.6
Commercial banks	31.4	7.9	48.4	33.6	49.0	48.4	48.4
Net domestic assets	89.9	134.0	126.6	108.3	117.8	94.9	97.0
Credit to the government (net)[2]	36.8	47.9	53.3	45.4	95.1	51.6	49.2
BCEAO, net	24.7	28.0	37.7	32.0	42.7	42.5	42.5
Deposits	5.9	6.0	0.8	6.0	0.8	0.8	0.8
Credit	30.7	34.0	38.4	38.1	43.5	43.3	43.3
Commercial banks, net	12.1	19.9	15.6	13.3	52.4	9.1	6.7
Deposits	11.5	3.7	7.3	7.1	3.3	7.3	7.3
Credit	23.6	23.6	22.9	20.4	55.7	16.4	14.0
Credit to the economy (net of provisions)	62.5	93.9	100.4	68.0	68.5	73.3	78.4
Other items (net)	-9.4	-7.7	-27.0	-5.0	-45.8	-30.0	-30.7
Money supply (M2)	241.5	301.4	328.1	325.7	342.6	338.8	369.0
Currency outside banks	151.4	194.6	224.2	228.3	236.0	231.4	252.1
Bank deposits	90.1	106.8	104.0	95.1	106.6	107.4	116.9
Base money (M0)	159.8	202.1	232.9	248.1	248.5	235.0	256.0
	(Change in percent of beginning-of-period broad money)						
Contribution to the growth of broad money							
Money supply (M2)	42.5	24.8	8.9	-2.8	5.0	3.3	8.9
Net foreign assets	25.5	6.5	11.3	4.8	6.9	12.9	8.3
BCEAO	37.7	16.3	-2.1	9.3	6.9	12.9	8.3
Commercial banks	-12.2	-9.7	13.4	-4.5	0.0	0.0	0.0
Net domestic assets	17.1	18.2	-2.5	-7.6	-2.0	-9.7	0.6
Credit to the central government	9.0	4.6	1.8	-2.4	0.0	-0.5	0.0
Credit to the private sector	-5.9	13.0	2.2	-9.9	0.7	-8.3	1.5
Other items (net)	13.9	0.7	-6.4	4.7	-2.7	-0.9	-0.9
Memorandum items:							
Money supply (M2, annual percentage change)	42.5	24.8	8.9	-2.8	5.0	3.3	8.9
Base money (M0, annual percentage change)	41.7	26.5	15.2	6.5	5.0	0.9	8.9
Credit to the private sector (annual percentage change)	-6.6	50.1	6.9	-21.1	3.6	-27.0	7.0
Gross credit to the private sector (CFAF billions)[2]	80.0	89.2	94.7	107.1	...	95.5	99.5
Gross credit to the private sector (annual percentage change)	10.6	11.6	6.1	-0.8	...	0.9	4.2
Provisions for loan losses (CFAF billions)	17.9	4.3	5.9	25.8	...	...	...
Velocity (GDP/M2)	2.2	2.0	2.1	2.4	2.1	2.3	2.3
Money multiplier (M2/M0)	1.5	1.5	1.4	1.3	1.4	1.4	1.4

Sources: BCEAO; and IMF staff estimates and projections.

[1] End of period. The authorities' monetary survey includes the bank bailout in the data for 2015-16 and does not include Bank Atlantique.

[2] Gross of provisions and including Bank Atlantique.

Table 5. Guinea-Bissau: Financial Soundness Indicators of the Banking System

(Percent)

	2011	2012	2013	2014	2015	2016	June 2017
Capital Adequacy							
Capital to risk-weighted assets	17.4	21.0	17.3	25.8	28.9	4.8	5.3
Capital to total assets	4.3	5.2	9.5	11.5	8.8	3.5	6.0
Sectoral distribution of credit							
Agriculture and fishing	4.1	7.0	1.9	0.0	0.3	3.3	3.3
Extractive industries	0.0	0.0	0.0	0.0	0.0	3.0	3.0
Manufacturing industries	9.4	18.5	25.3	44.0	4.3	3.7	3.7
Electricity, gas, and water	11.5	7.6	9.1	0.2	10.2	3.1	3.1
Building and construction	4.0	3.2	2.3	0.7	3.3	5.9	5.9
Commerce	52.9	42.3	38.8	14.2	53.0	55.0	55.0
Transport and communication	0.1	0.1	0.1	0.0	0.1	3.1	3.1
Insurance and enterprise services	0.6	0.5	0.3	0.0	3.0	5.5	5.5
Other activities	17.4	20.9	22.2	40.8	25.8	17.4	17.4
Asset quality							
Non-performing loans to total credit (gross)	6.7	22.6	27.0	39.4	8.2	10.8	31.7
Non-performing loans to capital (net)	35.6	195.3	110.5	115.1	28.2	92.2	106.3
Provisions to gross non-performing loans	51.8	31.2	39.1	46.2	46.7	45.5	64.9
Provisions to gross loans	2.7	6.1	9.4	15.7	4.8	6.2	20.6
Earnings and profitability							
Net income to average assets (ROA)	2.5	0.1	-3.2	-1.4	6.4	…	…
Net income to average equity (ROE)	17.7	0.6	-21.2	-13.6	46.3	…	…
Liquidity							
Liquid assets to total assets	30.0	32.1	19.4	18.6	16.6	33.2	35.9
Liquid assets to short term assets	59.7	75.0	41.6	38.8	40.6	71.2	66.5
Ratio of deposits to assets	70.9	65.9	65.1	68.6	59.6	55.7	65.7
Ratio of loans to deposits	68.8	93.4	85.6	82.8	93.6	90.0	71.0
Memorandum items:							
Deposit rate	3.8	4.7	4.7	3.0	3.0	3.0	3.0
Lending rate	10.6	10.2	9.2	12.0	12.0	12.0	12.0

Source: BCEAO.

Table 6. Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets for 2018

(Cumulative from beginning of calendar year to end of month indicated; CFAF billions, unless otherwise indicated)

		2017								2018
	2016	Mar.[1]		Jun.			Sept.[1]	Dec.		Mar.[1]
		Prog.	Prel.	Prog.	Prel.	Status	Prog.	Prog.	Proj.	Prog.
Performance criteria[1]										
Total domestic tax revenue (floor)	63.5	16.3	13.0	33.4	41.4	met	48.9	65.2	69.3	12.1
Net domestic bank credit to the central government (ceiling)[2]	15.9	8.0	15.9	6.4	-2.6	met	0.0	0.0	0.0	13.7
Ceiling on new nonconcessional external debt (US$ millions)[3]	0.0	0.0	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[3]	0.0	0.0	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0
External payment arrears (ceiling)[3]	0.6	0.0	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0
Indicative targets										
New domestic arrears (ceiling)	4.0	0.0	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0
Social and priority spending (floor)	32.2	7.7	10.8	21.7	23.2	met	23.2	31.0	31.0	7.8
Domestic primary balance (commitment basis, floor)	-14.2	-6.4	-2.2	-5.1	5.6	met	-1.0	4.4	3.1	-11.7
Non regularized expenditures (DNTs, ceiling)	1.9	0.3	0.0	0.4	0.0	met	1.0	1.0	0.5	0.0
Memorandum items:										
Clearance of domestic payment arrears	6.1	0.4	0.4	0.4	1.4		0.4	3.8	2.2	0.9
External budgetary assistance (US$ millions)[4]	0.4	0.0	0.0	0.0	4.8		0.0	0.0	4.8	0.0
ECF disbursements (SDR millions, flow)	5.1	0.0	0.0	3.0	0.0		3.0	3.0	3.0	0.0
Concessional loans (US$ millions)[5]	7.1	4.6	3.0	5.4	6.0		5.4	10.9	12.0	3.4

[1] The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU). Targets for end-March and end-September are indicative.

[2] Figures for Sept. and Dec. 2017 include the CFAF 1.7 billion debt guarantee given to Bissau City.

[3] These apply on a continuous basis.

[4] Comprises budget support grants and program loans (for budget support).

[5] Comprises project loans with grant elements exceeding or equal to 35 percent.

Table 7a. Guinea-Bissau: Past Structural Benchmarks Under the ECF Program, 2017			
Measures	**Timing**	**Macro Rationale**	**Status**
Revenue Mobilization			
Implement an intra-trade post in SAFIM to reconcile invoice merchandise data with actual contents of the cargo.	September 2015	Strengthen revenue collection.	Met
Draw up a strategic plan for improving infrastructure and working conditions of officials of the domestic tax and customs administration.	December 2015	Strengthen revenue collection.	Not met. A new strategic plan for the tax administration was finalized in April 2017.
Implement a new small taxpayer regime by the introduction of universal NIF (tax payer identification number)	December 2015	To improve voluntary compliance and raise tax revenue.	Not met.
Expenditure Management			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2015 budget.	July 2015 for August 2015 and monthly thereafter.	Enhance expenditure management.	Met
Transition to the payment of the salaries, wages, and allowances of all public servants (including the security service) through the banking system.	September 2015	Reduce handling of cash by the Treasury and strengthen public financial management.	Not met. Implemented in October 2015.
Prepare a quarterly report on PIP execution. July 2015 for August 2015 and monthly thereafter	December 2015 for Sept. 2015 Report, quarterly thereafter.	Enhance PIP execution and monitoring.	Met
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2017 budget.	December 2016 for January 2017, and monthly thereafter	Enhance expenditure management	Met
Prepare timely quarterly reports on ministry-level budget execution with details along economic classification of expenses.	December 2016, and quarterly thereafter	Enhance budget execution and monitoring	Met
As a precursor of the planned Treasury Single Account, draw up a list (including 2015 accounts) of own-source revenues collected by ministries, departments and government agencies.	December 2016	Strengthen public expenditure management	Met

Table 7a. Guinea-Bissau: Past Structural Benchmarks Under the ECF Program, 2017 (continued)			
Measures	**Timing**	**Macro Rationale**	**Status**
Debt Management			
Reinstall and operationalize debt management IT system.	July 2015	Enhance debt management capacity and borrowing policies.	Not met. Implemented with delay.
Prepare a quarterly report on external debt commitments, agreements and disbursements.	December 2015 for June 2015 Report, quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments.	Met.
Prepare a quarterly report on external debt commitments, agreements, and disbursements.	December 2016 for September 2016 Report, and quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments	Met
Council of Ministers to issue a decree to clarify the debt issuance authority and the procedure for the issuance of government guarantees, on-lending operations, and large liabilities.	December 2016	Bring Guinea-Bissau's debt management policy in line with the WAEMU regulation	Not Met. Completed in June 2017
Business Environment and Overall Policy			
Complete an international and comprehensive audit of the fund for industrialization of agricultural products (FUNPI).	September 2015	To improve cashew nuts production and trade.	Not met. Completed in April 2016.
Prepare an audit plan for all State-owned Enterprises and autonomous funds.	March 2016	To improve service delivery by, and financial sustainability of, public enterprises.	Not met. Rescheduled for November 2016.
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2016	Reduce transaction costs.	Not met. Rescheduled for June 2017.
Prepare an audit plan for all State-owned Enterprises and autonomous funds.	November 2016	To improve service delivery by, and financial sustainability of, public enterprises.	Met

Table 7a. Guinea-Bissau: Past Structural Benchmarks Under the ECF Program, 2017 (concluded)			
Measures	**Timing**	**Macro Rationale**	**Status**
EAGB will submit reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and on monthly basis starting from October 2016.	December 2016	To instill transparency in EAGB operations and financial position.	Not met. Reset for July 2017 and partially completed in October 2017.
Complete, with assistance of the WAEMU Banking Commission, an assessment of the two banks affected by the bailout, and articulate an action plan to bring these banks into compliance with prudential norms.	April 15, 2017	To strengthen the health of the banking system.	Met. Banking Commission Report submitted to Finance Minister in February 2017.
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2017	Reduce transaction costs.	Met. The Ministry of Commerce proposed a draft bill that, among others, sought to restrict foreign traders' participation in the cashew trade, and it was not approved by the Council of Ministers.

Table 7b. Guinea-Bissau: Structural Benchmarks Under the ECF Program, 2017–18			
Measures	**Timing**	**Macro Rationale**	**Status**
Revenue Mobilization			
Extend the new uniform sales invoice to all taxpayers.	September 2017	To improve tax administration and compliance.	Met
Complete the assignment of taxpayer identification numbers to all taxpayers.	September 2017	To improve tax administration and compliance.	Met
Prepare a draft law, with technical assistance from the IMF, for a new small taxpayer regime that is simple and transparent, protects the revenue base, lowers compliance costs, and ensures global participation.	December 2017	To improve tax administration and compliance.	On track. IMF TA is helping the authorities draft the law.
Expenditure Management			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2017 budget.	December 2016 for January 2017, and monthly thereafter	Enhance expenditure management	Met
Prepare timely quarterly reports on ministry-level budget execution with details along economic classification of expenses.	December 2016, and quarterly thereafter	Enhance budget execution and monitoring	Met
Debt Management			
Prepare a quarterly report on external debt commitments, agreements, and disbursements.	December 2016 for September 2016 Report, and quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments	Met
Install the newest version of the debt management software, DMFAS 6.0, and commence its use for effective debt analysis and debt service projections.	September 2017	Strengthen debt management and eschew payment arrears	Not Met. Proposed rescheduled for December 2017.

Table 7b. Guinea-Bissau: Structural Benchmarks Under the ECF Program, 2017–18 (concluded)			
Measures	**Timing**	**Macro Rationale**	**Status**
Business Environment and Overall Policy			
Complete, with assistance of the WAEMU Banking Commission, an assessment of the two banks affected by the bailout, and articulate an action plan to bring these banks into compliance with prudential norms.	April 15, 2017	To strengthen the health of the banking system.	Met
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2017	Reduce transaction costs.	Met. The Ministry of Commerce proposed a draft bill that, among others, sought to restrict foreign traders' participation in the cashew trade, and it was not approved by the Council of Ministers.
EAGB will submit reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and on a monthly basis starting from October 2016.	July 2017	To instill transparency in EAGB operations and financial position.	Not Met. Report covering monthly flows so far in 2017 was submitted in October 2017.
Submit management improvement plan for EAGB to the Council of Ministers	March 2018	To enhance efficiency in the utility, reduce electricity supply costs, and avoid contingent liabilities.	Proposed benchmark
Submission of a 2018 budget to Council of Ministers	December 2017	Proper fiscal management	Proposed benchmark

Table 8. Guinea-Bissau: Schedule of Disbursements Under the ECF Arrangement, 2015–18[1]

Availability	Disbursements: In millions of SDR	Disbursements: In percent of Quota[2]	Condition for Disbursement	Status
July 10, 2015	2.84	10	Approval of the three-year ECF arrangement.	Disbursed
October 15, 2015	2.84	10	Board completion of the first review based on observance of performance criteria for June 30, 2015.	Disbursed
April 15, 2016	2.272	8.00	Board completion of the second review based on observance of performance criteria for December 31, 2015.	Disbursed
April 15, 2017	3.030	10.67	Board completion of the third review based on observance of performance criteria for December 31, 2016.	Disbursed
October 15, 2017	3.030	10.67	Board completion of the fourth review based on observance of performance criteria for June 30, 2017.	
April 15, 2018	3.028	10.66	Board completion of the fifth review based on observance of performance criteria for December 31, 2017.	
Total Disbursements	**17.04**	**60.0**		

Source: IMF staff estimates.

[1] The first and second ECF-reviews were combined and completed on December 2, 2016. The third review was completed on July 6, 2017.

[2] Based on the new quota for Guinea-Bissau under the 14th General Quota Review.

Table 9. Guinea-Bissau: Indicators of Capacity to Repay the Fund

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					Projections					
					(SDR millions, unless otherwise indicated)					
Fund obligations based on existing credit										
Principal	0.72	1.45	1.45	1.45	1.29	1.59	2.20	2.20	2.20	1.63
Charges and interest	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	0.72	1.45	1.45	2.16	2.00	2.30	3.82	4.12	3.41	2.84
Charges and interest	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	0.72	1.45	1.45	2.16	2.00	2.30	3.82	4.12	3.41	2.84
CFAF billions	0.58	1.14	1.14	1.69	1.57	1.81	3.01	3.25	2.69	2.24
Percent government revenue	0.63	1.01	0.90	1.21	1.02	1.05	1.55	1.46	1.06	0.77
Percent exports of goods and services	0.27	0.51	0.47	0.65	0.55	0.57	0.87	0.86	0.65	0.50
Percent debt service	17.40	39.81	40.78	47.08	43.41	45.15	53.76	52.56	56.51	45.40
Percent GDP	0.07	0.14	0.13	0.18	0.15	0.16	0.25	0.25	0.20	0.15
Percent quota	2.54	5.11	5.11	7.61	7.04	8.10	13.45	14.51	12.01	10.00
Percent reserves	0.30	0.51	0.45	0.60	0.50	0.51				
Outstanding Fund credit										
SDR millions	22.63	24.21	22.76	20.60	18.60	16.30	12.49	8.37	4.96	2.12
CFAF billions	18.22	19.02	17.83	16.12	14.59	12.84	9.84	6.60	3.91	1.67
Percent government revenue	19.88	16.88	14.16	11.53	9.46	7.45	5.06	2.97	1.54	0.58
Percent exports of goods and services	8.36	8.46	7.43	6.16	5.09	4.07	2.85	1.74	0.94	0.38
Percent debt service	546.92	664.62	640.16	448.98	403.73	319.94	175.77	106.78	82.19	33.89
Percent GDP	2.33	2.28	2.00	1.69	1.42	1.16	0.83	0.52	0.28	0.11
Percent quota	79.68	85.25	80.14	72.54	65.49	57.39	43.98	29.47	17.46	7.46
Percent reserves	9.32	8.50	7.08	5.74	4.66	3.65				
Net use of Fund credit	5.34	1.58	-1.45	-2.16	-2.00	-2.30	-3.82	-4.12	-3.41	-2.84
Disbursements	6.061	3.028	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Repayments and repurchases	0.72	1.45	1.45	2.16	2.00	2.30	3.82	4.12	3.41	2.84
					(CFAF billions)					
Memorandum items:										
Nominal GDP	780.7	832.7	890.9	955.1	1,025.4	1,103.5	1,187.5	1,278.0	1,375.3	1,480.1
Exports of goods and services	218.0	224.9	239.9	261.5	286.7	315.7	345.7	378.5	414.4	445.1
Government revenue	91.7	112.6	125.9	139.7	154.3	172.5	194.6	221.8	253.5	290.4
Debt service	3.3	2.9	2.8	3.6	3.6	4.0	5.6	6.2	4.8	4.9
Net Foreign Assets Central Bank	195.5	223.6	251.8	280.7	312.8	351.9	...	...	...	...
CFAF/SDR (period average)	805.3	785.4	783.2	782.4	784.3	788.0	788.0	788.0	788.0	788.0
Quota (SDR)	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 10. Guinea-Bissau: Table of Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates			D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	June 2017	Sept. 20, 2017	M	M	M
Reserve/Base Money	June 2017	Sept. 20, 2017	M	M	M
Broad Money	June 2017	Sept. 20, 2017	M	M	M
Central Bank Balance Sheet	June 2017	Sept. 20, 2017	M	M	M
Consolidated Balance Sheet of the Banking System	June 2017	Sept. 20, 2017	M	M	M
Interest Rates[2]	June 2017	Sept. 20, 2017	M	M	M
Consumer Price Index	Aug. 2017	Oct. 2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	June 2017	Aug. 5, 2017	M	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2016	Aug. 5, 2017	M	Q	Q
External Current Account Balance	2016	May, 2017	A	I	I
Exports and Imports of Goods and Services	2016	May, 2017	M	I	I
GDP	2016	Sept., 2017	A	I	I
Gross External Debt	June 2017	Aug. 5, 2017	M	Q	Q
International Investment Position[6]	2015	May, 2017	A	I	I

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).

Annex I. Recommendations from the 2015 Article IV Consultation

Fund Advice	Response
Foster political stability. Implement security sector and structural reforms to strengthen institutions and increase fiscal accountability.	Political tensions have remained elevated, with disputes over implementation of the ECOWAS-brokered *Conakry Accord* of late 2016. Nevertheless, the security situation has been calm and important progress has been made towards promoting professionalism in the security forces and transparency in defense spending. There has also been good progress on reforms to strengthen public institutions and enhance fiscal accountability, including adoption of a new regulation that clarifies the debt contracting authority.
Broaden the domestic revenue base. Increase revenue mobilization by broadening the tax base, strengthening tax and customs administration, and streamlining tax exemptions.	Tax and customs administration has been strengthened. The authorities extended the tax management software (SYDONIA ++) to a major border post in Bissau and have hired additional tax officers. In parallel, they have introduced new uniform sales invoices and assigned taxpayer identification numbers to many taxpayers.
Improve public expenditure management and build debt management capacities. Strengthen expenditure commitment planning, budget execution and control. Reform the debt unit and improve debt monitoring and management capacities.	The authorities have strengthened public financial management considerably since late 2016. The Treasury Committee meets twice a week and is approving all expenditure commitments considering available resources. Spending practices that sidestep approved procedures have been eliminated and new domestic arrears avoided.
Foster job creation and economic diversification. Improve the business environment by streamlining government controls and procedures and by increasing the efficiency of public initiatives in the cashew sector.	The ill-managed fund for industrialization of agricultural production (FUNPI) was shut down after an audit of its operations. Electricity provision has improved and steps are underway to improve management of EAGB.
Restore financial stability. Address undercapitalization of troubled banks in line with international best practices. Do not use scarce government funds for intervention.	The ill-conceived bank bailout of 2015 was a major setback to good governance but the authorities took strong measures to reverse the transactions.

Annex II. Capacity Building Amid Fragility

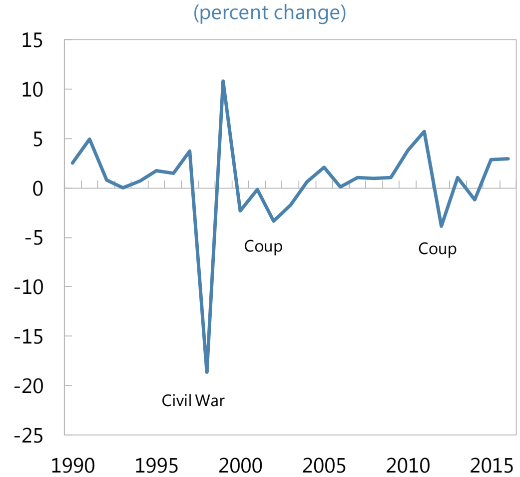
Political instability and frequent government changes have weakened institutions and delayed reforms. In the current period of relative stability and drive for reform, the Fund and other development partners are assisting the country through TA and training to enhance administrative capacity in revenue mobilization, public financial management, and debt management. The capacity building program is intertwined with surveillance and program priorities.

A. Background

1. **Guinea-Bissau is among the world's most fragile states.** Since independence in 1973, the country has experienced a civil war (in 1998–99) and a series of coups with marked negative consequences for the country's economy and social fabric.

2. **Conflict and political instability has stymied development of economic institutions and weakened administrative capacity.** The history of coups and governments driven by rent-seeking have hindered important economic decisions and reforms. Weak institutions, high political uncertainty, and low resource mobilization are key features of fragility in Guinea-Bissau.

Guinea-Bissau: Real GDP Per Capita
(percent change)



Source: IMF, *World Economic Outlook* database.

3. **Restoration of peaceful civilian rule in 2012 offered new hope.** Following reinstatement of normal executive functions after the April 2012 coup d'état, general elections were held successfully in April-May 2014. This set the stage for reform efforts and engagement with development partners. The Fund's Executive Board approved a Rapid Credit Facility (RCF) for Guinea-Bissau in November 2014. At a March 2015 Roundtable in Brussels donors pledged assistance totaling about $1.5 billion to support the country's 10-year development plan. The present ECF-supported program was approved in July 2015.

4. **While the security situation has remained quiet, political instability has continued and progress towards the development agenda has been sporadic.** Divisions within the PAIGC party, led to four changes of government between mid-2015 and late-2016. The early part of this period coincided with the problematic bank bailouts and setbacks to effective treasury management, which caused the ECF-supported program to go off track and eroded development partner support.

B. Fostering Resilience by Building Capacity

5. **The period since end-2016 has been one of relative political stability and strong economic reform drive.** While there are ongoing demands for President Vaz to agree to a consensus government in line with the ECOWAS-brokered Conakry agreement of October 2016,

2017 has been a year of relative calm. During this period, under the guidance of a new Minister of Finance, the ECF-supported program has been back on track and TA activities have received new impetus. The current environment represents a window of opportunity to advance reforms and improve economic policies.

6. The Fund is taking a leading role in strengthening capacity of Guinea-Bissau's economic institutions. TA and training activities are geared towards achieving the main objectives of the ECF-supported program through broad-based capacity building ranging from helping put in place systems for data compilation and dissemination and strengthening key AML/CFT institutions like the Financial Intelligence Unit (CENTIF), to assisting with policy reform. The Fund's activities are coordinated with other development partners (mainly the African Development Bank, the European Union, and the World Bank), to improve traction and minimize duplication.

7. Capacity building is intertwined with surveillance and focus on reforms. The Fund's Capacity Development Strategy for Guinea-Bissau identifies tax administration, public financial management, debt management, and improving statistics as key priorities for technical assistance (TA) and training by IMF TA Departments and AFRITAC West. For FY2018, the TA plan includes:

Priorities	Objectives	Main Recommendations
Public Financial Management	Improve budget forecasting, execution, and control	• Record all expenditures in the financial management system (SIGFIP), before payment. • Strengthen the capacity of the new unit in the Directorate General of Budget and update early year projections in the second half of the year. • Prepare and send to Council of Ministers on a timely basis a budget proposal for 2018. • Adopt a pilot approach to move towards program budgeting, by selecting some sectoral ministries, and begin to classify the expenditures by actions. • Broaden the financial programming horizon, by prioritizing expenses and providing information to the budget execution units. • Streamline budget execution procedure and leave financial verification within SIGFIP.
Tax Policy	Update tax policies and review rates	• Review select tax policies (including taxation of SMEs) and outline plans for process of broader tax policy reforms.
Customs Administration	Enhance collection of duties and taxes, ensure customs control, and facilitate legitimate trade	• Strengthen the capacity of the unit in charge of auditing goods value assessment. • Strengthen core customs functions, including valuation and risk management.
Tax Administration	Strengthen administrative performance, raise compliance levels and improve revenue collection.	• Establish a risk compliance strategy. • Guarantee necessary resources for the tax administration's operations. • Implement the IT strategic plan to provide support for core processes.

Priorities	Objectives	Main Recommendations
Tax Administration (continued)		• Ensure that taxpayers are registered and captured in the IT system. • Develop and implement a policy to manage tax arrears. • Strengthen fundamental processes, such as registration, filing and payment. • Update auditing practices to enhance compliance. • Strengthen the large taxpayer unit.
Debt Management	Enhance capability of the Ministry of Finance's Debt Directorate and ensure consistency between debt projections and annual budgets/fiscal projections.	• Build the workforce of the debt directorate for the tasks of the middle office and public securities. • Redeploy personnel based on the new organization of services. • Update the manual of procedures • Finalize a draft bill on the creation and functioning of a debt management committee. • Install DMFAS 6.0 with assistance of the World Bank and UNCTAD.
Economic Statistics	Enhance compilation and dissemination	• Publish 2016 final national accounts data by March 2018, and provisional 2017 data by August 2018. • Strengthen INE institutional capacity. • Design a template for CsPro to process survey data. • Migrate to MS Excel for processing of survey data. • Complete the ongoing household survey on employment, informal sector, and expenditure. • Use the MS Excel template for processing financial statement developed by TA experts. • Collect necessary data to produce the industrial production index. • Involve Ministry of Finance to produce a revised organizational structure of INE.

Beyond FY2018, the capacity development strategy will be guided by progress on the FY2018 priorities. In addition, staff are exploring options for establishing peer-leaning ties with neighboring countries such as Cabo Verde, to develop synergies and provide the Guinea-Bissau authorities with firsthand examples of capacity building.

8. **The reform strategy is subject to risks, including political instability and weak absorption capacity.** The authorities are enthusiastic in receiving TA and are of the view that TA delivery at this juncture should have a strong field presence, emphasizing training and long-term advisors. The careful tailoring of the TA agenda to the specific circumstances and needs of the country should help mitigate some of the risks.

Annex III. Risk Assessment Matrix[1]

Sources of Risk	*Likelihood*	Expected Impact	Recommendations
		Domestic Risks	
Heightened political instability	***High***	**High.** Uncertainty and security concerns hurt private investment; setbacks to strengthening of public institutions.	Focus on maintaining macro-fiscal stability. Advance security sector reforms. Maintain essential spending to foster social cohesion.
Banking instability, arising from high NPLs, under-capitalization, and the unresolved bailout	***Medium***	**High.** Credit extension hampered, reducing investment and growth; possibility of contingent liabilities for government, adding to fiscal pressures.	Enhance banking supervision and enforce prudential regulations. Improve processes and procedures for banks' collection of debts and collateral.
Setbacks to PFM and revenue mobilization	***Medium***	**High.** Fewer resources for needed social and investment spending; public debt burden could increase.	Accelerate implementation of capacity development strategy. Raise efficiency of government spending.
Continued weaknesses in state-owned enterprises	***Medium***	**Medium.** Lacking and expensive electricity and water supply; contingent liabilities for government, adding to fiscal pressures.	Implement credible strategy to improve management of public enterprises. Strengthen monitoring and oversight.
		External Risks	
Adverse terms of trade movements	***Medium***	**High.** Private sector incomes come under pressure, denting economic activity; government revenues diminish, leaving less room for priority spending.	Build buffers to enhance resilience. Step up diversification efforts. Ensure timely adjustments of retail fuel and electricity prices.

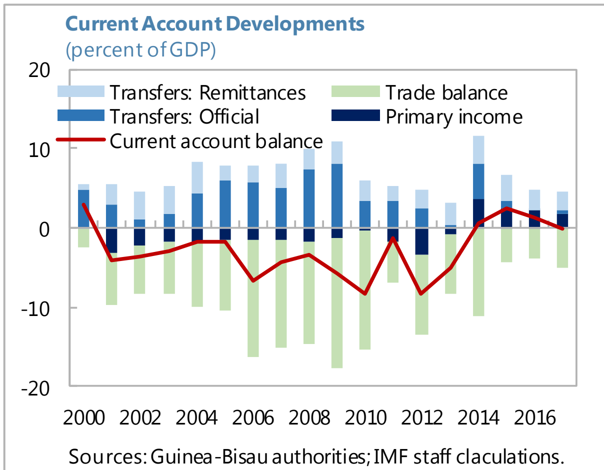
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

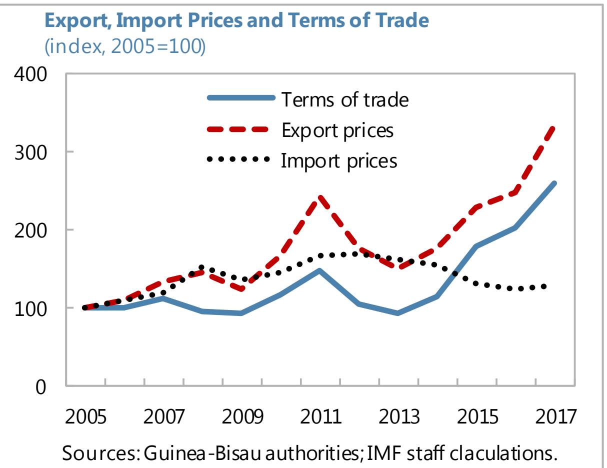
Annex IV. External Stability Assessment

The external position of Guinea-Bissau is stronger than suggested by fundamentals, reflecting strong positive terms of trade developments. The EBA-lite methodologies indicate moderate exchange rate undervaluation, subject to data uncertainties. The current account registered surpluses for the last three years, unprecedented for Guinea-Bissau. Exports depend heavily on cashew nuts and have benefited from higher international prices; competitiveness elsewhere is weak.

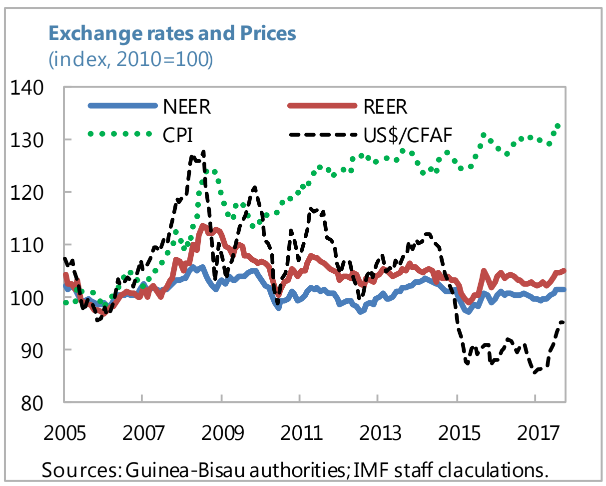
A. External Sector Developments

1. **Guinea-Bissau's external position has improved significantly since 2012–13.** The current account moved from a deficit of 8.4 percent of GDP in 2012 to a surplus averaging 1.5 percent of GDP in 2014–16. The movement reflects an increase in the volume of cashew nut exports and a sharp improvement in the terms of trade. As the price of cashew nuts increased by a cumulative 40 percent during 2012–16 period and as fuel and non-fuel import prices fell, Guinea-Bissau's terms of trade improved by 80 percent during this time.





2. **With the CFA franc fixed to the euro, the Real Effective Exchange Rate (REER) has remained broadly stable since 2010, with shifts mainly following those of the euro/US dollar exchange rate.** REER movements in Guinea-Bissau tend to follow those in the nominal effective exchange rate (NEER), since the inflation differential with trading partners is relatively small. The REER has depreciated by about 6 percent since its peak in 2008 but remains more appreciated than in the 1990s.



B. Assessment Using the EBA-Lite Methodology

3. **Guinea-Bissau's current account position is assessed using the EBA-lite methodology.** The EBA-lite methodology includes three approaches (current account (CA), real exchange rate (REER), and external sustainability (ES)) that can be used to assess exchange rate misalignment. The CA and REER approaches are based on panel regressions that generate estimated "norms" consistent with fundamentals and desirable policies.

Guinea-Bissau: External Balance Assessment

Methodology	CA gap (percent GDP)	REER gap (percent)
EBA-lite Current account (CA) approach	3.5	-7.2
EBA-lite External sustainability (ES) approach	3.2	-6.2
EBA-lite Real effective exchange rate (REER) approach		-9.0

Note: A positive CA gap indicates undervaluation. A positive REER gap indicates overvaluation. Estimates are based on data available as of October 2017.

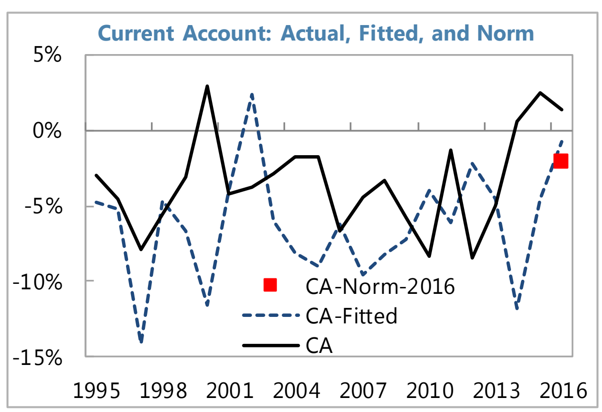
4. **An application of the EBA-lite methodologies suggests a moderate currency undervaluation in the 5–10 percent range.** These estimates should be interpreted with caution. The equilibrium exchange rate (REER) approach suggests the largest undervaluation but the estimate is not statistically significant. More generally, data for Guinea-Bissau data, not least those relating to its balance of payments statistics, are associated with a high degree of uncertainty. In addition, by relying on coefficients estimated for a large panel of countries, the CA and REER models do not fully capture the implications of Guinea-Bissau's high dependence on cashew or that it is a member of a currency union with a fixed exchange rate to the Euro.

CA approach

5. **The CA approach compares the actual current account for 2016 against a current account norm based on a "fitted" value for the current account derived from an equation of fundamental variables,** which is then adjusted for a "policy" gap to reflect desired adjustments to capital controls, reserves, private credit and the fiscal balance.

CA approach Summary

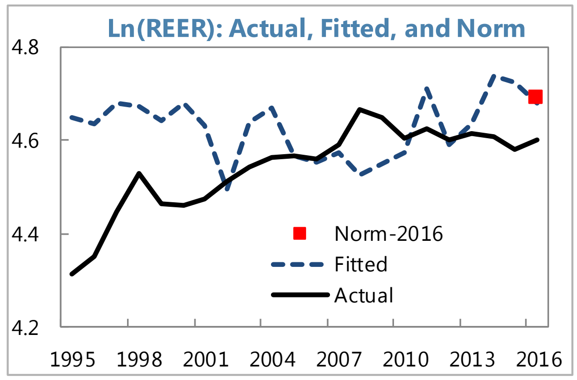
CA-Actual	1.3%		
CA-Norm	-2.2%	CA-Fitted	-0.7%
CA-Gap	3.5%	Residual	2.0%
Elasticity	-0.49	Policy gap	1.5%
REER Gap	-7.2%		
Cyclical Contributions			0.5%
Cyclically adjusted CA			0.8%
Cyclically adjusted CA Norm			-2.7%



6. **Based on this methodology, Guinea-Bissau's current account stance in 2016 is moderately stronger than its fundamentals.** The current account benchmark implied is -2.2 percent, of which 1.5 percent of GDP are driven by the policy gap, and 0.7 percent by Guinea-Bissau's macroeconomic fundamentals and temporary and statistical factors. The actual current account balance registered a surplus of 1.3 percent of GDP in 2016. The implied misalignment of the current account is 3.5 percent of GDP, implying 7.2 percent appreciation of the REER with an elasticity of the current account to movements in the real exchange rate of -0.49 (Tokarick, 2010).[1]

REER Approach

7. **The REER approach focuses directly on the exchange rate as the dependent variable.** It is a reduced form model (based on the REER regression from the EBA-lite toolkit) and estimates a fitted value for the real effective exchange rate as a function of a set of economic variables that cause persistent deviations from long-run purchasing power parity, such as terms of trade, productivity, aid, and remittances. Guinea-Bissau's REER is estimated to be undervalued by 9 percent in 2016. This result is driven by the higher terms of trade. Higher reserve accumulations moderated the REER overvaluation.



ES Approach

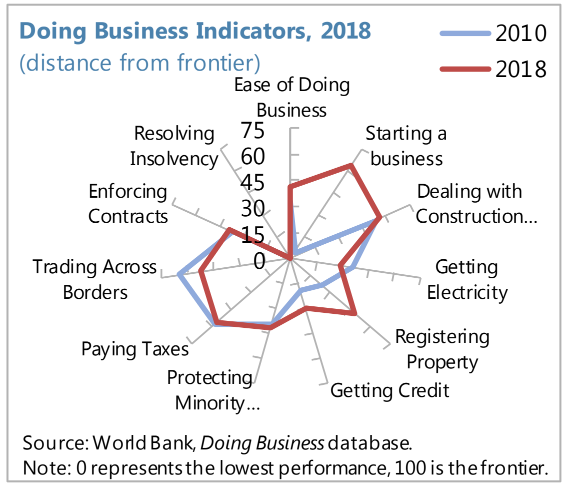
8. **The external sustainability approach determines the level of current account balance needed to stabilize the net foreign position (NFA) at its current level.** The NFA ratio in 2015 (latest available data) was estimated to be at -16 percent of GDP, a net debt position. To prevent this indebtedness from growing, the current account deficit should not be larger than -6 percent of GDP. If the actual medium-term current account level is used, the current account gap is 3.2 percent of GDP and closing the NFA-stabilizing level would require a modest REER appreciation of 6 percent. The ES approach should be interpreted with caution, since the IIP data are of poorer quality than the balance of payments statistics. External sustainability currently is not a major concern for Guinea-Bissau.

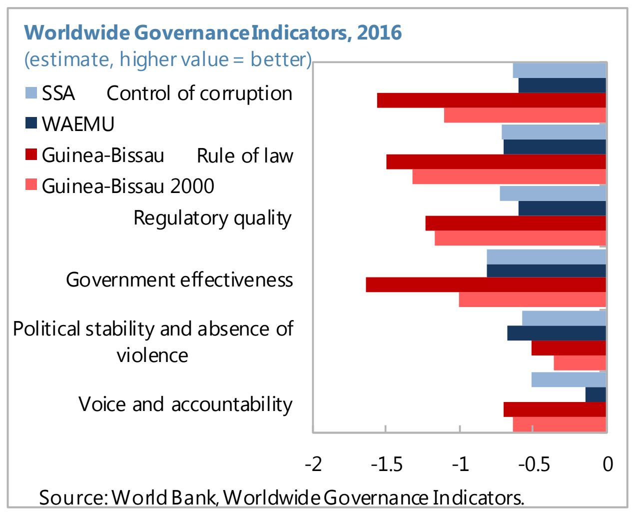
ES Approach Summary

	CA norm (% of GDP)	Underlying CA (% of GDP)	CA gap	REER gap
Scenario 1: Stabilizing net IIP at 16% of GDP	-6.1	-2.9	3.2	-6.2
Scenario 2: Stabilizing net IIP at -60% of GDP	-9.2	-2.9	6.3	-12.1
Scenario 2: Stabilizing net IIP at -60% of GDP in 2035	-10.1	-2.9	7.2	-14.0

[1] Stephen S. Tokarick (2010), A Method for Calculating Export Supply and Import Demand Elasticities, IMF Working Paper, No. 10/180.

C. Structural Competitiveness





9. Guinea-Bissau's business climate has improved in recent years but remains challenging. Per the World Bank's "Doing Business Index, the biggest improvement since 2010 was made in the areas of starting a business and registering property. The improvement in relation to starting a business happened as Guinea-Bissau established a one-stop shop, eliminated the requirement for an operating license, and simplified the method for providing criminal records and publishing the registration notice. Transferring property became easier because of a reduced property registration tax and an increased number of notaries dealing with property transactions. In 2018, Guinea-Bissau improved its credit reporting system by introducing regulations that govern the licensing and functioning of credit bureaus in the member states of the West African Economic and Monetary Union (UEMOA) and by launching a new credit bureau. At the same time, trading across borders became more difficult, mainly because of higher cost to export and import goods. Getting credit and electricity remain the main bottlenecks, it takes almost 4 times longer to get electricity in Guinea-Bissau than in SSA. Notwithstanding the different improvements, Guinea-Bissau still ranks the lowest in WAEMU.

10. Guinea-Bissau's institutions and policies are consistently ranked weaker than other WAEMU countries. Per the Worldwide Governance Indicators (WGI), governance indicators in Guinea-Bissau deteriorated in all 6 categories since 2010, including relative to peers in the region.

D. Conclusions

11. While there is no strong evidence of significant exchange rate misalignment, Guinea-Bissau's external position remains vulnerable to a range of risks. The country scores particularly low on the five country risk indicators used in the EBA-lite framework, and three of the five indicators (socioeconomic conditions, investment profile and corruption) have deteriorated since 2010. Moreover, the high export concentration in cashew leaves the country vulnerable to international price fluctuations, as well as to weather conditions, posing risks to external stability. In addition, high dependence on imported rice and petroleum implies vulnerability to increases in prices of those items.

Appendix I. Letter of Intent

Bissau, Guinea-Bissau
November 17, 2017

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Managing Director,

1. The Government of Guinea-Bissau remains strongly committed to the economic program supported by the three-year Extended Credit Facility (ECF) Arrangement approved by the IMF Board on July 10, 2015. Our economic program continues to be focused on revitalizing our institutions and strengthening the business environment to promote strong and inclusive growth. The Government is encouraged by the good results witnessed to date and reaffirms its commitment to the ECF Arrangement.

2. The attached Memorandum of Economic and Financial Policies (MEFP) updates the MEFP dated June 17, 2017. It describes recent economic developments and summarizes our progress in implementing policies and structural measures under the ECF-supported program. As explained in the MEFP, we observed all performance criteria and indicative targets for end-June 2017. We further met all structural benchmarks, except that for financial reporting by the public utility, EAGB, and that for installation and use of upgraded debt management software, which were both delayed due to administrative capacity challenges. The MEFP also outlines our macroeconomic policies and structural measures for 2017–18, and discusses our implementation of longer-term policy recommendations from the 2015 Article IV consultation to bolster growth and financial inclusion and to reduce poverty.

3. The pickup in economic activity seen since the 2014 elections has continued and has become more entrenched. Benign developments in our terms of trade, mainly due to strengthening of cashew prices, has benefitted exports. Fiscal balances are improving due to enhanced revenue mobilization and careful management of expenditures. Economic growth is becoming more broad-based, supported by increased investment activity. Expansion in private credit, after a decline in 2014-15, is supporting financial inclusion, despite lingering challenges from a high level of non-performing loans.

4. For the medium term, we anticipate continued strong cashew production and supportive domestic policies to underpin continued economic progress. We expect real GDP growth to stay around 5 percent a year, as we improve the business environment and as the country's economic potential in, among others, agriculture, fisheries, and tourism is gradually realized. Prudent economic policies will support continued improvements in our external and fiscal positions. Moreover, our cautious approach to borrowing will keep public debt in check and help reinforce macroeconomic stability.

5. To underpin macroeconomic stability and forestall risks to our development agenda, the government will zealously ensure the integrity of public finances. We will maintain our policies of zero non-regularized expenditures, zero new arrears, and zero net domestic currency credit to central government from commercial banks. Working closely with development partners to address infrastructure and other investment needs, we will avoid all non-concessional borrowing in foreign currency. We will further continue to strengthen our debt management capacity and to quickly resolve all outstanding domestic and external arrears.

6. To promote stability in the banking system, we are working closely with stakeholders to ensure compliance with prudential requirements, notably the new minimum capital. We are committed to a speedy and transparent resolution of the voided bank bailouts of 2015. Any intervention in the sector will be in line best international practices, and any direct government involvement, should it be necessary, will be temporary and with a view to minimizing risk to the treasury.

7. Based on these policies and the performance relative to the end-June 2017 targets as described in the MEFP, the government requests completion of the fourth review under the ECF-supported program and the related financing assurances review.

8. The government believes that the measures and policies set out in the attached MEFP are adequate for achieving the objectives of the program. It, however, stands ready to take any additional measures that may become necessary for this purpose. To ensure successful implementation of our economic program, we will keep a close policy dialogue with the IMF and seek technical assistance, as needed. We will consult with the IMF on the adoption of any additional measures and in advance of revisions to policies contained in the attached MEFP, in accordance with IMF policies on such matters. Furthermore, we will continue to provide the IMF with information and data to aid the monitoring of policies and reforms under the program.

9. The government authorizes publication of this letter, its attachments, and the related staff report, including placement of these documents on the IMF website in accordance with IMF procedures.

Yours sincerely,

/s/

João Alage Fadia
Minister of Economy and Finance
Guinea-Bissau

Attachments: I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

Bissau, November 17, 2017

BACKGROUND

1. **The government remains fully committed to the three-year economic and financial program (2015–18) supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF).**[1] The program, with the third review completed in July,[2] aims to entrench macroeconomic stability and advance structural reforms to support efficient public service delivery, private sector development, and inclusive growth. While the security situation has remained calm, political tensions have prevented a smooth functioning of Parliament since end-2015, delaying the passing of legislation. Nonetheless, there is a functional government under Prime Minister Umaro Sissoco Embaló and steady progress is being made on the reform agenda.

2. **This Memorandum of Economic and Financial Policies (MEFP) supplements the MEFP of July 17, 2017.** It presents our performance relative to the performance criteria and other targets under the three-year ECF-arrangement, and outlines economic and financial policies as well as structural reforms for 2017 and 2018.

RECENT ECONOMIC DEVELOPMENTS

3. **Economic activity has remained buoyant.** Real GDP growth for 2015 and 2016 has been revised up from 5.1 percent in both of those years to 6.1 percent in 2015 and 5.8 percent in 2016. The revisions reflect additional survey information and have benefited from IMF technical assistance. Buoyed by increasing incomes from cashew production as well as increased public and private investment, real GDP growth is projected at 5.5 percent in 2017. Consumer price inflation averaged 1.5 percent per year in 2015-16 and is projected to increase slightly to a year-average rate of 2.2 percent in 2017, reflecting a mid-year increase in rice and other food prices that occurred as increased incomes drove up demand.

4. **Cashew production has benefitted from record high prices.** On the back of rising international prices as well as domestic policies to ensure healthy competition and curtail smuggling, cashew nut production rose from an estimated 191 thousand tons in 2015 to 207 thousand tons in 2016, and is projected at 189 thousand tons in 2017. A draft decree that would have blocked foreign traders from cashew marketing created uncertainty. The cancelation of this decree at the start of the 2017 campaign season removed this uncertainty, helping reactivate activity. Moreover, reflecting higher international prices, the farmgate reference price was increased from CFAF 350 per kg in 2016 to CFAF 500 per kg in 2017 and the export reference price was

[1] IMF Country Report No. 15/194. Guinea-Bissau: Request for a Three-Year Arrangement under The Extended Credit Facility—Staff Report.

[2] IMF Country Report No. 17/228. Guinea-Bissau: Third Review Under the Extended Credit Facility Arrangement—Staff Report.

increased from USD 950 per ton in 2016 to USD 1,150 per ton in 2017. In the first eight months of 2017, the average realized export price was USD 1,949 per ton, compared to an average of USD 1,390 in 2016, entailing a significant increase in overall export proceeds despite the slightly lower volume of cashew exports.

5. The external current account surplus has narrowed. While cashew proceeds have risen, other exports have remained subdued with timber exports halted due to the CITES ban. Moreover, imports have increased sharply, especially for construction materials, reflecting higher incomes of consumers and rising investment. The current account surplus is accordingly estimated to have declined from 2.5 percent of GDP in 2015 to 1.3 percent of GDP in 2016 and is projected at 0 in 2017.

6. Government revenue has benefitted from the favorable trends in the economy as well as from strengthened tax and customs administration. Ongoing efforts to strengthen revenue mobilization, supported by technical assistance from the IMF and other partners, has supported a general upwards trend in collections, with the ratio of tax revenue to GDP rising from 6.8 percent in 2013 to 9.2 percent in 2016. For the first half of 2017, tax revenue exceeded the program target on the back of strong collections of import duties, sales tax, and corporate income tax. In addition, non-tax revenue and grants were unexpectedly boosted by a dividend payment (0.7 percent of GDP) from the regional central bank (BCEAO) and budget support (0.4 percent of GDP) from Saudi Arabia. Altogether, total revenue and grants were 2.6 percent of GDP above the end-June target.

7. Strengthened public financial management has further helped improve our fiscal position. The twice weekly Treasury Committee meetings have significantly tightened budget execution and expenditure control. We have maintained during 2017 the avoidance of non-regularized expenditures (*DNTs*) as well as domestic and external arrears. In addition, improved debt management has helped reduce borrowing costs. By shifting towards cheaper financing on the regional market for Treasury securities, we had by end-June 2017 essentially paid back all loans and overdrafts from domestic banks. Moreover, debts with BOAD were reprofiled, resulting in lower debt servicing costs. These steps helped keep total expenditure in the first half of 2017 well in line with the program target (10.3 percent of GDP compared to the targeted 9.8 percent of GDP). The overall balance on a commitment basis accordingly registered a deficit of 0.3 percent of GDP, against the programed deficit of 2.4 percent of GDP. In parallel, despite a slightly higher than planned clearance of arrears (mostly for salaries, goods and services, and debt service) of 0.3 percent of GDP, the cash deficit (0.4 percent of GDP) was 2.2 percent of GDP below the program.

8. Development partners have continued to provide project support but budget support is lacking. Grants and loans to finance development projects have continued to be provided at broadly the same aggregate level since 2014, helping build capacity and address infrastructure needs. New undertakings in 2017 include World Bank projects in the energy and the telecommunication sectors. Our main development partners—the EU, the World Bank and the African Development Bank—have, however, not provided budget support since 2015.

9. High non-performing loans in the banking system continue to constrain financial intermediation. Private credit (gross of provisions) expanded by 6.1 percent in 2016 and shrunk by 0.8 (year-on-year) at end-June 2017. The weak evolution of credit despite a pick-up in economic activity reflects risk aversion by banks in the context of a large overhang of non-performing loans (NPLs). At end-June 2017, gross NPLs amounted to 32 percent of net bank credit; still very high but down from 39 percent at end-2014. Following on-site inspections in late 2016 and subsequent recommendations by the Banking Commission, banks increased provisioning to cover 65 percent of gross NPLs at end-June 2017 from 46 percent at end-2016. However, the large provisioning for NPLs coupled with the failure of its shareholders to inject capital has left one bank with capital significantly below the regulatory minimum of the CFAF 10 billion (previously CFAF 5 billion) that came into force at the start of July.

PROGRAM PERFORMANCE

10. All performance criteria for end-June 2017 were met (Table 1). The floor on domestic tax revenue was exceeded by CFAF 8 billion (24 percent), thanks to the strong cashew production and prices, robust economic activity, and vigilant tax and customs administration. Net domestic bank credit to central government was CFAF 8.9 billion below the program ceiling. In addition, consistent with their zero-ceilings, there were neither non-concessional nor short-term external debt; and no external arrears were accumulated.

11. Performance relative to indicative quantitative targets was also good, with all indicators met. There were neither new domestic arrears nor non-regularized expenditures in the first half of 2017, reflecting the government's efforts to strengthen public financial management and adhere to the budget. In addition, the floor on social and priority spending was met, along with the ceiling on the domestic primary balance on commitment basis

12. Progress in implementing structural measures was generally good (Table 2). Five of the seven structural benchmarks for the first nine months of 2017 were observed as envisioned. The government:

- prepared rolling monthly cash-flow projections consistent with the 2017 budget;
- prepared, as envisaged for operations during the first and second quarters of the year, quarterly reports on (i) ministry-level budget execution with details along economic classification of expenses, and (ii) external debt commitments, agreements, and disbursements;
- completed ahead of the April 15 deadline, with the assistance of the WAEMU Banking Commission, an assessment of the two banks affected by the bailout and recommended actions to bring these banks into compliance with prudential norms; and
- designed a draft bill to regulate cashew trading with a view to promoting cashew production and processing.

Two structural benchmarks were not completed on time:

- Due to capacity constraints and delayed progress in strengthening financial management and oversight of the public utility, EAGB, government could not submit the monthly reporting on that company's financial flows as envisioned for July 2017. The World Bank, via its Emergency Water and Electricity Services Upgrading Project, is assisting us in this area, and we produced the first of what will be regular monthly reports in October 2017. An audit of EAGB, to be completed by end-2017, will shed further light on the finances of the company and provide a basis for improving the quality of financial reporting.
- The upgrade of our debt management software to the latest version (DMFAS 6.0) was not completed as envisioned for September 2017 due to problems in the procurement process. However, the purchase of the new license has now been completed and the upgraded software will be operational by end-2017, with technical assistance from UNCTAD.

13. More generally, the government remains fully committed to the structural reform agenda outlined in the previous MEFP. Our objectives for strengthening revenue mobilization, expenditure management, debt management, public service delivery, and the business environment all remain unchanged. We recommit to timely implementation of the envisioned structural reform agenda under the ECF-supported program.

MEDIUM-TERM ECONOMIC OUTLOOK AND POLICIES

A. Economic Outlook

14. We anticipate robust economic expansion, supported by prudent policies and effective fiscal management. The updated macroeconomic framework projects real GDP growth at 5.5 percent in 2017. This represents an upward revision from the earlier projection of 5 percent, reflecting the buoyant activity seen so far this year. For the medium term (2018–22), the growth rate is maintained at 5 percent per year, with strong activity in agriculture, construction, and services supported by improvements in electricity supply and a better business environment. Private credit is expected to expand on average by about 3 percent per year during 2017-18, in response to continued strong economic activity and measures to encourage financial intermediation. The current account deficit is expected to turn to a modest deficit averaging around 3 percent of GDP per year into the medium term reflecting increased investment activity. Consumer price inflation is expected to average 2.5 percent per year (below the WAEMU convergence criteria of 3 percent).

15. Fiscal deficits are expected to remain well contained, supported by vigilant tax administration and improved PFM. For 2017, the overall fiscal deficit (cash basis) is projected at 1.8 percent of GDP. This figure is consistent with the zero-program target for net domestic bank credit, including a CFAF 1.7 billion government guarantee issued to Bissau City Council for construction of a municipal market and secured by revenue from vendors that will be deposited into an escrow account. The anticipated performance excludes revenue from seized timber and EU fishing compensation (previously projected at 0.8 percent of GDP), as negotiations in these areas are yet to be concluded, contributing to a 1.1 percent of GDP reduction in non-tax revenue compared to budget. The 2018 budget will target a cash deficit of 2.3 percent, reflecting an increase in investment. The deficit is then expected to remain near this level through the medium term, well below the WAEMU convergence criteria of 3 percent of GDP. The fiscal position will be supported by continued improvements in treasury management procedures and practices, with a vigilant eye on the evolution of public debt. Thus, infrastructure projects, including the planned increase in electricity generation capacity and construction of high-tension power distribution lines, as well as improvements in the country's road network and other infrastructure investments, will continue to be financed mostly through concessional loans and grants. At the same time, social expenditure will be geared to support enhanced service delivery in health and education.

B. Economic Policies

16. The country's medium-term development program (2014–18) will continue to guide our policy strategies, consistent with our growth and poverty-reduction objectives. Private sector development through healthy financial intermediation and supportive improvements in the business environment will be critical for durable inclusive growth. In parallel, strengthening resource mobilization, including from our development partners, is essential for adequate financing of the nation's development agenda. To underpin this medium-term policy priority, the government will continue to focus on improving the business environment, on promoting policy transparency, good governance, and the rule of law, and on better targeting of social support.

Fiscal policies and public financial management

17. Revenue mobilization is a key priority. To this end, we will: strengthen coordination between the tax and customs departments with effective use of taxpayer information; vigorously pursue the recovery of tax arrears from state-owned enterprises; move forcefully to ensure that procedures required to export the stock of seized timber are in place; minimize and better target tax exemptions and subsidies through the tax exemptions committee at the Ministry of Finance; and regularly adjust domestic fuel and electricity prices in line with the evolution of global fuel prices. Over the medium term, we will review tax and excise rates and adjust as needed to re-align with our regional peers.

18. Revenues will be supported by measures to strengthen tax and customs administration. A dedicated commission has been analyzing the use of tax exemptions with a view to reducing evasion. This has resulted in steps to increase compliance, with vigorous pursuit of irregularities and disciplinary action. In 2016, we started to issue taxpayer identification numbers and introduced a new uniform sales invoice for large companies. Both have now been rolled out comprehensively (structural benchmarks (SB) for end-September 2017). As of September 2017, taxpayer identification numbers have been assigned to more than 11,000 individuals and almost 2,000 corporations, and the uniform sales invoices were used by some 400 companies. For the remainder of 2017 and beyond, the government will take steps to enhance revenue collection by:

- Preparing quarterly reports (starting September 2017 for performance as of end-June 2017, and quarterly thereafter) on its progress in minimizing tax exemptions.

- Completing a draft law for a new small taxpayer regime with technical assistance from the IMF to improve tax administration and facilitate small taxpayer compliance (SB for December 2017).
- Extending SYDONIA to custom posts across the country and ensuring its secure use.
- Ending the temporarily introduced practice of applying flat-rate customs fees for goods imported by land and move to the general tariff regime.
- Stepping up customs controls at land border posts and enhancing the focus on high-tax items.
- Setting and enforcing higher standards for customs clearing agents.

19. Public financial management (PFM) and the quality of spending will be advanced with focus on improvements in treasury management and broader institutional reforms. The government, through the Treasury Committee, plans to strengthen compliance with PFM rules at the ministerial levels and align expenditures with available resources. In this regard, the government will:

- Continue to equip and task the Treasury Committee to ensure timely regularization of all expenses and avoid the use of DNTs, and to maintain a continuous limit of CFAF 1 billion on the outstanding *stock* and a quarterly limit of 1 percent of current expenditure (as envisaged by the Treasury Plan) on the *flow* of DNTs.
- Continue to avoid any accumulation of domestic or external arrears.
- Extend the use of the information management system (SIGFIP) to incorporate the remaining parts of revenue operations not currently captured.
- Tighten annual budget management procedures, institute clearer processes for vetting investment projects, and take credible steps towards instituting a medium-term expenditure framework.
- Consolidate medium-term payroll management reforms by instituting a wage policy to inform annual public sector wage increases and to contain growth in the wage bill.
- Enhance management and prioritization of capital spending by strengthening the investment database, developing a matrix of short term expenditure priorities, improving the system for formal project appraisal and evaluation, and integrating infrastructure maintenance needs in the recurrent budget.
- Continue to prepare and review rolling monthly treasury cash-flow projection tables consistent with the 2017 budget (SB for December 2016 and monthly thereafter), to guide and inform our Treasury operations; and
- Further the preparation of timely quarterly reports on ministry-level budget execution with details along economic classification of expenses (SB for December 2016 and quarterly thereafter).

20. Expenditures will be contained in line with the overall deficit target and the program performance criteria of zero net domestic bank credit to central government. For 2017, we foresee total expenditure at 17.5 percent of GDP. For 2018, our plans involve an increase in total expenditure to 19 percent of GDP. Moreover, transfer payments in 2018 will be lower than in 2017, which included a payment of CFAF 6.6 billion to cover a debt guarantee that was called. The resulting additional fiscal space will be directed primarily to domestically financed capital spending to address pressing infrastructure needs, and costs (0.5 percent of GDP) of undertaking parliamentary elections.

Borrowing Policies and Debt Management

21. Technical enhancement, capacity building, and debt renegotiation efforts are yielding dividends. The debt management unit has been strengthened by converting it to a Directorate General reporting directly to the Minister of Finance. Moreover, we continue to strengthen information flow between the enhanced debt Directorate and the Treasury, and we are training staff to enhance capacity. Following last year's progress in addressing external legacy arrears, we have this year secured debt relief on near-Paris Club terms of our arrears to Exim Bank of Taiwan Province of China. In addition, we have paid off half of our arrears to the United Arab Emirates and have scheduled to clear the remainder by year-end. Negotiations with other bilateral creditors for the remaining legacy arrears are continuing. The government remains current on its remaining external debt obligations.

22. The government is also strengthening domestic debt management. To reduce the financial burden of temporary borrowings, we have consolidated outstanding loans from commercial banks into Treasury securities, and have cancelled all credit lines with the banks. In addition, following the successful rescheduling of loans in February this year, the government has negotiated higher concessionality in recent loans from the West African Bank for Development (BOAD).

23. Dealing with the large stock of arrears to domestic suppliers is the next major challenge. The total claims outstanding exceed CFAF 100 billion, of which 14 billion correspond to the balance of a first audit covering claims from 1994–99 and 86 billion is from a second audit for 2000–07 that has still to be validated. To ensure greater clarity, the Government intends to audit all outstanding claims by September-2018. The Government will, by the end of 2018, draw up a reimbursement strategy to settle the legitimate domestic arrears, after deduction of any tax liability of the beneficiaries.

Fostering Sound Financial Intermediation

24. To shore up financial stability, the government is firmly committed to ensuring compliance with prudential norms. Government has been seeking to facilitate a resolution to the voided bailout that would settle the court cases and open the door for a private investor to inject needed capital. The possibility of such a solution, however, in no way diminishes the need for strong supervisory enforcement of prudential regulation. We firmly support forceful and rapid action by the regional Banking Commission and stand ready to assist in its implementation.

25. The government is taking steps to deepen financial markets and enhance financial inclusion. To this end, the government has, with the assistance of development partners, undertaken initiatives for developing financial markets (including for SMEs), while encouraging use of the banking system (including for private real estate transactions) to bolster financial intermediation. The incentives for SMEs comprise, in accordance with measures adopted by the WAEMU Council of Ministers in September 2015, (i) re-financing of BCEAO claims on eligible SMEs, and (ii) regulatory incentives to banks for credit to eligible SMEs, including reduced weighting of claims on these enterprises in reckoning compliance with prudential ratios. The government continues to maintain a credit registry to aid financing decisions of banks and to enhance access to credit. Moreover, we will follow BCEAO recommendations and elaborate a national plan for financial inclusion.

C. Other Structural Reforms

26. We are committed to advancing private sector development within a business environment that promotes healthy competition. Among others, we will move quickly to sell state assets that have been slated for privatization, including the fruit and vegetable processing plant near Safim that was constructed with a loan from Exim Bank of India. Moreover, the temporary cap on rice prices introduced in August in response to surging prices will not be maintained beyond the originally envisioned timetable of end-December.

27. Government is acting forcefully to address shortcomings in the electricity sector. We are investing in new generation capacity with loans from BOAD and BADEA. Moreover, to foster accountability, arrest financial deterioration in the utility, and enhance the supply and reliability of electricity supply, the government is restructuring EAGB with World Bank support. The restructuring aims to transform the utility into an autonomous entity operated under a service contract. To this end, a management improvement plan will be submitted to the Council of Ministers by March 2018 (new structural benchmark).

28. To ensure sound financial management and avoid contingent liabilities on public resources, the government is pursuing audits of a series of state-owned enterprises. These comprise (i) National Institute for Social Insurance, (ii) *ANAC* (Civil Aviation Administration), (iii) EAGB, (iv) *GuinéTelecom*, (v) *GuinéTel,* (vi) *APGB* (Sea Port), (vii) *ARN* (National Regulatory Authority for Communications), and (viii) *Fundo Rodoviário* (Road Fund). These audits will all be comprehensive, covering both financial and management aspects, and will be completed by end-2017.

29. The government has taken steps to ensure transparency in military spending. Terms of reference for an audit of military spending in 2016 were completed and calls for interest issued in August this year. The audit results are expected by March 2018. Moreover, military spending continues to be on budget and executed per normal expenditure procedures, with almost all salary payments made by bank transfer directly to the beneficiaries.

Combating Corruption and Rent Seeking

30. The government will continue to advance and strengthen its anti-corruption and anti-rent-seeking framework with assistance from development partners. We have approved the national strategic plan for Anti-Money Laundering/Combating of the Financing of Terrorism (AML/CFT), and have increased the autonomy and financial resources of the Financial Intelligence Unit (CENTIF) to help it conduct its mandate. In response, CENTIF has improved information dissemination, through an electronic declaration system and with TA from the Inter-Governmental Group against Money Laundering in West Africa (GIABA). Nonetheless, more needs to be done to (i) bring exchange houses into the AML/CFT regulatory system (including through effective licensing and supervision), (ii) require enhanced due diligence over all politically exposed persons (domestic, foreign, and international), (iii) implement the asset disclosure framework that is already in place, and (iv) draft laws on asset recovery, criminalization of human trafficking, and piracy in accordance with requirements of GIABA.

Improving Economic Statistics

31. The government continues to utilize TA and training to improve the compilation and dissemination of statistics. The government will reinvigorate, with assistance of long-term and local consultants and experts, the unit responsible for identifying technical assistance needs and helping implement data-enhancing recommendations. Supported by IMF technical assistance, we plan to publish by March 2018 revised national accounts with updated base year following a mini household survey. We are continuing regular coordination meetings to reconcile official statistics between the BCEAO, the national cashew authority (ANCA), the Ministry of Agriculture, Ministry of Commerce, and the Bureau of National Statistics (INE). The practice has helped improve statistics for cashew nuts production and export, the national incomes accounts, and balance of payments statistics. We are also dedicating resources to improve relevant infrastructure and strengthen administrative capacity.

D. Program Monitoring

32. The program will continue to be monitored semi-annually, based on quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2). Performance criteria for end-December 2017 are unchanged. The performance criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU) along with the relevant adjustors. The fifth (and last) program review will be based on the end-December 2017 performance criteria and is scheduled to be completed on or after April 15, 2018. We are proposing two new structural benchmarks: one for finalizing a management improvement plan for EAGB; and one for a draft budget for 2018 that will seek to maintain the gains realized so far in budget management.

33. The government believes that the policies and measures included in this memorandum are adequate to achieve the objectives of the economic program for the remainder of 2017. It stands ready, however, to take any further financial and structural measures that may become necessary to ensure the success of its policies. It reaffirms its commitment to the ECF-supported program, and further undertakes:

- To refrain from accumulating any new domestic arrears (IT) other than those specified in the TMU, and from contracting non-concessional external loans; and
- Not to introduce or increase restrictions on payments and transfers related to current international transactions, to enter into any bilateral payment agreements not in conformity with Article VIII of the IMF Articles of Agreement, or to impose or intensify any import restrictions for balance of payments purposes; and
- To adopt any additional financial and structural measures that may become necessary to ensure the success of its policies, only in consultation with the IMF.

Table 1. Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets for 2017

(Cumulative from beginning year to end of month indicated; billions of CFAF, unless otherwise indicated)

		2017								2018
	2016	Mar.[1]		Jun.			Sept.[1]	Dec.		Mar.[1]
		Prog.	Prel.	Prog.	Prel.	Status	Prog.	Prog.	Proj.	Prog.
Performance criteria[1]										
Total domestic tax revenue (floor)	63.5	16.3	13.0	33.4	41.4	met	48.9	65.2	69.3	12.1
Net domestic bank credit to the central government (ceiling)[2]	15.9	8.0	15.9	6.4	-2.6	met	0.0	0.0	0.0	13.7
Ceiling on new nonconcessional external debt (US$ millions)[3]	0.0	0.0	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[3]	0.0	0.0	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0
External payment arrears (ceiling)[3]	0.6	0.0	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0
Indicative targets										
New domestic arrears (ceiling)	4.0	0.0	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0
Social and priority spending (floor)	32.2	7.7	10.8	21.7	23.2	met	23.2	31.0	31.0	7.8
Domestic primary balance (commitment basis, floor)	-14.2	-6.4	-2.2	-5.1	5.6	met	-1.0	4.4	3.1	-11.7
Non regularized expenditures (DNTs, ceiling)	1.9	0.3	0.0	0.4	0.0	met	1.0	1.0	0.5	0.0
Memorandum items:										
Clearance of domestic payment arrears	6.1	0.4	0.4	0.4	1.4		0.4	3.8	2.2	0.9
External budgetary assistance (US$ millions)[4]	0.4	0.0	0.0	0.0	4.8		0.0	0.0	4.8	0.0
ECF disbursements (SDR millions, flow)	5.1	0.0	0.0	3.0	0.0		3.0	3.0	3.0	0.0
Concessional loans (US$ millions)[5]	7.1	4.6	3.0	5.4	6.0		5.4	10.9	12.0	3.4

[1] The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU). Targets for end-March and end-September are indicative.

[2] Figures for Sept. and Dec. 2017 include the CFAF 1.7 billion debt guarantee given to Bissau City.

[3] These apply on a continuous basis.

[4] Comprises budget support grants and program loans (for budget support).

[5] Comprises project loans with grant elements exceeding or equal to 35 percent.

Table 2. Guinea-Bissau: Structural Benchmarks Under the ECF Program, 2017–18			
Measures	**Timing**	**Macro Rationale**	**Status**
Revenue Mobilization			
Extend the new uniform sales invoice to all taxpayers.	September 2017	To improve tax administration and compliance.	Met
Complete the assignment of taxpayer identification numbers to all taxpayers.	September 2017	To improve tax administration and compliance.	Met
Prepare a draft law, with technical assistance from the IMF, for a new small taxpayer regime that is simple and transparent, protects the revenue base, lowers compliance costs, and ensures global participation.	December 2017	To improve tax administration and compliance.	On track. IMF TA is helping the authorities draft the law.
Expenditure Management			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2017 budget.	December 2016 for January 2017, and monthly thereafter	Enhance expenditure management	Met
Prepare timely quarterly reports on ministry-level budget execution with details along economic classification of expenses.	December 2016, and quarterly thereafter	Enhance budget execution and monitoring	Met
Debt Management			
Prepare a quarterly report on external debt commitments, agreements, and disbursements.	December 2016 for September 2016 Report, and quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments	Met
Install the newest version of the debt management software, DMFAS 6.0, and commence its use for effective debt analysis and debt service projections.	September 2017	Strengthen debt management and eschew payment arrears	Not Met. Proposed rescheduled for December 2017.

Table 2. Guinea-Bissau: Structural Benchmarks Under the ECF Program, 2017–18 (concluded)

Measures	Timing	Macro Rationale	Status
Business Environment and Overall Policy			
Complete, with assistance of the WAEMU Banking Commission, an assessment of the two banks affected by the bailout, and articulate an action plan to bring these banks into compliance with prudential norms.	April 15, 2017	To strengthen the health of the banking system.	Met.
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2017	Reduce transaction costs.	Met. The Ministry of Commerce proposed a draft bill that, among other things, sought to restrict foreign traders' participation in the cashew trade, and it was not approved by the Council of Ministers.
EAGB will submit reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and on a monthly basis starting from October 2016.	July 2017	To instill transparency in EAGB operations and financial position.	Not Met. Report covering monthly flows so far in 2017 was submitted in October 2017.
Submit management improvement plan for EAGB to the Council of Ministers	March 2018	To enhance efficiency in the utility, reduce electricity supply costs, and avoid contingent liabilities.	Proposed benchmark
Submission of a 2018 budget to Council of Ministers	December 2017	Proper fiscal management	Proposed benchmark

Attachment II. Technical Memorandum of Understanding

Bissau, November 17, 2017

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 (PCs) and structural benchmarks (SBs) for the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 2 of the Memorandum of Economic and Financial Policies (MEFP).

2. **Program exchange rates.**[1] For the purpose of the program, foreign currency denominated values for 2017 will be converted into local currency (CFA francs) using a program exchange rate of CFA 622.47/US$ and cross rates as of end-December 2016.

QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on Total Domestic Tax Revenue

3. **Definition.** Tax revenue is defined to include direct and indirect taxes as presented in the central government financial operations table, as well as programmed recovery of tax arrears.

4. Adjustment clauses. The floor on the total domestic tax revenue will be adjusted downwards (upwards) by the amount of any shortfall (excess) in programmed recovery of tax arrears.

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

5. **Definition.** NCG refers to the net banking system's claim on the central Government as calculated by the Treasury Department. It is defined as follows:

a. the net position of the Government with the national BCEAO, including: treasury bills and bonds; less (a) central Government deposits (excluding project-related deposits) at the BCEAO;

b. the net position of the Government with commercial banks, including: (a) treasury bills; (b) treasury bearer bonds; and (c) loan and advances of commercial banks to the central Government; less central Government deposits (excluding project-related deposits) in commercial banks; and

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

c. Any domestic loan guarantees issued by the government will be included in the net position of the government as defined in a. and b. above.

6. **Adjustment clauses.** The ceiling on changes in NCG will be adjusted (a) upwards (downwards) by up to the CFA value of the shortfall (excess) in external program grants and loans, including IMF drawings—the upward adjustment will be capped at the equivalent of CFA 10 billion; and (b) downwards (upwards) by the excess (shortfall) in the CFA value of any programmed privatization receipts. In addition, central government deposits at the BCEAO and the commercial banks will be adjusted downwards by any clearance of domestic arrears (excluding any arrears accumulated during the program period, 2015-18) in excess of program; (c) downwards by the excess in CFAF value of corporate tax revenue that results from the bank bailout, in light of the court injunction freezing transactions associated with the bank bailout; and (d) upwards by the amount of the bank bailout (CFAF 34.2 billion), if NCG includes the bailout and the pending court case is not completed by the time of the fourth review.

7. **Data source.** The data source for the above will be the monetary survey *(Position Nette du Gouvernement (PNG))* table, submitted monthly to the IMF staff by the BCEAO.

8. **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).

C. New Non-Concessional External Debt Contracted or Guaranteed by the Central Government with an Original Maturity of One Year or More

9. **Definition.** Those are defined as all forms of new debt with original maturity of one year or more contracted or guaranteed by the central government. For this purpose, new non-concessional external debt will exclude normal trade credit for imports and debt denominated in CFA franc, but will include domestically held foreign exchange (non-CFA franc) debts. This PC applies not only to debt as defined in the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Decision No. 15688-(14/107), adopted December 5, 2014, point 8, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling or for which verbal agreement has been reached. This PC will apply on a continuous basis.

10. **Reporting requirement.** The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.

D. External Short-Term Debt Contracted or Guaranteed by Central Government

11. Definition. External short-term debt is defined as external debt stock with a maturity of less than one year contracted or guaranteed by central government. Debt is defined in Annex I of this TMU. For this purpose, short-term debt will exclude normal trade credit for imports and debt denominated in CFA franc, but will include domestically held foreign exchange (non-CFA franc) debts. For the purposes of this PC, central government is as defined in paragraph 8 above. This PC will apply on a continuous basis.

E. External Payment Arrears of the Central Government

12. Definition. For the purposes of this performance criterion, 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 performance criteria, or "non-program" arrears, are defined as: (i) arrears accumulated on the service of an external debt for which there is a request for rescheduling or restructuring; and/or (ii) the amounts subject to litigation which are not considered as arrears for the performance criteria. They are defined as "non-program" arrears.

QUANTITATIVE INDICATIVE TARGETS

F. New Domestic Arrears of Central Government

13. Definition. The ceiling on domestic arrears are defined as accounts payable (*resto-a-paga*) accumulated during the year, and still unpaid by one month after the quarter for wages and salaries (including pensions), and three months for goods, services and transfers.

G. Social and Priority Poverty-Related Expenditures

14. Definition. Social and Priority Poverty-related expenditures are defined to include spending on health, education, and the gender ministry (MEFP Table 2).

H. Domestic Primary Balance (Commitment Basis)

15. 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. Government commitments include all expenditure for which commitment vouchers have been approved by the Ministry of Finance; automatic expenditure (such as wages and salaries, pensions, utilities, and other expenditure for which payment is centralized); and expenditure by means of offsetting operations.

I. Non-Regularized Expenditure (DNTs)

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

PROGRAM MONITORING

17. The fourth program review will be based on end-June 2017 performance criteria and is scheduled to be completed on or after October 15, 2017. The fifth review (the last after the December 2016 re-phasing of disbursements and reduction in the number of reviews in view of delays in program implementation) will be based on end-December 2017 performance criteria and is scheduled to be completed on or after April 15, 2018. The Bissau-Guinean authorities shall recommend policy responses, inform the IMF monthly about the progress of the program, and transmit supporting information necessary for the evaluation of QPCs and benchmarks in electronic format as indicated in the attached summary table to IMF staff (Table 1).

18. To properly monitor key macroeconomic variables, including performance indicators under the ECF, coordinate technical assistance and monitor progress in implementation of reforms, the government will continue to adequately support its reform unit. This reform unit periodically reports to the Minister of Finance progress in achieving agreed performance indicators and development objectives. It will also keep an updated list of all its partners, prioritize technical assistance and agree with partners on the division of labor in technical assistance. Finally, it will ensure the information sharing, including TA reports, with partners involved in the same area to avoid conflicting and/or overlapping advice.

Table 1. Guinea-Bissau: Summary of Reporting Requirements

Information	Frequency	Reporting Deadline	Responsible
Fiscal Sector			
Central Government budget and outrun	Monthly	30 days after the end of the month	DGPS[1]
Grants	Monthly	30 days after the end of the month	DGPS
Budgetary grants	Monthly	30 days after the end of the month	DGPS
Project grants	Monthly	30 days after the end of the month	DGPS
Change in the stock of domestic arrears	Monthly	30 days after the end of the month	DGPS
Unpaid claims	Monthly	30 days after the end of the month	DGPS
Interest arrears	Monthly	30 days after the end of the month	DGPS
Proceeds from bonds issued in the regional WAEMU market	Monthly	30 days after the end of the month	DGPS
Real and External Sector			
Updates on annual National Accounts by sector	Annually	30 days after approval	CSO/MEF[2]
Balance of Payments data	Annually	30 days after approval	BCEAO/MEF
Balance of Payments data	Quarterly	60 days after the end of the quarter	BCEAO/MEF
Details of exports breakdown	Quarterly	45 days after the end of the quarter	BCEAO/MEF
Details of imports breakdown	Quarterly	45 days after the end of the quarter	BCEAO/MEF
CPI	Monthly	45 days after the end of the month	CSO/MEF
Debt sector			
External and domestic debt and guaranteed debt by creditor	Monthly	30 days after the end of the month	Debt Directorate
Disbursements	Monthly	30 days after the end of the month	Debt Directorate
Amortization	Monthly	30 days after the end of the month	Debt Directorate
Interest payments	Monthly	30 days after the end of the month	Debt Directorate
Stock of external debt	Monthly	30 days after the end of the month	Debt Directorate
Stock of domestic debt	Monthly	30 days after the end of the month	Debt Directorate
Arrears on interest and principal	Monthly	30 days after the end of the month	Debt Directorate
Exceptional domestic financing	Monthly	30 days after the end of the month	Debt Directorate
Copies of any new loan agreements	As occuring		Debt Directorate
Monetary/Financial sector			
Detailed balance sheet of the central bank (national BCEAO)	Monthly	45 days after the end of the month	BCEAO/MEF
Detailed bank-by-bank balance sheets	Monthly	45 days after the end of the month	BCEAO/MEF
Detailed consolidated balance sheet of commercial banks	Monthly	45 days after the end of the month	BCEAO/MEF
The monetary survey	Monthly	45 days after the end of the month	BCEAO/MEF
Detailed net position of central government (PNG)	Monthly	45 days after the end of the month	BCEAO/MEF
Financial soundness indicators	Monthly	45 days after the end of the month	BCEAO/MEF
Interest rates	Monthly	45 days after the end of the month	BCEAO/MEF
Deposit rates on all types of deposits at commercial banks	Monthly	45 days after the end of the month	BCEAO/MEF
Short- and long-term lending rates of commercial banks	Monthly	45 days after the end of the month	BCEAO/MEF

[1] Directorate General for Forecasts.

[2] Central Statistics Office/Ministry of Economy and Finance.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

November 21, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
Roger Nord and Johannes Wiegand (IMF) and Paloma Anos Casero (World Bank)

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

Guinea-Bissau faces a moderate risk of debt distress, based on an assessment of public and publicly guaranteed external debt, but a heightened overall risk of debt distress, reflecting the currently high level of total public debt. Compared to last year's Debt Sustainability Analysis (DSA) update,[3] the current assessment scales down non-concessional domestic borrowing to a more realistic, affordable and sustainable trajectory, in line with the authorities' commitment to prioritize concessional borrowing and grants. It also assumes higher medium-term economic growth, premised on favorable external conditions and prudent domestic policies. Under the baseline scenario, all indicators are below their indicative policy-dependent thresholds throughout the projection period. However, the PV of debt-to-exports ratio breaches its threshold for an extended period under the most extreme shock scenario. Overall public debt, while projected to decline in the long term, is slightly above its indicative benchmark and is expected to remain so over the next three-four years. There is therefore a need to pursue prudent fiscal and debt management policies and strengthen debt management capacity. The results of the DSA are contingent on the authorities successfully implementing structural reforms, improving the business environment to boost production and exports, and continuing to rely mainly on concessional borrowing.

[1] The DSA was prepared jointly by the staffs of the IMF and IDA, in consultation with the Debt Directorate of Bissau-Guinean Ministry of Finance, and benefitted from comments from the World Bank. The fiscal year of Guinea-Bissau is January 1—December 31.

[2] Debt sustainability thresholds are determined by the three-year (2014–16) average of the Country Policy and Institutional Assessment (CPIA) rating (2.48), which classifies Guinea-Bissau as having weak policy performance and institutional framework.

[3] The previous DSA update was prepared in December 28, 2016. IMF Country Report No. 16/384.

BACKGROUND

1. Overall, Guinea-Bissau's public external debt position has improved. The authorities have maintained their commitment to shun non-concessional debt, while bolstering debt management. They are increasingly benefitting from TA from development partners, including AFRITAC West, to enhance their administrative capacity. They secured significant debt relief from Taiwan, China,[4] paid down some other legacy arrears, and continue to negotiate rescheduling and/or outright cancellation of remaining legacy arrears with external creditors. They are financing priority projects in infrastructure and social sectors mainly with concessional loans and grants, and continue to seek better terms for loans from the West African Bank for Development (BOAD). The advances in debt management have been supported by prudent fiscal policies that have resulted in a marked reduction of the fiscal deficit in 2017 and are expected to yield domestic primary surpluses into the medium term.

2. Robust growth has helped improve baseline debt and debt service ratios relative to the December 2016 Update. Economic growth has averaged close to 6 percent in 2015–16 and is projected to remain strong into the medium and long term. International cashew prices, which hit a record in the 2017 cashew campaign, are expected to remain high, adding incentives for continued strong cashew production and export. Domestic policies to improve the business environment, enhance the supply and availability of electricity and water, and address other large infrastructure gaps are also expected to support economic activity and moderate debt and debt service ratios.

3. Debt trajectories, although improved, remain subject to adverse shocks. Guinea-Bissau's economy is vulnerable to adverse export shocks due to its limited diversification. If cashew prices dip, export earnings would decline and fiscal receipts dwindle in the baseline scenario of no policy adjustments. This would weaken the present value (PV) of debt-to-exports and of debt-to-revenue ratios along with related debt service ratios. Further, considering Guinea-Bissau's history of conflict, a reescalation of political tensions could frustrate prudent economic and fiscal policies, and dent debt sustainability.

BASELINE ASSUMPTIONS

4. Macroeconomic projections are slightly different from the December 2016 Update. Compared to the previous projection for 2017, real GDP growth and external and fiscal balances have all improved. Beyond 2017, the external debt-GDP ratio increases in line with expected expansion in the externally-financed public investment program (including disbursement of a newly contracted concessional

[4] Guinea-Bissau successfully achieved debt relief and rescheduling of its legacy arrears with Exim-Bank of Taiwan, China. The agreement cancelled 90-percent of the arrears (of US$ 48.2 million, equivalent to 3.6 percent of GDP or 55 percent of total arrears outstanding after the Paris Club agreement in 2011); it requires an upfront payment by Guinea-Bissau of US$1.5 million in late 2017 and re-profiles the remaining amount (US$3.5 million) at an interest rate of 2.5 percent and a maturity of 5 years.

loan to enhance electricity supply).[5] Nevertheless, a projected decline in the domestic debt-GDP ratio more than offsets the external debt increase, leading to a projected decline in the total debt-GDP ratio.

5. The baseline macroeconomic assumptions indicate favorable debt trajectories (Box 1):

Box 1. Baseline Macroeconomic Assumptions

Real GDP growth: Real GDP growth, projected at 5.5 percent in 2017 (up from 5.0 percent previously), is projected to remain strong and average 5.0 percent per year over the medium and long term. The better growth performance in 2017 reflects high cashew prices and generally positive economic trends. The strong projected growth performance over the medium and long term is supported by anticipated investments in key infrastructure (including electricity, water, and roads), structural reforms (in public financial management, tax administration and debt management) with associated efficiency gains in public service delivery and reliability, and enhancements in the business environment generally.

Key Macroeconomic Assumptions
(in percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018	Medium Term (first six years)	Long Term[1]
Real GDP growth (percent)						
Previous DSA	4.8	5.0	5.0	5.0	5.0	5.0
Current DSA	6.1	5.8	5.5	5.0	5.1	5.0
Primary fiscal balance (cash basis)						
Previous DSA	-2.9	-3.8	-1.4	-1.5	-1.6	0.0
Current DSA	-0.8	-3.6	-1.4	-1.9	-1.8	-2.1
Non-interest current account balance						
Previous DSA	-0.4	-2.6	-4.0	-4.5	-3.7	-2.1
Current DSA	2.7	1.6	0.1	-2.2	-1.5	-2.8
External debt						
Previous DSA	15.0	14.1	14.5	15.4	15.5	16.9
Current DSA	15.2	14.4	12.5	13.0	14.2	18.5
Domestic debt						
Previous DSA	33.5	34.9	32.7	29.1	28.3	11.1
Current DSA	37.6	39.7	36.7	35.3	32.3	19.5

Source: Bissau-Guinean authorities and staff estimates.
[1] Covers the period 2023-37 for the current DSA, 2022-36 for the previous DSA.

Consumer price inflation: Reflecting increasing economic activity and rebound in global oil prices, consumer price inflation is expected to increase and average 2.6 percent per year in the medium-term, remaining below the WAEMU convergence criterion (3.0 percent).

Government balances: Reflecting a strong performance in the first half of 2017, the primary fiscal deficit (cash basis) is projected to narrow sharply to 1.4 percent of GDP in 2017 from 3.6 percent in 2016. The primary deficit is then expected to widen slightly to 1.9 percent of GDP in 2018, reflecting increased capital expenditure, and stay around that level through the medium term. Reforms to improve debt management are anticipated to reinforce the positive fiscal trends. In line with these expectations, external debt is projected to average 14.2 percent of GDP per year in 2017–22, reflecting the public investment program. Domestic debt is projected to decline by 3 percent of GDP to 36.7 percent in 2017 and to fall further and average around 19.5 percent of GDP in the long term, reflecting continued prudent domestic bank borrowing—consistent with the anchor of the ECF-supported program.

External current account balance. Reflecting the good cashew exports as well as higher imports, of construction materials especially, the external current account balance is expected to be broadly balanced in 2017. Thereafter, the non-interest balance is expected to decline to show deficits averaging around 1.5 percent of GDP in the medium term, reflecting increased FDI-related and other imports as incomes increase, and 2.8 percent in the long term.

Official financing flows: Official transfers are expected to average around 4 percent of GDP in the medium term (2017–22), and to decline to 3.6 percent of GDP in the long term. Concessional loans are assumed to be at the standard terms—i.e., on 0.75 percent interest rate with 40 (IDA) and 50 (AFDB) years maturity and ten-year grace period. Paris Club (Non-Paris Club) loans assume average interest rates of 1.9 (1.6) percent with 23 (23) years of maturity and 11 (6) years grace period.

[5] Earlier this year, Guinea-Bissau contracted a US$11 million (0.9 percent of GDP) loan from the Arab Bank for Economic Development in Africa (BADEA) to boost electricity supply. The loan carries an interest rate of 1 percent, a grace period of 10 years, and maturity of 30 years. It is thus concessional, with a grant element of 49 percent.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

6. **Guinea-Bissau remains at moderate risk of debt distress.** The PV of debt-to-GDP and PV of debt-to-revenue ratios and the debt service-to-revenue ratio have seen significant reductions compared to the December 2016 update, reflecting positive movements in nominal GDP and tax revenue. All the baseline indicators are lower than their respective policy-dependent thresholds throughout the projection period (2017–37).

7. **The PV of debt-to-exports and debt service-to-exports ratios have, however, worsened relative to the earlier update.** The deterioration of these indicators reflects lower projected exports (an average of 29 percent of GDP over the projection period, compared to 35 percent under the previous DSA) due mainly to delays in the start of an earlier anticipated phosphate project. Nonetheless, except for the scenario with an extreme export shock, the ratios remain below their respective thresholds in the baseline and historical scenarios for the entire projection period. The results indicate some room for debt-financed projects, so long as the loans are on favorable/concessional terms and the selected projects meet appropriate return and criticality criteria, as per recognized assessment procedures.

8. **The external debt outlook remains vulnerable to adverse export and currency depreciation shocks.** The stress tests indicate that Guinea-Bissau is vulnerable to adverse shocks to exports, underscoring the need to diversify the economy and increase its resilience to such shocks. Compared to the December 2016 update, the PV of debt-to-exports ratio breaches its threshold for a longer period in the exports shock scenario; it falls slightly below the threshold only in the final seven years of the projection period. The realization of such an adverse export shock would strain debt sustainability. A depreciation of the *Communauté Financière Africaine Franc* (CFAF) relative to the currencies of main trading partners would add to this vulnerability, as debt service costs would rise in domestic currency terms.

B. Public Debt Sustainability Analysis

9. **The public DSA is broadly unchanged from the December 2016 update.** The main difference is that historical debt levels have been revised upward, by an average of 4.3 percent in 2014–15, due mainly to more comprehensive data on domestic debt.[6] This has shifted the baseline PV of debt-to-GDP ratio upwards and it breaches the benchmark until 2021, with breaches in the other three scenarios as well. At end-2016, domestic debt (currency basis) amounted to 39.7 percent of GDP. This included project financing from BOAD (12.9 percent of GDP), debt to BCEAO (14.2 percent), local banks (2.9 percent), government debt guarantees (0.5 percent of GDP), T-bills held by other regional institutions (4.0 percent of GDP), and arears to local suppliers (estimated at 5.0 percent of GDP). Despite somewhat longer breaches of the PV of debt-to-GDP benchmark compared to the previous DSA, there are improvements in the baseline PV of debt-to-revenue and debt service-to-revenue ratios, reflecting projected improvements in fiscal revenues.

[6] The new data includes additional information on BOAD loans and government guarantees. The estimate of domestic arrears has also been updated.

10. Sensitivity tests indicate greater vulnerability to shocks. In a scenario with growth and the fiscal primary balance at historical averages, all PV of debt ratios exceed the December 2016 update (particularly in 2017-22), while the debt service ratios fall below the previous update over the whole projection period. This comparative performance does not change under the other two alternative scenarios—(i) primary balance unchanged from 2016, and (ii) permanently lower GDP growth.

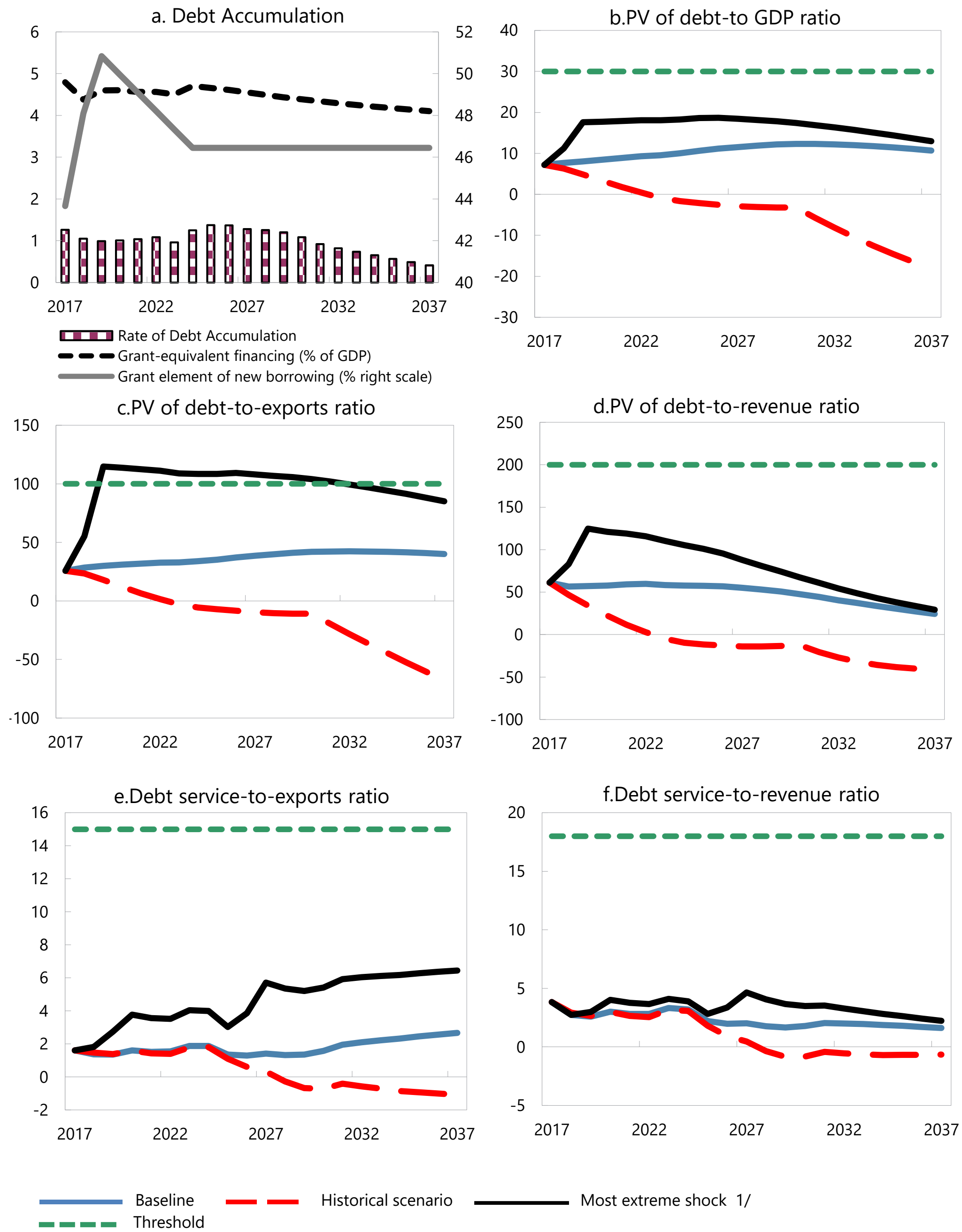
EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

11. Despite the moderate risk of external debt distress, the authorities should remain prudent in debt contracting. Vulnerabilities remain, particularly as exports are derived almost exclusively from cashew and related activity. This risk could be moderated by policies on three broad fronts: ((i) vigorous pursuit, and conclusion with relevant creditors of a rescheduling and/or outright cancellation of arrears outstanding after the Paris Club agreement; (ii) continued prudent borrowing policies, including borrowing on mostly concessional terms; and (iii) revenue enhancement, sustained fiscal consolidation efforts, continued implementation of growth-enhancing reforms, and advances in economic diversification. Thus, despite room for concessional borrowing, the authorities need to exercise caution in new debt contracting and apply recognized assessment procedures to ensure criticality as well as concessionality.

AUTHORITIES' VIEWS

12. 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 that would in turn increase their chances of accessing concessional financing. They emphasized that the pace of public investment would be determined by available external concessional resources. Thus, some risks identified in this DSA may not materialize. The authorities recognize the contributory role of prudent debt management and implementation of structural reforms to improve the business environment and to enhance overall growth and export prospects.

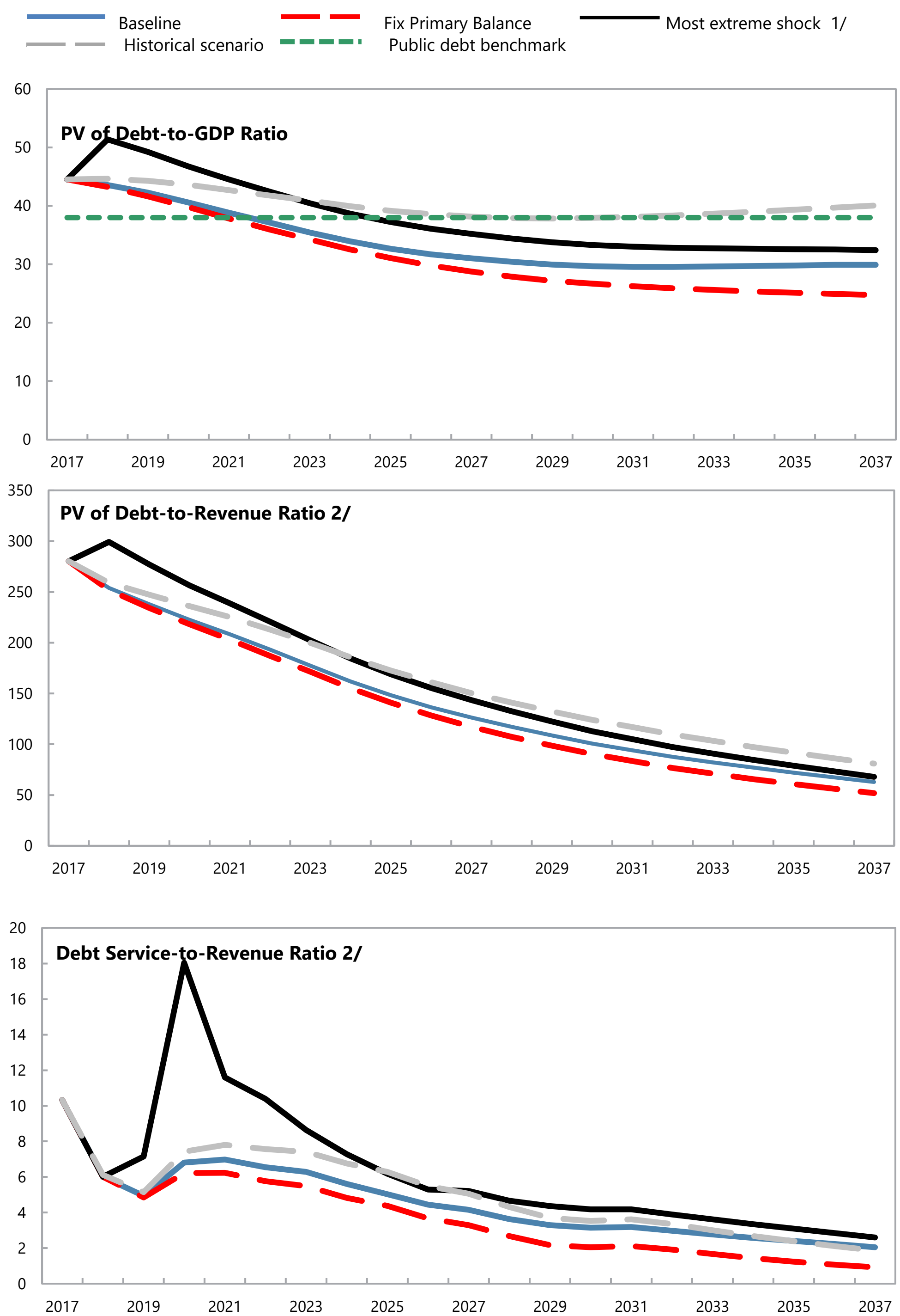
Figure 1. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2017–37 [1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a Exports shock

Figure 2. Guinea-Bissau: Indicators of Public Debt under Alternative Scenarios, 2017–37 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.

2/ Revenues are defined inclusive of grants.

Table 1. Guinea-Bissau: External Debt Sustainability Framework, Baseline Scenario, 2014–37 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
	2014	2015	2016	Average	Deviation	2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**15.0**	**15.2**	**14.4**			**12.5**	**13.0**	**13.7**	**14.5**	**15.3**	**16.0**		**19.2**	**16.6**	
of which: public and publicly guaranteed (PPG)	15.0	15.2	14.4			12.5	13.0	13.7	14.5	15.3	16.0		19.2	16.6	
Change in external debt	-1.7	0.3	-0.8			-1.9	0.4	0.7	0.8	0.8	0.7		0.5	-0.7	
Identified net debt-creating flows	-3.2	-3.8	-4.4			-2.1	-0.6	-0.1	0.1	-0.1	-0.5		-1.8	0.7	
Non-interest current account deficit	**-0.9**	**-2.7**	**-1.6**	**-1.7**	**0.9**	**-0.1**	**2.2**	**2.7**	**2.9**	**2.8**	**2.4**		**1.2**	**3.6**	2.8
Deficit in balance of goods and services	11.2	4.3	3.9			5.0	6.3	6.7	6.5	6.1	5.5		3.7	5.2	
Exports	20.2	28.3	26.3			27.9	27.0	26.9	27.4	28.0	28.6		30.0	26.7	
Imports	31.4	32.6	30.3			32.9	33.3	33.6	33.8	34.0	34.1		33.7	32.0	
Net current transfers (negative = inflow)	-8.2	-4.3	-3.1	-5.2	2.6	-3.2	-2.3	-2.2	-2.2	-2.1	-2.0		-1.7	-1.2	-1.5
of which: official	-4.5	-1.1	0.0			-0.4	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	-3.9	-2.7	-2.5			-1.8	-1.8	-1.7	-1.4	-1.2	-1.1		-0.9	-0.5	
Net FDI (negative = inflow)	**-2.5**	**-1.6**	**-1.4**	**-1.8**	**0.6**	**-1.4**	**-2.3**	**-2.3**	**-2.3**	**-2.3**	**-2.3**		**-2.3**	**-2.3**	-2.3
Endogenous debt dynamics 2/	**0.2**	**0.5**	**-1.4**			**-0.6**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.6**		**-0.7**	**-0.6**	
Contribution from nominal interest rate	0.3	0.3	0.3			0.1	0.1	0.1	0.1	0.2	0.2		0.2	0.2	
Contribution from real GDP growth	-0.2	-0.9	-0.8			-0.7	-0.6	-0.6	-0.6	-0.7	-0.7		-0.9	-0.8	
Contribution from price and exchange rate changes	0.0	1.2	-0.9			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**1.4**	**4.0**	**3.6**			**0.2**	**1.0**	**0.8**	**0.7**	**0.8**	**1.2**		**2.3**	**-1.3**	
of which: exceptional financing	-0.5	0.2	-0.1			0.1	0.0	0.0	0.0	0.0	0.0		-0.1	-0.2	
PV of external debt 4/	...	...	7.8			7.2	7.7	8.1	8.5	8.9	9.3		11.5	10.7	
In percent of exports	...	...	29.4			25.8	28.4	29.9	30.9	31.8	32.6		38.5	40.0	
PV of PPG external debt	**...**	**...**	**7.8**			**7.2**	**7.7**	**8.1**	**8.5**	**8.9**	**9.3**		**11.5**	**10.7**	
In percent of exports	**...**	**...**	**29.4**			**25.8**	**28.4**	**29.9**	**30.9**	**31.8**	**32.6**		**38.5**	**40.0**	
In percent of government revenues	**...**	**...**	**63.5**			**61.2**	**56.7**	**57.0**	**57.9**	**59.1**	**59.7**		**55.1**	**24.3**	
Debt service-to-exports ratio (in percent)	**2.4**	**2.5**	**2.5**			**2.7**	**1.4**	**1.4**	**1.6**	**1.5**	**1.5**		**1.4**	**2.7**	
PPG debt service-to-exports ratio (in percent)	**2.4**	**2.5**	**2.5**			**1.6**	**1.4**	**1.4**	**1.6**	**1.5**	**1.5**		**1.4**	**2.7**	
PPG debt service-to-revenue ratio (in percent)	**3.8**	**5.2**	**5.4**			**3.8**	**2.7**	**2.6**	**3.0**	**2.8**	**2.8**		**2.0**	**1.6**	
Total gross financing need (Millions of U.S. dollars)	-30.3	-37.0	-27.9			-10.2	4.1	12.4	17.5	16.4	10.4		-19.4	119.2	
Non-interest current account deficit that stabilizes debt ratio	0.9	-3.0	-0.8			1.8	1.8	2.0	2.1	2.0	1.7		0.7	4.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.0	6.1	5.8	4.3	2.9	5.5	5.0	5.0	5.0	5.0	5.0	5.1	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	-0.1	-7.5	6.3	-0.4	6.9	9.2	5.9	2.4	2.3	1.9	1.9	3.9	2.5	2.5	2.5
Effective interest rate (percent) 5/	2.0	1.7	2.2	2.0	0.2	0.7	0.7	1.0	1.1	1.1	1.1	0.9	1.1	1.1	1.1
Growth of exports of G&S (US dollar terms, in percent)	11.6	37.6	4.6	17.9	17.3	22.1	7.6	7.2	9.2	9.2	9.5	10.8	7.2	5.7	7.1
Growth of imports of G&S (US dollar terms, in percent)	22.6	2.0	4.5	9.7	11.3	25.1	12.5	8.5	8.2	7.6	7.3	11.6	6.8	5.0	7.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	43.7	48.1	50.8	50.0	49.1	48.2	48.3	46.4	46.4	46.5
Government revenues (excluding grants, in percent of GDP)	12.6	13.8	12.2			11.7	13.5	14.1	14.6	15.0	15.6		20.9	44.1	27.5
Aid flows (in Millions of US dollars) 7/	100.3	67.9	46.6			67.5	73.1	87.1	93.2	97.2	102.6		143.3	258.6	
of which: Grants	100.3	67.9	46.6			55.5	54.3	58.4	62.0	66.4	71.0		102.5	213.6	
of which: Concessional loans	0.0	0.0	0.0			12.0	18.8	28.8	31.1	30.8	31.6		40.7	45.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.8	4.4	4.6	4.6	4.6	4.6		4.5	4.1	4.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			84.9	84.5	83.2	82.1	82.0	81.5		80.6	87.6	83.1
Memorandum items:															
Nominal GDP (Millions of US dollars)	1055.2	1036.1	1164.9			1342.4	1493.4	1605.0	1723.5	1843.8	1972.7		2847.5	5932.7	
Nominal dollar GDP growth	0.9	-1.8	12.4			15.2	11.2	7.5	7.4	7.0	7.0	9.2	7.6	7.6	7.6
PV of PPG external debt (in Millions of US dollars)			86.0			100.7	114.7	129.5	145.7	163.6	183.6		327.9	633.7	
(PVt-PVt-1)/GDPt-1 (in percent)						1.3	1.0	1.0	1.0	1.0	1.1	1.1	1.3	0.4	1.0
Gross workers' remittances (Millions of US dollars)	38.9	33.7	30.9			31.8	34.4	35.8	37.2	38.5	39.7		47.8	69.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	7.6			7.0	7.5	7.9	8.3	8.7	9.1		11.3	10.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	26.7			23.7	26.2	27.6	28.7	29.6	30.5		36.5	38.4	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.3			1.5	1.3	1.3	1.5	1.4	1.4		1.3	2.6	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
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); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ 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).

Table 2. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to GDP ratio								
Baseline	7	8	8	8	9	9	**12**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	7	6	5	3	2	0	**-3**	-18
A2. New public sector loans on less favorable terms in 2017-2037 2	7	8	9	10	11	11	**16**	16
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	7	8	9	9	9	10	**12**	11
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	7	11	18	18	18	18	**18**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	7	9	11	12	12	13	**16**	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	7	9	10	10	11	11	**13**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	7	10	15	15	16	16	**18**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	7	11	11	12	12	13	**16**	15
PV of debt-to-exports ratio								
Baseline	26	28	30	31	32	33	**39**	40
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	26	23	18	12	6	2	**-10**	-68
A2. New public sector loans on less favorable terms in 2017-2037 2	26	30	33	36	38	40	**53**	61
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	26	28	30	31	32	33	**38**	40
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	26	55	115	114	112	111	**108**	85
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	26	28	30	31	32	33	**38**	40
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	26	32	37	37	38	38	**43**	42
B5. Combination of B1-B4 using one-half standard deviation shocks	26	36	50	51	51	51	**55**	50
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	26	28	30	31	32	33	**38**	40
PV of debt-to-revenue ratio								
Baseline	61	57	57	58	59	60	**55**	24
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	61	47	34	22	12	3	**-14**	-41
A2. New public sector loans on less favorable terms in 2017-2037 2	61	59	63	66	70	73	**75**	37
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	61	59	61	62	63	64	**59**	26
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	61	83	125	121	119	116	**88**	29
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	61	68	79	80	82	82	**76**	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	61	64	70	70	70	70	**61**	25
B5. Combination of B1-B4 using one-half standard deviation shocks	61	76	105	104	104	103	**86**	33
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	61	79	80	81	82	83	**77**	34

Table 2. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37 (concluded)

(In percent)

Debt service-to-exports ratio								
Baseline	2	1	1	2	2	2	**1**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	2	1	1	2	1	1	**0**	-1
A2. New public sector loans on less favorable terms in 2017-2037 2	2	1	1	2	2	2	**2**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	2	1	1	2	2	2	**1**	3
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	2	2	3	4	4	4	**6**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	2	1	1	2	2	2	**1**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	2	1	1	2	2	2	**2**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	2	1	2	2	2	2	**2**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	2	1	1	2	2	2	**1**	3
Debt service-to-revenue ratio								
Baseline	4	3	3	3	3	3	**2**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	4	3	3	3	3	3	**0**	-1
A2. New public sector loans on less favorable terms in 2017-2037 2	4	3	3	3	3	4	**3**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	4	3	3	3	3	3	**2**	2
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	4	3	3	4	4	4	**5**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	4	3	4	4	4	4	**3**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	4	3	3	3	3	3	**3**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	4	3	3	4	4	4	**4**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	4	4	4	4	4	4	**3**	2
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	47	47	47	47	47	47	**47**	47

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Guinea-Bissau: Public Sector Sustainability Framework, Baseline Scenario, 2014–37

(In percent of GDP unless otherwise indicated)

	Actual					Estimate	Projections								
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	55.3	53.4	54.6			49.9	48.9	47.9	46.7	45.2	43.8		38.7	35.8	
of which: foreign-currency denominated	15.0	15.2	14.4			12.5	13.0	13.7	14.5	15.3	16.0		19.2	16.6	
Net public debt	51.9	51.8	53.4			48.8	47.9	47.0	45.8	44.4	43.1		38.2	35.6	
Change in public sector debt	6.4	-1.9	1.3			-4.7	-1.0	-1.0	-1.3	-1.4	-1.4		-0.6	-0.2	
Identified debt-creating flows	4.2	-2.5	-1.2			-5.6	-0.9	-1.0	-0.9	-0.9	-0.9		-0.3	-0.2	
Primary deficit	2.6	3.0	3.6	3.0	0.5	1.4	1.9	1.8	1.8	1.7	1.8	1.7	2.1	2.2	2.0
Revenue and grants	22.1	20.4	16.2			15.9	17.2	17.8	18.2	18.6	19.2		24.5	47.7	
of which: grants	9.5	6.6	4.0			4.1	3.6	3.6	3.6	3.6	3.6		3.6	3.6	
Primary (noninterest) expenditure	24.7	23.4	19.8			17.3	19.0	19.6	20.0	20.4	21.0		26.6	49.9	
Automatic debt dynamics	2.0	-5.8	-4.8			-7.3	-2.7	-2.8	-2.7	-2.6	-2.7		-2.4	-2.3	
Contribution from interest rate/growth differential	-0.2	-6.3	-4.6			-5.3	-2.8	-2.8	-2.7	-2.7	-2.7		-2.3	-2.2	
of which: contribution from average real interest rate	0.3	-3.1	-1.7			-2.5	-0.4	-0.5	-0.4	-0.4	-0.5		-0.5	-0.5	
of which: contribution from real GDP growth	-0.5	-3.2	-2.9			-2.8	-2.4	-2.3	-2.3	-2.2	-2.2		-1.9	-1.7	
Contribution from real exchange rate depreciation	2.1	0.5	-0.2			-1.9	0.0	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	-0.3	0.4	0.0			0.2	0.0	0.0	0.0	0.0	0.0		0.0	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 implicit or contingent liabilities	0.2	0.4	0.0			0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.5	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.1	0.5	2.5			0.9	-0.1	0.0	-0.4	-0.5	-0.5		-0.3	-0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	47.9			44.5	43.6	42.3	40.6	38.8	37.1		31.0	29.9	
of which: foreign-currency denominated	...	...	7.8			7.2	7.7	8.1	8.5	8.9	9.3		11.5	10.7	
of which: external	...	...	7.8			7.2	7.7	8.1	8.5	8.9	9.3		11.5	10.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	11.7	11.4	10.4			7.5	6.6	6.2	6.3	6.1	5.9		5.1	4.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	295.5			280.4	253.9	237.9	222.6	208.3	193.1		126.4	62.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	392.3			379.0	322.1	299.1	277.4	258.1	237.6		148.1	67.8	
of which: external 3/	...	...	63.5			61.2	56.7	57.0	57.9	59.1	59.7		55.1	24.3	
Debt service-to-revenue and grants ratio (in percent) 4/	3.2	7.6	9.0			10.3	6.0	4.9	6.8	7.0	6.5		4.1	2.0	
Debt service-to-revenue ratio (in percent) 4/	5.7	11.2	11.9			14.0	7.6	6.2	8.5	8.6	8.1		4.9	2.2	
Primary deficit that stabilizes the debt-to-GDP ratio	-3.8	4.9	2.3			6.2	2.8	2.8	3.0	3.2	3.2		2.7	2.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.0	6.1	5.8	3.7	2.7	5.5	5.0	5.0	5.0	5.0	5.0	5.1	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	2.0	1.7	2.2	1.3	0.9	0.7	0.7	1.0	1.1	1.1	1.1	0.9	1.1	1.1	1.1
Average real interest rate on domestic debt (in percent)	0.7	-8.4	-5.0	-2.9	4.5	...	-0.7	-1.0	-0.8	-1.1	-1.4	-1.0	-1.6	-2.1	-1.7
Real exchange rate depreciation (in percent, + indicates depreciation)	12.9	3.6	-1.6	-0.3	7.5	-14.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-0.1	10.8	6.6	4.7	6.0	7.2	1.6	1.9	2.1	2.2	2.5	2.9	2.5	2.5	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	122.0	0.5	-10.3	11.2	39.1	-7.9	15.5	8.2	7.0	7.1	8.2	6.4	11.2	12.4	11.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	43.7	48.1	50.8	50.0	49.1	48.2	48.3	46.4	46.4	...

Sources: Country authorities; and staff estimates and projections.

1/ Comprises public and publicly guaranteed central government debt on a gross basis.

2/ 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.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public Debt, 2017–37

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	45	44	42	41	39	37	31	30
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	45	45	44	44	43	42	38	40
A2. Primary balance is unchanged from 2017	45	43	42	40	38	36	29	25
A3. Permanently lower GDP growth 1/	45	44	43	42	41	40	38	60
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	45	47	49	48	47	46	45	59
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	45	45	45	43	41	39	32	31
B3. Combination of B1-B2 using one half standard deviation shocks	45	46	47	46	45	43	40	50
B4. One-time 30 percent real depreciation in 2018	45	46	45	42	40	38	31	29
B5. 10 percent of GDP increase in other debt-creating flows in 2018	45	51	49	47	45	42	35	32
PV of Debt-to-Revenue Ratio 2/								
Baseline	280	254	238	223	208	193	126	63
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	280	259	247	236	225	213	150	81
A2. Primary balance is unchanged from 2017	280	252	234	218	203	187	117	52
A3. Permanently lower GDP growth 1/	280	256	242	229	217	204	151	124
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	280	268	268	258	247	235	179	124
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	280	262	252	235	219	203	132	65
B3. Combination of B1-B2 using one half standard deviation shocks	280	265	259	247	235	222	162	104
B4. One-time 30 percent real depreciation in 2018	280	270	251	233	216	199	124	61
B5. 10 percent of GDP increase in other debt-creating flows in 2018	280	299	277	257	239	221	143	68
Debt Service-to-Revenue Ratio 2/								
Baseline	10	6	5	7	7	7	4	2
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	10	6	5	7	8	8	5	2
A2. Primary balance is unchanged from 2017	10	6	5	6	6	6	3	1
A3. Permanently lower GDP growth 1/	10	6	5	7	7	7	6	8
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	10	6	6	9	10	10	9	8
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	10	6	5	9	10	8	4	2
B3. Combination of B1-B2 using one half standard deviation shocks	10	6	5	8	9	9	7	6
B4. One-time 30 percent real depreciation in 2018	10	6	6	8	8	8	5	3
B5. 10 percent of GDP increase in other debt-creating flows in 2018	10	6	7	18	12	10	5	3

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

November 21, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

The African Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of September 30, 2017,)

Membership Status
Joined: March 24, 1977; Article VIII

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	28.40	100.00
Fund Holdings of currency (Exchange Rate)	24.45	86.09
Reserve Tranche Position	3.98	14.01
SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	13.60	100.00
Holdings	15.53	114.16

Outstanding purchases and Loans:	**SDR Million**	**Percent Quota**
RCF Loans	3.55	12.50
ECF Arrangements	16.78	59.07

Latest Financial Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF	Jul 10, 2015	Jul 09, 2018	17.04	10.98
ECF	May 07, 2010	May 06, 2013	22.37	15.12
ECF [1/]	Dec 15, 2000	Dec 14, 2003	14.20	5.08
ECF [1/]	Jan 18, 1995	Jul 24, 1998	10.50	10.50

Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2017	**2018**	**2019**	**2020**	**2021**
Principal	0.72	1.45	1.45	2.16	2.00
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	0.72	1.45	1.45	2.16	2.00

[1/] Formerly PRGF.
[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	Enhanced
Commitment of HIPC assistance	Framework
Decision point date	Dec 2000
Assistance committed by all creditors (US$ Million) [3/]	421.70
Of which: IMF assistance (US$ million)	11.91
(SDR equivalent in millions)	9.20
Completion point date	Dec 2010
Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	9.20
Interim assistance	1.56
Completion point balance	7.64
Additional disbursement of interest income [4/]	0.23
Total disbursements	9.43

Implementation of Multilateral Debt Relief Initiative (MDRI):

MDRI-eligible debt (SDR Million) [5/]	0.51
Financed by: MDRI Trust	0.00
Remaining HIPC resources	0.51

Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
December 2010	N/A	0.51	0.51

[3/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[4/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[5/] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Safeguards Assessments:

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAMU). The latest assessment of the BCEAO was completed on December 13, 2013. The assessment found that the bank continued to have a strong control environment and has, with the implementation of the 2010 Institutional Reform of the WAMU, enhanced its governance framework. Specifically, an audit committee was established to oversee the audit and financial reporting processes, transparency has increased with more timely publication of the audited financial statements, and the BCEAO was committed to IFRS implementation by end-2014. The assessment also identified some limitations in the external audit process and recommended that steps be taken to ensure the adequacy of the mechanism through selection of a second experienced audit firm to conduct joint audits. All recommendations from the assessment have been implemented.

Exchange System and Exchange Rate Arrangement

Guinea Bissau accepted the obligations of Article VIII, Sections 2, 3, and 4 with effect from January 1, 1997. It joined the WAEMU in 1997, and has no separate legal tender. The exchange system is free from multiple currency practices and exchange restrictions on the making of payments and transfers for current international transactions. Since January 1, 1999, the CFA franc has been pegged to the Euro at a fixed rate of € l = CFAF 655.957. On October 8, 2016, the rate of the CFA franc in terms of the SDR was CFAF 1009.95 = SDR 1. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus reflects only a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members.

Article IV Consultation

Guinea-Bissau is on the 24-month consultation cycle. The last Article IV consultation discussions with Guinea-Bissau were held in Bissau, April 23–May 5, 2015. The staff report was discussed by the Executive Board and the consultation was concluded on July 10, 2015.

Technical Assistance (2008–17)

Department	Type of Assistance	Time of Delivery	Purpose
West AFRITAC	Short-term expert	June 2008	Customs administration
West AFRITAC	Short-term expert	June 2008	Public expenditure management
STA	Expert	June 2008	Balance of payment statistics
West AFRITAC	Short-term expert	July 2008	Government finance statistics
West AFRITAC	Short-term expert	August 2008	Multisector statistics
West AFRITAC	Short-term expert	September 2008	Real sector statistics
West AFRITAC	Short-term expert	May 2009	National accounts
West AFRITAC	Long-term expert	June 2009	National accounts
West AFRITAC	Short-term expert	June 2009	Public expenditure management
West AFRITAC	Short-term expert	June 2009	Public debt management
West AFRITAC	Short-term expert	June 2009	Bank supervision
West AFRITAC	Short-term expert	September 2009	Customs administration
West AFRITAC	Short-term expert	November 2009	Public debt management
West AFRITAC	Short-term expert	November 2009	Real sector statistics
West AFRITAC	Short-term expert	February 2010	Public debt management
West AFRITAC	Short-term expert	February 2010	Government finance statistics
West AFRITAC	Short-term expert	May 2010	Revenue administration
West AFRITAC	Short-term expert	July 2010	National accounts
FAD	Staff	September 2010	Tax revenue and customs administration
West AFRITAC	Short-term expert	September 2010	Expenditure management
West AFRITAC	Short-term expert	September 2010	National accounts
West AFRITAC	Short-term expert	February 2011	Tax administration
West AFRITAC	Short-term expert	February 2011	Government finance statistics
West AFRITAC	Short-term expert	March 2011	Government finance statistics
West AFRITAC	Short-term expert	April 2011	Public debt management
West AFRITAC	Short-term expert	April 2011	Public financial management,
West AFRITAC	Short-term expert	April 2011	Public financial management
West AFRITAC	Short-term expert	April 2011	Real sector statistics
West AFRITAC	Short-term expert	June 2011	Government finance statistics
FAD	Staff	September 2011	Tax reform strategy, modernization of the DGCI and revenue mobilization
FAD	Staff	September 2011	Customs administration
FAD	Short-term expert	October 2011	Tax administration
West AFRITAC	Short-term expert	October 2011	Modernization of the DGCI
West AFRITAC	Short-term expert	October 2011	Real sector statistics, National accounts
West AFRITAC	Short-term expert	January 2012	Public financial management, Accounting
West AFRITAC	Short-term expert	January 2012	Public financial management
FAD	Short-term expert	February 2012	Tax administration
West AFRITAC	Short-term expert	February 2012	Public financial management

Technical Assistance (2008–17)			
Department	**Type of Assistance**	**Time of Delivery**	**Purpose**
West AFRITAC	Short-term expert	February 2012	Real sector statistics
FAD	Short-term expert	March 2012	Tax administration
West AFRITAC	Short-term expert	March 2012	Customs administration
West AFRITAC	Short-term expert	February 2013	Public financial management
FAD	Staff	April 2013	Revenue administration
West AFRITAC	Short-term expert	April 2013	National accounts
West AFRITAC	Short-term expert	April 2013	Public financial management
West AFRITAC	Short-term expert	September 2013	Customs administration
West AFRITAC	Short-term expert	September 2013	Real sector statistics
West AFRITAC	Short-term expert	October 2013	Government finance statistics
West AFRITAC	Short-term expert	March 2014	Real sector statistics
West AFRITAC	Short-term expert	August 2014	Tax administration
FAD	Staff	September 2014	Public financial management
FAD	Staff	September 2014	Tax administration
West AFRITAC	Short-term expert	September 2014	Customs modernization
West AFRITAC	Short-term expert	September 2014	Government finance statistics
West AFRITAC	Short-term expert	September 2014	Real sector statistics
West AFRITAC	Short-term expert	February 2015	Macroeconomic analyzing and prevision
West AFRITAC	Short-term expert	February 2015	Tax administration
MCM	Staff	March 2015	Banking sector: NPLs
West AFRITAC	Short-term expert	March 2015	Public financial management
West AFRITAC	Short-term expert	March 2015	National accounts
FAD	Staff	April 2015	Revenue administration
West AFRITAC	Short-term expert	April 2015	Real sector statistics
FAD	Short-term expert	June 2015	Tax administration
FAD	Short-term expert	July 2015	Tax administration
West AFRITAC	Short-term expert	July 2015	National Accounts
FAD	Short-term expert	September 2015	Revenue administration
FAD	Short-term expert	September 2015	Tax administration
FAD	Short-term expert	October 2015	Tax administration
West AFRITAC	Short-term expert	October 2015	Government finance statistics
FAD	Staff	December 2015	Tax administration
West AFRITAC	Short-term expert	December 2015	National Accounts
FAD	Short-term expert	January 2016	Tax administration
FAD	Short-term expert	March 2016	Tax administration
West AFRITAC	Short-term expert	March 2016	Customs administration
West AFRITAC	Short-term expert	March 2016	National Accounts
FAD	Short-term expert	April 2016	Customs administration
FAD	Short-term expert	April 2016	Tax administration

Technical Assistance (2008–17)			
Department	**Type of Assistance**	**Time of Delivery**	**Purpose**
FAD	Short-term expert	June 2016	Tax administration
West AFRITAC	Short-term expert	July 2016	Tax administration
West AFRITAC	Short-term expert	July 2016	National Accounts
FAD	Staff	September 2016	Tax administration
West AFRITAC	Short-term expert	October 2016	Government finance statistics
West AFRITAC	Short-term expert	November 2016	National Accounts
FAD	Short-term expert	December 2016	Revenue administration
West AFRITAC	Short-term expert	February 2017	Government finance statistics
FAD	Short-term expert	March 2017	Tax administration
FAD	Staff	March 2017	Tax administration
FAD	Staff	April 2017	Tax administration
FAD	Short-term expert	April 2017	Revenue administration
West AFRITAC	Short-term expert	May 2017	National Accounts
West AFRITAC	Short-term expert	August 2017	National Accounts
FAD	Short-term expert	November 2017	Revenue administration

Resident Representative

The Resident Representative in Senegal also covered Guinea-Bissau from September 1997 through July 2007. The Resident Representative Office in Guinea-Bissau was reopened in June 2011 and Mr. Torrez was the Resident Representative until end-May 2015. Mr. Melhado assumed the Resident Representative position in August 2015.

Table 1. Guinea-Bissau: Arrangements with the IMF, 1984–2017			
Arrangement	**Date Approved**	**Amount Approved**	**Remarks**
First credit tranche purchase	August 27, 1984	SDR 1.875 million	
Structural Adjustment Facility	October 14, 1987	SDR 5.25 million	2nd annual arrangement delayed; no 3rd annual arrangement.
Enhanced Structural Adjustment Facility	January 18, 1995	SDR 10.5 million	Arrangement increased by SDR 1.05 million (10 percent of quota) with 3rd annual arrangement.
Emergency post-conflict assistance	September 14, 1999	SDR 2.13 million	
Emergency post-conflict assistance	January 7, 2000	SDR 1.42 million	
Poverty Reduction and Growth Facility	December 15, 2000	SDR 14.2 million	PRGF elapsed without completion of a review.
Emergency post-conflict assistance	January 10, 2008	SDR 1.77 million	
Emergency post-conflict assistance	May 20, 2009	SDR 1.77 million	
Extended Credit Facility	May 7, 2010	SDR 22.365 million	The arrangement elapsed on May 6, 2013.
Rapid Credit Facility	November 3, 2014	SDR 3.55 million	
Extended Credit Facility	July 10, 2015	SDR 17.04 million	

WORLD BANK GROUP RELATIONS

1. **Guinea-Bissau joined the World Bank in 1977, three years after independence.** The first operation was approved in 1979 for a road construction and restoration project. Since then, the International Development Association (IDA) has approved 43 projects for Guinea-Bissau amounting to about US$511 million. World Bank engagement in Guinea-Bissau for fiscal years 2015-2016 was based on a Country Engagement Note (CEN) approved in March 2015.

2. **The World Bank Group's Country Partnership framework for Guinea-Bissau, covering FY2018-21, is the first full country strategy since 1997.** The focus areas of the CPF program are increased access to quality basic services and expanded economic opportunities and enhanced resilience to shocks. The selective focus is expected to increase the chances of supporting transformational changes within the country. Gender and governance will permeate each objective as cross-cutting themes. The CPF, approved by the WB Board on June 13, 2017, has five objectives (see table below).

Focus Area I: Increased Access to Quality Basic Services	Focus Area II: Expanded Economic Opportunities and Enhanced Resilience
1. Increased access to and quality of primary education 2. Increased access to and quality of maternal and child health services	3. Improved logistics for market access 4. Improved natural resources and disaster risk management 5. Strengthened social safety nets

3. **Given the political and institutional fragility, the WBG will address implementation challenges in innovative and strategic ways.** First, it will focus on improving services and economic opportunities in areas outside the capital (rural areas and secondary cities), while solidifying existing WBG financed investments in the capital city, Bissau. Second, moving away from emergency support, WBG will seek to create incentives for change using result-based instruments to strengthen core-state sector functions, such as human resources (HR) policies, financial management, regulation and quality assurance. Third, it will also engage and empower communities and citizens to directly strengthen bottom-up demand and accountability mechanisms for better services. Finally, WBG will have a stronger in-country presence allowing for more effective WBG collaboration and development partner coordination, including with United Nations (UN) agencies.

4. **Under IDA 18 (the 18th replenishment of International Development Association (IDA) resources for FY2018–21) the national allocation for Guinea-Bissau is more than double compared to IDA 17, with an estimated $87.5 million.** The CPF also plans to make selective use of IDA18 facilities with a focus on the Regional Integration Window (RIW) and potentially the Private Sector Window (PSW), as well as expand resources through strategic trust funds and partnerships.

Lending Program

5. **The current active World Bank portfolio totals US$275.00 million and is comprised of four national IDA operations for a net committed amount of US$90.61 million (of which US$28.43 million remain undisbursed), four regional IDA operations (US$181 million), and one trust fund operation (US$3.5 million**). It is a relatively young portfolio with the average age for national project of three years and two years for regional project. In terms of sectoral focus, the portfolio mainly encompasses Energy and Water (49 percent), Telecom Infrastructure (17 percent), Social Protection and Labor (15 percent), Trade and Competitiveness (12.5 percent) and Governance (7.62 percent). The World Bank is also supporting non-lending technical assistance activities in Guinea-Bissau, including through a Public Expenditure Review (PER) and Public Expenditure Management and Financial Accountability Review (PEMFAR). The **Bank** released its first **Systematic Country Diagnostic** (**SCD**) report for Guinea Bissau in 2016.

6. **IFC's activities have focused on providing advisory services to support access to finance and to improving the investment climate, jointly with the World Bank, especially on enhancing the cashew-value chain.** IFC has no investment exposure in Guinea-Bissau but is currently considering an agribusiness investment, which would be the first investment operation since 1997. MIGA has a single guarantee exposure in the telecommunications sector at US$9.1 million.

AFRICAN DEVELOPMENT BANK GROUP RELATIONS

1. **From the approval of the first project to the country in 1976, to May 2015, the African Development Bank (AfDB) had approved 50 operations for Guinea-Bissau, for a net commitment of UA 237.6 million (about CFAF 195.6 billion).** 33.3 percent of these operations have been in the infrastructure sector, 26.4 percent for social, 22.9 percent in the multi-sector, 15.4 percent in agriculture and 2.0 in finance. As of September 2016, the active portfolio comprises nine ongoing national projects representing a total net amount of UA 40.37 million, and a disbursement rate of 23 percent.

Lending Program

2. **During the period January 2008–April 2014,** AfDB approved an interim HIPC debt release (US$17.48 million), a fragile State Facility grant (UA 2 million), a fish sector support grant (UA 2 million), a health sector grant (UA 6 million), an emergency support grant to cholera (US$500,000), an emergency support grant to cholera (US$ 999,750), a capacity building grant to public administration (UA 7.80 million), a technical assistance and capacity building grant to public administration (UA 0.66 million) and an emergency budget support to budgetary reforms (UA 5.7 million).

3. **In May 2015, the AfDB approved a new budget support operation to the tune of UA 5 million (CFAF 4.1 million).** The program is built around two components: (i) the strengthening of transparency, internal and external control of budget execution and the fight against corruption, and (ii) the strengthening of budget management. It has been complemented by the approval of an institutional support project of UA 5 million (CFAF 4.1 billion) targeting capacity building in public financial management as well as the strengthening of the justice sector.

4. **In the non-governance sector, additional approvals in 2015 are an energy project to rehabilitate the electricity network of Bissau for UA 13.3 million (CFAF 10.9 billion), a contribution to the OMVG transmission line for UA 4.5 million (CFAF 3.7 billion).** In September 2016, an emergency assistance to support Guinea-Bissau preparedness and response plan to fight the Zika virus outbreak for US$1 million has been approved and a UA 3.8 million (CFAF 3.2 billion) investment project in agriculture sector (rice value chains) is under preparation.

Non-Lending Program

5. **In January 2015, the AfDB approved its 2015–19 country strategy and Country Portfolio Performance Assessment.** The approved strategy is based on two pillars, namely (i) strengthening of governance and the foundations of the State; and (ii) development of infrastructure that will foster inclusive growth. A Regional Integration Strategy Paper for West Africa for 2011–15 was released in March 2011. Recent economic and sector studies include a review of the transport sector, the agriculture sector and a country gender profile released in 2015, as well as the preparation of policy papers on Public-Private-Partnerships and on the management of natural resources.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in the national accounts and balance of payments.
National Accounts: The authorities compile and publish annual GDP series using an outdated base year (2005) and inadequate source data. National Accounts data are not timely as the latest estimate of GDP as published by the National Statistical Office (NSO) is for calendar year 2013. Estimates for 2014, 2015, and 2016 are, however, expected to be published shortly. Quarterly estimates of GDP are not compiled. The authorities expect to release a rebased GDP time series in March 2018.
Price Statistics: Since July 2002, a harmonized consumer price index (CPI) has been compiled, based on the same methodology as used in other West African Economic and Monetary Union (WAEMU) countries. The CPI was updated in 2010 (new base year 2008, improvement in compilation techniques, extended coverage of products and increase in outlets). Price data are collected only for the capital city, Bissau. Work is now underway to update the base year to 2014 and to extend the coverage to the whole country.
Government Finance Statistics (GFS): Under the West AFRITAC work program, GFS technical assistance missions usually visit Guinea-Bissau once a year. The last mission of February 2017 stressed the need for the Ministry of Economy and Finance (MEF) to keep on with the implementation of the recommendations of previous GFS missions.
Monetary and Financial Statistics (MFS): MFS, as compiled and disseminated by the regional Central Bank of West African States (BCEAO), are broadly adequate. In August 2016, the BCEAO completed the migration of Guinea-Bissau's MFS to the standardized report forms (SRFs) for the central bank and other depository corporations.
Financial Sector Surveillance: The BCEAO has submitted financial soundness indicators (FSIs) for deposit takers to STA for review, and a 2018 mission will finalize FSI reporting.
External Sector Statistics (ESS): Guinea-Bissau moved to *BPM6* methodology for both balance of payments and international investment position (IIP) statistics in September 2013, reviewing back series from 2007. Balance of payments data are weak, mostly due to substantial unrecorded trade and inconsistencies between financial account transactions and the position data in the IIP. The large number of small-scale operators, a large informal sector, and institutional weaknesses hamper the data collection. While no external debt data are published by the MEF, stock and flow data are regularly produced and transmitted to the BCEAO. Guinea-Bissau also participates in the Coordinated Direct Investment Survey (CDIS) Under the recently launched Japan funded three-year project in 17 francophone countries in West and Central Africa, Guinea-Bissau will receive technical assistance missions for improving its ESS.

II. Data Standards and Quality	
Guinea-Bissau has participated in the Enhanced General Data Dissemination System (e-GDDS) since November 2001. Metadata for all data categories and plans for improvement need to be updated.	No data ROSC is available.

III. Reporting to STA
Currently no monthly, quarterly or annual government finance data are submitted for reporting in the *International Financial Statistics (IFS)* or the *Government Finance Statistics Yearbook*. Monthly data on monetary statistics are reported on a regular basis for publication in the *IFS* with some delays. Guinea-Bissau reports balance of payments, and IIP statistics to STA on an annual basis, but with delays. CDIS data for inward direct investment position have been reported for end-December 2011.

Guinea-Bissau: Table of Common Indicators Required for Surveillance					
	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]
Exchange Rates			D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	June 2017	September 2017	M	M	M
Reserve/Base Money	June 2017	September 2017	M	M	M
Broad Money	June 2017	September 2017	M	M	M
Central Bank Balance Sheet	June 2017	September 2017	M	M	M
Consolidated Balance Sheet of the Banking System	June 2017	September 2017	M	M	M
Interest Rates[2]	June 2017	September 2017	M	M	M
Consumer Price Index	August 2017	October 2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	June 2017	August 2017	M	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2016	August 2017	M	Q	Q
External Current Account Balance	2016	May 2017	A	I	I
Exports and Imports of Goods and Services	2016	May 2017	A	I	I
GDP	2016	September 2017	A	I	I
Gross External Debt	June 2017	August 2017	M	Q	Q
International Investment Position[6]	2015	June 2017	A	I	I

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA)

Statement by the Executive Director, Mr. Daouda Sembene on Guinea-Bissau
December 11, 2017

We thank staff for their constructive engagement with the Bissau-Guinean authorities and for the informative report and selected issues papers. The authorities are appreciative of the Fund's continued support and broadly agree with staff's assessment policy recommendations.

As described below, performance under the ECF-Supported program continued to be satisfactory in the period under review. Going forward, the authorities have reiterated their strong commitment to the economic program supported by the Extended Credit Facility (ECF). In this light, we echo staff's call for Directors' favorable consideration of the completion of the fourth review under the ECF arrangement.

Recent Economic Developments and Program Performance

Economic activity continued to thrive notwithstanding a challenging environment. Real GDP growth reached about 6 percent in 2015–16 after averaging less than 1 percent during 2012–14. It is expected to remain at the same level this year, supported by favorable price developments in the cashew sector and higher public investment. Improved terms-of-trade along with a sharp increase in FDI-related imports of construction materials is also expected to contribute to improved external position. At the same time, inflation stood well below the WAEMU regional convergence criterion of 3 percent.

In the fiscal sector, substantial progress has been achieved with a series of measures to strengthen revenue mobilization and expenditure management being implemented over the past few years. This helped raise the tax revenue to GDP ratio from 6.8 percent in 2013 to 9.2 percent in 2016.

In the first half of 2017 tax revenue performance exceeded program expectations by 0.8 percent of GDP. At the same time, non-tax revenue overshot the program goal for end-June although it is expected to be below the end-2017 target largely because of the non-disbursement of EU fishing compensation and other revenues from fisheries. The overall revenue including grants was well above end-June target by 2.6 percent of GDP. All these efforts translated into an overall better-than-expected fiscal position at end-June.

The improved fiscal performance was underpinned by more rigorous and effective public financial management, through notably regular and efficient Treasury Committee meetings. It is worth noting that non-regularized expenditures (DNTs) which complicated budget execution in the past were successfully eliminated, and no domestic and external arrears were accumulated. At the same time while debt servicing costs were significantly reduced owing to improved debt management. In addition, recruitment in the civil service was frozen except for the social sectors, while control over public servants' wages and pensions recipients has been tightened. Substantial steps have been taken toward developing a medium-term expenditure framework, with five line ministries included in the pilot phase, notably ministries in charge of education, health, agriculture, infrastructure, and energy. In an effort to boost corporate tax revenues, the government recruited and trained several tax agents with IMF assistance with a view to strengthening oversight and auditing of mid-sized and large enterprises.

The financial soundness indicators are good. In compliance with the WAEMU Banking Commission's recommendations, banks increased provisions to cover NPLs related to the voided bailout. However, vulnerabilities remain and are being addressed by the Government in close collaboration with regional authorities.

Progress under the ECF-Supported program for end-June 2017 was good. All performance criteria (PCs) were met. Domestic tax revenue floor exceeded the target by large margins (24 percent). The ceilings on net domestic bank credit to the central government (NCG) was well below the program ceiling, while there were no new non-concessional debt or short-term external borrowing. As regards the indicative quantitative targets, the floor on social expenditures was largely exceeded, the domestic primary balance turned positive against estimated deficit target, and zero non-regularized expenditure occurred.

Five out of seven structural benchmarks were met in a timely manner. Due to problems in the procurement process, measures related to the upgrading of the debt management software was delayed, as well as, the submission of monthly financial reports for the public utility company.

Economic Outlook and Policies for the Rest of 2017 and Beyond

Real GDP is projected to grow by 5 percent per year in 2018–22, supported by continued favorable environment for the cashew sector, high public investment in road and other infrastructure, and expected improvements in energy and water supply. The current account balance is expected to turn into a modest deficit of 2–3 percent of GDP over the medium term reflecting increasing investment activity and expanding economic activity. Inflation is projected to increase over the medium-term owing to higher domestic demand and oil prices but to stay around 3 percent in line with WAEMU convergence criterion.

The authorities intend to take advantage of the current solid growth and reform momentum and favorable conditions to implement necessary measures to create fiscal space, safeguard financial stability, and advance other structural reforms.

Fiscal Policy and Debt Sustainability

The authorities remain committed to prudent fiscal policies with a view to increasing fiscal space and strengthening debt sustainability. In this regard, they will continue to consolidate current gains by stepping up efforts to improve revenue collection through the rationalization and better targeting of tax exemptions and subsidies, as well as the modernization of customs and tax administrations. To facilitate small taxpayer compliance, they will finalize a draft law on the introduction of a new small taxpayer regime with technical assistance from the IMF.

In the same vein, they will pursue efforts underway to improve the composition and quality of spending, with a focus on the wage bill and excises taxes. The authorities are working on the development of a new wage policy that will help reduce non-priority spending. In addition, they will continue to avoid the use of DNTs, tighten annual budget management procedures, and institute clearer processes for vetting investment projects. Our authorities remain committed to achieving program targets related to much-needed social and capital spending and they intend to use additional fiscal space to finance such expenditure.

To keep the debt trend downward, the authorities remain committed to prudent borrowing policies. It is their intention to continue seeking grants and concessional loans for capital projects. The authorities are determined to settle the stock of outstanding arrears and have maintained contacts with relevant creditors. In this connection, an agreement reached with the Brazilian government on rescheduling debt is expected to be signed soon. As regard to arrears related to domestic suppliers, the authorities plan to conduct an audit with support from the WAMU Commission, who has shown interest in providing financing to perform this work.

Financial Sector Reforms

The authorities will continue to ensure the stability of Guinea Bissau’s financial system with the assistance of the regional Banking Commission. The government support and will firmly implement any action deemed necessary by the Banking Commission to ensure the banks comply with regulatory norms. The authorities are mindful of the need to develop the financial sector and increase access to credit. With the technical assistance of development partners, they are taking steps to develop the financial markets (including for SMEs), revise the national strategy document for the microfinance sector, draft a national strategy for national inclusion, and strengthening the credit information bureau with support of regional authorities.

Our Bissau Guinean authorities remain committed to sustaining their efforts to improve the AML/CFT framework, after the approval of a national strategy on AML/CFT consistent with the Financial Action Taskforce on Money Laundering (FATF) standards. In this regard, the autonomy and financial resources of the Financial Intelligence Unit (CENTIF) have been increased to help it perform its mandate and help fight corruption and rent seeking. However, the authorities recognize that more needs to be done, including by bringing exchange houses into the AML/CFT regulatory system, and implementing the asset disclosure framework that is already in place.

Statistics

Our authorities are thankful for the technical assistance and training from development partners, including the IMF, which have helped in improving economic statistics. With this support, they plan to publish by March 2018 revised national accounts with updated base year. Additional efforts will be pursued to address remaining issues on data compilation and dissemination.

Conclusion

Our Bissau-Guinean authorities reiterate their strong commitment to pursue prudent macroeconomic policies needed to promote strong and inclusive growth and reduce poverty. The sustained satisfactory performance under the ECF-supported program demonstrates the authorities' strong determination to achieve these policy objectives. That said, we cannot emphasize enough the importance of adequate external assistance to help Guinea-Bissau overcome the challenges associated with fragility and unleash its full potential. In this regard, Fund's sustained and timely contribution will be critical.