

Guinea-Bissau: 2004 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Guinea-Bissau

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with Guinea-Bissau, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 2, 2004, with the officials of Guinea-Bissau on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 2, 2004. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of November 19, 2004 updating information on recent developments.
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its November 19, 2004 discussion of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Guinea-Bissau.

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

Selected Issues and Statistical Appendix
Ex Post Assessment of Performance Under IMF-Supported Programs, 1993-2003

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GUINEA-BISSAU

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for the 2004 Consultation with Guinea-Bissau

Approved by Sharmini Coorey and Michael Hadjimichael

November 2, 2004

- **The 2004 Article IV consultation discussions were held in Bissau during June 19-July 2, 2004, at which time the staff also discussed the Ex Post Assessment of Performance under Fund-supported Programs (EPA).** The staff team comprised Messrs. Snoek (Head), Krichene, and Laporte and Ms. Mendez (all AFR), Ms. Ocampos (STA), and Mr. Doré (Resident Representative). The team cooperated with overlapping missions of West AFRITAC, the World Bank and the European Union (EU).
- **The mission met with the President of Guinea-Bissau, the President of the National Assembly, the Prime Minister,** the Minister for Economy and Finance, and other senior government officials, and with the Governor of the Central Bank for West African States (BCEAO). The mission also met with representatives of civil society and the donor community.
- **The last Article IV consultation was concluded on June 26, 2002.** Directors noted with concern that, as a result of inadequate policies, economic activity had failed to pick up after the 1998-99 conflict and donor assistance was delayed. They urged the authorities to reestablish sound financial management practices. However, unsatisfactory policy performance continued and the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) expired at end-2003 without the completion of a review. The 2003 Article IV consultation could not be concluded because of a coup in September 2003.
- **Guinea-Bissau accepted the obligations of Article VIII, Sections 2, 3, and 4 with effect from January 1, 1997.** Relations with the Fund and the World Bank Group are described in Appendices I and II, and the serious weaknesses in Guinea-Bissau's statistics are discussed in Appendix III. Appendix IV provides the status of completion point conditions under the HIPC Initiative and Appendix V contains the Public Debt Sustainability Framework Tables. This paper is accompanied by a Selected Issues and Statistical Appendix report (to be issued shortly).

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EXECUTIVE SUMMARY

Guinea-Bissau has gone through a very difficult period since a civil war in 1998-99, as continuing political instability, erratic government, and weak technical capacity resulted in a stagnating economy, increasing fiscal problems, and a virtual collapse of the government administration.

Following a coup in September 2003 and elections in March, a new government took office in May 2004. The government program focuses on short-term measures to restore the administration and normal rule-based fiscal management. Medium-term policies build on IMF and World Bank-supported programs of the 1990s, aiming at improving the legal system and promoting investment, reducing excessive regulation, and completing the privatization program.

The main challenge for the country is to maintain political stability, especially in view of the upcoming presidential elections. In this regard, the government program emphasizes good governance, transparency and consultation, the lack of which was identified in the draft PRSP as a main factor behind the war in 1998-99.

The government's policies are encouraging, but serious challenges lie ahead. A recent military mutiny raises doubts about the authorities' ability to implement their program. Moreover, the severe fiscal problems, reflecting a devastated economy, a low revenue effort and excessive public sector employment, can only be resolved in the medium-term. In the meantime, large financing gaps threaten to lead to further external and domestic arrears, unless external support can be found. Third, the government program can only be implemented with considerable technical assistance in building institutions and capacity.

Fiscal policy should aim at increasing revenue and reducing personnel costs. Tax administration should be strengthened and the tax base widened. A medium-term public sector reform program will be needed to reduce public sector employment; as a first step, a civil service census should be carried out urgently, and ghost workers removed.

The authorities are in the process of finalizing the PRSP, which may be submitted to the Boards of the Fund and the World Bank before a donor Round Table conference, tentatively scheduled for December 15, 2004.

The staff supports the recommendation in the EPA that the next step in Fund engagement in Guinea-Bissau be emergency post-conflict assistance (EPCA). However, before discussions on a program to be supported by EPCA can be finalized, there should be evidence that the causes of the recent military mutiny are being addressed and that the government is able to implement its policies. EPCA, which should be in the context of a concerted international effort, should be geared toward helping the authorities prepare for a new PRGF arrangement, possibly over a two-year period. This should be complemented by a strong technical assistance effort to help addressing serious technical weaknesses in all aspects of fiscal management and macroeconomic statistics.

I. INTRODUCTION

1. **Guinea-Bissau has gone through a very difficult period in recent years.** Political instability continued after the civil war in 1998-99 (Box 1). Economic activity failed to pick up because of the unstable political environment, a stalled reform effort, and large private sector wartime losses (Table 1). Fiscal problems mounted, reflecting a near doubling of wage expenditure after the war; weak expenditure management; declining revenue; and the suspension of donor assistance amid growing concerns about governance and unsatisfactory performance under the PRGF arrangement (Table 2). As a result, poverty has increased. Guinea-Bissau remains one of the poorest countries in the world with per capita income of US\$185 (25 percent lower than in 1993) and a Human Development Index ranking that is among the ten lowest internationally.

Box 1. The 1998-99 Civil War and Its Aftermath

In June 1998, a power struggle between the President and the military escalated quickly into a much broader conflict, the roots of which lay in failed governance and a sense of exclusion among much of the population. The fighting was concentrated in the capital Bissau. It resulted in thousands of deaths, widespread damage to housing, infrastructure and government buildings and equipment, the virtual annihilation of the small industrial sector, and the departure abroad of many of the better educated.

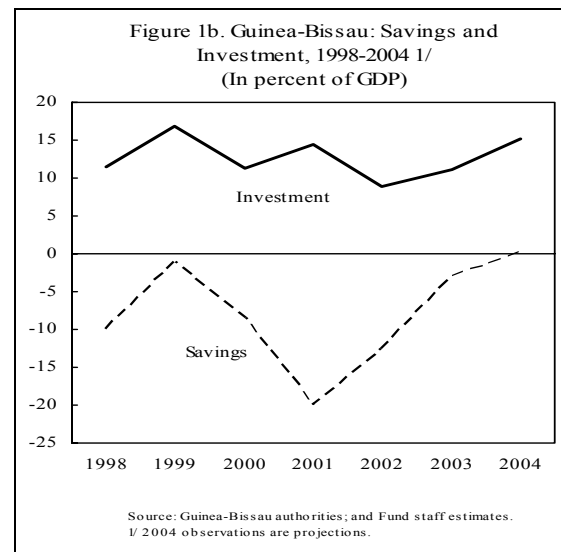
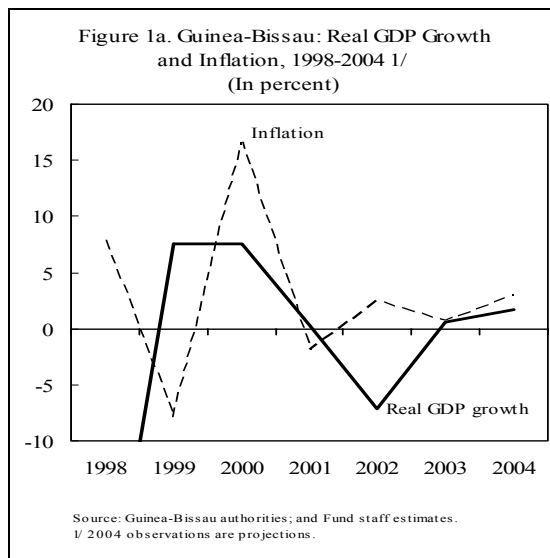
The post-conflict strategy was based on an economic program supported under the PRGF, interim debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative), and two key programs, financed by the World Bank, the European Union (EU) and bilateral donors, for (i) demobilization and reintegration of the military and veterans of the independence war (PDRRI); and (ii) clearance of public sector supplier arrears (DASP).

However, the country failed to attain political stability. The governing coalition fell quickly apart and oppression increased, while economic management was neglected. The PRGF-supported program went off track immediately because of expenditure overruns, and part of the interim debt relief and assistance to the PDRRI and the DASP was suspended.

Following delays beyond the constitutional deadline for holding elections, the military removed President Yalà in a bloodless coup in September 2003. A civilian national transition government organized parliamentary elections on March 28, 2004, which were won by the main opposition party, but without a majority in parliament. On October 6, 2004, some military units staged a rebellion—ostensibly to protest against corruption in the senior ranks of the army and bad living conditions in the barracks—killing, among others, the Chief of Staff of the Army. While the government reached an agreement with the mutineers quickly, mounting demands by the rebels and the emergence of different factions within the army raised tensions again later.

II. RECENT DEVELOPMENTS

2. **Economic activity remained sluggish in 2003.** After a sharp fall in 2002, agricultural production rebounded because of favorable weather conditions. However, activity in other sectors continued to decline, reflecting the lingering damage of the war, increasing political instability, and mounting public sector wage arrears. Real GDP growth is estimated to have stagnated in 2003 (Figure 2).¹ Consumer prices remained flat during December 2002-03, reflecting falling domestic demand and adequate food harvests. The economic situation remained broadly unchanged in early-2004.



3. **The fiscal situation deteriorated further.** With the possibility of elections, political interference in fiscal operations increased and control by the Ministry of Economy and Finance (MEF) collapsed during 2003. Provisional data indicate that the domestic primary deficit (on a commitment basis) remained around 4 percent of GDP.² However, debt service to the IMF—which is paid automatically by the BCEAO from the government’s account—increased sharply compared to 2002 (Table 5), as did payments for domestic short-term debt and past arrears.³ The financing need was met by new domestic arrears. The salaries of most

¹ Guinea-Bissau’s statistical database is very weak, and all accounts require significant staff adjustments and estimates (Appendix III).

² The domestic primary deficit is defined as revenue excluding grants, minus current expenditure excluding interest, plus domestically-financed capital expenditure.

³ The increase in debt service to the Fund reflects maturing purchases under the 1999-2000 EPCA. Access under the PRGF arrangement had been set 25 percent of quota higher than

(continued...)

civil servants remained unpaid through the first nine months of 2003 as the authorities gave priority to paying for goods and services to promote political support (increasingly through netting out against tax liabilities). Consequently, the already severely weakened administration virtually collapsed as morale declined and strikes increased.

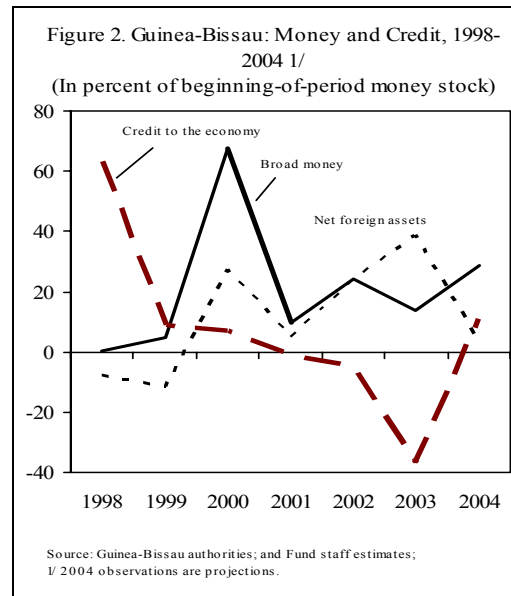
4. **After the coup in September, the transition government formulated a donor-supported emergency plan for 2004 that had mixed results (Box 2).** Expenditure control was strengthened and salaries eligible for donor financing were paid, albeit with delays.

However, revenue remained considerably below expectations, reflecting a decline in imports and continuing administrative weaknesses. Moreover, the EU delayed disbursing the compensation for fishing rights—more than 20 percent of revenue—pending a review of its assistance to the sector, resulting in further arrears.

5. **Guinea-Bissau's financial system**

remains very small. Only one small bank operates in Bissau as two larger banks remained closed after the civil war.⁴ Credit to the economy, mainly for import financing, declined in 2003, reflecting (corrected for accounting changes) the economic stagnation (Figure 3, Table 3).

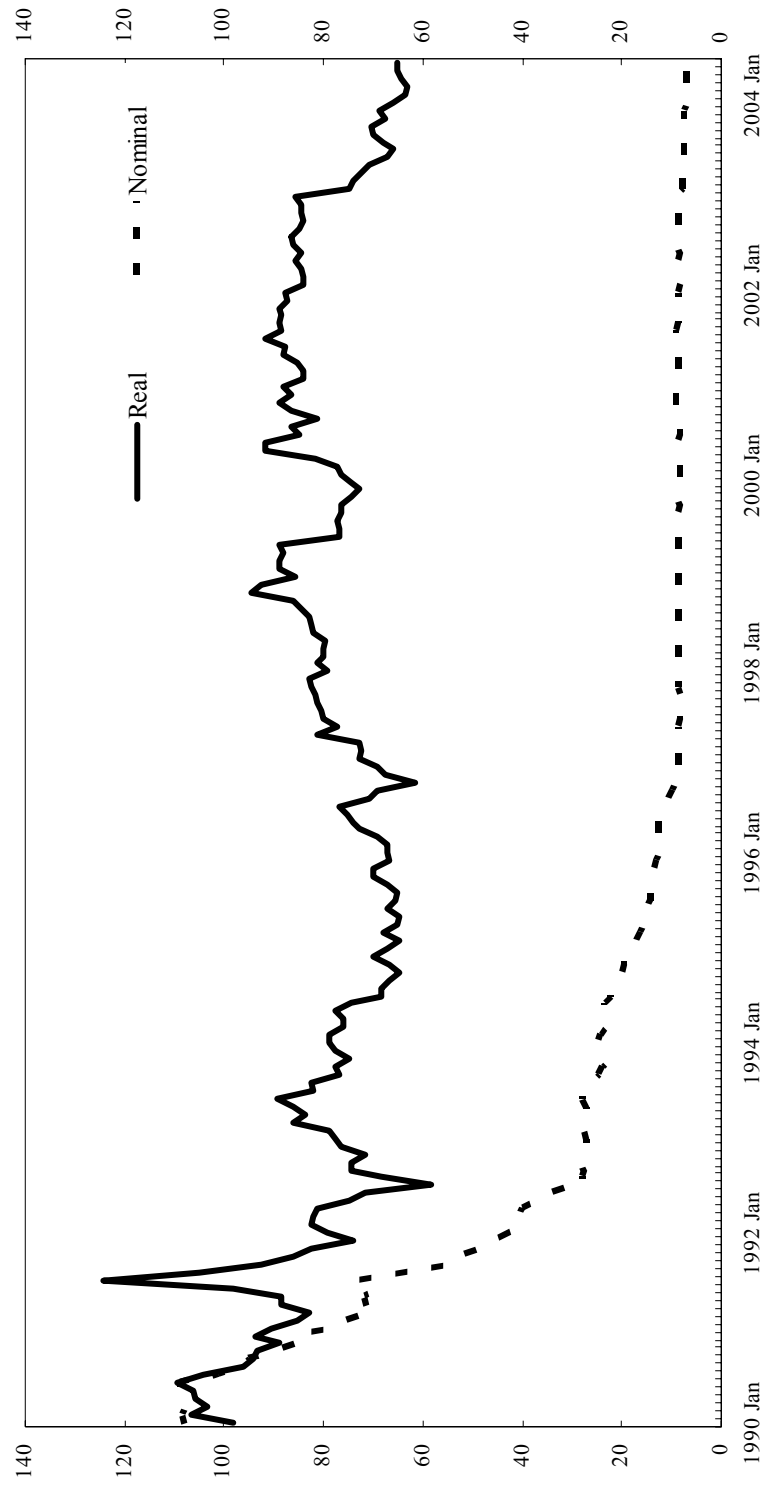
6. **Since Guinea-Bissau joined the WAEMU in 1997,** its monetary and exchange rate policies are set for the Union as a whole. Inflation has been low and the real effective exchange rate depreciated through most of 2003 (Figure 4).



normal in similar cases, with the understanding that the first, topped-up, drawing would be used to repurchase the EPCA; however, the authorities failed to make the repurchase. Guinea-Bissau continues to benefit from a subsidy on the charges on the EPCA.

⁴ The remaining bank complies with the WAEMU's prudential regulations.

Figure 3. Guinea-Bissau: Effective Exchange Rates, Jan 1990 - May 2004
(1990=100)



Source: IMF, Information Notice System (INS).

Box 2. The Emergency Economic Management Plan (EEMP)

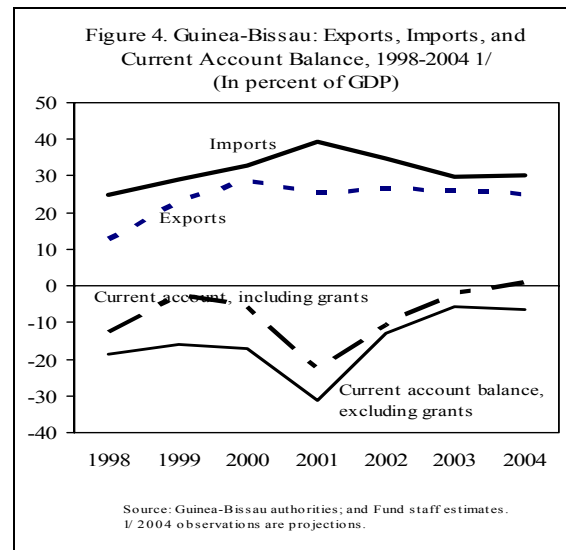
The EEMP was based on an international partnership agreement proposed by the United Nations (UN) ECOSOC Ad Hoc Advisory Group for Guinea-Bissau to break the deadlock in donor assistance. The plan included political and financial governance policies and was submitted to donors by mid-December 2003. To add to donor confidence, the UN established an **Emergency Economic Management Fund (EEMF)**, through which emergency budget support could be channeled and monitored. Assistance from the EEMF is provided for social sector and nonmilitary operating expenditure, conditional upon the implementation of the EEMP and the submission of detailed spending plans.

A key element of the EEMP was an emergency budget for 2004, that was prepared on the basis of “minimum needs” with technical assistance from the IMF, West AFRITAC, the World Bank, and the African Development Bank (AfDB). The main objective of the budget was to allow a basic functioning of the government by providing for wages and basic allocations for health and education. The EEMP included a treasury cash-flow plan for the period December 2003-June 2004 to facilitate fiscal management and allow close monitoring. External support for the emergency budget amounted to almost €7 million through June, slightly less than what had been requested.^{1/} The EEMP and the emergency budget were replaced by the government program for 2004-08 and a revised budget for 2004, accepted by parliament by end-July 2004.

^{1/} The countries of the West African Economic and Monetary Union (WAEMU) contributed about 40 percent. Other contributions came from Angola, China, France, Ghana, Italy, The Netherlands, Portugal, and Sweden.

7. **The external current account balance continued to improve in 2003 (Table 4, Figure 5).** The deficit on the trade balance narrowed, mostly on account of higher cashew nut exports. Imports declined as a ratio to GDP, with a large drop in rice imports—reflecting high stocks and a good domestic harvest—offsetting increases in other goods. The surplus on the capital account declined, partly reflecting lower capital transfers following the completion of an EU-financed infrastructure project.

8. **Guinea-Bissau is one of the most indebted poor countries (Table 6).** It reached the decision point under the HIPC Initiative in December 2000, at which time the NPV of debt-to-exports and of debt-to-government revenue ratios stood at 1,029 and 1,254, respectively. Average required debt relief was calculated at 86 percent of the NPV of debt; the Fund and the World Bank would provide interim relief of 100 percent and Paris Club creditors of 90 percent of debt service falling due. However, following nonperformance under the PRGF-arrangement, interim relief from the IMF and Paris Club creditors automatically stopped after 2001. Debt to the IMF continues to be fully



serviced; World Bank interim relief declined to 90 percent in January 2004—it will reach the statutory limit by end-2007—and the AfDB extended 100 percent relief through 2006.⁵ However, debt service to other creditors continues to fall into arrears (Table 7).⁶

9. **Guinea-Bissau lost all special bilateral donor relationships, but multilateral donors are resuming disbursements.** The Netherlands decided to end its special aid relationship with Guinea-Bissau shortly before the coup in 2003, completing the exodus of major bilateral donors following a long history of governance problems (although several contributed, with relatively small amounts, to the EEMF). However, based on the EEMP, the World Bank—in the context of its special approach to low-income countries under stress (LICUS)—resumed disbursements for demobilization and arrears clearance in March 2004 (for a total of US\$15 million—5 percent of GDP). It is also developing an Interim Support Strategy for the period until end-2005. The EU withdrew from the arrears-clearance program in early-2004, citing governance issues with its implementation, but the funds have been reallocated to budget support. Following progress under a mandatory post-coup political dialogue, discussions on disbursement of the EU’s remaining budget support have started. A donor Round Table conference is tentatively planned for December 15, 2004.

III. REPORT ON THE DISCUSSIONS

10. **The discussions took place against the background of a stagnating economy, severe fiscal problems, and a virtually collapsed public administration.** The government was preparing its program for 2004-08.⁷ The authorities and staff agreed that the immediate challenge was to rebuild the administration and to avoid further domestic budgetary arrears while laying the foundations for higher economic growth; consequently, the discussions focused on short-term policies. Medium-term policies and structural reforms would need to be fleshed out and implemented as administrative capacity was strengthened.

A. Short-Term Outlook and Policies

11. **The short-term macroeconomic framework assumes an improvement in economic activity, reflecting donor assistance and a more positive policy environment.**

⁵ China and Cuba have cancelled all official debt, while Italy has forgiven US\$60 million in arrears as of December 2000.

⁶ Total scheduled debt service was estimated at US\$44 million (19 percent of GDP) in 2003, of which US\$5.1 million was paid to the Fund, US\$9 million was covered by debt relief, and US\$29 million added to arrears.

⁷ Parliament approved the program, which was broadly in line with the policies discussed with the mission, by end-July.

World Bank disbursements and payments by the UN for soldiers that participated in the peace-keeping force in Liberia, amounted to almost 6 percent of GDP by mid-2004.⁸ Based on their positive effect on domestic demand and a favorable outlook for agricultural production, real GDP is estimated to increase by 1-2 percent in 2004 and by around 3 percent in 2005. End-period inflation is expected to remain within the WAEMU's target of less than 3 percent by the end of 2004. Reflecting low imports in the first half of the year, the external current account balance, including official transfers, is projected to become slightly positive in 2004.

12. **The authorities' main priority was restoring administrative capacity and rule-based fiscal management.** They would give the highest priority to paying government salaries on time. Furthermore, they intended to pay the electricity bill monthly and provide regular, albeit necessarily small, amounts for operating costs to the ministries, allowing the administration to restart basic operations. The organization of the ministries will be strengthened following a review of the respective laws. Measures already taken to improve financial management included centralizing all revenue in the treasury account at the BCEAO; requiring MEF approval for all expenditure commitments; and applying public procurement regulations. Political appointees had been replaced by experienced technicians at the head of the revenue departments. On the expenditure side, the travel budget had been cut. Moreover, a revised budget for 2004, broadly as discussed with the staff, was approved by parliament on July 29, restoring a normal framework for expenditure allocations; further improvements toward a normal budget process would be made, with technical assistance financed by the UNDP, in the context of the budget for 2005.

13. **Despite the measures, the fiscal situation will remain difficult (Table 10).** Tax revenue is not expected to recover significantly in the second half of the year. Nontax revenue will be boosted by the EU's compensation for fishing rights, but the expenditure, that was originally planned to be financed from this revenue, has also been carried over into the second half of the year. Moreover, the authorities intend to make up for the underfunding of the social sectors and of food for the military in the first half of the year. Outlays on parliament will also be higher than originally expected (although lower than in previous years). Consequently, the domestic primary deficit is projected to amount to almost 3 percent of GDP for July-December 2004.

14. **The authorities felt that there was little scope for substantial revenue or expenditure measures at this time.** The weak economy was not conducive for tax increases, and it would take time to strengthen tax administration. They agreed that there was considerable scope for reducing personnel expenditure. However, as alternative employment was not available, reductions in staffing would need to be prepared under a medium-term public sector reform program. They agreed, however, with the staff's suggestion to

⁸ The second half of the UN payments was made on October 25, 2004.

complement a file-by-file review of the civil service with an immediate census to establish the actual number of public servants.

15. **Including payment of arrears incurred during January-June and debt service, the budget's financing need amounts to almost 6 percent of GDP (€15 million) for the second half of 2004.** The authorities intend to clear all 2004 wage arrears and to start paying the remaining debt to project accounts. External debt service will be limited mainly to the Fund and the World Bank. With regard to financing, the remaining funds in the EEMF amounted to about €2 million at end-June. Up to €10 million could be provided by the EU, but it is not clear if Guinea-Bissau's weak administration can meet the accounting requirements for the use of these funds.⁹ In case the gap cannot be closed, the authorities intend to give priority to wages and debt service to the Fund and the World Bank to avoid interruption in new assistance; they will also seek further cuts in operating expenditure, but if the financing shortfalls prove to be substantial, further wage arrears would be likely.

16. **The authorities indicated their intention to harmonize salaries across the public sector.** Following widening differences in remuneration between politicians and the military, the previous government approved a ten-fold salary increase for the latter, which was, however, never implemented. The authorities agreed with staff that it would be impossible to finance that increase. As an alternative, they intended to harmonize public sector salaries based on a reduction in the remuneration for politicians. Staff agreed with this approach, but stressed the need to maintain the overall wage bill within budget.¹⁰

17. **The authorities intended to cooperate closely with the World Bank on revitalizing the economy,** including by reducing the still excessive regulation of the economy and rehabilitating the electricity sector. They regretted the decision of the EU to withdraw from the DASP; they intended to seek alternative donor financing since rebuilding the private sector's strength was crucial for the economy.

⁹ Moreover, because of noncompliance with these rules with regard to a disbursement of €5 million in 2001, virtually that entire amount has to be reimbursed before Guinea-Bissau can access the new funds (once repaid, these funds will be available again for new budget support). The EU is providing technical assistance to improve compliance with the expenditure accounting regulations.

¹⁰ Recently, the authorities reached agreement on a substantial decrease in wages for the President, Ministers, and parliamentarians. However, minimum salaries in the civil service were raised by about 15 percent (to €26 per month), and preliminary information indicates that the wage bill for the military was almost tripled. The exact budgetary impact of these agreements, which is expected to be significant, and some offsetting measures, remains to be determined.

B. Medium-Term Outlook and Policies

18. **Medium-term policies should emphasize exploiting Guinea-Bissau's excellent growth potential in agriculture and fisheries.** There is adequate supply of fertile land and rainfall is good; the offshore waters are estimated to be among the most productive for fishing in West Africa. Nevertheless, past policies focused on developing industrial activity around Bissau, benefiting the political and military elite but providing little incentives for the rural areas to improve agricultural productivity. Similarly, the local fishing sector remains undeveloped. As a result, poverty remains endemic,¹¹ and the economy remains highly vulnerable to external shocks as more than 90 percent of exports, about 20-25 percent of GDP, and more than 10 percent of fiscal revenue depend on cashew nuts, and a further 35-40 percent of revenue comes from fishing licenses to foreign operators.

19. **The discussions on the medium-term outlook and policies were of a preliminary nature.** The government's program provides the main medium-term objectives: accelerating economic growth, reducing poverty, and stabilizing the fiscal situation. However, the policies remain to be detailed and costed, and basic data improved, before a realistic medium-term framework can be prepared.

20. **The authorities and staff agreed that present trends were unsustainable, and the discussions focused on a tentative medium-term scenario, based on strong action to strengthen the fiscal position and on structural reforms to boost productivity growth (Box 3).** A combination of revenue and expenditure measures would be required to move the budget's domestic primary deficit from 5 percent of GDP in 2005 (including cost of elections equivalent to 2 percent of GDP) to zero by 2007:

- Guinea-Bissau's low tax revenue-to-GDP ratio—almost half the WAEMU-area average—indicates significant scope for revenue enhancement. A recent review of the tax system by the World Bank found that domestic tax rates are generally higher than in the rest of the region, indicating that additional revenue would have to come from widening the tax base and improving administration.¹² Other technical assistance reports indicate that there are ample opportunities for this, but it will take time, and technical assistance, for these to be realized.

¹¹ About two-thirds of the population is living below the poverty line of US\$2 per day. The illiteracy rate is 70 percent in rural areas. Life expectancy is 45 years; 3 percent of the population is estimated to be infected by HIV (Table 9 provides data in relation to the Millennium Development Goals).

¹² With regard to taxes on external trade, Guinea-Bissau applies the WAEMU's common external tariff. There are no known exceptions to the tariff and the trade regime has remained unchanged in recent years; there are no known restrictions on the making of payments or transfers for current international transactions.

- Wage and wage-related expenditure claim almost 70 percent of revenue, double the WAEMU target, indicating the possibility of substantial savings. Assuming the implementation of a comprehensive public sector reform program, the wage bill has been projected to remain constant in nominal terms at the level prevailing in recent years. In the absence of a completed PRSP and costed policies, poverty reduction expenditure has been projected at a constant ratio to GDP.

While this scenario would allow the government to finance domestic primary expenditure from domestic resources by 2007, there would still be significant financing gaps in the interim, reflecting the primary deficit and Guinea-Bissau's high debt burden. Moreover, despite the assumed resumption of HIPC debt relief, financing gaps would remain—although at a much lower level—after 2007.

21. **The authorities noted that the medium-term structural reform program—although still at a preliminary stage—provided a good basis for boosting growth along the lines envisaged in the scenario.** These policies build on programs that were supported by the Fund and the World Bank in the 1990s, and on recent technical assistance reports. Important elements include improving the legal system and investment regulations, reducing inefficient taxes and regulations, and completing the privatization program. The World Bank is providing assistance in many of these areas. Furthermore, the World Bank, the EU, and the AfDB are providing assistance to the fisheries sector, including for strengthening surveillance, research, and development of local fisheries, while the EU continues to provide support for road infrastructure.

Box 3. Medium-term Scenarios, 2004–2009

Without strong policy adjustment, recent trends indicate low growth and a persistent substantial deficit on the budget's primary balance. The lack of reform would discourage donors to reengage. Consequently, new (wage) arrears would be likely, making this scenario economically and politically unsustainable.

The reform scenario assumes political stability and structural reform as well as strong measures to improve revenue performance and contain personnel costs. It aims at a possible new PRGF arrangement and full interim debt relief under the HIPC Initiative by early 2007, and attainment of the completion point by end-2007. The fiscal financing gaps are assumed to be filled by renewed donor support.

	2004 Estm.	2005 Projections	2006 Projections	2007 Projections	2008 Projections	2009 Projections
(In billions of CFAF)						
Low case (present trends) 1/						
Revenue	23.5	23.7	24.9	26.1	27.4	28.8
Domestic primary expenditure	31.9	33.4	35.1	36.9	38.8	40.8
Debt service 2/	35.0	20.6	22.0	21.2	23.3	21.3
Balance	-43.4	-30.4	-32.3	-32.0	-34.7	-33.3
In percent of GDP	-29.8	-19.9	-20.1	-19.0	-19.6	-17.9
Reform scenario 3/						
Revenue	23.5	23.7	27.6	30.3	32.5	34.9
Domestic primary expenditure	31.9	31.9	29.3	30.2	31.2	32.2
Debt service 2/	35.0	20.6	22.0	6.6	7.5	8.7
Balance	-43.4	-28.8	-23.7	-6.5	-6.2	-6.1
In percent of GDP	-29.8	-18.8	-14.5	-3.7	-3.3	-3.0

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

1/ Assumes real GDP growth of 2 percent per year; revenue and domestic primary expenditure constant in terms of GDP; World Bank interim relief to end after 2007.

2/ Scheduled external and domestic debt service minus HIPC interim relief World Bank and AfDB (preliminary data).

3/ Assumes annual real GDP growth to increase gradually to 4.3 percent by 2009; strong improvements in tax administration; wage bill constant in nominal terms; resumption HIPC interim relief in 2007 and completion point by end-2007.

22. **Rebuilding the financial sector will be an important element in enhancing growth prospects.** The authorities shared staff's concern that the WAEMU's common minimum capital requirement could be excessive for the small market of Guinea-Bissau, discouraging new banks. They had therefore relaxed the requirement for Guinea-Bissau, and a second commercial bank was expected by end-2004, at the same time as the WAEMU's regional microfinance bank.

23. **There are considerable downside risks in the medium-term scenario.** First, reflecting the many years of instability, and evidenced by the recent military uprising, the risk of new political problems will remain high for some time to come, especially in view of presidential elections in the first half of 2005. Second, limited administrative capacity and the political need to keep urban interest groups satisfied could divert resources from much-needed investment in agriculture, finance and basic infrastructure, possibly jeopardizing growth prospects. Third, financing for the short- and medium-term budget gap remains uncertain, and severe expenditure cuts or renewed wage arrears would greatly undermine the ability of the government to implement its reform program, continuing a vicious circle of low performance and declining donor assistance.¹³

24. **Staff and authorities agreed that the successful implementation of short- and medium-term policies envisaged would require considerable technical assistance.** In the Fund's area of competence, there is an urgent need for strengthening a broad range of functions of the MEF, including macroeconomic statistics. In this regard, staff urged the authorities to rapidly finalize a technical assistance master plan for the MEF for submission to donors, requesting assistance to complement efforts already under way.¹⁴ Staff also suggested that the authorities prepare a broad national technical assistance plan.

25. **The authorities attach great importance to the PRSP.** They agreed with staff that the latest draft lacked important elements, including prioritization and costing of the policies, and a monitoring system. However, while work would continue, they felt that, in view of the long delay since the Interim-PRSP in 2000 and the upcoming Round Table conference, it would be important to finalize the document soon. They intend to submit the PRSP to the Fund and the World Bank before end-2004, following which missing elements could be added as technical capacity is strengthened.

¹³ Moreover, the EU is reviewing its fishing policies and the level and channel of future revenue from this source is uncertain after the expiration of the present Fishing Protocol in 2005.

¹⁴ In addition to assistance from the EU, France, and the UNDP, West AFRITAC is following up on diagnostic reports from FAD and STA missions in 2003 in the areas of revenue and customs administration, expenditure management and budgeting, and national accounts and fiscal statistics.

C. Ex-Post Assessment and Future Fund Involvement

26. **The authorities broadly agreed with the EPA.** They indicated that the key issue of improving the political situation would be addressed in the context of the government's emphasis on good governance and transparency. They would also strengthen fiscal management further, while reducing regulations to minimize possibilities for corruption. The judiciary would be strengthened and transparency would be increased, including by reviving consultation mechanisms with social partners and civil society. They acknowledged that progress in these areas would also be crucial for promoting the much needed resumption of foreign assistance, as donors would require strong proof that the causes of the poor results of past support were being addressed. They welcomed close international monitoring of, and technical assistance in, these areas.

27. **The authorities preferred an early return to a PRGF arrangement, so that interim debt relief could be resumed and progress made toward the HIPC Initiative's completion point.**¹⁵ However, given the negative experience with the 2000-03 arrangement, they acknowledged that it would be important to first build implementation capacity for a PRGF-supported program. Nevertheless, they felt that a financial program with the Fund would be crucial because of the urgent financial needs and its expected catalytic effect on other assistance. In this regard, they agreed with the recommendation in the EPA that renewed emergency post-conflict assistance (EPCA) would be the best option (Box 4).

¹⁵ In addition to the implementation of a number of key policies and measures (Appendix IV), attainment of the completion point requires—reflecting Guinea-Bissau's interrupted record of performance—the completion of one review of a PRGF-supported program, covering a period of policy implementation of at least six months immediately before the completion point.

Box 4. Renewed Access under EPCA to Guinea-Bissau

Guinea-Bissau made purchases under the EPCA in September 1999 and January 2000 for an amount equivalent to 25 percent of quota, but failed to successfully make the transition from EPCA to a PRGF arrangement. This reflected the fact that the conflict reemerged after the initiation of the EPCA and did not end until the military coup in September 2003 (though recent events suggest that the conflict may be still ongoing). This was also due to the fact that Guinea-Bissau continued to lack the institutional and administrative capacity necessary to develop and implement a comprehensive economic program that could be supported by a Fund arrangement. Despite the adverse consequences of the weak economic performance in the past few years and the sizeable buildup of domestic arrears, including to the civil service, Guinea-Bissau has remained current in its debt service obligations to the Fund, unlike other external creditors that stopped interim debt relief.

Against this background, renewed Fund support under the EPCA appears to be the most suitable way for the Fund to support the ongoing UN-led efforts to promote stabilization in Guinea-Bissau, subject to satisfactory resolution of the recent uprising. Consistent with the spirit of the Board decision in April 2004, in the context of its discussion of the Fund's role in low-income countries, to extend "*the length of EPCA-supported programs, in total, to as long as three years*"¹ (www.imf.org), the staff proposes to initiate in due course discussions on an EPCA-supported program covering up to an additional two-year period, for a total of three, albeit noncontiguous, years. Possible further access to Fund resources under the EPCA would be restricted to an amount not to exceed a total of 50 percent of quota in outstanding purchases under the EPCA. Moreover, in order to safeguard Fund resources, there would be a stronger presumption that renewed access to Fund resources under the EPCA would be tranced.

In considering purchases of EPCA after such an interruption, stronger justification would be needed than for the earlier purchases, including a more thorough assessment of the risks to program implementation. Also, to help foster program implementation and to strengthen assurances to donors, each purchase would be supported by a clear assessment of Guinea-Bissau's commitment to reform, and of progress in rebuilding administrative and program implementation capacity.

^{1/} "The Fund's Role in Low-Income Countries—Considerations on Instruments and Financing" (www.imf.org), February 24, 2004).

IV. STAFF APPRAISAL

28. **Guinea-Bissau has gone through a very difficult time in recent years.** With hindsight, the political-military conflict of 1998-99 did not end in 1999 but reemerged in the form of political instability in the following years. Consequently, the reforms stalled, administrative capacity declined further, economic and fiscal problems deepened, and poverty increased.

29. **The orderly transition from military coup to a government elected on the basis of a broad reform platform was encouraging, but enormous challenges lie ahead.** The government's minority status in parliament, next year's presidential elections, and the painful measures required by the deep financial problems, will put a heavy burden on the country's young democracy, and the political situation can be expected to remain fragile for some time to come. As discussed in more detail in the EPA, a key cause in Guinea-Bissau's development failure during the last thirty years has been the emphasis on policies serving the interests of the political and military elite in Bissau. In this regard, the staff strongly supports the combined UN Security Council/ECOSOC mission to Guinea-Bissau of June 2004 in urging all parties to put the national interest above short-term political considerations.

30. **The government program forms a good basis for addressing Guinea-Bissau's economic and financial problems, but the authorities' ability to implement it remains uncertain.** Initial measures indicate strong commitment to the program's objectives, including with regard to restoring rule-based government and good management. Nevertheless, as shown by the outcome of the recent discussions on public sector wages and the military uprising, national consensus on the program is still lacking despite its approval by parliament.

31. **The staff welcomes the initial measures to restore fiscal control, although the recent increase in the wage bill was disappointing.** With regard to the latter, the staff urges the authorities to seek further offsetting measures, including by rapidly following up on the civil service census, ensuring that wages are only paid to workers who are actually present. Staff acknowledges that the scope for substantial revenue and expenditure measures is limited in the immediate future because of the need to build administrative capacity and to prepare a public sector reform program. In the meantime, the authorities should continue strong efforts to find additional resources and to reduce nonessential expenditure.

32. **Medium-term policies will need to focus on strengthening the fiscal position.** Tax administration should be improved and the tax base widened. The public sector wage bill should be brought under control on a durable basis through public sector reform. Such a program will require considerable technical assistance to strengthen capacity, as well as financial support, from donors.

33. **The emphasis of the authorities' medium-term structural policies on boosting growth through deregulation and improvements in the investment climate, is**

encouraging. While many policies will take time to prepare, the staff recommends that the still excessive regulation of the economy be reduced rapidly, which is a low cost measure that could quickly yield results. Membership of the WAEMU has been beneficial to Guinea-Bissau as it allowed maintaining price and exchange rate stability despite the serious fiscal problems, but the fixed exchange rate system makes structural reforms all the more important for maintaining and improving external competitiveness.

34. **Guinea-Bissau's unsustainable external debt and mounting debt service arrears can only be addressed in the context of the HIPC Initiative.** Until then, the staff recommends that the authorities continue servicing debt to multilateral institutions so as not to interrupt ongoing and possible new support, and to resume discussions with other creditors on interim solutions. In order not to add to the already excessive debt, new assistance should be mainly in the form of grants.

35. **It is understandable that, four years after the Interim-PRSP, the authorities prefer to submit a full PRSP without further delay.** The staff realizes that it will take time for Guinea-Bissau to build technical capacity to complete a locally-owned PRSP that covers all areas expected in such a document. Nevertheless, while detailed costings and a monitoring system could be included in coming updates, the staff urges the authorities to ensure that, in addition to prioritization of the policies, the PRSP reflect a broad domestic consultation process.

36. **Continued strong policy implementation will have to be complemented by considerable donor support for Guinea-Bissau to be able to solve its problems in a reasonable timeframe.** In view of the weak institutions and technical capacity, substantial technical assistance will be required in implementing the needed policies. In this regard, the staff welcomes the strong emphasis of the government program on good governance and transparency, which is crucial for restoring relations with the donors.

37. **The staff supports the recommendation in the EPA that renewed EPCA would be the appropriate next step in Fund engagement with Guinea-Bissau.** The economic and financial situation and the disruption of administrative capacity are worse than in 1999–2000 and financial assistance is urgently needed. However, Guinea-Bissau is not expected to be ready to implement the strong policies that can be supported under the PRGF for some time. In the interim, EPCA would provide time for donors to fully reengage, alleviate the heavy burden of debt service to the Fund, and assist the government in strengthening administrative capacity so as to gradually demonstrate its ability to effectively implement a new PRGF arrangement. Nevertheless, the recent events indicate that the conflict may be continuing. Therefore, staff will need to continue to evaluate the situation and complete discussions on an EPCA-supported program only if it can establish that the recent military uprising has been satisfactorily resolved and that the government is able to implement the program's policies.

38. **In view of the broad range of problems, new Fund EPCA can only be successful in the context of a concerted international effort.** As indicated in the EPA, such an effort should be based on strong donor coordination, and should include the regional institutions

that have been key in assisting the country in maintaining stability over the last twelve months. The resumption of assistance by the World Bank and the EU, the broad donor participation in the EEMF, and recent discussions in UN organizations, are positive indicators for donor interest. Nevertheless, also in light of the recent military uprising, the extent of a new concerted effort remains to be confirmed in a donor conference, which should precede the approval of new EPCA.

39. **New external assistance should emphasize institution and capacity building.** In this regard, staff urges the authorities to rapidly seek assistance with the preparation of a country-wide technical assistance plan. It also supports the authorities' request for additional technical assistance in the Fund's area of competence.

40. **Staff proposes that the next Article IV consultation with Guinea-Bissau be held on the standard 12-month cycle.**

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2000–2005

	2000	2001	2002	2003	2004 Est.	2005 Proj.
(Annual percentage change, unless otherwise indicated)						
National accounts and prices						
Real GDP at market prices 1/	7.5	0.2	-7.2	0.6	1.7	3.4
Real GDP per capita 2/	4.9	-2.2	-9.4	-1.8	-0.8	0.9
GDP deflator	3.2	-5.1	4.8	-2.9	3.3	2.0
Consumer price index (annual average) 3/	8.6	3.3	3.3	...	1.6	2.8
Consumer price index (end of period) 3/	16.7	-1.9	2.5	0.7	3.0	3.6
External sector						
Exports, f.o.b.(based on U.S. dollar values)	21.3	-19.5	7.2	16.2	8.2	7.0
Imports, f.o.b. (based on U.S. dollar values)	8.3	10.6	-10.3	0.5	15.8	15.7
Export volume	25.6	3.8	-0.6	8.0	4.1	5.4
Import volume	35.7	-3.4	-14.5	-8.0	7.2	15.0
Terms of trade (deterioration -)	-0.1	-18.3	2.7	-1.5	-3.8	0.9
Real effective exchange rate (depreciation -)	6.3	3.0	-1.1	-2.3	..	..
Nominal exchange rate (CFA per U.S. dollar; average)	712.0	728.0	697.8	580.1	..	..
Government finances						
Domestic revenue (excluding grants) 4/	23.4	-16.9	-11.6	-0.2	20.2	-8.9
Total expenditure	56.3	-10.5	-22.8	10.0	30.7	-17.7
Current expenditure 4/ 5/	82.6	-25.0	-15.1	2.6	15.9	-11.4
Capital expenditure 6/	6.1	37.0	-36.8	28.0	59.5	-26.4
Money and credit 7/						
Credit to government (net)	17.8	-0.7	4.9	-4.2	-4.3	-1.3
Credit to the rest of the economy	-62.2	-1.2	-5.1	-37.0	16.4	5.5
Broad money	67.7	9.9	24.1	13.6	28.5	5.5
Velocity (GDP/broad money)	2.4	2.1	1.6	1.4	1.1	1.1
(In percent of GDP, unless otherwise indicated)						
Investments and savings						
Gross domestic investment	11.3	14.4	8.9	11.1	15.2	15.0
<i>Of which:</i> government investment	10.0	13.7	8.7	11.0	13.8	13.4
Gross domestic savings	-8.5	-20.1	-12.5	-2.9	0.2	-3.3
<i>Of which:</i> government savings	-14.9	-11.0	-8.9	-10.5	-14.5	-7.2
Gross national savings	5.6	-8.0	-1.8	8.9	15.9	9.8
Government finances						
Budgetary revenue 4/	19.2	16.8	15.3	15.6	17.8	15.4
Total domestic primary expenditure 4/	30.3	21.5	19.4	19.9	23.6	20.7
Domestic primary balance	-11.1	-4.7	-4.2	-4.3	-5.8	-5.3
Overall balance (commitment basis)						
Including grants	-10.8	-11.7	-12.0	-13.8	-12.7	-12.2
Excluding grants	-24.9	-26.2	-18.1	-21.5	-28.3	-20.6
External current account (including official current transfers)	-5.6	-22.3	-10.7	-2.3	0.7	-5.2
Excluding official current transfers	-17.2	-31.3	-12.7	-5.6	-6.6	-7.5
Net present value of external debt/exports of goods and nonfactor services (in percent)	934	824	1,206	1,093	881	836
(In millions of U.S. dollars, unless otherwise specified)						
Memorandum items:						
Current account balance (including official current transfers)	-12.1	-44.4	-21.7	-5.4	2.0	-14.9
Overall balance of payments	4.1	-39.2	-10.8	20.1	-7.0	-48.7
Nominal GDP at market prices (in billions of CFA francs)	153.4	145.9	141.9	138.7	145.6	153.7

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

1/ The projections for 2004 take into account World Bank disbursement of US\$4.3 million toward the mobilization and reintegration (PDRRI) and US\$10.2 million for domestic arrears project (DASP) (5.3 percent of GDP in total), donor financial assistance for the emergency budget as of June (around 4 percent of GDP), and remuneration to Guinea-Bissau military personnel for participation in the UN peace keeping mission in Liberia (2 percent of GDP).

2/ Projections based on population growth of 2.5 percent per year.

3/ There is a break in the series in July 2002, when Guinea-Bissau adopted a new Harmonized CPI Index and the average CPI for 2003 is not

4/ In 2004, domestic revenue includes CFAF 2,539 million in payment to Guinea-Bissau soldiers participating in the UN Liberia peace keeping mission. The same amount is recorded in current expenditure under salaries.

5/ In 2004, includes an amount of CFAF 3.4 billion for legislative elections.

6/ In 2003 and 2004, includes expenditure on foreign-financed demobilization and domestic arrears clearance programs.

7/ In percent of beginning-of-period stock of broad money.

Table 2. Guinea-Bissau: Central Government Operations, 2000–2009

(In billions of CFA francs)

	2000	2001	2002	2003	Budget	Budget	2005	2006	2007	2008	2009	
					EEMP	Revised						
					2004	Projections						
Tax revenue and grants	51.1	45.6	30.4	32.2	36.1	48.7	36.7	41.5	45.2	48.5	52.1	
Budgetary revenue	29.5	24.5	21.7	21.6	29.3	26.0	23.7	27.6	30.3	32.5	34.9	
Tax revenue	17.5	14.8	11.9	12.7	13.7	10.4	12.0	15.3	17.6	19.1	20.9	
Nontax revenue 1/	12.0	9.7	9.8	8.9	15.5	15.6	11.6	12.3	12.7	13.5	14.0	
Grants	21.6	21.1	8.7	10.6	6.9	22.8	13.0	13.9	14.9	16.0	17.2	
Budget support	12.6	8.3	1.9	1.1	0.0	7.2	0.0	0.0	0.0	0.0	0.0	
Project grants 2/	9.1	12.9	6.8	9.5	6.9	15.5	13.0	13.9	14.9	16.0	17.2	
Total expenditure	67.7	60.6	46.7	51.4	60.0	67.2	55.3	54.9	56.8	59.1	61.6	
Current expenditure	51.9	38.9	33.0	33.9	33.6	39.3	34.8	32.9	33.3	33.8	34.4	
Wages and salaries 1/	10.5	11.0	10.5	10.9	16.0	12.3	9.8	9.8	9.8	9.8	9.8	
Goods and services	10.9	5.2	7.7	7.0	7.9	8.1	8.4	8.9	9.4	10.0	10.7	
Transfers	5.3	7.2	7.4	5.0	4.9	7.2	7.4	7.5	7.6	7.7	7.8	
Other current expenditures 2/	3.9	1.8	0.7	0.5	0.5	4.7	5.1	1.8	2.0	2.1	2.3	
Unregistered/Unallocated expenditures 3/	12.5	1.5	0.3	4.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	
Scheduled external interest	8.8	11.6	6.1	6.0	4.1	5.7	3.9	4.6	4.2	3.9	3.6	
Scheduled internal interest 4/	0.0	0.6	0.4	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	
Capital expenditure	15.8	21.6	13.7	17.5	26.4	27.9	20.6	22.0	23.6	25.3	27.2	
Public investments	15.3	20.0	12.4	15.3	18.7	20.2	20.6	22.0	23.6	25.3	27.2	
Domestically financed	3.5	2.5	0.7	0.1	2.5	1.2	1.3	1.4	1.5	1.6	1.7	
Foreign financed	11.8	17.5	11.7	15.2	16.3	19.0	19.3	20.6	22.1	23.7	25.5	
Demobilization expenditure (PDRRI)	0.5	1.7	1.0	2.3	3.6	2.3	0.0	0.0	0.0	0.0	0.0	
Domestic Arrears Clearance (DASP)	0.0	0.0	0.3	0.0	4.1	5.5	0.0	0.0	0.0	0.0	0.0	
Net Lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance, incl. grants (commitment basis)	-16.5	-14.9	-16.4	-19.2	-23.9	-18.5	-18.7	-13.4	-11.6	-10.6	-9.5	
Overall balance, excl. grants (commitment basis)	-38.2	-36.1	-25.1	-29.8	-30.8	-41.3	-31.7	-27.3	-26.5	-26.6	-26.7	
New external interest arrears	-122.6	2.8	5.9	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
New domestic arrears	2.1	5.6	9.4	15.8	0.0	9.4	0.0	0.0	0.0	0.0	0.0	
Float, errors and omissions	-0.2	-8.4	-1.9	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance, including grants (cash basis)	-137.2	-14.9	-3.0	-1.8	-23.9	-9.1	-18.7	-13.4	-11.6	-10.6	-9.5	
Financing	137.3	14.9	3.0	1.8	13.2	0.8	-10.1	-10.4	-9.4	-7.2	-4.7	
Domestic financing	5.0	-1.1	-1.9	-8.6	-3.4	-17.8	-5.7	-5.6	-5.3	-4.6	-4.4	
Bank financing	4.4	-3.0	3.2	-4.7	-0.4	-4.5	-2.0	-2.4	-2.1	-1.4	-1.2	
Nonbank financing, incl. arrears	0.6	1.9	-5.1	-3.9	-3.0	-13.3	-3.6	-3.2	-3.2	-3.2	-3.2	
Arrears 8/	0.0	0.0	-3.9	-2.9	-1.5	-11.8	-3.2	-3.2	-3.2	-3.2	-3.2	
Financing from project accounts	0.0	0.0	-1.6	-1.0	-1.5	-1.5	-0.4	0.0	0.0	0.0	0.0	
Privatization receipts (net)	0.0	1.9	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Foreign financing	-2.3	-10.0	-2.3	5.1	7.0	13.3	-10.2	-11.5	-11.4	-9.5	-7.3	
Drawings	10.2	4.6	4.9	8.0	17.1	14.6	6.3	6.7	7.2	7.7	8.3	
Balance of payments loans	7.4	0.0	0.0	2.3	7.7	7.8	0.0	0.0	0.0	0.0	0.0	
Project loans	2.7	4.6	4.9	5.7	9.4	6.8	6.3	6.7	7.2	7.7	8.3	
Foreign liabilities transfer from BCGB 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Amortization	-12.5	-17.4	-18.6	-16.5	-20.9	-18.7	-16.4	-18.2	-18.6	-17.3	-15.6	
Change in arrears 6/	0.0	2.8	11.3	13.6	10.8	17.5	0.0	0.0	0.0	0.0	0.0	
Debt relief	134.6	26.0	7.2	5.3	9.6	5.3	5.7	6.7	7.2	6.9	7.0	
Financing gap (+ = financing needs)	0.0	0.0	0.0	0.0	10.7	8.3	28.8	23.8	21.1	17.7	14.3	
Memorandum items:												
Domestic primary balance 7/	-17.0	-4.7	-5.6	-5.9	-2.4	-8.5	-8.2	-1.7	0.1	1.3	2.7	

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

Table 2. Guinea-Bissau: Central Government Operations, 2000–2009 (Concluded)

(In percent of GDP)

	2000	2001	2002	2003	Budget	Budget	Projections				
					EEMP	Revised					
					2004	2005	2006	2007	2008	2009	
Tax revenue and grants	33.3	31.3	21.4	23.2	24.8	33.5	23.9	25.2	25.7	25.7	25.6
Budgetary revenue	19.2	16.8	15.3	15.6	20.1	17.8	15.4	16.8	17.2	17.2	17.2
Tax revenue	11.4	10.1	8.4	9.1	9.4	7.1	7.8	9.3	10.0	10.1	10.3
Nontax revenue 1/	7.8	6.7	6.9	6.4	10.6	10.7	7.6	7.5	7.2	7.1	6.9
Grants 2/	14.1	14.5	6.1	7.6	4.7	15.6	8.5	8.5	8.5	8.5	8.5
Total expenditure	44.1	43.0	33.4	37.1	41.2	46.2	36.0	33.4	32.3	31.2	30.3
Current expenditure	33.8	28.2	23.8	24.4	23.1	27.0	22.6	20.0	18.9	17.9	16.9
Current primary expenditure	36.2	19.8	18.9	19.8	20.0	22.8	19.9	17.0	16.3	15.7	15.0
<i>Of which: wages and salaries 1/</i>	6.8	7.5	7.4	7.9	11.0	8.4	6.4	5.9	5.5	5.2	4.8
Scheduled external interest	5.7	8.0	4.3	4.3	2.8	3.9	2.5	2.8	2.4	2.1	1.8
Scheduled internal interest 4/	0.0	0.4	0.5	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Capital expenditure	10.3	14.8	9.6	12.6	18.1	19.2	13.4	13.4	13.4	13.4	13.4
Public investments	10.0	13.7	8.7	11.0	12.9	13.8	13.4	13.4	13.4	13.4	13.4
Domestically financed	2.3	1.7	0.5	0.0	1.7	0.8	0.8	0.8	0.8	0.8	0.8
Foreign financed	7.7	12.0	8.2	11.0	11.2	13.0	12.5	12.5	12.5	12.5	12.5
Demobilization expenditure (PDRRI)	0.3	1.2	0.0	1.6	2.5	1.6	0.0	0.0	0.0	0.0	0.0
Domestic Arrears Clearance (DASP)	0.0	0.0	0.9	0.0	2.8	3.8	0.0	0.0	0.0	0.0	0.0
Net Lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, incl. grants (commitment basis)	-10.8	-11.7	-12.0	-13.8	-16.4	-12.7	-12.2	-8.1	-6.6	-5.6	-4.7
Overall balance, excl. grants (commitment basis)	-24.9	-26.2	-18.1	-21.5	-21.1	-28.3	-20.6	-16.6	-15.1	-14.0	-13.2
Overall balance, including grants (cash basis)	-31.8	-10.5	-4.6	-1.3	-16.4	-6.2	-12.2	-8.1	-6.6	-5.6	-4.7
Financing	31.8	10.5	4.6	1.3	9.0	0.5	-6.6	-6.3	-5.3	-3.8	-2.3
Domestic financing	3.3	-0.5	-0.2	-6.2	-2.3	-12.2	-3.7	-3.4	-3.0	-2.4	-2.2
Foreign financing	28.5	11.0	4.8	3.7	4.8	9.1	-6.6	-7.0	-6.5	-5.0	-3.6
Float, errors and omissions	-2.1	-1.9	1.7	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (+ = financing needs)	0.0	0.0	0.0	0.0	7.4	5.7	18.8	14.5	12.0	9.4	7.0
Domestic primary balance 7/	-11.1	-4.7	-4.2	-4.3	-1.6	-5.8	-5.3	-1.1	0.0	0.7	1.3
Nominal GDP (in billions of CFA francs)	153.4	145.9	141.9	138.7	145.6	145.6	153.7	164.4	176.1	189.2	203.3

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

1/ In 2004, domestic revenue includes an amount of CFAF 2,539 million representing payment to Guinea-Bissau soldiers for services toward the peace keeping mission in Liberia. The same is recorded in current c

2/ In 2004, includes an amount of CFAF 3.4 billion in donor funding for legislative elections.

3/ In 2000, the unallocated expenditures include those not authorized and paid with *bons de virement* (CFAF 10.8 billion) and cheques.

4/ Interest and amortization on domestic debt does not include the servicing of debt stemming from the membership dues in the WAEMU. The authorities have agreed to begin repayment for these dues in 2005, fo billion per annum (recorded in transfers).

5/ BCGB=Central Bank of Guinea-Bissau.

6/ The amount in 2000 reflects payments due to bilateral, non-Paris Club creditors.

7/ Defined as revenue (excluding grants) minus domestic interest, current and capital expenditure, excluding foreign financed expenditures and external interest payments.

8/ After 2004, includes payment for capital contributions to WAEMU financed institutions.

Table 3. Guinea-Bissau: Monetary Survey, 2000–2005

	2000	2001	2002	2003	2004	2005
	Projections					
(In billions of CFA francs)						
Net foreign assets	28.5	31.5	48.3	82.0	107.8	116.3
Central bank	33.6	37.2	51.2	76.0	103.3	111.6
Deposit money banks	-5.1	-5.7	-3.0	6.0	4.5	4.7
Assets	6.0	2.8	5.5	6.0	4.5	4.7
Liabilities	-11.0	-8.5	-8.4	0.0	0.0	0.0
Net domestic assets	35.5	38.8	39.0	17.2	19.6	18.1
Net domestic credit	20.3	19.8	23.0	17.8	14.0	12.5
Net claims on government	20.3	19.8	23.0	17.8	14.0	12.5
Net claims on central government	15.8	15.4	18.8	15.1	10.9	9.2
Central bank	15.8	15.4	18.8	15.1	10.9	9.2
Claims	20.4	20.3	20.2	17.9	14.9	13.5
Advances to treasury	14.2	14.2	14.3	12.0	9.2	7.5
Statutory limit	2.5	2.5	2.8	2.6	2.6	2.6
Use of Fund credit	11.7	11.7	11.4	9.5	6.6	5.0
Consolidated loans	6.2	6.1	5.9	5.8	5.7	6.0
Deposits	-3.6	-3.7	-0.5	-1.9	-2.4	-2.5
Deposit money banks	-0.9	-1.1	-0.9	-0.8	-1.7	-1.8
Claims	0.0	0.0	0.3	0.5	0.0	0.0
Deposits	-0.9	-1.1	-1.2	-1.3	-1.7	-1.8
Credit to the economy	4.5	4.4	4.2	2.7	3.1	3.3
Other items (net)	15.2	19.0	16.0	-0.6	5.7	5.7
Liabilities	64.0	70.3	87.3	99.2	127.4	134.5
Broad money	64.0	70.3	87.3	99.2	127.4	134.5
Local currency	64.0	70.3	87.3	99.2	127.4	134.5
Currency in circulation	44.2	53.1	71.1	90.0	117.0	123.4
Demand deposits and quasi money	19.8	17.3	16.1	9.2	10.5	11.0
Demand deposits	18.6	16.3	14.6	8.3	9.6	10.1
Quasi money	0.9	0.8	1.3	0.6	0.6	0.6
Other deposits	0.3	0.2	0.2	0.3	0.3	0.3
(In percent of beginning-of-period money stock, unless otherwise indicated)						
Net foreign assets	39.0	4.7	23.8	38.7	26.0	6.7
Net domestic assets	28.6	5.1	0.3	-25.0	2.5	-1.2
Domestic credit	-1.5	-0.8	4.5	-6.0	-3.8	-1.2
Credit to the government	17.8	-0.7	4.9	-4.2	-4.3	-1.3
Credit to the economy (in percent)	-62.2	-1.2	-5.1	-37.0	16.4	5.5
Other items (net)	30.1	5.9	-4.3	-19.0	6.3	0.0
Broad money	67.7	9.9	24.1	13.6	28.5	5.5
Velocity (GDP/M2)	2.4	2.1	1.6	1.4	1.1	1.1

Sources: Central Bank of West African States (BCEAO); and staff estimates and projections.

Table 4. Guinea-Bissau: Balance of Payments, 2000–2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
						Projections				
	(In millions of U.S. dollars)									
Goods and services	-42.7	-68.6	-43.6	-33.6	-40.8	-52.4	-59.3	-66.3	-73.0	-80.0
Goods	-8.9	-28.6	-16.9	-8.6	-14.7	-22.8	-27.8	-32.7	-37.2	-42.0
Exports, f.o.b.	62.1	50.0	53.6	62.2	67.3	72.0	77.1	82.6	88.5	94.9
<i>Of which: cashew nuts</i>	60.0	47.2	47.4	55.8	59.9	64.4	68.9	73.8	79.1	84.7
Imports, f.o.b.	-71.0	-78.5	-70.5	-70.8	-82.0	-94.9	-104.9	-115.3	-125.8	-136.9
Services (net)	-33.7	-40.0	-26.7	-25.0	-26.1	-29.5	-31.5	-33.6	-35.8	-38.0
Credit	6.4	7.3	7.3	8.6	14.4	10.3	11.1	11.9	12.8	13.8
Debit 1/	-40.1	-47.3	-34.0	-33.6	-40.6	-39.9	-42.6	-45.6	-48.6	-51.8
Income	-12.4	-16.0	-8.7	-10.3	-10.7	-7.2	-8.7	-7.9	-7.3	-6.8
Current transfers (net)	42.9	40.1	30.6	38.4	53.5	44.7	46.9	49.9	53.4	57.3
Official 2/ 3/	35.7	28.0	16.4	20.9	34.9	24.9	25.5	25.9	26.3	26.8
<i>Of which: balance of payments support grants</i>	12.1	1.4	0.0	2.0	13.5	0.0	0.0	0.0	0.0	0.0
<i> fishing license fees</i>	10.7	10.3	12.2	12.9	15.0	18.4	19.0	19.4	19.8	20.2
Private	7.2	12.1	14.2	17.5	18.6	19.8	21.4	24.0	27.1	30.5
<i>Of which: workers' remittances</i>	2.2	9.9	13.9	17.2	18.2	19.4	21.0	23.6	26.6	30.1
Current account	-12.1	-44.4	-21.7	-5.4	2.0	-14.9	-21.1	-24.3	-26.9	-29.5
Including official transfers	-37.1	-62.2	-25.9	-13.5	-18.0	-21.4	-27.6	-30.8	-33.5	-36.1
Excluding official transfers	-4.9	3.9	26.8	13.2	-8.9	-34.1	-15.3	-7.2	3.2	13.2
Capital and financial balance	23.4	12.4	39.2	16.3	29.0	24.2	26.1	28.0	30.1	32.3
Capital account (including transfers)	-28.4	-8.4	-12.4	-3.1	-37.9	-58.3	-41.5	-35.2	-26.9	-19.1
Financial account	10.2	4.6	4.9	13.8	27.2	11.7	12.6	13.5	14.5	15.6
Official medium- and long-term disbursements	7.4	0.0	0.0	3.9	14.5	0.0	0.0	0.0	0.0	0.0
Balance of payments support	2.7	4.6	4.9	9.9	12.7	11.7	12.6	13.5	14.5	15.6
Projects	-17.6	-23.9	-26.6	-28.8	-32.9	-28.9	-32.5	-33.2	-30.7	-27.7
Scheduled amortization	-7.0	4.9	4.4	1.9	2.8	-0.4	-5.0	-5.0	-5.0	-5.0
Commercial banks' net foreign assets	-14.0	6.0	5.0	10.0	-35.0	-40.7	-16.6	-10.5	-5.7	-2.0
Private capital; other sectors' NFA	21.1	1.3	-15.9	12.4	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions										
Overall balance	4.1	-39.2	-10.8	20.1	-7.0	-48.7	-36.4	-31.4	-23.6	-16.1
Financing	-4.1	39.2	10.8	-20.1	7.0	48.7	36.4	31.4	23.6	16.1
Net foreign assets (increase -)	-20.9	-4.2	-24.0	-58.2	-51.0	-15.9	-21.0	-21.9	-22.9	-24.1
<i>Of which: net IMF credit</i>	8.6	0.0	-1.6	-4.8	-5.3	-3.1	-3.8	-3.2	-1.8	-1.5
Debt relief	189.1	35.7	10.2	9.1	9.9	10.6	12.5	13.6	13.0	13.2
Change in debt-service arrears (decrease -)	-172.2	7.7	24.7	29.0	32.6	0.0	0.0	0.0	0.0	0.0
Financing gap (+)	0.0	0.0	0.0	0.0	15.5	53.9	44.9	39.8	33.6	27.0
	(In units indicated)									
Memorandum items:										
Scheduled debt service										
In percent of exports and service credits	43.5	72.8	46.3	47.5	46.7	38.9	41.1	38.5	32.1	26.8
Current account balance (in percent of GDP)										
Including official transfers	-5.6	-22.3	-10.7	-2.3	0.7	-5.2	-6.8	-7.4	-7.6	-7.7
Excluding official transfers	-17.2	-31.3	-12.7	-5.6	-6.6	-7.5	-8.9	-9.3	-9.4	-9.4

Sources: BCEAO; and Fund staff estimates and projections.

1/ In 2004, includes an amount of US\$4 million for services for elections, financed by US\$ 6 million in donor grants.

2/ Including food aid and technical assistance to projects

3/ In 2004, includes US\$ 4.7 million for remuneration to Guinea-Bissau soldiers for participation in the UN peace keeping mission in Liberia.

Table 5. Guinea-Bissau: Obligations to the Fund, 2002-09

(In SDR Millions)

	2002		2003		2004		2005				2006		2007		2008		2009				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	
Total	1.41	1.30	1.29	0.42	3.70	1.02	0.24	0.68	0.23	2.17	2.63	2.20	1.27	1.03	1.02	1.25	1.02	1.02	1.02	1.02	1.02
Principal	1.21	1.28	1.28	0.39	3.61	1.02	0.21	0.68	0.21	2.12	2.59	2.17	1.25	1.02	1.02	1.25	1.02	1.02	1.02	1.02	1.02
ESAF/PRGF	0.95	0.84	0.84	0.21	2.10	0.84	0.21	0.68	0.21	1.94	2.59	2.17	1.25	1.02	1.02	1.25	1.02	1.02	1.02	1.02	1.02
Credit Tranche 1/	0.27	0.44	0.44	0.18	1.51	0.18	0.00	0.00	0.00	0.18	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest and Charges	0.19	0.01	0.01	0.03	0.09	0.00	0.03	0.00	0.02	0.05	0.04	0.03	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.01
Net charges SDR Account	0.02	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Charges Credit Tranche	0.10	0.07	0.01	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest ESAF/PRGF	0.07	0.00	0.00	0.03	0.05	0.00	0.02	0.00	0.02	0.04	0.03	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Source: IMF Finance Department.

1/ Post Conflict Assistance, 1999 and 2000.

Table 6. Guinea-Bissau: Nominal and Net Present Value (NPV) of Public and Publicly Guaranteed Debt Outstanding, 2003-09 1/
(At end-period, in millions of U.S. dollars)

	2003	2004	2005	2006	2007	2008	2009
	Projections						
Nominal stock of Total Public and Publicly Guaranteed Debt 2/	900	886	874	863	613	592	573
Multilateral Creditors	444	425	409	395	378	359	341
IDA	238	234	229	225	219	212	205
African Development Group	133	128	123	118	113	110	106
AfDB	6	5	5	5	5	5	5
AfDF	127	122	118	113	108	104	100
Islamic Development Bank	15	14	13	12	11	9	8
IMF	19	14	9	6	3	-	-
IFAD	8	8	8	8	7	7	7
BADEA	13	13	12	12	11	9	7
OPEC Fund	8	8	8	8	8	6	5
EU/EIB	8	6	6	6	6	5	3
ECOWAS	2	1	1	1	1	1	1
Bilateral Creditors	454	461	465	469	235	233	231
Paris Club Creditors	314	320	323	325	185	183	181
Italy	163	162	162	160	121	120	119
Portugal	86	88	90	92	26	26	26
Brasil	26	27	27	28	13	14	14
France	16	18	19	19	5	5	5
Belgium	10	11	12	12	6	6	6
Spain	13	13	13	13	13	12	11
Germany	1	1	1	1	0	0	0
Other Bilateral Creditors	139	141	142	143	50	50	50
Commercial	1	-	-	-	-	-	-
NPV of Total Public and Publicly Guaranteed Debt	768	647	647	646	407	399	391
Multilateral Creditors	317	187	182	175	165	159	152
IDA	158	41	42	44	45	46	47
African Development Group	93	90	88	85	82	80	78
AfDB	6	6	6	6	6	6	6
AfDF	87	84	82	79	76	74	73
Islamic Development Bank	13	12	11	11	10	9	8
IMF	14	9	7	3	0	0	0
IFAD	6	6	6	6	6	5	5
BADEA	13	13	12	12	10	8	6
OPEC Fund	8	8	8	8	7	5	4
EU/EIB	10	7	7	7	6	5	4
ECOWAS	2	1	1	1	1	1	1
Bilateral Creditors	450	458	465	470	240	239	238
Paris Club Creditors	325	330	334	337	192	191	189
Italy	171	171	171	170	126	125	124
Portugal	82	85	88	90	28	28	28
Brasil	26	27	27	28	14	14	14
France	19	19	19	20	5	5	5
Belgium	14	14	15	15	7	7	7
Spain	12	12	12	12	12	12	11
Germany	1	2	2	2	1	1	1
Other Bilateral Creditors	124	127	129	131	47	47	47
Commercial	1	1	1	1	1	1	1

Source: Guinea-Bissau authorities and staff estimates and projections.

1/ Assuming a completion point under the Enhanced HIPC Initiative at end-October 2007.

It also assumes for bilaterals (i) accumulation of arrears between January 2004 and September 2007, and (ii) forgiveness of 90 percent and rescheduling of ten percent of outstanding debt; and for multilaterals (i) reduction by 90 percent of IDA obligations and 100 percent of AfDB obligations.

2/ Including arrears.

Table 7. Guinea-Bissau: External Arrears Outstanding, 1999-2003 1/
(In millions of U.S. dollars)

	1999 2/	2000	2001 Est.	2002 Est.	2003 Est.
Total stock of arrears outstanding (end of year)	139.1	148.0	156.6	192.4	176.4
Multilateral	35.2	35.6	36.6	25.5	28.7
African Development Bank 3/	1.7	1.8	1.9	0.0	0.0
African Development Fund	3.6	4.5	5.2	0.0	0.0
Arab Bank for Economic Development in Africa	5.5	5.5	5.6	8.0	8.3
Economic Community of West African States	1.9	1.9	2.0	2.1	3.3
European Investment Bank / EU	0.9	0.9	1.0	4.5	5.2
International Fund for Agricultural Development	1.1	0.9	1.0	2.0	2.3
IDA	0.0	0.0	0.0	0.0	0.0
Islamic Development Bank	12.7	12.5	12.3	0.8	1.4
OPEC Fund	7.7	7.6	7.6	8.2	8.2
IMF	0.0	0.0	0.0	0.0	0.0
Bilateral	103.9	112.4	120.0	166.9	147.7
Paris Club (cutoff date: December 1986)	51.8	58.8	65.2	111.1	84.2
Pre-cutoff date (rescheduled Paris Club III-1995)	28.1	32.0	35.6	63.9	24.9
Belgium	1.5	1.8	2.1	0.6	1.0
Brazil	7.9	8.9	9.8	11.1	13.6
France	2.1	2.5	2.9	6.2	6.9
Germany	2.5	2.6	2.6	0.2	0.0
Italy	7.1	7.1	7.1	30.6	3.4
Portugal	7.1	9.1	11.1	15.1	17.6
Post-cutoff date	23.7	26.8	29.6	47.2	59.3
Italy	20.8	23.8	26.5	45.8	57.0
Spain	2.9	3.0	3.1	1.5	2.3
Non-Paris Club	52.1	53.6	54.8	55.8	63.5
Abu Dhabi Fund for Arab Economic Development	0.2	0.2	0.2	0.2	0.2
Algeria	1.4	1.5	1.5	7.7	8.3
Angola	18.8	18.8	18.8	18.8	18.8
Kuwait	17.8	17.9	17.9	1.6	3.4
Libya	0.7	0.7	0.7	4.1	4.1
Pakistan	1.3	1.3	1.3	1.6	1.8
Saudi Arabia	4.6	4.7	4.8	7.2	8.0
Taiwan Province of China	6.9	8.1	9.2	13.9	18.0
Nonsovereign (Banque Franco-Portugaise)	0.4	0.4	0.4	0.6	0.7

Sources: Based on unreconciled data provided by Guinea-Bissau authorities; and staff estimates.

1/ Before application of traditional debt relief

2/ Figures revised based on decision point calculations.

3/ Includes Nigerian Trust Fund.

Table 8. Guinea-Bissau: Medium-Term Projections, 2004–09 1/

	2004	2005	2006	2007	2008	2009
	Projections					
	(Annual percentage change, unless otherwise indicated)					
National accounts and prices						
Real GDP at market prices	1.7	3.4	3.8	4.0	4.3	4.3
Real GDP per capita	-0.8	0.9	1.3	1.4	1.7	1.7
Consumer price index (annual average)	1.6	2.8	3.0	3.0	3.0	3.0
External sector						
Exports, f.o.b.(based on U.S. dollar values)	8.2	7.0	7.1	7.1	7.2	7.2
Imports, f.o.b. (based on U.S. dollar values)	15.8	15.7	10.6	9.9	9.1	8.8
Export volume	4.1	5.4	5.1	5.1	5.1	5.1
Import volume	7.2	15.0	10.0	8.9	7.8	7.5
Government finances						
Domestic revenue (excluding grants)	20.2	-8.9	16.5	9.9	7.4	7.3
Total expenditure	30.7	-17.7	-0.9	3.6	4.0	4.3
Current expenditure	15.9	-11.4	-5.5	1.2	1.6	1.9
Capital expenditure	59.5	-26.4	7.0	7.1	7.5	7.5
	(In percent of GDP, unless otherwise indicated)					
Investments and savings						
Gross domestic investment	15.2	15.0	15.1	15.2	15.3	15.4
<i>Of which:</i> government investment	13.8	13.4	13.4	13.4	13.4	13.4
Gross domestic savings	0.2	-3.3	-4.1	-4.9	-5.3	-5.6
<i>Of which:</i> government savings	-14.5	-7.2	-3.2	-1.7	-0.7	0.2
Gross national savings	15.9	9.8	8.2	7.8	7.7	7.6
Government finances						
Budgetary revenue	17.8	15.4	16.8	17.2	17.2	17.2
Total domestic primary expenditure	23.6	20.7	17.8	17.2	16.5	15.9
Domestic primary balance	-5.8	-5.3	-1.1	0.0	0.7	1.3
Overall balance (commitment basis)						
Including grants	-12.7	-12.2	-8.1	-6.6	-5.6	-4.7
Excluding grants	-28.3	-20.6	-16.6	-15.1	-14.0	-13.2
External current account (including official current transfers)						
Excluding official current transfers	0.7	-5.2	-6.8	-7.4	-7.6	-7.7
Net present value of external debt/exports of goods and nonfactor services (in percent)	-6.6	-7.5	-8.9	-9.3	-9.4	-9.4
	881.3	836.1	757.1	685.6	622.0	565.8
Memorandum items:						
	(In millions of U.S. dollars, unless otherwise specified)					
Current account balance (including official current transfers)	2.0	-14.9	-21.1	-24.3	-26.9	-29.5
Overall balance of payments	-7.0	-48.7	-36.4	-31.4	-23.6	-16.1
Nominal GDP at market prices (in billions of CFA francs)	145.6	153.7	164.4	176.1	189.2	203.3

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

Table 9. Guinea-Bissau: Millennium Development Goals

	1990	1995	2001	2002	2010 Target 1/
<u>Goal 1. Eradicate extreme poverty and hunger</u>					
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.					
1. Population below US\$ 1 a day (percent)	..	..	..	..	..
2. Poverty gap ratio at US\$ 1 a day (percent)	..	..	..	..	..
3. Share of income or consumption held by poorest 20 percent (percent)	..	5.2	..	..	..
Target 2: Halve, between 1990 and 2015, the proportion of people suffering hunger					
4. Prevalence of child malnutrition (percent of children under 5)	..	..	25.0	..	..
5. Population below minimum level of dietary energy consumption (percent)	..	..	..	..	..
<u>Goal 2. Achieve universal primary education</u>					
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling					
6. Net primary enrollment ratio (percent of relevant age group)	..	..	53.5	..	..
7. Percentage of cohort reaching grade 5	..	..	..	..	..
8. Youth literacy rate (percent age 15-24)	44.1	51.0	59.5	60.8	..
<u>Goal 3. Promote gender equality and empower women</u>					
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015					
9. Ratio of girls to boys in primary and secondary education (percent)	..	..	64.9	..	..
10. Ratio of young literate females to males (percent ages 15-24)	42.5	51.0	61.8	63.6	..
11. Share of women employed in the nonagricultural sector (percent)	..	..	..	..	..
12. Proportion of seats held by women in the national parliament (percent)	20.0	10.0	8.0	8.0	..
<u>Goal 4. Reduce child mortality</u>					
Target 5: reduce by two-thirds between 1990 and 2015, the under-five mortality rate					
13. Under-five mortality rate (per 1,000)	253.0	235.0	211.0	205.0	..
14. Infant mortality rate (per 1,000 live births)	153.0	143.0	130.0	122.0	..
15. Immunization against measles (percent of children under 12-months)	..	..	..	..	..
<u>Goal 5. Improve maternal health</u>					
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	910.0	..	..	..
17. Proportion of births attended by skilled health personnel	..	25.0	..	..	..
<u>Goal 6. Combat HIV/AIDS, malaria and other diseases</u>					
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS					
18. HIV prevalence among females (percent ages 15-24)	..	..	3.0	..	..
19. Contraceptive prevalence rate (percent of women ages 15-49)	..	..	..	..	..
20. Number of children orphaned by HIV/AIDS	..	..	4,300	..	..
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases					
21. Prevalence of death associated with malaria	..	..	..	..	..
22. Share of population in malaria risk areas using effective prevention and treatment	..	..	..	..	..
23. Incidence of tuberculosis (per 100,000 people)	..	..	271.1	..	..
24. Tuberculosis cases detected under DOTS (percent)	..	..	37.0	..	..

Table 9. Guinea: Millennium Development Goals (concluded)

	1990	1995	2001	2002	2010 Target 1/
<u>Goal 7. Ensure environmental sustainability</u>					
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources					
25. Forest area (percent of total land area)	85.5	..	77.8	..	..
26. Nationally protected areas (percent of total land area)	..	..	..	..	..
27. GDP per unit of energy use (PPP \$ per kg oil equivalent)	..	..	..	..	..
28. CO2 emissions (metric tons per capita)	0.8	0.8	0.2	..	..
29. Proportion of population using solid fuels	..	..	..	..	..
Target 10: Halve by 2015 proportion of people without access to safe drinking water					
30. Access to improved water source (percent of population)	..	..	56.0	..	..
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers					
31. Access to improved sanitation (percent of population)	44.0	..	2wqa	..	..
32. Access to secure tenure (percent of population)	..	..	..	..	..
<u>Goal 8. Develop a Global Partnership for Development 2/</u>					
Target 16: Develop and implement strategies for productive work for youth.					
45. Unemployment rate of population ages 15-24 (total)					
Female	..	..	..	..	..
Male	..	..	..	..	..
Target 17: Provide access to affordable essential drugs					
46. Proportion of population access with access to affordable essential drugs	..	..	..	..	..
Target 18: Make available new technologies, especially information and communications					
47. Fixed line and mobile telephones (per 1,000 people)	..	..	..	..	..
48. Personal computers (per 1,000 people)	..	..	..	..	..

Sources: World Bank; and Guinea-Bissau authorities.

1/ The target reported corresponds to the authorities' own objectives in the draft PRSP.

2/ Targets 12-15 and indicators 33-44 are excluded because they can not be measured on a country specific basis. These are related to official development assistance, market access, and the HIPC initiative.

Table 10. Summary of Government Operations, 2004-2005 1/
(In billions of CFA francs)

	2004			2005
	Jan-Jun Est.	Jul-Dec Revised Budget	Year Revised Budget	Proj.
Revenue	8.5	14.9	23.5	23.7
Tax	4.9	5.5	10.4	12.0
Nontax 2/	3.7	9.4	13.1	11.6
Domestic primary expenditure	12.9	19.1	31.9	31.8
Wage and wage-related exp. 2/ 3/	6.2	8.4	14.5	16.1
Goods and services	1.7	5.3	7.0	7.2
Transfers	0.3	4.0	4.3	3.0
Other current expenditure	4.2	0.7	4.9	4.3
Domestically-financed capital exp.	0.5	0.8	1.2	1.3
Domestic primary balance (commitment basis)	-4.3	-4.1	-8.5	-8.2
Current year arrears	10.5	-4.5	6.0	0.0
Domestic primary balance (cash basis)	6.2	-8.6	-2.5	-8.2
Debt and financing	-4.2	-3.6	-7.9	-20.5
External debt service and financing (net)	5.5	0.6	6.1	-16.2
Budget support grants	8.7	2.0	10.6	0.0
External debt service (net paid/due)	-3.2	-1.4	-4.5	-16.2
Domestic debt service and financing (net)	-9.7	-4.3	-14.0	-4.3
BCEAO	-0.5	-0.3	-0.7	-0.7
Project accounts	-0.9	-0.6	-1.5	-0.4
Arrears previous year(s)	-8.3	-3.4	-11.8	-3.2
Financing gap	2.0	-12.3	-10.3	-28.8
Memorandum items:				
Domestic primary balance (commitment; in perce	-3.0	-2.8	-5.8	-5.3
External debt arrears (in billions of CFAF)	...	...	17.5	...

Source: Guinea-Bissau authorities; and Fund staff estimates and projections.

1/ Excluding expenditure and offsetting financing of foreign-financed projects.

2/ Excludes CFAF 2.5 billion for the peace keeping mission in Liberia.

3/ Includes wages, pensions, food for the military and police, and transfers to parliament and semi-autonomous government organizations.

Guinea-Bissau: Relations with the Fund

(As of September 30, 2004)

I. Membership Status:	Joined: March 24, 1977;	Article VIII					
II. General Resources Account:		SDR Million					
Quota		14.20					
Fund holdings of currency		14.56					
Reserve Position		0.00					
		%Quota					
		100.00					
		102.50					
		0.00					
III. SDR Department:		SDR Million					
Net cumulative allocation		1.21					
Holdings		0.44					
		%Allocation					
		100.00					
		36.53					
IV. Outstanding Purchases and Loans:		SDR Million					
First Credit Tranche		0.36					
PRGF Arrangements		10.20					
		%Quota					
		2.50					
		71.82					
V. Latest Financial Arrangements:							
<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>			
PRGF	Dec 15, 2000	Dec 14, 2003	14.20	5.08			
PRGF	Jan 18, 1995	Jul 24, 1998	10.50	10.50			
SAF	Oct 14, 1987	Oct 13, 1990	5.25	3.75			
VI. Projected Payments to Fund							
			(SDR Million; based on existing use of resources and present holdings of SDRs):				
			<u>Forthcoming</u>				
			<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal			3.61	2.12	2.59	2.17	1.25
Charges/Interest			<u>0.09</u>	<u>0.06</u>	<u>0.05</u>	<u>0.04</u>	<u>0.03</u>
Total			<u>3.70</u>	<u>2.18</u>	<u>2.64</u>	<u>2.21</u>	<u>1.28</u>

VII. Implementation of HIPC Initiative:

	<u>Enhanced Framework</u>
I. Commitment of HIPC assistance	Dec 2000
Decision point date	
Assistance committed by all creditors (US\$ Million) ^{1/}	416.00
Of which: IMF assistance (US\$ million)	11.91
(SDR equivalent in millions)	9.20
Completion point date	Floating
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	0.54
Interim assistance	0.54
Completion point balance	--
Additional disbursement of interest income ^{2/}	--
Total disbursements	0.54

^{1/} 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 can not be added.

^{2/} 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.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the BCEAO is subject to a full safeguards assessment. An off-site safeguards assessment of the BCEAO was completed on July 25, 2001. The assessment concluded that high risks may exist in the financial reporting framework and recommended an on-site assessment. An on-site safeguards assessment of the BCEAO was completed on March 5, 2002. BCEAO authorities and Fund staff have reached an understanding regarding the implementation of key recommendations related to financial reporting and internal control.

IX. 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. Guinea-Bissau joined the West African Economic and Monetary Union (WAEMU) in 1997, and the exchange system common to all members of the union is free of restrictions on payments and transfers for current international transactions. Starting on January 1, 1999, the CFA franc has been pegged to the euro at a fixed rate of EUR 1=CFAF 655.95. On October 29, 2004, the rate of the CFA franc in terms of the SDR was CFAF 768.49=SDR 1.

X. Article IV Consultation

Guinea-Bissau is on the standard 12-month consultation cycle. The last Article IV consultation discussions with Guinea-Bissau were held in Bissau during March 7-20, 2002. The staff report (IMF Country Report No. 02/153) was discussed by the Executive Board on July 24, 2002. A statistical annex (IMF Country Report No. 02/152) was also circulated to the Board.

XI. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
MAE	Expert	March 20-July 23, 1994	Assisting in banking supervision
MAE	Expert	June 6, 1994- January 26, 1997	Assisting in monetary policy
MAE	Expert	June-December 1995	Advising on bank accounting
STA	Staff	March 4-15, 1996	Assessing the quality of monetary, balance of payments, and government statistics

FAD	Staff	September 8-24, 1996	Advising on tax administration and tax policy
FAD	Staff	March 9-25, 1997	Advising on import tariff reform and the design of a general sales tax (GST)
MAE	Expert	June-September 1997 (three short-term missions)	Assisting in the transformation of the central bank into a branch of the Central Bank of West African States (BCEAO)
FAD	Expert	September 8-24, 1997	Assisting in the design and the implementation of GST and in strengthening fiscal control
FAD	Expert	October 19, 1997- April 10, 1998	Assisting in GST implementation
FAD	Expert	June 3-15, 1998	Assisting in GST implementation
FAD	Expert	January 1, 1999-March 2, 1999	Tax administration advisor
FAD	Expert	April 15, 1999-June 14, 1999	Tax administration advisor
FAD	Staff	July 13-27, 1999	Assessing budget management and the tax system
FAD	Expert	January 24, 2000-March 5, 2000	Tax administration advisor
FAD	Expert	January 2001	Tax administration advisor
FAD	Expert	February 2001	Peripatetic public expenditure management advisor
FAD	Expert	July 2001	Peripatetic public expenditure management advisor
FAD	Staff	April 2003	Expenditure management
STA	Expert	March 2003	GDSS—Real Sector Statistics
STA	Expert	May 2003	GDSS—Fiscal Statistics

WEST AFRITAC	Expert	November 2003	Public Expenditure Management
WEST AFRITAC	Expert	February 2004	Tax Administration
WEST AFRITAC	Expert	March 2004	Customs Administration
WEST AFRITAC	Expert	May 2004	Tax Administration
WEST AFRITAC	Expert	June 2004	Budget Preparation and Execution

XII. Resident Representative

The post of resident representative was opened in September 1997 and is covered by the Resident Representative in Senegal, Mr. Ousmane Doré.

Guinea-Bissau: Relations with the World Bank Group

1. As of August 18, 2004, IDA had approved 28 credits for Guinea-Bissau. Eight credits had been in the transport and infrastructure sector, three in the energy sector, three for strengthening the country's management capability (Technical Assistance (TA)/Economic Management), two for financing urgently needed imports in support of the government's economic recovery program, one in the agricultural sector, three in the health sector, two in the education sector, one social sector project, three for structural adjustment, one for economic rehabilitation and recovery, and one for private sector rehabilitation and development. The total value of these projects amounts to about US\$277.2 million equivalent, of which US\$242.8 million has been disbursed. As of end-July 2004, the undisbursed balance was US\$59.0 million.

Structural adjustment credits

2. IDA has approved a total of US\$ 63.4 million for structural adjustment operations. These include two Structural Adjustment Credits (SACs), one supplementary SAC, and one Economic Rehabilitation and Recovery Credit (ERRC). The SACs supported the government's program in the areas of economic liberalization and reform of the public administration and public enterprise sectors, and the ERRC supports peace building following the political unrest, promotes the revival of the economy and encourages the pursuit of reforms. Parallel financing of the SACs came from Switzerland (US\$5.3 million equivalent), the Saudi Fund for development (US\$3.2 million equivalent), the International Fund for Agricultural Development (US\$5.3 million equivalent), the African Development Fund (US\$ 23.3 million equivalent), the Netherlands (US\$7.5 million equivalent), the U.S. Agency for International Development (USAID) (US\$4.5 million), and Japan (US\$2 million equivalent).

Lending program

3. For the fiscal year (FY) 2005, IDA approved an HIV/AIDS project and has in the pipeline a Coastal and Biodiversity Management Project. The IDA also proposes to support an energy and water project during the FY 2005. The World Bank is assisting the country with the Initiative for the Heavily Indebted Poor Countries (HIPC Initiative). An Interim Support Strategy (ISS) is being prepared and is planned for FY2005.

Nonlending program

The Bank prepared a Public Expenditure Review (PER) in 2003. Bank staff participated, with the IMF, in the development of an Emergency Economic Management Program (EEMP) toward end-2003. The Bank will also continue to provide advice on public expenditure management in the context of upcoming ISS. If all goes well, the Bank will carry out a Poverty Assessment (PA), and a Country Financial Accountability Assessment (CFAA) in FY05. For FY06, the Bank plans to carry out a Development Policy Review (DPR) and a Country Procurement Assessment Review (CPAR). The DPR aims to highlight the main economic issues including debt

sustainability and national capacity affecting the country's performance. The CPAR will address the main fiduciary issues and make recommendations.

International Finance Corporation (IFC)

4. The IFC's current portfolio consists of two investments: one in agribusiness (US\$0.25 million), and one in the financial sector (US\$0.28 million) to support a commercial bank (*Banco da África*). All these two loans have been fully disbursed.

Operations Portfolio IDA

Closed Projects 20

IBRD/IDA *

Total Disbursed (Active)	28.69
of which has been repaid	0.00
Total Disbursed (Closed)	248.51
of which has been repaid	23.50
Total Disbursed (Active + Closed)	277.19
of which has been repaid	23.50
Total Undisbursed (Active)	34.84
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	34.84

Active Projects

Project ID	Project Name	Fiscal Year	IDA	Undish.
P001015	Basic Education	1997	14.3	2.4
P073442	GW-HIV/AIDS Global Mitigation Support	2004	7.0	6.8
P035688	National Health Dev. Prog.	1998	11.7	3.3
P001001	Privat Sector Rehab. & Develop. Project	2002	26.0	22.3
Overall Result			59.0	34.8

Operations Portfolio IFC

Statement of IFC's
Held and Disbursed Portfolio
(As of June 30, 2004; in millions of U.S. dollars)

FY Approval	Company	Held				Disbursed			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Participation
	1998 Banco de Africa	0	0.28	0	0	0	0.28	0	0
	Total Portfolio:	0	0.28	0	0	0	0.28	0	0

Guinea-Bissau: Statistical Issues

1. Before the 1998-99 civil war, Guinea Bissau's statistical database was comprehensive, but significant weaknesses remained, particularly in the areas of national accounts, the consumer price index (CPI), and the balance of payments. During the war, much of the country's computer equipment was severely damaged, and many key technicians left the country; as a result, data collection was severely impaired, except for trade data and consumer prices. In early 1999, the authorities made a determined effort to reestablish their data capacities and were able to recover most information related to production, government finances, and monetary and balance of payments developments. This recovery was carried out with the assistance of various institutions, including UN agencies and the World Bank, which provided equipment and data.
2. Guinea-Bissau is a participant in the General Data Dissemination System (GDDS). Its GDDS metadata have been posted on the Fund's Dissemination Standards Bulletin Board since November 2001.

Outstanding statistical issues

3. In March 1994, the *International Financial Statistics (IFS)* introduced a country page for Guinea-Bissau. Updates on exchange rates and monetary data are reported in a timely manner. However, external trade and fiscal sector statistics have not been reported to STA for publication in the *IFS* since 1997. Annual national accounts reports have improved, with current price data being reported up to 2002. However, constant price GDP estimates remain seriously out of date.

The authorities' stance on statistical matters

4. The Guinea-Bissau authorities are aware of the shortcomings of the country's database and have been receptive to the staff's recommendations on how to effect improvements. They are also committed to making the basic national statistics, publicly available.

National accounts

5. Inadequate data sources for national accounts statistics remain the major hurdle to improving the country's databases. The GDP aggregate is mostly based on crude assumptions and coefficients derived from the 1986 benchmark-year estimates. The INEC has been seriously affected by the armed conflict, and requires substantial technical assistance to rebuild capacity to compile production statistics. Implementation of the recommendations of the STA/GDDS mission of March 2003 would provide the foundation for rebuilding national accounts to a standard that could allow for adequate analysis of real sector developments in the country.

Consumer prices

6. Since July 2002, an harmonized CPI is compiled, based on the same structure as in other WAEMU countries. However, the price data are collected only for the capital Bissau.

Government finance

7. The most recently annual data in the *Government Finance Statistics Yearbook (GFSY)* are for 1989. Between 2000-02, the authorities made substantial progress in preparing timely reports on monthly and quarterly budget executions. These fiscal data reports were widely circulated to relevant national institutions, however, they have not been prepared since early 2003. Moreover, the quarterly reports are no longer submitted for publication in *IFS*. The March 1996 STA mission suggested adjustments to the fiscal data that would make them suitable for publication in both *IFS* and the *GFSY*. There were, however, setbacks as a result of the armed conflict. To address the main shortcomings, the authorities requested technical assistance from donors. Since 2002, the French government has provided two experts to the Ministry of Economy and Finance (MEF)—one on expenditure (this position is vacant since January 2004) and the other providing IT support. The EU has also financed several experts.

8. In March and April 2003, two Fund missions from Fiscal Affairs Department of the IMF—one in revenue administration and the other in expenditure management—visited Guinea-Bissau to assist the authorities in identifying weaknesses and to make recommendations to overcome shortcomings in their respective areas. A third mission during the same period—in the context of the regional GDDS project—made recommendations on improving fiscal data. Two experts from West AFRITAC visited Bissau in February and March 2004, to begin implementation of the recommendations of the April 2003 mission on revenue administration, the first regarding the setting up of a Unit for monitoring of large enterprises in the Domestic Tax Department of the Ministry of Economy and Finance (MEF), and the latter in the area of customs administration. In November 2003, a mission from the African Department (AFR) of the IMF assisted the authorities with preparing an Emergency Economic Management Plan and an emergency budget and a treasury cash plan for 2004. Two AFR missions, in January and March 2004, have provided further assistance in implementing, updating and monitoring the cash flow plan.

Monetary accounts

9. Since Guinea-Bissau's entry in the WAEMU on May 1, 1997, the BCEAO assumes responsibility for compiling and reporting to STA monetary data for Guinea-Bissau, as is the practice for other member countries in the Union. Guinea-Bissau has adopted the new accounting and reporting procedures for monetary and financial statistics in accordance with the BCEAO's guidelines. Monthly data on monetary statistics for Guinea Bissau are reported on a regular basis for publication in *IFS*, although with some delays. Data for the monetary authorities and the deposit money banks through May 2004 are published in the September 2004 issue of *IFS*. The accuracy of monetary statistics is affected by large cross-border

movements of currency among BCEAO member countries and delays of up to two years in their recording.

10. The monetary and financial statistics mission that visited the headquarters of the BCEAO in May 2001 provided technical assistance in addressing the main shortcomings pertaining to coverage, methodology, and timeliness of monetary statistics. The mission discussed and agreed with the authorities on an action plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and for the introduction of an area-wide page in *IFS* for the WAEMU. The new page was subsequently introduced in the January 2003 issue of *IFS*.

11. Following the recommendations of the 2001 monetary and financial statistics mission, a regional seminar on monetary and financial statistics was organized by the BCEAO in Dakar during April 22-25, 2003. STA staff participated in the seminar. Participants agreed to set up a working group consisting of representatives from the National Agencies and various departments of the BCEAO's headquarters; the working group will follow up on the implementation of the seminar's recommendations to foster implementation of the *MFSM*.

Balance of payments

12. Guinea-Bissau reports trade data to AFR for operational purposes using information from customs. Nevertheless, balance of payments data remain weak, due mostly to substantial nonregistered trade and inconsistencies between data on net foreign assets as reported by the BCEAO and other economic indicators. Data on workers' remittances and official transfers are available and reliable. The authorities have requested technical assistance from the Fund to improve their balance of payments statistics. In August 2004, an AFRISTAT balance of payments expert visited Bissau to assess the priority needs for technical assistance and assist the authorities with the preparation of a work plan for improving compilation of balance of payments and international investment position statistics.

External debt

13. During the civil war, the computer system processing debt data was severely damaged, and no progress was made in rehabilitating it. As a result, debt data have not been compiled since mid-1998. The basis for the current external debt database is the 2000 debt sustainability analysis, which the authorities have used to keep track of the debt situation. However, this is an excel-based database and a more sophisticated system is required to improve day-to-day debt management. Moreover, the Debt Division of the Ministry of Finance faces serious capacity constraints, both technical and material.

Recent technical assistance in statistics

14. In March 2003, an STA/AFRISTAT technical assistance mission visited Guinea-Bissau to assess progress in the implementation of the GDDS project and to identify areas

where the Fund, through AFRISTAT, could offer further technical assistance to improve the country's national accounts. The mission proposed a two-faceted approach, recommending a series of short-term and medium-term projects. The short-term proposals include projects to: (i) carry out a general population census (2002); (ii) establish an index of industrial production; (iii) establish a price index based on the WAEMU harmonized index; and (iv) create an internet site for INEC for data dissemination. For the medium-term, the major recommendation is adoption of the Systems of National Accounts (1993). The mission also made recommendations for technical assistance: for the short term, it recommended assistance to build capacity for implementation of the various projects, while for the medium-term, it recommended assistance in the formation of personnel for the establishment of the SNA 1993, and acquisition of material and IT needs.

Guinea-Bissau: Core Statistical Indicators
(As of Sept. 28, 2004)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest Observation	9/28/04	6/30/04	6/30/04	6/30/04	6/30/04	6/30/04	8/31/08	12/31/03	12/31/03	12/31/03	12/31/03	12/31/03
Date received	9/28/04	8/15/04	8/15/04	8/15/04	8/15/04	8/15/04	9/15/04	8/15/04	8/15/04	8/15/04	8/15/04	8/15/04
Frequency of data 1/	D	M	M	M	M	M	M	A	A	Q	A	Q
Frequency of reporting 1/	D	M	M	M	M	M	M	A	A	Q	A	Q
Source of data 2/	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	Ministry of Economy and Finance	Ministry of Economy and Finance	Ministry of Economy and Finance
Mode of reporting	Staff	Staff/e-mail	Staff/e-mail	Staff/e-mail	Staff/e-mail	Staff/e-mail	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	3/	3/	3/	3/	No	No	3/	3/	3/	3/	3/
Frequency of publication 1/	D	M	M	M	M	M	M	A	A	A	A	A

1/ Frequency of data, reporting, and publication: D= daily; M= monthly; Q= quarterly; and A= annually.

2/ Source of data: BCEAO= Central Bank of West African States.

3/ Preliminary use for staff only; actual data unrestricted.

Guinea-Bissau— Progress Toward Meeting the Conditions (Other Than Macroeconomic Performance) for Achieving the Floating Completion Point Under the HIPC Initiative

PRSP Requirement: prepare a full PRSP and implement it for at least one year.

- **Status:** The preparation of the PRSP was delayed because of the unstable political situation and the need to conduct a new household budget survey. A first draft PRSP, including the results of the poverty survey of 2002, was finalized in April 2003. A second draft was presented to the government in March 2004. Elaboration of the macroeconomic framework and costings still need to be finalized. Moreover, the authorities need to ensure the technical and political internalization, given the lack of institutional anchorage of the process at present. The process has so far relied mostly on consultants and there has been limited input from civil society and the government. A comprehensive consultation involving all elements of society is thus not completed.

Governance Requirements: achieve progress in strengthening public expenditure management, including the release of comprehensive budget execution reports twice a year, to allow monitoring of expenditure in social sectors and the military; implement an action plan to reform the public procurement system and install the new system in all ministries; and submit to parliament the external audit of the 1997-99 budgets and implement an action plan of corrective measures.

- **Status:** The audit of the 1997-99 budgets has been finalized. Substantial progress was made in the reform of the public procurement system after the civil war but public expenditure management deteriorated significantly through 2003. Regular reporting of budget execution, and monitoring of social sector and military expenditure stopped. The public procurement system needs to be rebuilt.

Social sectors and structural reforms Requirements: eliminate fees for school books for all primary education students (grades 1-4); implement the basic education action plan and increase the gross primary school enrollment ratio to 61 percent; implement the National Health Development Program, and fully vaccinate at least 40 percent of children under one year; adopt a plan to fight against malaria; adopt a strategy to fight against HIV/AIDS; make at least 50 percent of the risk population (ages 14-29) aware of transmission risks and prevention methods.

- **Status:** Gross enrolment rate in primary education is estimated at 90 percent, exceeding the goal of 61 percent. This is a direct result of the elimination of tuition fees in primary education in 2002. Progress on the implementation of the basic education plan is uneven. Classroom construction and textbook distribution have progressed, but teacher training and capacity building activities have lagged. A thorough progress report on the implementation of the basic education action plan is being prepared; the recent multiple indicators cluster survey shows that only 11.4 percent of children under one year are fully vaccinated; World Bank support to the NHDP is focusing on basic service delivery programs; a strategic framework for the fight against HIV/AIDS is under preparation; latest data show that only 12 percent of 15-49 years old women are aware of HIV/AIDS prevention methods.

Demobilization program: Requirement: complete the demobilization of 5,000 soldiers and reinsert former combatants into civilian life as established in the demobilization and reinsertion program (PDRRI) supported by the World Bank and other donors.

- **Status:** An audit to assess the eligibility of combatants for the program was completed in 2001 and the demobilization of 4,392 soldiers was finalized in mid-September 2002. Preparations for the third phase—reinsertion of the demobilized combatants—were delayed by the suspension of disbursements by donors. In 2003, the World Bank disbursed CFAF 2.3 billion, including CFAF 800 million in the context of a restructuring of its portfolio in Guinea-Bissau, to ensure continuity in the program. In February 2004, it disbursed the remaining tranche of CFAF 3.6 billion under the program.

Guinea-Bissau: Public Debt Sustainability Framework

Table 1a. Guinea Bissau: Public Sector Debt Sustainability Framework, Baseline Scenario, 2000-2023
(In percent of GDP, unless otherwise indicated)

	Estimate										Projections				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public sector debt 1/	383.1	435.2	415.9	381.4	429.0	389.3	348.7	313.8	282.2	200.8	114.0				
o/w foreign-currency denominated	363.2	410.7	385.4	342.9	335.8	303.1	269.9	242.1	217.2	161.5	100.3				
Change in public sector debt	16.6	52.0	-19.2	-34.6	47.6	-39.7	-40.6	-34.9	-31.6	-12.1	-6.5				
Identified debt-creating flows	-94.8	22.4	-62.2	-59.6	-11.3	-24.0	-34.9	-31.2	-29.0	-16.5	-7.7				
Primary deficit	5.0	2.2	7.3	9.5	8.8	9.6	5.3	4.2	3.5	3.1	3.4				
Revenue and grants	33.3	31.3	21.4	23.2	33.5	23.9	25.2	25.7	25.7	25.6	25.6				
of which: grants	14.1	14.5	6.1	7.6	15.6	8.5	8.5	8.5	8.5	8.5	8.5				
Primary (noninterest) expenditure	38.4	33.5	28.6	32.8	42.2	33.5	30.6	29.9	29.2	28.7	29.1				
Automatic debt dynamics	-3.9	49.9	-51.3	-53.4	-3.6	-19.3	-25.1	-20.7	-19.7	-13.3	-7.2				
Contribution from interest rate/growth differential	-26.8	-0.3	32.1	-2.8	-7.4	-18.8	-19.9	-18.5	-17.6	-11.9	-6.3				
of which: contribution from average real interest rate	-1.2	0.5	-1.5	-0.2	-1.2	-4.7	-5.5	-5.1	-4.7	-2.7	-1.1				
Contribution from real GDP growth	-25.6	-0.8	33.6	-2.6	-6.2	-14.2	-14.4	-13.3	-12.9	-9.2	-5.2				
Other identified debt-creating flows	22.9	50.2	-83.4	-50.6	3.9	-0.5	-5.2	-2.3	-2.1	...	...		
Other identified debt-creating flows	-95.9	-29.7	-18.2	-15.7	-16.5	-14.4	-15.1	-14.7	-12.8	-6.4	-3.9				
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Debt relief (HIPC and other)	-87.7	-17.8	-5.1	-3.8	-3.6	-3.7	-4.1	-4.1	-3.7	0.0	0.0				
Other (specify, e.g. bank recapitalization)	-8.1	-11.9	-13.1	-11.9	-12.9	-10.7	-11.1	-10.5	-9.1	-6.4	-3.9				
Residual, including asset changes	111.4	29.6	43.0	25.0	58.9	-15.7	-5.7	-3.7	-2.6	4.4	1.2				
NPV of public sector debt	304.5	346.3	332.5	307.2	356.3	323.7	290.2	261.4	235.2	165.8	92.3				
o/w foreign-currency denominated	284.6	321.8	302.0	268.6	263.1	237.5	211.5	189.7	170.2	126.5	78.6				
o/w external	284.6	321.8	302.0	268.6	263.1	237.5	211.5	189.7	170.2	126.5	78.6				
NPV of contingent liabilities (not included in public sector debt)	...	...	...	...	...	...	...	...	...	...	...
Gross financing need 2/	10.8	10.2	11.5	13.8	16.4	12.2	8.1	6.6	5.6	4.7	4.7				
NPV of public sector debt-to-revenue ratio (in percent) 3/	913.5	1106.9	1554.4	1322.5	1064.6	1356.7	1150.4	1018.5	916.5	647.0	360.1				
o/w external	853.7	1028.6	1411.8	1156.6	786.0	995.3	838.2	739.1	663.2	493.7	306.6				
Debt service-to-revenue ratio (in percent) 3/ 4/	17.2	25.5	20.1	18.5	11.8	10.6	11.1	9.3	8.0	6.2	4.9				
Primary deficit that stabilizes the debt-to-GDP ratio	-11.5	-49.8	26.5	44.1	-38.9	49.4	46.0	39.1	35.1	15.2	9.9				
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.5	0.2	-7.2	0.6	1.7	3.4	3.8	4.0	4.3	4.5	4.5				
Average nominal interest rate on foreign debt (in percent)	1.7	2.1	1.0	1.1	0.9	0.6	1.2	0.9	1.1	1.0	1.2				
Average real interest rate on domestic currency debt (in percent)	...	...	...	...	-0.2	-1.3	-3.7	-2.7	-3.5	-2.6	-2.4				
Real exchange rate depreciation (in percent, + indicates depreciation)	6.8	13.9	-18.9	-13.3	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.2	-5.1	4.8	-2.9	3.3	2.0	3.0	3.0	3.0	2.9	2.9				
Growth of real primary spending (deflated by GDP deflator, in percent)	65.3	-12.5	-20.7	15.1	31.0	-18.0	-5.2	1.7	1.9	4.6	4.6				
Grant element of new external borrowing (in percent)	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6				

Sources: Country authorities; and Fund staff estimates and projections.

1/ General government debt on gross basis. Preliminary estimates, based on currently available data.

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 including 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 1b. Guinea Bissau: Sensitivity Analyses for Key Indicators of Public Sector Debt , 2003-2023

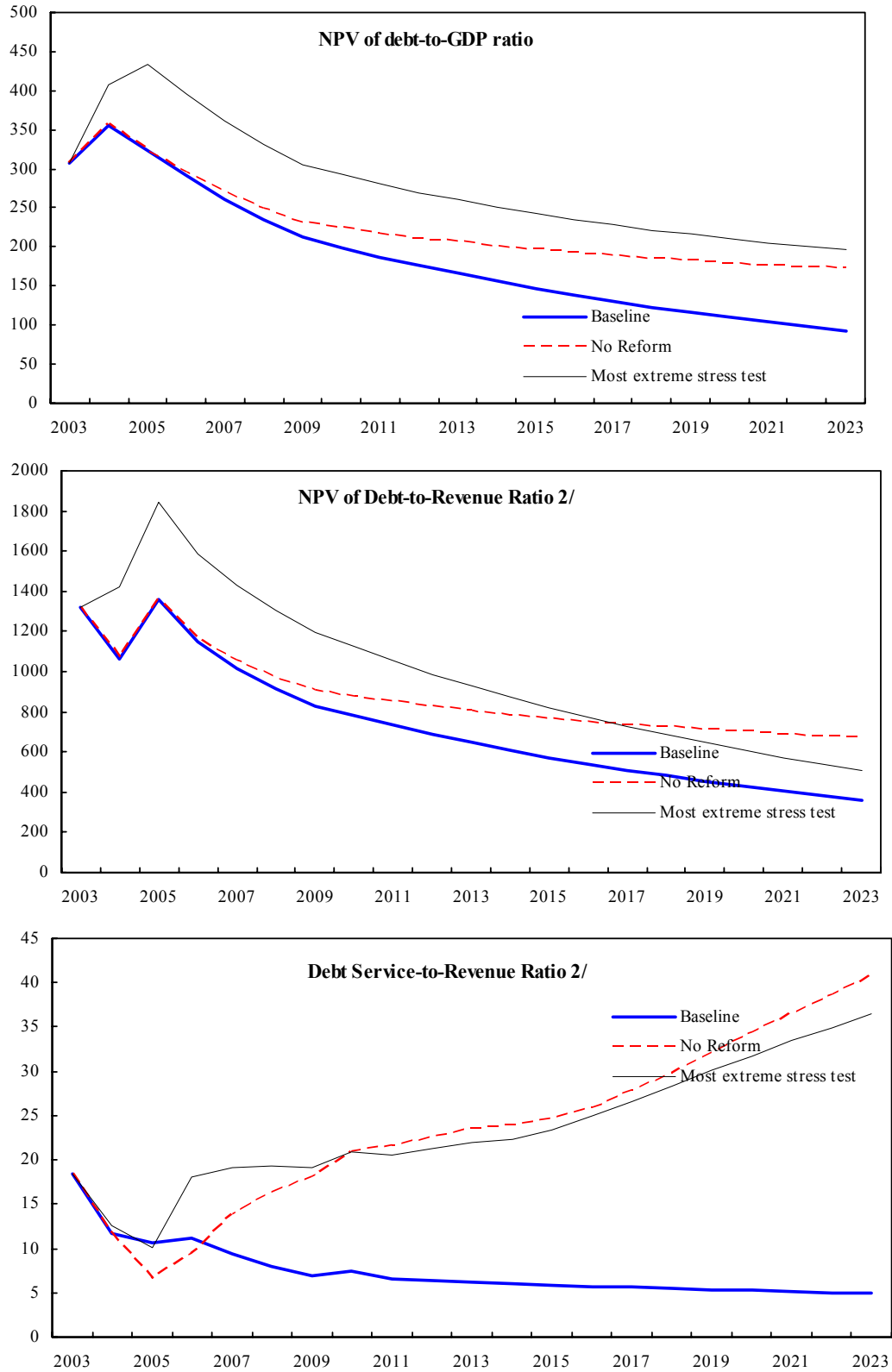
	Estimate		Projections					
	2003	2004	2005	2006	2007	2008	2013	2023
NPV of Debt-to-GDP Ratio								
Baseline	307	336	324	290	261	255	166	92
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	307	358	330	305	284	265	231	177
A2. Primary balance is unchanged from 2003	307	357	324	295	270	249	206	172
A3. Permanently lower GDP growth 1/	307	365	340	314	291	270	231	235
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2004-2005	307	408	434	395	361	331	260	196
B2. Primary balance is at historical average minus one standard deviations in 2004-2005	307	357	324	290	261	235	165	91
B3. Combination of 2-3 using one half standard deviation shocks	307	380	373	332	296	263	174	76
B4. One time 30 percent real depreciation in 2004	307	477	441	401	367	335	238	131
B5. 10 percent of GDP increase in other debt-creating flows in 2004	307	378	345	310	280	253	179	100
NPV of Debt-to-Revenue Ratio 2/								
Baseline	1322	1065	1357	1150	1018	917	647	360
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	1320	1060	1359	1173	1061	977	782	489
A2. Primary balance is unchanged from 2003	1321	1067	1359	1167	1053	972	804	673
A3. Permanently lower GDP growth 1/	1321	1079	272	-2211	-1661	-1576	1420	1219
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2004-2005	1321	1145	1635	1413	1273	1167	918	693
B2. Primary balance is at historical average minus one standard deviations in 2004-2005	1321	1066	1356	1150	1017	915	644	356
B3. Combination of 2-3 using one half standard deviation shocks	1321	1098	1472	1242	1090	970	643	282
B4. One time 30 percent real depreciation in 2004	1321	1426	1847	1590	1429	1305	928	511
B5. 10 percent of GDP increase in other debt-creating flows in 2004	1321	1131	1445	1229	1092	986	699	390
Debt Service-to-Revenue Ratio 2/								
Baseline	19	12	11	11	9	8	6	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	19	12	-1	0	3	4	5	-5
A2. Primary balance is unchanged from 2003	19	12	7	9	14	16	24	41
A3. Permanently lower GDP growth 1/	19	12	6	11	11	11	16	38
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2004-2005	19	13	10	18	19	19	22	37
B2. Primary balance is at historical average minus one standard deviations in 2004-2005	19	12	6	9	8	7	6	4
B3. Combination of 2-3 using one half standard deviation shocks	19	12	2	3	3	2	0	-10
B4. One time 30 percent real depreciation in 2004	19	14	10	17	15	14	11	11
B5. 10 percent of GDP increase in other debt-creating flows in 2004	19	12	44	-1	-5	-7	1	-8

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

2/ Revenues are defined inclusive of grants.

Figure 1. Guinea Bissau: Indicators of Public Debt Under Alternative Scenarios, 2003-2023 1/
(In percent)



**Statement by the IMF Staff Representative
November 19, 2004**

This statement contains information that has become available since the Staff Report was circulated to the Executive Board on November 3, 2004. This information does not alter the thrust of the staff appraisal.

1. **The political situation remains fragile after the recent military mutiny.** There have been no further incidents since early October. A main demand of the soldiers—the second payment for peace-keeping duty in Liberia—was met. However, recent nominations to the top posts in the Armed Forces included officers who acted as spokesmen for the mutineers, raising doubts about the distribution of political power between the Armed Forces and the government. The Economic Community of West African States and the Community of Portuguese Speaking Countries (CPLP) have established permanent representations in Bissau to support ongoing intermediation efforts; the CPLP is also supporting efforts to identify the need for military reform.

2. **The revisions in the public sector wage scales in recent months are estimated to have resulted in an almost doubling of base wages, which was partly offset by eliminating non-wage benefits.** In order to reduce tensions caused by unfulfilled promises made by the previous government, the authorities agreed to raise civil service salaries by an average of 67 percent and military wages by an average of 200 percent (bringing them broadly in line with similar positions in the civil service). Preliminary estimates of the net effect, including the offsetting measures, indicate that personnel costs would be more than 3 percent of GDP (€ 7.5 million) higher in 2005 than in 2004.



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IMF Executive Board Concludes 2004 Article IV Consultation with Guinea-Bissau

On November 19, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guinea-Bissau.¹

Background

Guinea-Bissau's per capita income of US\$185 and its ranking among the ten lowest countries on the Human Development Index place it among the poorest countries of the world. Following independence in 1974, centrally planned policies led to high external debt, inefficient public enterprises, and stagnating economic growth. Structural reforms toward a market-oriented economy in the mid-1990s were supported by a Staff Monitored Program (SMP) (1993–1994) and under the Enhanced Structural Adjustment Facility (ESAF) (1995–1998). Despite good economic progress during that period, serious governance issues led to an armed conflict during 1998–99 that caused widespread destruction. In 1999 and 2000, the Fund assisted the authorities' post-war reconstruction effort through Emergency Post-Conflict Assistance (EPCA). The EPCA was succeeded by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), which was approved by the Executive Board in December 2000. At that time, Guinea-Bissau also reached the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. However, the PRGF-supported program went off-track in early 2001 and expired at end-2003 without the IMF concluding a review, and interim debt relief of the Fund stopped after 2001.

¹ 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. 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.

Guinea-Bissau's economic performance has weakened substantially in recent years. Real GDP declined by 7 percent in 2002 and was flat in 2003. Structural reforms stalled after the war and the private sector remained incapacitated because of the destruction of equipment and infrastructure caused by the conflict, and the loss of stocks due to confiscating and looting. This situation was exacerbated by donors' decision to suspend budgetary support, including for two key post-conflict programs—demobilization and re-insertion of ex-soldiers (PDRRI) and clearance of domestic supplier arrears (DASP)—after the PRGF-supported program went off-track and amid serious governance concerns.

The fiscal situation has deteriorated drastically in recent years. Following an initial windfall after the conflict, revenue declined as the economy stagnated, prices fell for the main export product, cashew nuts, and technical capacity in revenue collection weakened. Public sector employment increased sharply after the conflict, which was compounded by a general wage increase in 2000, and expenditure management weakened amidst increasing extra budgetary expenditure. As a result, in addition to external arrears, the budget started accumulating domestic arrears, including, especially after mid-2002, in wages.

In 2003, the external current account deficit, excluding official transfers, halved relative to the previous year, to 6.7 percent of GDP, reflecting higher cashew nut exports and stagnating imports. The terms of trade deteriorated slightly (by 1.5 percent) in 2003, owing mainly to higher import prices for petroleum products. Due to low domestic inflation, the real effective exchange rate depreciated slightly.

Guinea-Bissau is a member of the West African Economic and Monetary Union (WAEMU) and monetary and exchange rate policy is conducted at the regional level for the zone as a whole. The Central Bank for West African States (BCEAO) reduced the discount rate from 6.5 percent since 2002 to 4.5 percent in March 2004, in response to the fall in inflation, the decline in interest rates in the euro area, and its high level of international reserves. Two main banks did not reopen after the conflict, and Guinea-Bissau has just one bank, operating out of its only office in Bissau.

Guinea-Bissau remains one of the most heavily indebted countries in the world. Interim debt relief under the HIPC Initiative was halted by most creditors after the PRGF-supported program went off-track; however, the African Development Bank and the World Bank continue to provide interim debt relief. There are no arrears to the IMF, but debt service to most bilateral creditors continues to fall in arrears.

Executive Board Assessment

Guinea-Bissau faces enormous challenges in embarking on a path of sustained growth and poverty reduction in the face of deep-seated economic and social problems. Directors welcomed Guinea-Bissau's orderly transition in May 2004 to a government elected on the basis of a broad reform platform, which offers the best prospect in recent years for an effective return to normal economic activity.

Directors noted that continued political instability, as evidenced by the recent military rebellion, as well as adverse exogenous shocks, have contributed to depressed economic activity, widespread poverty and deteriorating social indicators, and increased macroeconomic imbalances. In addressing these problems, the key challenges for the Guinea-Bissau authorities in the period ahead will be to restore fiscal discipline, rebuild public administration, and improve the climate for private investment and economic diversification. Meeting these challenges will require a combination of peace, firm commitment to sound policies by the authorities, improved governance and transparency, and the technical and financial support of the international community.

Against this background, Directors welcomed the new government's economic program for 2004-08, which they considered a good basis for beginning to address Guinea-Bissau's problems. They endorsed the program's focus on strengthening the fiscal position and pursuing structural reforms to boost growth and reduce poverty. They were encouraged by the authorities' commitment to the program, as evidenced by the initial progress made in restoring rules-based fiscal management.

Directors considered that expenditure control will be a key element of the fiscal effort in the short term. While acknowledging the importance of clearing tensions with unions and the military left by inadequate past policies, they expressed concern that the recent large increase in the budget's wage bill risks new arrears, could further squeeze already very low poverty reduction expenditure, and complicate relations with donors, who had provided emergency budget support earlier in 2004. Directors urged the authorities to seek further offsetting measures, including by rapidly following up on the civil service census to remove ghost workers from the payroll. Expenditure also needs to be re-oriented to priority areas. Directors agreed that priority should be given to rebuilding public administration and restoring basic public services. Strengthening revenue administration and broadening the tax base as well as better expenditure management will be key elements in this effort, to be followed by the preparation and implementation of a comprehensive public sector reform program. In the meantime, the authorities should continue strong efforts to find additional resources and to reduce nonessential expenditure.

Directors welcomed the emphasis in the government's medium-term policies on boosting economic growth through structural reform. They stressed the need for rapid deregulation of the economy, which would be a low-cost measure yielding quick results. Deregulation and other structural reform will help strengthen Guinea-Bissau's external competitiveness in the context of the fixed exchange rate system of the West African Economic and Monetary Union. Other key reforms will be improving the investment code, strengthening the legal system, pursuing the privatization program, and rebuilding the banking system.

Directors welcomed the authorities' track record in remaining current on repayments to the Fund. Resolution of external debt service arrears will require resumption of debt relief in the context of the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). Directors urged the authorities to engage creditors with the aim of seeking solutions to the mounting external debt service problems until they can be addressed under the HIPC Initiative.

They also urged caution in further borrowing by Guinea-Bissau and increased emphasis on the use of grant financing.

Directors welcomed the government's emphasis on the importance of the Poverty Reduction Strategy Paper. They urged the authorities to ensure that the final document is based on broad domestic consultation, and stressed the importance of prioritization and costing of poverty programs.

Directors stressed that in order to overcome its serious economic problems in a reasonable timeframe, Guinea Bissau will need to rely on substantial technical and financial assistance from the international community. Noting that long-standing governance concerns had resulted in a sharp decline in such assistance, they urged the authorities to pay particular attention to implementing the governance-related reforms in their economic program. They also urged the preparation of a country-wide technical assistance plan.

Directors stressed that the Fund should remain engaged in Guinea-Bissau. Most Directors agreed that the next step in the Fund's engagement could be emergency post-conflict assistance. Considering the breadth of Guinea-Bissau's problems, such assistance would need to be part of a concerted international effort. A few Directors considered that, given Guinea-Bissau's heavy debt burden and the time that may be needed to build the foundation of a stable political framework, the issue of whether Fund financial assistance should only be in the form of a concessional PRGF, possibly preceded by a Staff-Monitored Program, should be given further consideration.

Directors welcomed the ex post assessment of Guinea-Bissau's performance under IMF-supported programs. They observed that the country's experience confirmed the importance of good governance, proper sequencing of reforms, strong ownership, and political stability for a successful Fund-supported program. Looking forward, they felt that renewed international assistance should emphasize institution and capacity building, to which the Fund should stand ready to contribute in its areas of competence, including fiscal management and macroeconomic statistics.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Guinea-Bissau: Selected Economic Indicators

	1999	2000	2001	2002	2003
Real DGP at market prices (annual percent change)	7.6	7.5	0.2	-7.2	0.6
Consumer price index (annual percent change)	-2.1	8.6	3.3	3.3	...
Budget: revenue (in percent of GDP)	17.3	19.2	16.8	15.3	15.6
Budget: total domestic primary expenditure (in percent of GDP)	30.5	38.4	34.6	28.6	32.4
Budget: domestic primary balance (in percent of GDP)	-8.4	-11.1	-4.7	-4.2	-4.3
Budget: overall balance (commitment basis) Excluding grants (in percent of GDP)	-14.0	-24.9	-26.2	-18.1	-21.6
External current account Excluding official current transfers (in percent of GDP)	-24.2	-16.5	-28.9	-12.9	-6.7

Source: IMF Staff Report for the 2004 Article IV Consultation, Table 1.

**Statement by Damian Ondo Mañe, Executive Director for Guinea-Bissau
November 19, 2004**

Background and recent developments

I would like to express the appreciation of my Guinea-Bissau's authorities to the staff for the constructive discussions they had during the 2004 Article IV Consultation, and to Fund management for its continuous support. My authorities are also grateful for the assistance received from the international community to complement their own efforts towards stabilizing the political environment and social conditions.

Since its independence in 1974, after 11 years of war of liberalization, Guinea-Bissau has experienced continuous periods of political instability and social tensions, which culminated in an armed conflict in 1998-99 and had a severe impact on its economy. In addition to the death of several thousands people and the displacement of many others, this civil war caused widespread damage to the housing stock, basic infrastructure, and government buildings and equipment. Moreover, it has exacerbated poverty and weakened the institutions, as well as key social indicators, and has destroyed the productive capacity of Guinea-Bissau.

With Fund and UN support in the form of post-conflict assistance, my Guinea-Bissau authorities took strong measures to address the devastation of the conflict. These measures involved resettlement of displaced people, and adoption of measures to restore macroeconomic stability. The good performance achieved enabled Guinea-Bissau to move to a PRGF-supported arrangement and the country reached the decision point under the enhanced HIPC Initiative in 2000. Although the new three-year (2000-2003) PRGF arrangement went off track, the authorities maintained a close cooperation with the Fund and the World Bank.

More recently, inflation has moderated and the current account deficit narrowed. Moreover, the authorities have remained current on non reschedulable arrears, notably with the Fund. With the assistance of the IMF, the World Bank, and the African Development Bank, the authorities have also prepared an emergency economic management program (EEMP) that aims at restoring fiscal control and allowing a minimum level of operation of the government and social services until the 2005 presidential elections. A key component of the EEMP was the preparation and implementation of an emergency budget for 2004. This budget was prepared on the basis of "minimum needs". Technical assistance was jointly provided by the Fund, West AFRITAC, the World Bank, and the African Development Bank (AfDB). The EEMP and the emergency budget were replaced, in July 2004, by the government program for 2004-08, and a revised budget for 2004 which was approved by parliament. Following these measures, expenditure control has been strengthened, although revenue remained well below expectations due to weak administrative capacity. Moreover, fishing rights from the EU, another important source of revenue, which yields 20 percent of revenue, were delayed. In the external sector, while imports declined, the export of cashew nut increased, such that the current account balance improved in 2003.

My authorities recognize the importance of establishing more stable conditions in the country, in order to lay the foundation for a broad-based economic growth, necessary to reduce poverty. This will allow them to repair the remaining damage from the conflict, restore fiscal sustainability and basic social services, and reduce widespread poverty. I would like to reassure Directors of the determination of my authorities to improve the political environment. Indeed, the recent tragic event of October army mutiny ended with the signing of an accord between the government and the army mutineers who rose up over unpaid salaries. In addition, it is worth noting that the support received from the international community, notably the UN, the Economic Community of West African States (ECOWAS) and the Community of Portuguese Speaking Countries has been critical to accompany the authorities' efforts in this area. Moreover, my authorities are determined to pursue further the adjustment process and the building of institutional capacity, in order to establish a strong track record on program implementation. However, the tasks ahead represent a daunting challenge that Guinea-Bissau cannot meet without an urgent support from the international community in terms of technical and financial assistance.

Medium-term Outlook and Policies

The authorities agree with the staff that it will be important to rebuild the administration and avoid further domestic budgetary arrears, while laying the basis for higher economic growth. Real GDP is estimated to increase by 1-2 percent in 2004 and by around 3 percent in 2005. Inflation is expected to remain within the WAEMU's target of less than 3 percent by end of 2004. Reflecting low imports in the first half of the year, the external current account balance, including official transfers, is projected to become slightly positive in 2004.

In the fiscal area, the authorities are committed to restoring administrative capacity and rule-based fiscal management. Thus, in order to defuse social tensions in the country, high priority will be given to paying government salaries on time. This would help build trust and credibility of the institutions. In addition, the authorities have planned to pay electricity bill monthly to allow the administration to restart basic operations.

On structural reforms, my authorities are committed to pursue the agenda initiated under the PRGF. Notably, they will strengthen the organization of ministries, following a review of the respective laws. They have taken measures to improve financial management, including centralizing all revenue in the treasury account at the BCEAO; and applying public procurement regulations. Also noteworthy is that political appointees had been replaced by experienced technicians at the head of revenue departments.

As regards expenditure, the authorities agreed to conduct a civil servant survey, which should contribute to contain the wage bill. Moreover, it is the Guinea Bissau's intention to harmonize salaries across the public sector.

The authorities' main medium-term objectives are: accelerating economic growth, reducing poverty, and stabilizing the fiscal situation. In this regard, actions towards revitalizing the private sector are needed. They agreed that the successful implementation of both short- and medium-term policies would require considerable technical assistance. In the structural reform agenda, the authorities will focus on improving the legal system and investment

regulations, reducing inefficient taxes and regulations, and completing the privatization program.

On the financial sector, the recent decision by WAEMU relaxing the capital requirement for Guinea-Bissau will facilitate the creation of new banks, including microfinance institutions.

Guinea-Bissau has an unsustainable external debt position. The difficult financial and economic situation has made it difficult to service its debts. It is the intention of the authorities to work closely with the Fund and implement the needed policies, so that it can receive support under the PRGF, and also move to the completion point under the HIPC Initiative.

PRSP

As regards the PRSP, the authorities are determined to finalize the document and to submit it to the Fund and the World Bank soon. The authorities are committed to ensure that the final PRSP is based on a broad domestic consultation process, with a view to promoting a participatory process and ownership in setting the direction of poverty reduction policies.

Conclusion

My authorities would like to reiterate their firm commitment to restoring economic and social stability. They are firmly committed to the adjustment process, which they view as critical to improving the macroeconomic framework and poverty situation in Guinea-Bissau. As such, they look forward to an early consideration by the Fund's Board of a post-conflict program.