

Guinea-Bissau: 2007 Article IV Consultation—Staff Report; Staff Supplement; 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 2007 Article IV consultation with Guinea-Bissau, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 6, 2007, 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 August 28, 2007. 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 supplement on the joint World Bank/IMF debt sustainability analysis.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its September 17, 2007 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Guinea-Bissau.

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GUINEA-BISSAU

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the
2007 Consultation with Guinea-Bissau

Approved by Robert Sharer and Michael T. Hadjimichael

August 28, 2007

Objectives: A mission visited Guinea-Bissau on May 23–June 6, 2007, for the 2007 Article IV consultation discussions and discussions on possible Emergency Post-Conflict Assistance (EPCA). Among key requirements to reach agreement on EPCA, the authorities need to secure financing assurances for the 2007 budget. If agreement is reached, a separate staff report will be issued covering EPCA discussions.

Mission Team: The team comprised C. McAuliffe (head), L. Ocampos, C. Fernandez, M. Sáenz, and L. Leony (all AFR). World Bank staff joined the mission.

Article IV consultation: The discussions focused on three challenges: (i) achieving macroeconomic stability, (ii) improving fiscal governance and transparency, and (iii) addressing key structural issues to encourage sustainable economic growth. The program for possible EPCA will be an essential first step in addressing these challenges. A low-income country debt sustainability analysis (DSA) was prepared with World Bank staff (Supplement 1). Data weaknesses continued to hamper surveillance (Supplement 2).

Exchange arrangements: Guinea-Bissau has accepted the obligations of Article VIII, Sections 2, 3, and 4. It shares a common currency (CFA franc), pegged to the euro, with other WAEMU members. The BCEAO conducts monetary and exchange rate policies for the region. Banks are supervised by the WAEMU Banking Commission.

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EXECUTIVE SUMMARY

- **Guinea-Bissau remains a fragile post-conflict country with a severely deteriorated fiscal stance.** The conflict and ensuing political instability have taken a toll on growth and economic policies, and most macroeconomic indicators have worsened in the post-conflict period.
- **Guinea-Bissau depends heavily on aid.** However, frequent changes in government, combined with lack of accountability and ownership of government policies, have in recent years eroded international support.
- **The discussions focused on the near-term challenge of halting fiscal deterioration.** Lack of fiscal controls has resulted in large deficits, domestic arrears, and unsustainable financing gaps. The recently appointed government has adopted an emergency program to address the main sources of fiscal slippages that have gained broad support both domestically and internationally, but significant donor support is still needed to fill the financing gap.
- **The authorities' emergency program formed the basis for initiating discussions, which are ongoing, on EPCA.** Among the key requirements to reach agreement, the authorities need to secure financing assurances for the 2007 budget. If agreement is reached, a separate staff report on EPCA discussions will be issued to the Board.
- **The authorities agreed that achieving fiscal sustainability depends critically on reining in nonpriority current spending and intensifying revenue mobilization.** The authorities intend to further strengthen budgetary controls, public expenditure management, and cash management systems.
- **Guinea-Bissau's overriding economic challenge in the medium term is to revive growth and achieve fiscal and external sustainability.** As agreed, policies to enhance growth and external competitiveness should focus on improving macroeconomic management and alleviating structural weaknesses within the existing exchange rate regime.
- **Guinea-Bissau is in severe debt distress.** Even after possible HIPC debt relief, Guinea-Bissau will need substantial external assistance, preferably in the form of grants, to support reforms and make progress toward the Millennium Development Goals (MDGs). Further donor support will depend on the authorities' commitment to improve governance, strengthen institutional capacity, and implement key structural reforms.

I. INTRODUCTION

1. **Guinea-Bissau remains a fragile post-conflict country.** Despite attempts to rebuild the government's administration and address economic problems, continued tensions among the major political parties, frequent changes in government, and lack of accountability and ownership of policies have worsened economic conditions.

2. **Since April 2007, in a clear break from the recent past, a newly appointed government has initiated steps to stem the economic deterioration.** A new prime minister and cabinet of ministers were appointed under pressure from a new coalition of political parties within parliament. In its first months, the new government adopted an emergency program to help restore fiscal stability.

3. **The new government has also taken steps to re-engage the donor community, and donors, signaling their support for the government's recent initiatives, have begun to disburse pledges made at the November 2006 donors' conference.** Discussions with the Fund have been ongoing since the new government requested early purchases under the Fund's EPCA. Among the key requirements for concluding these discussions, the authorities need to secure donor assurances to finance the 2007 budget. Satisfactory performance under EPCA could pave the way for a PRGF arrangement and, eventually, debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

II. POST-CONFLICT CHALLENGES

4. **Guinea-Bissau faces enormous challenges after nearly a decade of conflict, political instability, and withdrawal of donor support.** Real GDP growth in recent years

was less than half its pre-1998 levels, and per capita income is well below the averages for WAEMU and other countries in sub-Saharan Africa (Text Table 1 and Figure 1).

The fiscal balance has widened sharply—mainly because of an increase in the wage bill—while spending on health and education remained lower than the regional average. Progress toward meeting the MDGs has been slow, and some indicators have worsened (Table 1).

Text Table 1: Guinea-Bissau and WAEMU Economic Performance Indicators, 1993-2006

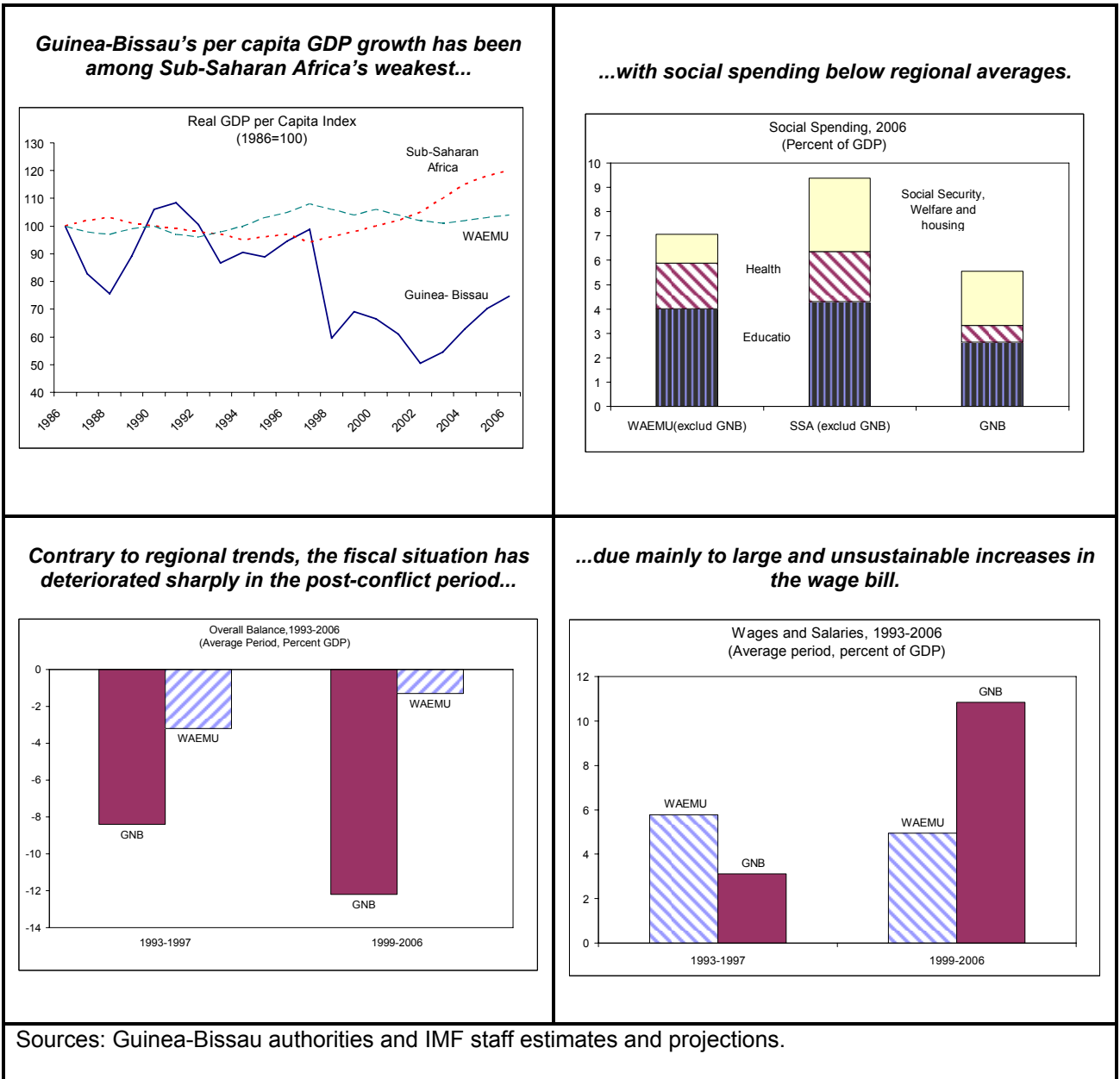
	1993-1997		1999-2006	
	GNB	WAEMU 1/	GNB	WAEMU 1/
Real GDP growth (percent changes)	4.7	5.9	2.0	2.6
Total Investment (% GDP)	24.6	16.0	13.8	17.7
CPI inflation (annual average percentage change) 2/	40.1	12.4	2.0	2.0
Fiscal Balance (including grants, % of GDP)	-8.4	-3.2	-12.2	-1.3
Government Revenue (excl. grants) % of GDP	15.6	12.7	17.2	14.8
Central government expenditure and net lending (%GDP)	35.1	19.5	39.9	19.6
External current account balance including grants (% GDP)	-12.3	-5.2	-6.9	-7.0
External current account balance excluding grants (% GDP)	-27.7	-9.3	-19.2	-9.0
External debt to official creditors (% GDP)	342.1	76.7	362.9	64.3

Source: World Bank Development Indicators, World Economic Outlook; IMF Staff estimates and projections.

1/ Excluding Guinea-Bissau.

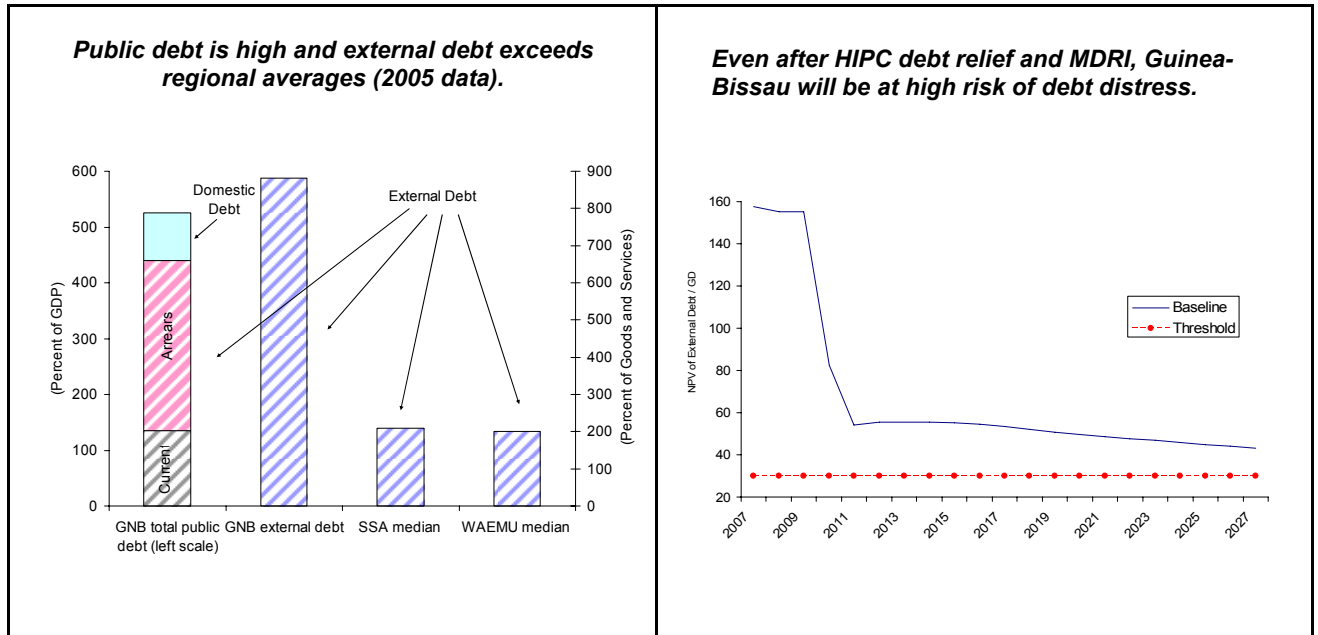
2/ Guinea-Bissau joined the WAEMU in 1997

Figure 1. Guinea-Bissau: A Comparison with the WAEMU Area



5. **Public debt is unsustainably high, and rapid accumulation of domestic arrears has stifled economic activity.** As shown in the Debt Sustainability Analysis (DSA) (Supplement 1), Guinea-Bissau would remain at high risk of external debt distress even after possible HIPC and

MDRI debt relief, while additional donor support is needed to reduce the outstanding domestic debt burden.¹

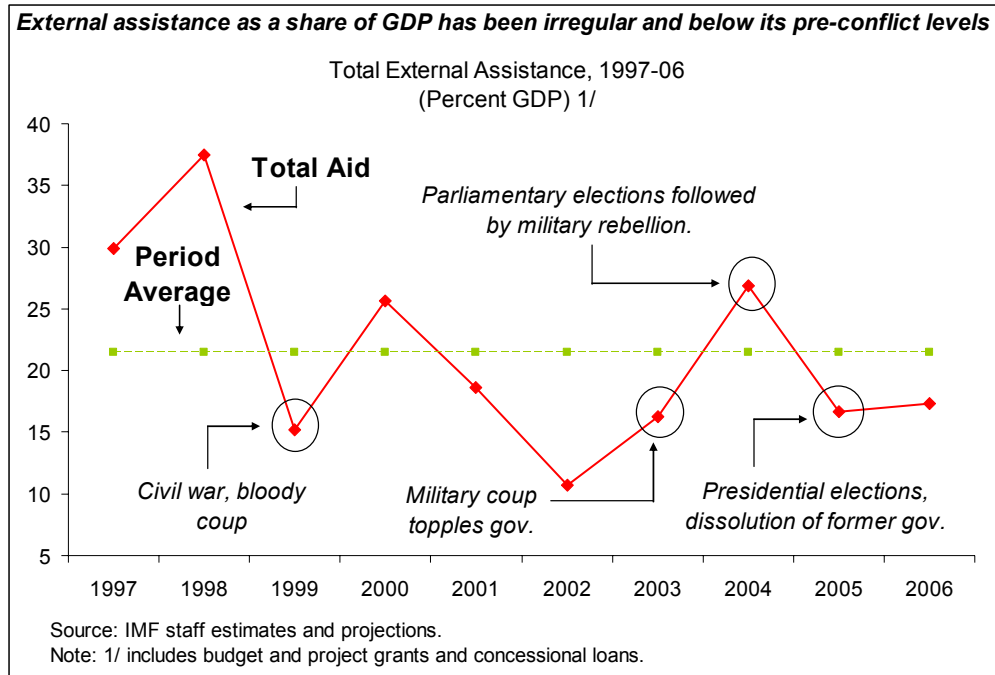


6. **Guinea-Bissau depends heavily on external assistance (Box 1), though aid levels have been lower and more erratic in the post-conflict period.** A number of earlier attempts to initiate EPCA discussions stalled. Performance under staff-monitored programs (SMP) for 2005 and 2006 was mixed, and the timing and magnitude of donor support were lower than expected.² At a donors' conference in November 2006, the first since 1999, a broad group of donors pledged financial assistance to support the authorities' economic and reform agenda. Disbursements at end 2006 and early 2007, however, were delayed when governance issues in the energy sector emerged.³ These issues have since been resolved, and donors are cautiously beginning to disburse pledged assistance.

¹ A preliminary DSA and its underlying assumptions were discussed with the authorities. The mission advised the authorities to contact their creditors and start conversations on rescheduling that will allow them to clear arrears by 2010, before a possible PRGF-supported program.

² See IMF Country Report No. 06/312 for a discussion of performance under the 2005 SMP. See ¶9 for details of the 2006 SMP.

³ The previous government entered into a nontransparent, noncompetitive, and costly electricity supply contract, contradicting the terms of its agreements with the World Bank. The World Bank and other donors suspended their support pending resolution of the issue, which was finally resolved at the end of March 2007.

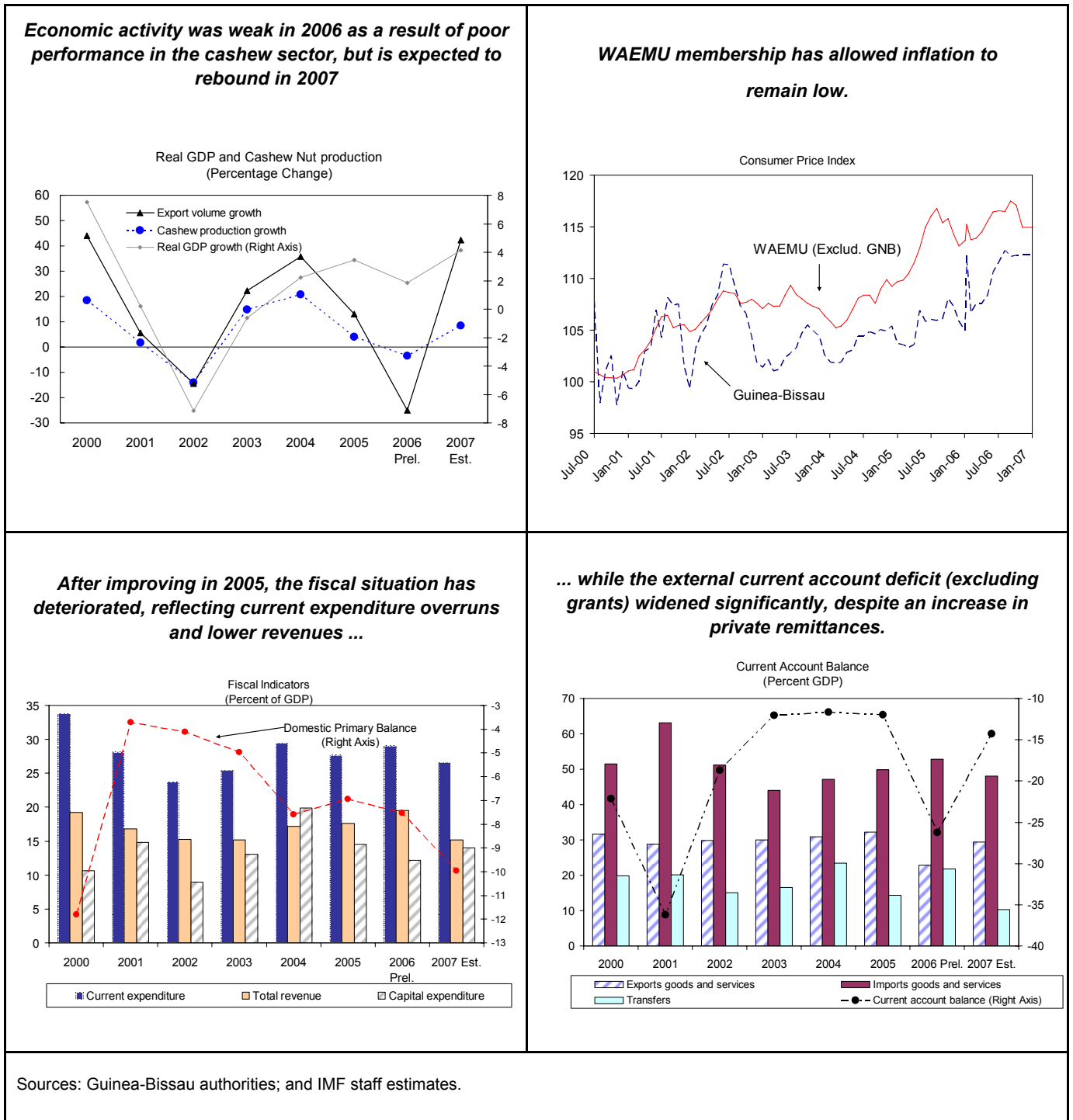


III. RECENT ECONOMIC DEVELOPMENTS AND NEAR-TERM OUTLOOK

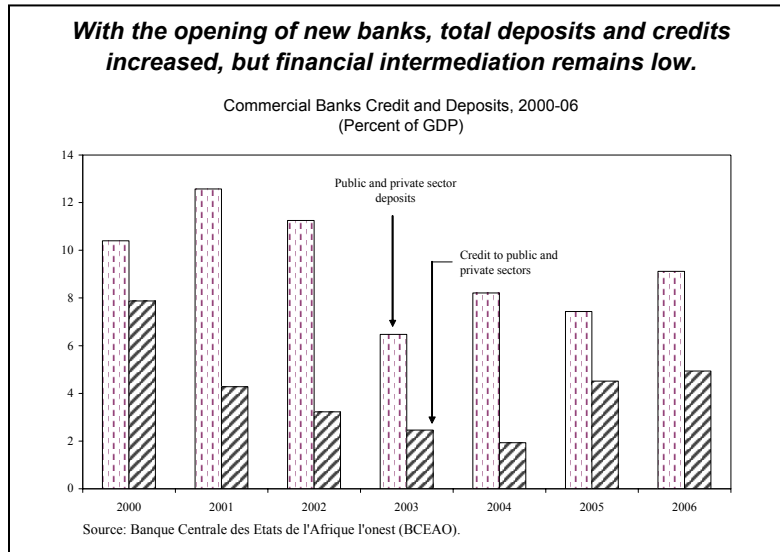
7. **Economic activity in 2006 was weaker than expected, but is projected to recover in 2007 (Figure 2 and Table 2).** The economy weakened as the terms of trade deteriorated because of lower world prices for cashew nuts—Guinea-Bissau’s main export—and rising international oil prices. Government intervention in price-setting in the cashew market, which disrupted the export supply chain, also hurt economic growth and cashew exports.⁴ Cashew marketing arrangements are expected to normalize in 2007 and should help economic activity rebound. The external current account deficit (excluding grants) widened significantly in 2006 even though private remittances surged (Table 3).

⁴ The government set reference prices both for producers and for calculating taxes on cashew exports at levels higher than traders were willing to pay given world prices. Initially farmers held out for the reference price and refused to sell. An excess supply of cashew eventually drove down the domestic price, discouraging farmers from marketing the nuts. Given the country’s precarious storage capacity, part of the 2006 production was eventually ruined.

Figure 2. Guinea-Bissau: Main Economic Trends, 2001–07



8. **Monetary conditions were stable in 2006, and inflation remained low.** Broad money growth slowed to 5 percent in 2006, as the deterioration in the external current account slowed the accumulation of net foreign assets (Table 4). Financial activity expanded



with the opening of three new banks since 2006,⁵ bringing the total to four banks. As elsewhere in the region, banks are very liquid. Despite an increase in bank deposits, financial intermediation remains low: credit to the public and private sectors is just 5 percent of GDP. A large informal sector, lack of proper financial accounting in most firms, insufficient collateral, and banks only located in the

capital Bissau are key obstacles to expanding bank lending.

9. **The fiscal stance deteriorated sharply in 2006, reflecting a severe breakdown in fiscal controls, and the government fell short of targets agreed under the 2006 SMP (Tables 5 and 6).**⁶ Weak management led to expenditure overruns, particularly in travel and representation costs, as well as large unbudgeted expenditures, including payment of (unaudited) domestic arrears of previous years, and excessive incentives paid to tax collectors. The wage bill shrunk by almost 1 percent of GDP, but was higher than programmed because of delays in implementing planned civil service reforms. Shortfalls in expected donor support exacerbated cash flow difficulties, and the government resorted to short-term borrowing from commercial banks and issuing treasury bills.⁷ These borrowings were insufficient, however, and large additional domestic arrears were accumulated by the year's end.

⁵ Banco Regional de Solidaridade and Banco da União opened in 2006 and Ecobank opened in 2007.

⁶ Five out of seven quantitative SMP targets were not met for 2006 (revenue, wage bill, domestic primary balance, domestic financing of the budget, and accumulation of domestic arrears). Most structural benchmarks were met, albeit with delay.

⁷ The treasury bills (\$13 million or 4 percent of GDP)—backed by expected disbursements from the EU and the World Bank—were placed through the BCEAO in August, mostly with financial institutions in other WAEMU countries, at a rate of 5 percent. Short-term (uncollateralized) borrowing (\$5.4 million) from banks within WAEMU was obtained at much higher effective interest rates.

10. **The government's cash flow difficulties worsened in the first half of 2007, as fiscal controls weakened further and donors continued to delay much-needed assistance.** Tax revenues were lower than expected in the first four months of 2007: they dropped 15 percent from the same period a year ago, as revenue administration weakened and imports fell in the wake of political uncertainties. Nonetheless, the government continued to pay large arrears from previous years, and to make unbudgeted expenditures; meanwhile, substantial arrears, including four months of civil service salaries, accumulated for the current year.

11. **For 2007 as a whole, the fiscal stance is expected to deteriorate sharply; the overall balance (including grants) is projected to widen to 17 percent of GDP (Text Table 2 and Table 7).** Because of delays in concluding a new fishing agreement, the EU will not disburse annual compensation to Guinea-Bissau before early 2008 and government revenues are now projected to decline to 15 percent of GDP, some 4 percent of GDP lower than in 2006. The revenue shortfall will be partly offset by a decline in current primary expenditures (to 24 percent in 2007 from 26 percent in 2006), reflecting a slight decline in the wage bill as a share of GDP and better control of nonwage discretionary spending, including travel and representation costs and off-budget items.

Text Table 2. Guinea-Bissau: Central Government Operations, 2005–08
(Percent of GDP)

	2005	2006		2007	2008
		SMP	Prel.	Est.	Proj.
Revenue and grants	30.4	42.6	31.5	23.1	33.6
Revenue	17.6	21.7	19.5	15.2	20.9
Tax revenue	11.5	12.7	11.5	11.7	11.7
Nontax revenue	6.1	8.9	8.1	3.5	9.2
Grants	12.7	21.0	11.9	7.9	12.7
<i>of which: Budget support (A)</i>	3.2	12.4	6.4	2.0	4.7
Expenditure	42.2	40.3	41.2	40.8	38.7
Current expenditure	27.7	26.3	29.0	26.9	24.1
<i>Of which: wages and salaries</i>	13.4	11.9	12.8	12.5	11.8
Capital expenditure and net lending	14.5	14.0	12.2	14.0	14.6
Overall balance, including grants (commitment basis)	-11.9	2.4	-9.7	-17.7	-5.1
Overall balance, excluding grants (commitment basis)	-24.6	-18.6	-21.6	-25.6	-17.8
Change in domestic arrears	-0.1	-0.3	3.4	-2.6	0.0
Overall balance, including grants (cash basis)	-10.2	3.9	-4.3	-18.7	-3.8
Financing	10.2	-3.9	4.3	18.7	3.8
Domestic financing	-0.4	0.6	-0.5	-0.9	-3.4
Foreign financing (net)	10.6	-2.8	5.2	0.7	3.6
<i>Of which: external arrears</i>	8.4	5.9	5.4	4.6	4.0
Financing gap (+ = financing needs)	0.0	-1.8	-0.4	18.9	3.6
Identified budget support (B)		0.0	0.0	9.1	
Residual financing gap		-1.8	-0.4	9.7	
Domestic primary balance	-6.9	-3.9	-7.5	-10.0	-1.2
Realized plus identified budget support (A+B)	3.2	12.4	6.4	11.2	4.7

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

12. **The new government adopted, in April, an emergency fiscal program to help contain the 2007 fiscal stance.** Among the measures to control discretionary spending, the government immediately stopped paying incentives to tax collectors until the amounts remitted earlier are investigated. The authorities also took action to re-instate and strengthen the Treasury Committee, charged with regularly monitoring cash flow. The program also includes intensified revenue collection measures, including collection of tax arrears.

13. **Debt service due in 2007 on the treasury bills and (uncollateralized) commercial borrowing contracted in 2006 add financing pressures.** Budget support of CFAF 19.4 billion (11 percent of GDP)⁸ in outstanding pledges from the November 2006 donors' conference should help cover 2007 financing needs. The government has recently concluded an agreement with a regional commercial bank to borrow (CFAF 4.8 billion) until the EU disburses the 2007 fishing compensation (expected in early 2008), leaving a residual financing gap of CFAF 16.7 billion (\$33 million or, 9.7 percent of GDP).

14. **The government has taken measures to close the residual financing gap, including rescheduling CFAF 3 billion in debt service owed in 2007 to commercial banks, as well as CFAF 1.5 billion in debt payments owed to the BCEAO.**⁹ In addition, the authorities are discussing with regional partners additional budget support for 2007 and have separately identified some CFAF 1 billion in budgetary savings (expenditure and revenue). The discussions with regional partners are ongoing.

15. **Additional budgetary savings would be difficult to achieve in the short term.** Much of the fiscal deterioration was from unbudgeted expenditures earlier in the year, which would be difficult to offset with cuts elsewhere because of the heavy wage burden (more than half of current primary expenditures). Revenue projections reflect intensified efforts to redress the shortfalls.

16. **The fiscal stance is expected to improve in 2008 as the government's emergency fiscal program takes effect.** Government revenues are projected to increase by 6 percent of GDP to about 21 percent of GDP. Nontax revenues are expected to be above the norm in 2008, reflecting two disbursements from the EU for fishing compensation (corresponding to the 2008 and the delayed 2007 annual compensations). Tax revenues are projected to be roughly constant as a share of GDP. As discussed with the authorities, current expenditures are expected to decline by about 2 percent of GDP in 2008, reflecting a nominal freeze of the wage bill and strict control of nonwage discretionary outlays. With the increase in revenues, the domestic primary deficit should decline to just 1.2 percent of GDP, much lower than in previous years.

⁸ Including European Union (CFAF 3.5 billion), World Bank (CFAF 4.9 billion), ECOWAS (CFAF 4.2 billion), WAEMU (CFAF 3 billion), and other bilaterals.

⁹ The authorities are submitting to Parliament, for approval, a revised 2007 draft budget which includes the expected financing.

IV. POLICY DISCUSSIONS

17. **Discussions focused on the following key challenges:**

In the near term,

- reversing the fiscal deterioration and
- avoiding the accumulation of new domestic arrears and

Over the medium term,

- achieving macroeconomic stability by reducing the fiscal deficit;
- improving governance and transparency; and
- fostering sustainable economic growth.

A. Near-Term Challenges

18. **Staff and the authorities agreed that actions were urgently needed to address fiscal slippages, stem the fiscal deterioration, and meet current expenditures, including full payment of 2007 civil service salaries. The measures adopted under the government's emergency fiscal program (paragraph 12), as well as those to close the 2007 financing gap (paragraphs 13 and 14) are important to this end.**

B. Medium-Term Outlook

19. **Given the unclear picture of the availability of adequate external support and the domestic economic constraints, the medium-term outlook is subject to a high degree of uncertainty. Nevertheless, the authorities and staff agreed that real GDP growth of about 3–4 percent a year could be sustained over the medium term** (Text Table 3 and Table 8). The authorities considered that sustaining these growth rates would be important given historical growth of less than 1 percent a year in (1991–2006). This would require (i) a commitment to policy reform, which would enable the authorities to implement stronger reform programs and achieve sustained donor support; (ii) a steady rebuilding of institutional capacity and infrastructure; and (iii) a recovery of donor and investor confidence. The fiscal position should improve over the medium term if fiscal controls are restored and nonpriority expenditures are reined in. The external current account deficit is projected to narrow, reflecting mainly a recovery of cashew nut exports, modest import growth as the fiscal stance tightens, and a slight recovery in the terms of trade. Real GDP growth would reach 4 percent by 2012 based on (i) continued expansion in agriculture, especially solid performance in the cashew nut sector; (ii) increased activity in construction and industry—particularly cashew nut processing and industrial fishing activities; and (iii) higher investments in basic services and infrastructure.

Text Table 3. Guinea-Bissau: Medium Term Scenario

	2005	2006 Prel.	2007 Est.	2008 Proj.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.
(Annual percentage change, unless otherwise indicated)								
National accounts and prices								
Real GDP at market prices	3.5	1.8	3.7	3.1	3.3	3.6	3.8	4.0
Real GDP per capita	0.2	-0.3	-0.4	-0.8	-0.7	-0.5	-0.2	-0.1
Consumer price index (end of period)	1.0	3.2	2.8	2.5	2.5	2.5	2.4	2.4
(Percent of GDP, unless otherwise indicated)								
Gross investment	14.6	12.2	15.6	16.0	16.1	16.1	16.2	16.5
<i>Of which: government investment</i>	14.1	10.8	13.4	13.3	13.3	13.3	13.3	13.3
Gross national savings	8.7	1.3	3.7	14.5	8.8	10.2	9.1	9.2
Government finances								
Budgetary revenue	17.6	19.5	15.2	20.9	18.0	18.0	18.0	18.0
Domestic primary expenditure	24.5	27.1	25.2	22.1	20.8	19.0	19.0	19.0
<i>of which: wages and salaries</i>	13.4	12.8	12.5	11.8	10.4	10.4	10.4	10.4
Domestic primary balance	-6.9	-7.5	-10.0	-1.2	-2.8	-0.9	-0.9	-0.9
Overall balance (commitment basis)								
Including grants	-11.9	-9.8	-17.7	-5.1	-11.1	-9.2	-9.2	-9.1
Excluding grants	-24.6	-21.7	-25.6	-17.8	-19.0	-17.1	-17.0	-16.9
Overall balance, including grants (cash basis)	-10.2	-4.3	-18.7	-3.8	-10.0	-9.2	-9.2	-9.1
Financing	10.2	4.3	18.7	3.8	10.0	9.2	9.2	9.1
Domestic and Foreign Financing	10.2	4.7	-0.2	0.2	2.9	5.9	6.9	6.5
Financing Gap (+ = financing needs)	0.0	-0.4	18.9	3.6	7.2	3.3	2.3	2.6
External current account (including official current transfers)	-5.8	-10.9	-11.9	-1.5	-7.2	-5.9	-7.2	-7.3
Excluding official current transfers	-10.5	-24.3	-13.9	-11.5	-9.7	-8.4	-9.6	-9.8

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

20. **The authorities recognized that the sustainability of the baseline medium-term outlook requires significant concessional external assistance, including debt relief.** Specifically, the medium-term outlook requires, at a minimum:

- Project grants and loans of some 14 percent of GDP to finance a minimal level of capital expenditures mostly in the Public Investment Program, a level consistent with current absorptive capacity. More grants would be needed to increase priority spending on social sectors, infrastructure, and capacity building consistent with the reform agenda outlined in the government's PRSP¹⁰ and MDG-related initiatives.
- Budget support of at least 3 percent of GDP in 2008–12, similar to the levels seen since 2000, to cover the domestic primary deficit, assuming the wage bill as a share of GDP is unchanged from 2009 onwards.
- Securing comprehensive debt relief under the HIPC initiative and MDRI, which by staff estimates would reduce annual scheduled public debt service from about 36 percent of government revenue and grants in 2006 to less than 12 percent from 2010 onwards (Supplement 1).

¹⁰ See IMF Country Report No. 07/339.

21. **Over and above these requirements, additional external grant assistance would be needed to repay domestic arrears.**¹¹

22. **There are considerable risks to the medium-term outlook, given the heavy reliance on donor support.** While the outlook assumes some fiscal adjustment, it includes only moderate cuts in the wage bill in the absence of a comprehensive donor-financed plan to implement civil and military service reforms. If external assistance falls short, more domestic arrears will accumulate, and prospects for civil service and military reforms will dim.

23. **The authorities acknowledged that securing the necessary external assistance will not be easy, given donor fatigue from the legacy of civil strife and weak governance and economic management.** Staff noted that renewed and sustained donor support will depend on the authorities' commitment to improve governance, strengthen institutional capacity, and implement strong and credible reforms. Slippages in any of these areas or political instability would jeopardize external assistance. In the next few years, the authorities must also make every effort to strengthen policies to ensure that they reach the HIPC completion point as envisaged in 2010.

24. **The authorities concurred with staff that without continued reforms, economic growth would be anemic.** Under a no-reform scenario, real GDP growth would revert to its historical average of less than 1 percent a year, and the fiscal and external positions would be unsustainable.

C. Achieving Macroeconomic Stability

25. **Sound fiscal policies, supported by structural reforms, will be critical to achieving macroeconomic stability.** Monetary and exchange management falls under the purview of the regional central bank; prudent fiscal and borrowing policies will thus be the main tools for ensuring macroeconomic stability. As the staff advised the authorities, there are four main avenues to strengthen fiscal performance: improve revenue collection, reduce current expenditures, eliminate domestic arrears, and avoid resorting to expensive commercial borrowing.

26. **Civil and military service reforms are crucial to contain the wage bill and ensure fiscal sustainability over the medium term.** Reforms in this area, however, have been slow, reflecting serious capacity constraints, delays in obtaining donor support, and continued

¹¹ The strategy for arrears clearance involves an external audit (financed by the EU) of the stock of domestic arrears accumulated in 2000–06 (CFAF 44 billion). Once audited, the authorities will seek external assistance, over and above normal budget support, to pay off the audited arrears. The authorities will also seek external assistance to pay the stock of pre-2000 arrears that were already audited (CFAF 20 billion). Paying off the audited arrears over the medium term (2008–10) could require some 8 percent of GDP per annum in additional external assistance (assuming about half of the 2000–06 arrears will be eliminated after the audit).

reluctance by the government to undertake reforms with political costs. Some progress has been made in completing the military census. For the civil service, the government finished merging two existing databases for public sector employees so that salary payments are now based on the unified database. Since October 2006, some 2,132 civil servants (out of about 15,000 civil servants) have been removed from the respective ministries payroll and their salaries paid by the State Secretariat of Reform. The government is planning to fully retrench these civil servants by the end of 2007, through a program financed by the EU.¹² The authorities agreed that much more progress is needed. The next steps require firm commitment by the authorities to implement difficult measures and support from donors in taking the lead to coordinate the financing and technical aspects of the reforms.

27. **Increasing revenue is also important for achieving fiscal sustainability.** The authorities agreed with staff that the main measures needed to enhance revenue collection include expanding the tax base, strengthening tax administration, enforcing fishing licenses, and increasing the collection of other nontax revenues, such as oil and mining explorations. Staff urged the government to promptly implement the recommendations of the recent FAD and West AFRITAC technical assistance missions to (i) reinforce the recently created large taxpayers unit through better control of taxpayers' compliance, and (ii) strengthen customs administration by upgrading the automated customs system to ASYCUDA++ (Automated System for Customs Administration).

28. **Despite limited progress, the authorities remain committed to meeting WAEMU's convergence criteria.** Guinea-Bissau's revenues, wage bill, and fiscal balances fall far short of the WAEMU convergence criteria (Text Table 4). The authorities agreed that the 2007–08 fiscal framework will not be enough to put the convergence criteria within reach, and that much more effort is needed in the medium term.

¹² The program envisages the payment of compensation for these civil servants, together with re-training and/or micro-credit schemes.

Text Table 4. WAEMU Convergence Criteria 1/

	Guinea- Bissau			WAEMU 3/		Countries meeting the criteria	
	2004	2005	2006 Est.	2005	2006	2005	2006
First- order criteria							
Basic Fiscal balance/GDP (≥ 0 percent) 2/	-32.2	-24.6	-15.9	-1.9	-1.6	1 out of 8	1 out of 8
Average consumer price inflation (≤ 3 percent)	0.8	3.4	2.0	5.3	2.8	2 out of 8	7 out of 8
Total debt/GDP (≤ 70 percent)	379.4	332.8	326.2	60.9	55.1	5 out of 8	5 out of 8
Change in domestic arrears, in billions of CFAF (≤ 0)	3.9	4.2	0.0	1	0	4 out of 8	8 out of 8
Change in external arrears, in billions of CFAF (≤ 0)	19.4	17.2	11.9	1.9	0.9	5 out of 8	7 out of 8
Second- order criteria							
Wages and salaries/fiscal revenue (≤ 35 percent)	65.7	76.1	65.8	35.5	34.8	3 out of 8	4 out of 8
Capital expenditure domestically financed/fiscal revenue (≥ 20 percent)	16.9	9.1	10.6	29.8	27.9	5 out of 8	6 out of 8
External current account balance, excluding grants/ GDP (≥ -5 percent)	-11.7	-6.9	-22.5	-10.2	-9.4	1 out of 8	1 out of 8
Tax revenue/GDP (≥ 17 percent)	8.3	11.5	11.6	14.9	15.1	1 out of 8	1 out of 8
Sources: Guinea-Bissau authorities, WAEMU, and IMF staff estimates and projections.							
1/ WAEMU countries are Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.							
2/ Total revenue (excluding grants) minus total expenditures, excluding foreign-financed capital spending.							
3/ Excluding Cote d'Ivoire, GDP at PPP-weighted average.							

D. Improving Governance and Fiscal Transparency

29. **There is an urgent need to improve fiscal transparency and accountability.** Adequate expenditure and cash management will help demonstrate the government's capacity to manage its fiscal resources (including donor support) and stem domestic arrears. Staff stressed that a serious weakening in fiscal controls mainly explained the recent fiscal deterioration. The authorities agreed on the need to re-establish credible and comprehensive budget preparation and execution procedures, as well as to re-implement adequate systems of cash and debt management, including proper functioning of the Treasury Committee. The government's emergency fiscal program includes measures to strengthen the Treasury by restoring to it sole responsibility to receive revenues and pay expenditures. In addition, bank accounts of all ministries and public entities will be centralized in a single treasury account at the BCEAO.¹³

30. **The mission also discussed ways to improve collection and transparency of revenues, including nontax revenues.** The authorities indicated that as part of their emergency fiscal program they are planning to undertake a financial audit of all sources of government revenue, including all nontax revenues, to be under the control of the Treasury. The mission encouraged the authorities to continue improving the enforcement and administrative control of fishing licenses. The authorities reported that they are making progress in acquiring equipment to monitor Guinea-Bissau's territorial waters, with support from the AfDB. Staff also discussed the status of oil and phosphate mining exploration and

¹³ The measures are also consistent with the recommendations of the March 2007 joint mission of FAD/West AFRITAC and World Bank Integrated Fiduciary Assessment Public Expenditure Review.

the authorities' plans to manage potential resource revenues.¹⁴ The authorities are exploring the possibility of participating in the Extractive Industries Transparency Initiative and are seeking donor assistance in this regard.

31. **Staff urged the authorities to seek financial and technical support from West AFRITAC and donors to promptly implement the expenditure and revenue measures included in its emergency fiscal program.** The authorities noted that a LICUS (Low Income Country Under Stress) grant from the World Bank would also support technical advisors in key revenue and expenditure departments, as well as a long-term resident macro fiscal advisor (Table 9).

E. Promoting Sustainable Economic Growth and Competitiveness

32. **Guinea-Bissau's overriding economic challenge is to revive growth.** The authorities attributed poor growth primarily to the long-lasting socio-political crisis and the related withdrawal of donor support, which have eroded public institutions, basic services, and infrastructure. Other obstacles to growth include the low skills of the labor force, weak fiscal policies, and mounting levels of domestic arrears, which have undermined the private sector and disrupted normal economic activity. Guinea-Bissau as a result has one of the weakest investment climates according to the World Bank's ranking of 175 countries.¹⁵

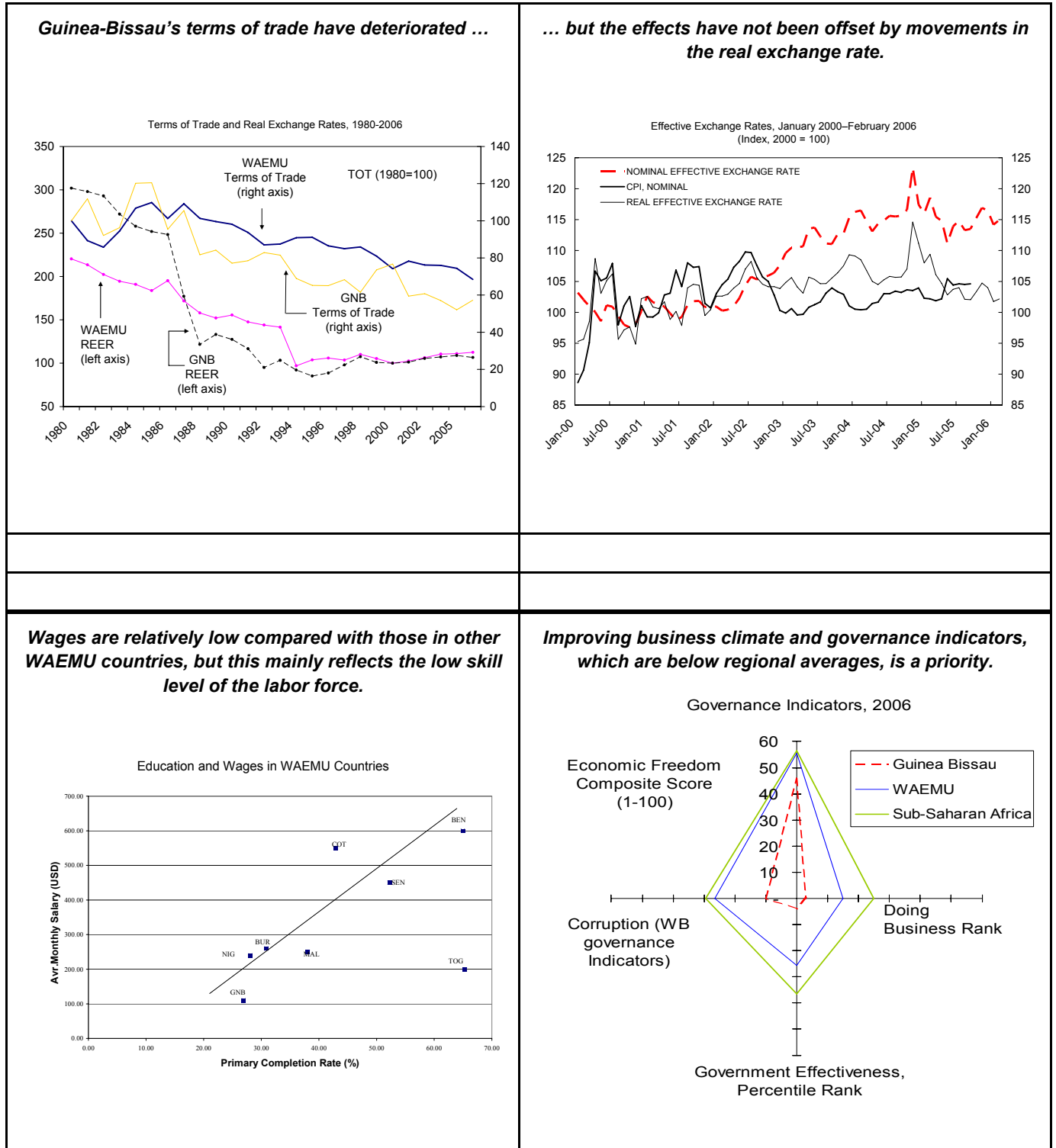
33. **Raising growth requires steps to restore external competitiveness, which was hurt by a 40 percent deterioration in the terms of trade in 2000–06 (Figure 3).** Movements in the real effective exchange rate did not offset the terms-of-trade deterioration. The real effective exchange rate appreciated slightly over this period, largely reflecting WAEMU-wide trends, and is now 8 percent higher than when Guinea-Bissau joined the common currency area in 1997. For the region as a whole, however, the real equilibrium exchange rate is still in line with its long-run equilibrium value.

34. **The authorities and staff agreed that policies to boost growth and competitiveness should focus on improving macroeconomic management and removing infrastructure and regulatory bottlenecks.** Guinea-Bissau's wages are already comparatively low, mainly because of the labor force's limited skills. Steps are needed to (i) resolve the domestic arrears problem; (ii) reallocate spending toward productivity-

¹⁴ The government signed a 25-year, \$127 million contract with Guinea-Bissau Phosphate Mining Ltd (a multinational company based in South Africa). The company expects to start production in late 2008. The government has also granted two new concessions for oil exploration along the country's coastal areas. There are now five areas under concession, but so far no oil reserves have been found.

¹⁵ The World Bank's "Doing Business" report ranks Guinea-Bissau 173.

Figure 3. Guinea-Bissau: External Competitiveness



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

enhancing projects, including public infrastructure, education, and health, while reducing nonpriority outlays; (iii) raise the efficiency of public administration and strengthen fiscal governance; and (iv) simplify the regulatory framework and strengthen the judicial system to improve investor confidence.

35. **There was consensus among policymakers and private sector representatives that the poor electricity supply is one of the greatest obstacles to economic and social development.** Less than 6 percent of the population has access to electricity and the supply is irregular, partly because one of the three operating generation units was damaged in 2006. Staff advised the government to work closely with the World Bank to find a way to meet short-term power-generation needs and to quickly conclude all preparations to launch and implement the Multi-Sector Infrastructure Rehabilitation Project.

36. **Staff discussed the government's strategy for the cashew nut and fishing sectors.** To revive the cashew nut sector, a major revenue source (and income source for the rural population), the government has committed to refrain from again intervening in the price-setting mechanism of the market. Staff and the authorities agreed that, over the medium term, alternative sources of fiscal revenues need to be found in order to limit reliance on export taxes on cashew nuts. To develop the fishery sector, staff advised the authorities to collaborate with neighboring countries under ongoing regional fishery initiatives supported by the World Bank and the European Union.

V. STAFF APPRAISAL

37. **Guinea-Bissau is at a crucial juncture.** The new reform-oriented government has taken early steps to reverse its fiscal deterioration, with measures to improve revenue collection, rein in nonpriority expenditures and clear domestic arrears, including for wages. Early indications are that, if sustained, these reform efforts could generate urgently needed donor support, which are required to provide short-term financing. The authorities now need to seize this window of opportunity and maintain the reform momentum with a decisive push for much-needed structural reforms, particularly in the area of civil and military service and improving the environment for private sector development.

38. **A key priority is to improve economic management in order to restore confidence and shore up donor support.** In this regard, the re-establishment of fiscal discipline, transparent fiscal management, and improved fiscal performance will be essential, as will be efforts to improve the effectiveness of the public investment program.

39. **The government's emergency fiscal program is a promising start and needs to be fully implemented.** In particular, the Treasury Committee must be fully operational and ensure full and transparent management of Treasury operations. Budget execution and monitoring needs to be strengthened and the transparency of the budget improved, including the uses of such nontax revenues as fishing licenses.

40. **Over the medium term, a combination of domestic fiscal adjustment and higher external assistance will be needed to achieve Guinea-Bissau's economic and social objectives.** Continued reforms to strengthen fiscal governance will be critical to increase revenue collection and reallocate spending toward health, education, and infrastructure. Meaningful progress toward the MDGs will require a substantial increase in external assistance.

41. **Sizeable debt relief would also be needed to restore debt sustainability.** The DSA shows that Guinea-Bissau is in debt distress; key debt ratios are well above the country-specific thresholds.

42. **Several factors have adversely affected Guinea-Bissau's external competitiveness, including weak fiscal policy, infrastructure bottlenecks, and a difficult business environment.** Its real effective exchange rate has appreciated slightly in recent years, although the last WAEMU staff report found that, for the region as a whole, the REER is broadly in line with its long-run equilibrium value. The authorities need to focus on fiscal adjustment and productivity-enhancing reforms to boost growth and competitiveness within the existing exchange rate regime.

43. **There is an urgent need to improve the investment climate to foster private sector development.** Efforts must be made to address serious gaps in basic services, infrastructure bottlenecks, legal and regulatory uncertainty, and weaknesses in governance.

44. **Data weaknesses continue to hamper the effectiveness of surveillance.** Data quality is very poor in all sectors and reporting lags are long. More resources must go to the statistic institute. Staff recommends that the authorities seek technical further assistance in this area.

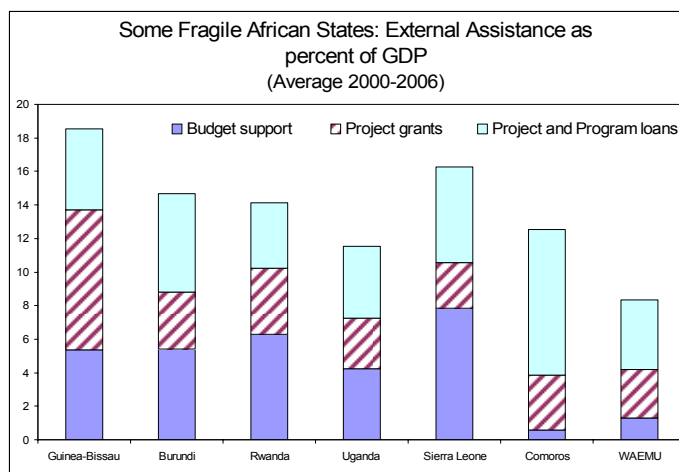
45. **It is proposed that the next Article IV consultation be held on the standard 12-month cycle.**

Box 1. External Aid Flows to Guinea-Bissau: How Much Is Enough?

Guinea-Bissau depends heavily on aid. Total external assistance (including grants and loans) averaged about 19 percent of GDP in 2000–06, much more than the average for the WAEMU region, although the level of budget support is similar to that of other fragile African states.

Most of the external assistance was used to finance capital expenditures. More than two-thirds of external assistance in 2000–06 (14 percent of GDP) was in project grants and loans that financed capital expenditures mainly through the Public Investment Program.

Nevertheless, external assistance for projects, which has surpassed levels in comparable countries, was not associated with an increase in the coverage and quality of basic services and the country's infrastructure continues to be extremely poor. This likely reflects two factors: (i) authorities' overestimation of project execution and financing, as most projects were financed and managed by multilateral agencies (e.g. EU, World Bank), and data was not tracked by the authorities; and (ii) low investment productivity during the protracted political conflict and the virtual collapse of the government's administrative capacity.¹ The amount of budget support received was about 5 percent of GDP on average, similar to other fragile states, and was used mainly to finance the wage bill, which increased rapidly.



Over the medium term, Guinea-Bissau will continue to depend on external assistance to finance its current and capital expenditures. Current levels of fiscal revenues are not sufficient to cover the government's financing needs, and there is little room to improve revenue collection.² As a result, in a basic scenario of limited reform to the government wage bill, the government will need budget support of about 3 percent of GDP to finance its operations. However, for this to materialize, the authorities would need to demonstrate a clear break with the past and firmly commit to implementing key structural reforms and effective expenditure management. In order to reduce its dependence on external budget support, the government has to implement serious reforms to sharply reduce the wage bill to levels commensurate with the country's revenue capacity. As for project support, the government would need to continue to rely on project grants and loans of some 14 percent of GDP over the medium term, a percentage similar to the recent past, to finance its capital expenditures.

Guinea-Bissau: Financing Gap and External Assistance
In percent of GDP

	Medium-Term	
	2000-2006	2008-2012
Revenue	17.3	18.6
<i>of which: taxes</i>	10.0	11.7
Primary expenditure	24.0	20.0
Current primary expenditure	22.8	19.6
<i>of which: wages</i>	9.9	10.6
Domestic primary balance	-6.7	-1.4
Overall Deficit (commit.basis - excl.grants) -A-	-24.3	-17.6
Financing Sources 1/ -B-	2.7	0.5
Financing Gap (A-B)	-21.6	-17.0
Total External Assistance	18.9	17.0
Budget support	5.3	2.9
Project grants and loans	13.5	14.1

Note:

1/ it includes external arrears, debt relief, statistical discrepancies, foreign financing excluding: project and program loans and T-bills and regional financing, and domestic financing excluding commercial bank financing

¹ It should also be noted that ratios to GDP could be lower due to likely underestimation of nominal GDP.

² Guinea-Bissau's tax rates are already broadly in line with those in the rest of the WAEMU region and there is limited administrative capacity to implement significant tax-collection improvement, at least in the near-term.

Table 1. Guinea Bissau: Millenium Development Goals, 1990-2005

	1990	1994	1997	2000	2003	2005
Goal 1: Eradicate extreme poverty and hunger						
Income share held by lowest 20%	..	..	..	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	..	25.00	..	..
Poverty gap at \$1 a day (PPP) (%)	..	..	..	..	..	..
Poverty headcount ratio at \$1 a day (PPP) (% of population)	..	..	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..	..	..
Prevalence of undernourishment (% of population)	..	..	31.00	..	37.00	..
Goal 2: Achieve universal primary education						
Literacy rate, youth total (% of people ages 15-24)	..	..	..	..	..	..
Persistence to grade 5, total (% of cohort)	..	..	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	26.96	..	..
School enrollment, primary (% net)	..	..	..	45.19	..	..
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliament (%)	20.00	..	10.00	..	8.00	14.00
Ratio of girls to boys in primary and secondary education (%)	..	..	..	64.65	..	..
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagric.emp)	10.80	..	..	..	..	..
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	53.00	68.00	51.00	59.00	61.00	80.00
Mortality rate, infant (per 1,000 live births)	153.00	..	..	132.00	..	124.00
Mortality rate, under-5 (per 1,000)	253.00	..	..	215.00	..	200.00
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	..	..	..	34.70	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	1100.00	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Contraceptive prevalence (% of women ages 15-49)	..	..	..	8.00	..	..
Incidence of tuberculosis (per 100,000 people)	161.03	172.02	180.75	189.92	199.56	206.26
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..	2.50
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	3.81	3.79
Tuberculosis cases detected under DOTS (%)	..	..	..	46.23	54.81	79.05
Goal 7: Ensure environmental sustainability						
CO2 emissions (metric tons per capita)	0.21	0.20	0.19	0.19	0.18	..
Forest area (% of land area)	78.81	..	..	75.39	..	73.68
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	..	..	..	..	..	..
Improved sanitation facilities (% of population with access)	..	..	..	..	..	..
Improved water source (% of population with access)	..	..	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..	..	..
Goal 8: Develop a global partnership for development						
Aid per capita (current US\$)	124.42	151.13	98.84	58.79	97.19	49.88
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittance)	22.11	18.43	16.14	19.13	7.99	4.39
Fixed line and mobile phone subscribers (per 1,000 people)	5.86	6.01	6.07	8.14	7.92	..
Internet users (per 1,000 people)	0.00	..	0.16	2.20	12.72	19.54
Personal computers (per 1,000 people)	..	..	..	..	..	..
Total debt service (% of exports of goods, services and income)	31.11	19.08	16.43	..	16.05	..
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..	..
Other						
Fertility rate, total (births per woman)	7.10	..	7.10	7.10	..	7.08
GNI per capita, Atlas method (current US\$)	220.00	200.00	220.00	160.00	130.00	180.00
Gross capital formation (% of GDP)	29.93	21.77	24.00	11.30	12.60	14.60
Life expectancy at birth, total (years)	42.33	..	44.23	44.45	..	45.12
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	..
Population, total (in millions)	1.02	1.15	1.26	1.36	1.49	1.59
Trade (% of GDP)	46.97	50.76	60.90	83.35	77.23	92.89

Source: World Development Indicators

Table 2. Guinea-Bissau: Selected Economic and Financial Indicators

	2003	2004	2005	2006 Prel.1/	2007 Est.	2008 Proj.
(Annual percentage change, unless otherwise indicated)						
National accounts and prices						
Real GDP at market prices	-0.6	2.2	3.5	1.8	3.7	3.1
Real GDP per capita ²	-3.6	-0.8	0.2	-0.3	-0.4	-0.8
GDP deflator	-2.8	2.7	7.7	-0.5	2.6	2.6
Consumer price index (annual average) ³	1.6	0.8	3.4	2.0	3.0	2.6
Consumer price index (end of period) ³	0.7	2.2	1.0	3.2	2.8	2.5
External sector						
Exports, f.o.b. (based on U.S. dollar values)	16.1	21.8	18.2	-31.4	49.8	9.0
Imports, f.o.b. (based on U.S. dollar values)	0.2	17.2	27.9	13.9	5.1	5.3
Export volume	7.4	12.1	0.2	-16.4	45.7	6.4
Import volume	-12.9	1.0	16.1	7.4	1.9	4.4
Terms of trade (deterioration -)	-6.1	-6.3	7.1	-22.6	-0.3	3.6
Real effective exchange rate (depreciation -)	1.6	1.6	-2.0	...	...	...
Nominal exchange rate (CFA francs per U.S. dollar; average)	580.1	527.6	526.6	522.4	...	...
Government finances						
Domestic revenue (excluding grants) ⁴	-4.1	17.7	14.1	12.4	-17.2	45.4
Total expenditure	13.8	33.3	-4.7	-1.3	5.5	0.1
Current expenditure ^{4 5}	3.5	20.6	4.7	5.8	-1.3	-5.0
Capital expenditure	41.3	58.1	-18.7	-14.8	21.9	10.0
Money and credit⁶						
Credit to government (net)	-2.4	-7.4	1.8	-0.6	-7.5	-7.3
Credit to the rest of the economy	-1.8	-1.3	2.6	5.6	8.1	1.6
Broad money ⁷	-65.3	44.0	20.6	5.3	21.6	0.8
Velocity (GDP/broad money)	4.5	3.3	3.0	2.9	2.6	2.7
(Percent of GDP, unless otherwise indicated)						
Investments and savings						
Gross investment	12.6	13.2	14.6	12.2	15.6	16.0
Of which: government investment	11.1	11.1	14.1	10.8	13.4	13.3
Gross domestic savings	-1.6	-3.0	-3.1	-18.6	-4.8	-2.8
Of which: government savings	-16.7	-30.1	-16.7	-17.4	-20.9	-8.0
Gross national savings	9.8	15.5	8.7	1.3	3.7	14.5
Government finances						
Budgetary revenue ⁴	15.2	17.2	17.6	19.5	15.2	20.9
Total domestic primary expenditure ⁴	20.2	24.8	24.5	27.1	25.2	22.1
Domestic primary balance	-5.0	-7.6	-6.9	-7.5	-10.0	-1.2
Overall balance (commitment basis)						
Including grants	-12.9	-15.0	-11.9	-9.7	-17.7	-5.1
Excluding grants	-23.3	-32.2	-24.6	-21.6	-25.6	-17.8
External current account (including official current transfers)						
Excluding official current transfers	-2.8	2.4	-5.8	-10.9	-11.9	-1.5
Excluding official transfers (other than fishing licenses)	-9.7	-9.4	-10.5	-24.3	-13.9	-11.5
Net present value of external debt/exports of goods and nonfactor services (in percent)	-6.2	-6.1	-7.5	-21.4	-13.9	-6.2
Nominal stock of debt, including arrears	474.5	487.7	440.6	436.1	402.9	471.6
Memorandum items (millions of U.S. dollars unless otherwise indicated)						
Current account balance (including official current transfers)	-6.6	6.4	-17.6	-33.7	-40.9	-5.5
Overall balance of payments	-121.0	-10.8	-23.3	-37.6	-59.7	-38.1
Nominal GDP at market prices (billions of CFA francs)	137.1	142.6	158.8	160.9	171.2	181.1
Nominal stock of debt (end of period; excluding arrears)	915.2	1024.0	1002.1	993.3	1012.7	
Nominal stock of arrears, end of period	206.4	293.8	327.0	349.8	371.0	

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

¹ Based on staff updated projections for 2006.

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.

⁴ In 2004, domestic revenue includes CFAF 2,342 million in payments to Guinea-Bissau soldiers participating in the UN Liberia peacekeeping mission. The same amount is recorded in current expenditure under salaries.

⁵ In 2004 and 2005, includes CFAF 3.4 billion for legislative elections and CFAF 1.6 billion for presidential elections.

⁶ Change in percent of beginning-of-period stock of broad money.

⁷ In 2003, the BCEAO corrected its estimate of currency in circulation resulting in a large drop of base money.

Table 3. Guinea-Bissau: Balance of Payments, 2003–08

	2003	2004	2005	2006 Prel.	2007 Est. 1/	2008 Proj.
(Billions of CFA francs)						
Goods and services	-19.4	-23.1	-28.0	-49.5	-35.0	-34.0
Goods	-5.0	-3.8	-8.7	-31.0	-17.4	-16.5
Exports, f.o.b	36.1	40.0	47.2	32.1	45.9	49.9
Of which : cashew nuts	32.3	38.4	44.7	29.5	43.3	47.1
Imports, f.o.b	-41.1	-43.8	-55.9	-63.2	-63.3	-66.4
Services (net)	-14.4	-19.3	-19.3	-18.5	-17.6	-17.4
Credit	5.0	4.1	4.1	4.7	4.5	4.6
Debit	-19.4	-23.4	-23.4	-23.2	-22.1	-22.0
Income (interest scheduled)	-7.3	-6.0	-6.3	-4.9	-4.4	-4.0
Current transfers (net)	22.8	32.5	25.0	36.8	19.0	35.3
Official ^{2,3}	9.4	16.8	12.1	21.6	3.5	18.1
Of which: balance of payments support grants	4.8	12.0	5.1	10.2	3.5	8.6
Of which: EU fishing compensation	4.8	4.8	4.8	4.8	0.0	9.5
Private	13.4	15.7	12.9	15.3	15.5	17.2
Of which: fishing license fees	3.2	4.2	2.8	2.4	2.4	3.4
Current account	-3.8	3.4	-9.3	-17.6	-20.4	-2.7
Including official transfers	-3.8	3.4	-9.3	-17.6	-20.4	-2.7
Excluding official transfers ⁴	-8.5	-8.6	-16.6	-34.4	-23.8	-11.3
Excluding official transfers and interest payments ⁴	-1.2	-2.6	-10.3	-29.5	-19.5	-7.3
Capital and financial balance	-66.4	-9.0	-3.0	-2.1	-9.4	-16.2
Capital account	9.4	15.4	23.7	17.6	12.3	16.6
Financial account	-75.8	-24.5	-26.7	-19.6	-21.7	-32.8
Official medium- and long-term disbursements	8.0	13.8	6.2	8.8	11.6	11.3
Balance of payments support	2.3	7.6	0.0	0.0	0.0	0.0
Projects	5.7	6.2	6.2	8.8	11.6	11.3
Scheduled amortization	-19.0	-18.9	-18.0	-13.4	-12.7	-12.8
Treasury bills and regional financing	0.0	0.0	10.0	-1.1	-9.4	0.0
Commercial banks' net foreign assets	-9.8	0.1	5.9	-10.0	7.0	-6.5
Private net foreign assets and errors and omissions ⁵	-55.0	-19.4	-30.7	-3.9	-18.3	-24.8
Overall balance	-70.2	-5.7	-12.3	-19.7	-29.8	-18.9
Financing	70.2	5.7	12.3	19.7	29.8	18.9
Net foreign assets (increase -) ⁵	43.5	-18.9	-10.3	3.0	-17.0	2.0
Of which: net IMF credits	-2.8	-2.8	-1.1	-2.2	-1.9	-0.9
Purchases and loans	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases and repayments	-2.8	-2.8	-1.1	-2.2	-1.9	-0.9
Debt relief	5.1	4.5	5.3	5.4	3.8	0.7
Change in debt-service arrears (decrease -)	21.6	20.0	17.2	11.9	10.6	9.7
Financing gap	0.0	0.0	0.0	-0.6	32.3	6.5
<i>Memorandum items</i>						
Export volume growth (percent)	7.4	12.1	0.2	-16.4	45.7	6.4
Import volume growth (percent)	-12.9	1.0	16.1	7.4	1.9	4.4
Scheduled debt service						
In percent of exports and service credits	64.0	56.6	47.5	49.8	33.7	31.0
In percent of total government revenue	126.1	101.8	87.1	58.2	65.4	44.6
Current account balance (percent of GDP)						
Including official transfers	-2.8	2.4	-5.8	-10.9	-11.9	-1.5
Excluding official transfers	-9.7	-9.4	-10.5	-24.3	-13.9	-11.5
Stock of external arrears, end of period	119.9	140.0	157.2	169.1	179.7	189.4
Overall balance (percent of GDP)	-51.2	-4.0	-7.7	-12.2	-17.4	-10.4
Financing gap (percent of GDP)	0.0	0.0	0.0	-0.4	18.9	3.6

Sources: BCEAO; and IMF staff estimates and projections.

¹Based on staff updated projections for 2006

²Including food aid and technical assistance to projects

³In 2004, includes CFAF 2,342 million for remuneration to Guinea-Bissau soldiers for participation in the UN peace keeping mission in Liberia.

⁴Does not exclude fishing licenses.

⁵A drop in the level of net foreign assets in 2003 reflects a change in the methodology for the calculation of this series by BCEAO applied for 2003 and afterward. The counterpart of this break in the net foreign assets series in 2003 is included under errors and omissions.

Table 4. Guinea-Bissau: Monetary Survey, 2003–07

	2002	2003 ¹	2004	2005	2006 Prel.	2007 Est.
(Billions of CFA francs)						
Total assets	87.0	30.2	43.4	52.4	55.2	67.1
Net foreign assets	48.3	13.7	32.5	36.7	43.2	53.2
Central bank	51.2	7.7	26.6	36.9	33.9	50.9
Deposit money banks	-3.0	6.0	5.9	-0.2	9.3	2.3
Assets	5.5	6.0	6.5	4.3	10.0	
Liabilities	-8.4	0.0	-0.5	-4.6	-0.7	
Net domestic assets	38.8	16.4	10.9	15.7	12.0	13.9
Net domestic credit	23.0	17.8	12.0	15.9	18.6	18.8
Net claims on government	18.8	15.2	9.7	12.5	12.2	8.0
Net claims on central government	18.8	15.2	9.7	12.5	12.2	8.0
Central bank	19.7	16.0	10.5	13.2	12.4	8.5
Claims	20.2	17.9	15.1	13.9	13.0	8.8
Advances to the treasury	14.3	12.0	9.5	8.4	7.6	3.5
Statutory limit	2.8	2.6	2.1	1.9	1.6	1.4
Use of Fund credit	11.4	9.5	7.4	6.3	4.1	2.2
Other advances			0.0	0.2	1.9	0.0
Consolidated loans	5.9	5.8	5.6	5.5	5.4	5.3
Deposits	-0.5	-1.9	-4.6	-0.7	-0.6	-0.3
Deposit money banks	-0.9	-0.8	-0.7	-0.7	-0.1	-0.5
Claims	0.3	0.5	1.0	3.0	3.6	3.6
Deposits	-1.2	-1.3	-1.7	-3.7	-3.7	-4.1
Credit to the economy	4.2	2.7	2.3	3.4	6.3	10.8
Other items (net)	15.8	-1.4	-1.1	-0.2	-6.6	-4.9
Liabilities	87.0	30.2	43.4	52.4	55.2	67.1
Broad money	87.0	30.2	43.4	52.4	55.2	67.1
Local currency	87.0	30.2	43.4	52.4	55.2	67.1
Base money	71.1	21.3	32.6	40.5	39.7	42.6
Demand deposits and quasi money	15.9	8.9	10.9	11.8	15.5	24.5
Demand deposits	14.6	8.3	10.3	11.0	12.7	13.9
Quasi money	1.3	0.6	0.6	0.8	2.8	10.5
(Annual change as percent of beginning-of-period money stock, unless otherwise indicated)						
Net foreign assets	23.9	-39.7	62.4	9.5	12.4	18.1
Net domestic assets	0.3	-25.7	-18.4	11.1	-7.1	3.5
Domestic credit	4.5	-6.0	-19.3	8.9	5.2	0.4
Credit to the government	0.3	-2.4	-7.4	1.8	-0.6	-7.5
Credit to the economy (percent)	-0.3	-1.8	-1.3	2.6	5.6	8.1
Other items (net)	-4.3	-19.7	0.9	2.1	-12.3	3.1
Broad money	24.2	-65.3	44.0	20.6	5.3	21.6
Velocity (GDP/M2)	1.6	4.5	3.3	3.0	2.9	2.6

Sources: BCEAO and IMF staff estimates and projections.

¹In 2003, the BCEAO revised its estimate of currency in circulation, broad money, and net foreign assets.

Table 5. Guinea-Bissau: Quantitative Indicators under the 2006 Staff Monitored Program 1/
(in CFAF billions)

	2006					
	End-July		End-Oct.		End-Dec.	
	Actual	Prog	Actual	Prog	Actual	Prog.
Domestic financing of the budget 2/	-5.7	-6.0	-1.3	2.5	-1.8	-2.1
Domestic primary budget balance (commitment basis) 3/	-8.4	-4.4	-12.4	-7.2	-12.1	-6.3
Revenue 4/	15.0	18.0	20.0	27.0	31.5	34.9
Wage bill 5/	12.0	11.6	14.7	16.2	20.5	19.2
Accumulation of domestic arrears 5/	3.0	3.0	0.0	0.0	7.9	0.0
External public debt, maturities ≤1 year 5/	0.0	0.0	0.0	0.0	0.0	0.0
External non-concessional public debt, maturities > 1 year 5/	0.0	0.0	0.0	0.0	0.0	0.0

1/ Cumulative from January 1 of the corresponding year. The definition of the aggregates for 2006 is provided in the technical memorandum of understanding.

2/ Ceiling. If the actual amount of external budgetary assistance falls short of program forecasts, the ceiling will be increased for the full amount of the shortfall. The programmed amounts of external assistance in 2006 are (on a cumulative basis) CFAF 9.1 billion by end-July, CFAF 12.4 billion by end-October, and CFAF 19.9 billion by end-December. Definition applied in 2005 includes payment of previous years domestic arrears and therefore differs from definition applied in 2006 as stated in TMU.

3/ Floor. If the actual amount of external budgetary assistance surpasses program forecasts, the floor will be decreased by the full amount of the difference between actual and programmed external budgetary assistance. The programmed amounts of external assistance in 2006 are (on a cumulative basis) CFAF 9.1 billion by end-July, CFAF 12.4 billion by end-October, and CFAF 19.9 billion by end-December.

4/ Floor. This floor on revenue will be fully adjusted for advances or delays in the EU's compensation for fishing rights compared with the assumptions underlying the program. The program assumes payments of CFAF 4.8 billion in December 2006

5/ Ceiling.

Table 6. Guinea-Bissau: Structural Benchmarks Under the Staff-Monitored Program, April 1, 2006—December 31, 2006

Pre-conditions	Target date	Status as of October 23, 2006
Approval of organic laws of ministries by the Council of Ministers	Mid-May 2006	Done
Submission to Parliament of the government budget fully consistent with the fiscal program presented in this MEFP	Mid-May 2006	Done
Structural Indicators		
Launch of a test-based recruitment program of high-level civil servants	End-July 2006	Not met
Eliminate discretionary customs duty exemptions (i.e., those not set under international conventions)	End-July 2006	Partially met
Implement an excise stamp or banderole for alcoholic beverages and cigarettes	End-July 2006	Met
Implement military census	End-July 2006	Met with delay
Identify civil servants and military personnel to be laid off during 2006	End-July 2006	Met with delay
Enact the new electricity bill for the energy sector	End-September 2006	Partially met
Introduce an automatic adjustment mechanism for petroleum product prices	End-December 2006	Met
Bring three state-owned companies in the production and commercial sectors to the point of sale	End-December 2006	Partially met

Table 7. Guinea-Bissau: Central Government Operations, 2003–08

(in billions of CFA francs)

	2003	2004	2005	2006	2007	2008
				SMP	Prel. Est. 1/	Proj.
Revenue and grants	35.1	49.1	48.2	68.6	50.6	60.8
Revenue	20.8	24.5	28.0	34.9	31.5	37.8
Tax revenue	11.9	11.8	18.3	20.5	18.5	21.2
Nontax revenue ²	8.9	12.7	9.6	14.3	13.0	16.6
Grants	14.3	24.5	20.2	33.7	19.1	22.9
Budget support	4.8	12.0	5.1	19.9	10.2	8.6
Project grants ³	9.5	12.5	15.2	13.8	8.9	14.3
Total expenditure	52.8	70.4	67.1	64.8	66.2	70.0
Current expenditure	34.9	42.1	44.0	42.3	46.6	43.7
Wages and salaries ²	13.6	16.2	21.3	19.2	20.5	21.3
Goods and services	3.9	4.5	7.6	5.6	7.9	6.8
Transfers	5.1	5.0	6.1	9.4	8.3	9.0
Other current expenditures ³	4.5	7.7	2.4	3.0	4.9	2.2
Capital expenditure and net lending	17.9	28.3	23.1	22.5	19.7	26.4
Public Investment Program	15.3	15.8	22.4	20.0	17.4	24.2
Domestically financed	0.1	0.5	1.1	2.3	0.4	0.7
Foreign financed	15.2	15.3	21.4	17.7	17.0	23.5
Other capital expenditure	2.7	12.5	0.6	2.5	2.3	2.2
Overall balance, including grants (commitment basis)	-17.7	-21.4	-18.9	3.8	-15.6	-9.2
Overall balance, excluding grants (commitment basis)	-32.0	-45.9	-39.1	-30.0	-34.8	-32.2
Net domestic arrears	14.8	1.5	-0.1	-0.5	5.5	0.0
Accumulation current year	17.7	3.9	4.2	0.0	7.9	0.0
Payments previous years	-2.9	-2.4	-4.3	-0.5	-2.3	0.0
External interest arrears current year	5.8	4.5	3.8	3.0	3.2	2.4
Float and statistical discrepancies	-6.9	2.0	-1.0	0.0	0.0	0.0
Overall balance, including grants (cash basis)	-4.0	-13.3	-16.2	6.3	-6.9	-6.8
Financing	4.0	13.3	16.2	-6.3	6.9	6.8
Domestic financing	-5.4	-1.6	-0.7	1.0	-0.8	-6.1
Bank financing ⁵	-4.5	-1.2	-0.8	0.5	0.5	-6.1
Of which: IMF repayments/repurchases	-2.8	-2.8	-1.1	-2.2	-2.2	-0.9
Nonbank financing	-1.0	-0.4	0.2	0.6	-1.3	0.0
Foreign financing (net)	9.4	14.9	16.9	-4.4	8.3	6.5
Disbursements	8.0	13.8	6.2	4.6	8.8	11.3
Projects	5.7	6.2	6.2	4.6	8.8	11.3
Programs	2.3	7.6	0.0	0.0	0.0	0.0
Amortization (scheduled)	-19.0	-18.9	-18.0	-14.1	-13.4	-12.8
Treasury bills and regional financing	0.0	0.0	10.0	-10.0	-1.1	0.0
Of which: T-bills regionally placed			9.0	-9.0	0.7	0.0
External arrears	15.8	15.5	13.4	9.5	8.7	7.3
Debt relief	4.7	4.5	5.3	5.6	5.4	0.7
Gross financing gap (+ = financing needs)	0.0	0.0	0.0	-2.9	-0.6	6.5
Identified budget support					0.0	0.0
Residual financing gap				-2.9	-0.6	6.5
Domestic primary balance ⁶	-6.8	-10.8	-11.0	-6.3	-12.1	-2.1
Revenue	20.8	24.5	28.0	34.9	31.5	37.8
Primary expenditure	27.7	35.3	39.0	41.2	43.5	40.0
Current	27.2	33.3	37.3	37.1	41.6	39.3
Capital	0.5	2.0	1.7	4.1	2.0	0.7
<i>Memo item</i> : Effective plus identified budget support	4.8	12.0	5.1	19.9	10.2	8.6

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

Table 7. Guinea-Bissau: Central Government Operations, 2003–08 (concluded)

(Percent of GDP)

	2003	2004	2005	2006	2007	2008	
				SMP	Prel.	Est. 1/ Proj.	
Revenue and grants	25.6	34.4	30.4	42.6	31.5	23.1	33.6
Revenue	15.2	17.2	17.6	21.7	19.5	15.2	20.9
Tax revenue	8.7	8.3	11.5	12.7	11.5	11.7	11.7
Nontax revenue ²	6.5	8.9	6.1	8.9	8.1	3.5	9.2
Grants	10.4	17.2	12.7	21.0	11.9	7.9	12.7
Budget support	3.5	8.4	3.2	12.4	6.4	2.0	4.7
Projects ³	6.9	8.8	9.6	8.6	5.6	5.9	7.9
Expenditure	38.5	49.4	42.2	40.3	41.2	40.8	38.7
Current expenditure	25.5	29.5	27.7	26.3	29.0	26.9	24.1
<i>Of which: wages and salaries</i> ²	10.0	11.3	13.4	11.9	12.8	12.5	11.8
Interest	5.6	6.1	4.2	3.2	3.1	3.0	2.4
Domestic interest	0.3	1.9	0.3	0.2	0.1	0.4	0.2
External interest (scheduled)	5.3	4.2	4.0	3.0	3.0	2.5	2.2
Capital expenditure and net lending	13.1	19.9	14.5	14.0	12.2	14.0	14.6
Public Investment Program	11.1	11.1	14.1	12.4	10.8	13.4	13.3
Domestically financed	0.0	0.3	0.7	1.4	0.2	0.7	0.4
Foreign financed	11.1	10.8	13.5	11.0	10.6	12.7	13.0
Other capital expenditure	1.9	8.8	0.4	1.6	1.4	0.6	1.2
Domestically financed	0.3	1.1	0.4	1.1	1.0	0.6	0.0
Foreign financed (including DRRP ⁴)	1.7	7.7	0.0	0.4	0.4	0.0	1.2
Domestically-financed projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other domestically-financed capital expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign-financed projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (commitment basis)	-12.9	-15.0	-11.9	2.4	-9.7	-17.7	-5.1
Overall balance, excluding grants (commitment basis)	-23.3	-32.2	-24.6	-18.6	-21.6	-25.6	-17.8
Overall balance, including grants (cash basis)	-2.9	-9.3	-10.2	3.9	-4.3	-18.7	-3.8
Financing	2.9	9.3	10.2	-3.9	4.3	18.7	3.8
Domestic financing ⁵	-4.0	-1.1	-0.4	0.6	-0.5	-0.9	-3.4
Foreign financing (net)	6.9	10.5	10.6	-2.8	5.2	0.7	3.6
<i>Of which: external arrears</i>	11.5	10.9	8.4	5.9	5.4	4.6	4.0
<i>Of which: debt relief</i>	3.4	3.2	3.3	3.5	3.3	2.2	0.4
Financing gap (+ = financing needs)	0.0	0.0	0.0	-1.8	-0.4	18.9	3.6
Identified budget support				0.0	0.0	9.1	
Residual financing gap				-1.8	-0.4	9.7	
Domestic primary balance ⁶	-5.0	-7.6	-6.9	-3.9	-7.5	-10.0	-1.2
Revenue	15.2	17.2	17.6	21.7	19.5	15.2	20.9
Primary expenditure	20.2	24.8	24.5	25.6	27.1	25.2	22.1
Current	19.8	23.4	23.5	23.1	25.8	23.9	21.7
Capital	0.3	1.4	1.1	2.5	1.2	1.3	0.4
Effective plus identified budget support	3.5	8.4	3.2	12.4	6.4	11.2	4.7

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

¹Staff estimates based on draft budget version June 6, 2007.²In 2004, domestic revenue includes CFAF 2,342 million, representing payment to Guinea-Bissau soldiers for services to the peacekeeping mission in Liberia. The same is recorded in current expenditure under salaries.³In 2004, includes an amount of CFAF 3.4 billion in donor funding for legislative elections.⁴Demobilization, reinsertion, and reintegration program.⁵Capital contribution to the WAEMU not included.⁶Defined as revenue (excluding grants) minus primary current expenditure, minus domestically financed capital expenditure.

Table 8. Guinea-Bissau: Medium Term Scenario, 2003–12

	2003	2004	2005 Prel.	2006 Prel.	2007 Est.	2008 Proj.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.
(Annual percentage change, unless otherwise indicated)										
National accounts and prices										
Real GDP at market prices	-0.6	2.2	3.5	1.8	3.7	3.1	3.3	3.6	3.8	4.0
Real GDP per capita 1/	-3.6	-0.8	0.2	-0.3	-0.4	0.6	0.9	1.2	1.4	1.4
GDP deflator	-2.8	2.7	7.7	-0.5	2.6	2.6	2.5	2.4	2.3	2.3
Consumer price index (annual average) 2/	1.6	0.8	3.4	2.0	3.0	2.6	2.5	2.5	2.4	2.4
Consumer price index (end-of-period) 2/	0.7	2.2	1.0	3.2	2.8	2.5	2.5	2.5	2.4	2.4
External sector										
Exports, f.o.b. (based on U.S. dollar values)	16.1	21.8	18.2	-31.4	49.8	9.0	7.1	7.6	7.8	7.8
Imports, f.o.b. (based on U.S. dollar values)	0.2	17.2	27.9	13.9	5.1	5.3	4.2	5.4	6.9	7.0
Export volume	7.4	12.1	0.2	-16.4	45.7	6.4	4.6	5.1	5.3	5.4
Import volume	-12.9	1.0	16.1	7.4	1.9	4.4	5.6	6.3	6.8	4.5
Terms of trade (deterioration -)	-6.1	-6.3	7.1	-22.6	-0.3	3.6	4.0	3.5	-0.2	-0.2
Government finances										
Domestic revenue (excluding grants) 3/	-4.1	17.7	14.1	12.4	-17.2	45.4	-8.8	6.1	6.2	6.3
Total expenditure	13.8	33.3	-4.7	-1.3	5.5	0.1	1.2	0.6	6.0	6.1
Current expenditure 3/ 4/	3.5	20.6	4.7	5.8	-1.3	-5.0	-1.2	-2.9	5.8	5.9
Capital expenditure	41.3	58.1	-18.7	-14.8	21.9	10.0	5.3	6.1	6.2	6.3
Money and credit 5/										
Credit to government (net)	-2.4	-7.4	1.8	-0.6	-7.5	-7.3	-2.0	-1.5	-0.8	-0.7
Credit to the rest of the economy	-1.8	-1.3	2.6	5.6	8.1	1.6	1.8	1.8	1.9	2.0
Broad money	-65.3	44.0	20.6	5.3	21.6	0.8	5.8	6.1	6.2	6.3
Velocity (GDP/broad money)	4.5	3.3	3.0	2.9	2.6	2.7	2.7	2.7	2.7	2.7
(In percent of GDP, unless otherwise indicated)										
Investments and savings										
Gross investment	12.6	13.2	14.6	12.2	15.6	16.0	16.1	16.1	16.2	16.5
Of which: government investment	11.1	11.1	14.1	10.8	13.4	13.3	13.3	13.3	13.3	13.3
Gross domestic savings	-1.6	-3.0	-3.1	-18.6	-4.8	-2.8	-1.2	0.2	-0.8	-0.5
Of which: government savings	-16.7	-30.1	-16.7	-17.4	-20.9	-8.0	-10.8	-7.6	-8.0	-10.8
Gross national savings	9.8	15.5	8.7	1.3	3.7	14.5	8.8	10.2	9.1	9.2
Government finances										
Budgetary revenue 3/	15.2	17.2	17.6	19.5	15.2	20.9	18.0	18.0	18.0	18.0
Total domestic primary expenditure 3/	20.2	24.8	24.5	27.1	25.2	22.1	20.8	19.0	19.0	19.0
Domestic primary balance	-5.0	-7.6	-6.9	-7.5	-10.0	-1.2	-2.8	-0.9	-0.9	-0.9
Overall balance (commitment basis)										
Including grants	-12.9	-15.0	-11.9	-9.7	-17.7	-5.1	-11.1	-9.2	-9.2	-9.1
Excluding grants	-23.3	-32.2	-24.6	-21.6	-25.6	-17.8	-19.0	-17.1	-17.0	-16.9
External current account (including official current transfers)										
Excluding official current transfers	-2.8	2.4	-5.8	-10.9	-11.9	-1.5	-7.2	-5.9	-7.2	-7.3
	-9.7	-9.4	-10.5	-24.3	-13.9	-11.5	-9.7	-8.4	-9.6	-9.8
(In billions of CFA francs, unless otherwise specified)										
Memorandum items (in millions of US dollars unless otherwise indicated)										
Current account balance (including official current transfer	-6.6	6.4	-17.6	-33.7	-40.9	-5.5	-28.1	-24.5	-31.4	-34.1
Overall balance of payments	-121.0	-10.8	-23.3	-37.6	-59.7	-38.1	-34.1	-22.7	-26.6	8.3
Nominal GDP at market prices (in billions of CFA francs)	137.1	142.6	158.8	160.9	171.2	181.1	191.5	203.2	215.8	229.4

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

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

2/ There is a break in the series in July 2002, when Guinea-Bissau adopted a new Harmonized CPI Index.

3/ In 2004, domestic revenue includes CFAF 2,342 million in payments to Guinea-Bissau soldiers participating in the UN Liberia peace keeping mission. The same amount is recorded in current expenditure under salaries.

4/ In 2004, includes CFAF 3.4 billion for legislative elections. In 2005 includes CFAF 3.6 billion for presidential elections.

5/ Change in percent of beginning-of-period stock of broad money.

Table 9. Technical Assistance Needs of the Ministry of Finance

Department	Area	Long Term	Short Term	(Possible) Provider
Cabinet Minister	Macroeconomic advisor	X ¹		(WB LICUS/IMF)
Budget	Expert expenditure management	X		(EU)
	Expert expenditure management	X		(EU)
	Accounting system	X		(France)
	Computerization expenditure accounts	X ²		France/EU
	Public financial management		X	IMF/FAD
Treasury	Advisor to the Treasurer	X		BCEAO/WB LICUS
	Advisor		X	
Tax Department	Expert on tax code		X	(Portugal/IDB)
	Computerization of revenue accounting	X		
	Advisor Directorate of Large Enterprises		X (6 months)	(West AFRITAC)
Customs	Advisor for revising customs statute	X		IDB/WB LICUS
	Customs advisor	X		
	Advisor implementing ASYCUDA ++			AfDB
External debt	Debt management		X ³	DRI/IDB
Microfinance	Advisor		X	(West-AFRITAC)
Conjuncture	Advisor, fiscal analysis	X		
Planning	National accounts advisor	X		
	Implementation System of National Accounts 1993		X	IMF/AFRISTAT

¹ TA requested and under consideration.

² TA in place.

³ First mission conducted in January 2005.

INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

Joint World Bank/IMF Debt Sustainability Analysis

Prepared by the staffs of the International Development Association and
the International Monetary Fund

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This analysis assesses the sustainability of Guinea-Bissau's external public and domestic debt. The debt sustainability analysis (DSA) was conducted jointly by the staffs of the IMF and the World Bank using the joint Bank-Fund framework for debt sustainability analysis for low-income countries. The bilateral external debt data underlying this DSA were provided by the Bissau authorities. The multilateral debt data provided by the authorities were reconciled with information obtained from the creditors. On the basis of this DSA, the staffs conclude that Guinea-Bissau is in debt distress.

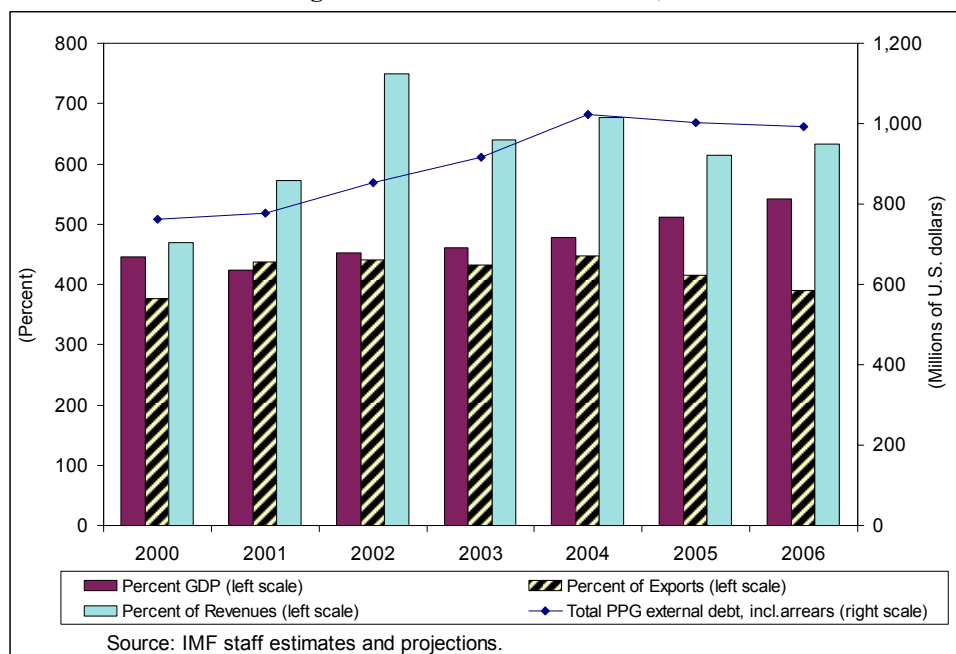
I. BACKGROUND

1. **At end-2006, Guinea-Bissau's total public debt amounted to \$1,242 million or 403 percent of GDP in nominal terms¹ (306 percent of GDP in NPV terms).** External debt is the largest component, with the stock of external public and publicly guaranteed (PPG) debt at \$993 million, of which \$350 million is in arrears (Tables 1 and 2). Multilateral debt amounts to 48 percent of total PPG debt (14 percent is owed to AfDB/AfDF, 29 percent is owed to IDA, 0.8 percent is owed to IMF) and bilateral and commercial debt amounts to 52 percent. The NPV of external debt amounts to \$766 million or 249 percent of GDP and 1087 percent of exports. Despite the concessional nature of most of the external debt, the

¹ Table 2a shows a different number for the nominal debt to GDP ratio, as it includes liabilities associated to WAEMU rights in NPV terms instead of nominal terms.

debt burden indicators far exceed the relevant policy dependent debt thresholds (Text Table 1).²

Figure 1: Stock of External Debt, 2000-06

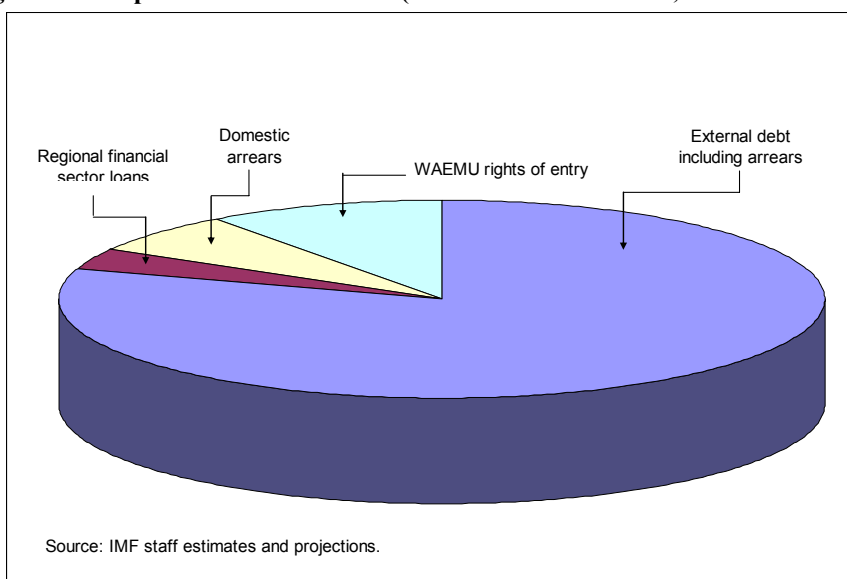


2. **Domestic debt has become an increasingly larger share of total public debt, reaching 20 percent of total debt in 2006 from 15 percent in 2000.** The main component of this debt corresponds to a required capital contribution to join WAEMU. Under the terms of its accession to the WAEMU in 1998, Guinea-Bissau agreed to contribute an equal share as the other members in the capital contribution of the central bank (BCEAO) and the regional development bank (BOAD). The contribution amounting to CFAF 70 billion (44 percent of 2006 GDP) is to be paid over 25 years starting in 2005, but only a small fraction of it has been paid using distributed dividends. There is also a sizable amount in domestic arrears, most of which accumulated during the period 2000–06. These arrears will be subject to an external audit to be completed in 2007 which will provide a more accurate determination of the actual amount³. Finally, the government has a debt with the BCEAO and took additional debt from commercial banks during the last two years.

² According to the World Bank Country Policy and Institutions Assessment (CPIA), Guinea-Bissau is classified as a country with poor quality of policies and institutions. Its average CPIA rating for 2004–06 is 2.7, on a scale from 1 to 6, below the operational cutoff of 3.25 for poor performers.

³ For this sustainability exercise, we estimate the stock of arrears at CFAF 42 billion, which includes already audited arrears accumulated before 2000 (CFAF 20 billion) and about 50 percent of nonaudited arrears accumulated during 2000–06.

Figure 2: Composition of Public Debt (Debt Stock at end 2006; millions of CFCA)



3. **Guinea-Bissau reached the HIPC decision point in 2000 but failed to maintain macroeconomic stability causing its PRGF-supported program to go off track at a very early stage.** Two Fund Staff-Monitored Programs followed, in 2005 and 2006. Progress under both SMPs was mixed.⁴ A full PRSP was finalized in 2006 after many delays owing to political instability and capacity constraints.⁵

4. **In 2007, the government agreed to a new timeline to re-engage in programs supported by the IMF and the World Bank, aiming to reach the completion point under the HIPC Initiative by end-2010.** Discussions are ongoing for possible EPCA disbursements over a period up to three years, so as to build the necessary track record to move to a formal PRGF-supported program, followed soon thereafter by possible HIPC completion point.⁶

5. **Since the 2000 PRGF went off track, Guinea-Bissau has not benefited from most of the debt relief committed at decision point.** At the decision point in 2000, creditors representing 80 percent of Guinea-Bissau's external debt pledged to provide HIPC relief amounting to \$416 million in NPV terms (estimated at about \$790 million in nominal terms). Since 2001, Guinea-Bissau has had to service a large share of external debt in full. The IMF

⁴ See IMF Country Report No. 06/312.

⁵ See Poverty Reduction Strategy Paper (www.imf.org).

⁶ A number of conditions must be met before Guinea-Bissau could reach the completion point under the HIPC Initiative, including satisfactory performance under a PRGF-supported program, which would require, among others, satisfying the Fund's nontolerance of arrears policy (i.e., agreement must be reached on a repayment schedule of post-cut-off-date arrears with Paris Club creditors).

suspended the provision of interim relief and the Paris Club declared null and void any debt rescheduling agreements beyond end-2001. Many agreements signed with other multilateral and bilateral creditors have not been implemented because the country failed to remain current on debt service obligations.⁷ The African Development Bank (AfDB) provided interim relief up until 2006 and IDA continued to provide it in 2007.⁸ However, the statutory ceiling for the delivery of interim relief, which was reached by AfDB in January 2007,⁹ is expected to be reached by IDA at the end of this same year.¹⁰ Only China and Cuba canceled all outstanding claims.

6. **After the decision point, Guinea-Bissau could not service its external debt and accumulated arrears to most of its external creditors.** Since 2001, the country has not repaid any creditor that did not provide interim relief, with the exception of the IMF. The stock of arrears has increased from \$139 million before decision point to \$350 million at end-2006.

II. UNDERLYING DSA ASSUMPTIONS

7. **The medium-term macroeconomic assumptions underlying the baseline projection scenario are described in detail in Box 1.**¹¹ GDP growth projections have been revised downward compared to the 2006 DSA, with medium-term growth now projected at 3.6 percent on average during 2007–12, compared to 4.8 percent in the 2006 DSA, while long run projections are also revised downwards to 4.5 percent average annual growth (2013–27) instead of 5 percent previously assumed. Underlying this downward revision are greater uncertainties about the recovery of the cashew sector and more conservative assumptions about the implementation of needed structural reforms, including civil service reforms.

⁷ See *Guinea-Bissau, Selected Issues and Statistical Appendix*, November 2004, (IMF Country Report No. 05/93) Box 10, for a comprehensive list of debt rescheduling agreements reached by Guinea-Bissau with the creditors as part of the provision of HIPC relief.

⁸ Interim relief from IDA amounted to 100 percent of debt service falling due on debt disbursed before end-1999 until October 2003, the expected date of the completion point. Interim relief was decreased to 90 percent of debt service thereafter. The AfDB extended 100 percent debt service relief to end-2006.

⁹ AfDB's interim debt relief through January 2007 covered only a fraction of the scheduled debt service payments, and stopped thereafter.

¹⁰ IDA could at its discretion extend interim relief to 50 percent of total HIPC relief based on satisfactory progress toward the completion point triggers and maintenance of a sound macroeconomic program. The AfDB could raise the interim relief ceiling from 40 percent to 50 percent, but AfDB officials have indicated that this is unlikely.

¹¹ Also see Section III of main text.

Box 1. Macroeconomic Assumptions Under the Baseline Scenario

- **GDP growth** rate increases from 1.8 percent in 2006 to 4 percent by 2012, and reaches 4.5 percent by 2017 and over the long term.
- **GDP deflator** is assumed to grow at a rate slightly below CPI inflation, due to expected worsening in the terms of trade. After 2012, both GDP deflator and CPI are assumed to increase at a rate of 2 percent.
- The noninterest **current account deficit** is assumed to decrease over the medium term, converging to 2.3 percent of GDP by 2010, one percentage point below past average levels, reflecting significant export growth and fiscal consolidation. Exports are assumed to grow at around 7.5 percent per annum over the medium and long run.
- The **domestic primary fiscal deficit**¹ is assumed to decrease from 7.5 percent of GDP in 2006 to 1 percent by 2010, maintaining this level from then on. The wage bill is projected to remain constant in nominal terms over the next two years, while off-budget expenses are expected to decrease significantly. Revenue collection efforts are expected to be maintained as a ratio to GDP.
- **External assistance.** Budget support grants are projected at 2.6 percent of GDP per annum (similar to average level observed over the last six years excluding World Bank IDA grants). Project grants and loans are projected at nearly 8 percent and 6.3 percent of GDP, respectively, reflecting implementation of public investment programs at similar rates as in the past. Financial gaps remaining are assumed to be financed through highly concessional loans, with the grant element in new disbursements assumed to remain slightly above 50 percent.
- **Domestic borrowing.** The DSA assumes that current domestic debts to the banking sector are repaid before end-2008. For domestic arrears, it is assumed that they will be audited and fully repaid by 2010. It is assumed that the audit will reduce the stock of domestic arrears, accumulated in 2000–06, by 50 percent. The baseline scenario also assumes that the audited domestic arrears are repaid using external concessional loans. The framework also assumes that capital contributions to WAEMU will be paid over 25 years starting in 2010.
- **Foreign direct investment** as a ratio of GDP ratio is assumed to remain constant in the medium and long term at its average level during the last six years (2 percent of GDP).
- **Fiscal financing gaps are assumed to be filled through concessional loans**, on the grounds that the country will not have continued access to commercial debt. The alternative to concessional loans would be to finance the fiscal gaps by accumulation of domestic arrears, an unsustainable strategy over the medium to long term.

¹ The domestic primary balance is the revenue, excluding grants, minus non-interest expenditure, excluding foreign-financed investment projects.

III. EXTERNAL DEBT SUSTAINABILITY ANALYSIS

A. Baseline: No Debt Relief

8. **The baseline scenario (Table 1a and Figure 1a) assumes that the HIPC completion point is never attained, but real GDP growth is assumed to converge to the long-run average of about 4.5 percent per annum.** The assumed growth rates are significantly higher than the historical average (less than one percent) which reflected a period of great political instability and inappropriate macroeconomic policies which are assumed to improve in the period ahead. External debt, both in nominal and NPV terms remains at very high levels, and all debt indicators based on NPV of debt remain far above the indicative thresholds for poor performers (Text Table 1). The assumption that loans to finance the fiscal gap are highly concessional explains the downward trend in the NPV of debt ratio to GDP, exports and public revenues, despite continuous recourse to additional borrowing.

Table 1: Summary of Baseline External Debt Sustainability Indicators 1/

	Indicative Threshold 2/	2007	2017	2027	Average
NPV of debt-to-GDP	30	239	176	120	178
NPV of debt-to-exports	100	811	541	343	557
NPV of debt-to-revenue	200	1570	975	664	992
Debt service-to-exports	15	30	20	16	21
Debt service-to-revenue	25	58	36	31	37

Source: IMF staff estimates.

1/ Debt indicators refer to Guinea Bissau's public and publicly guaranteed external debt.

2/ Threshold over which countries considered as poor performers according to their CPIA would have at least a 25 percent chance of having a prolonged debt distress episode in the coming year. Guinea-Bissau lies within the bottom quintile of countries ranked by the CPIA.

B. Alternative Scenarios and Stress Tests

10. **An alternative scenario assumes that the HIPC completion point is reached in 2010 (Table 1b, Scenario A3), and total debt relief—including HIPC, MDRI and additional rescheduling of arrears, amounts to \$591 million in end-2010 NPV terms.**¹² The provision of this debt relief would reduce debt service payments by about 5 percent of GDP per year. This scenario is comparable to the baseline presented in the 2006 DSA, except for the fact that Completion Point is now assumed to be reached one year later. In this scenario, the NPV of external debt to GDP falls significantly at completion point reflecting

¹² MDRI amounts to \$75 million in end-2010 NPV terms.

both the assumed clearance of external arrears, and the lower debt service after HIPC and MDRI debt relief. However, even in the long run, the NPV of debt remains above the relevant indicative thresholds, independently of whether the debt is measured in proportion to GDP, exports, or government revenues. Despite the relatively high long run debt level, debt service is expected to decline to below-threshold levels, as a reflection of the highly concessional terms of existing debt and the terms assumed for the treatment of arrears and new borrowing.

11. **Assuming that Guinea-Bissau is able to obtain grants to pay off its stock of domestic arrears, the debt burden indicators would be reduced even further (Table 1b, Scenario A 4).** If grants are used to pay all domestic arrears during 2008–10, the NPV of debt/GDP would be 12 percentage points lower by 2010 than in Scenario A3. However, even under this scenario the ratio would remain above the indicative threshold.

12. **The standard stress tests have been applied to the baseline.** The first one shows the effect of a one-time 30 percent devaluation in the exchange rate (Table 1b, Scenario B6). The stress test scenario shows the enormous vulnerability that the country faces to a shock in the nominal exchange rate, given current debt levels. Given a one-time 30 percent devaluation, the NPV of debt increases by almost 100 percentage points of GDP in that year. It is the most extreme shock in terms of NPV/GDP, debt/revenue, and debt service/revenue (Figure 1a).

13. **A further stress test showing the impact of a one-standard deviation negative export shock (Table 1b, B2) also illustrates the vulnerable external position of the country.** Given the high volatility of exports during the recent period, and the high NPV of debt, shocks on exports can have a large impact on both the NPV debt/exports and debt service/export ratios.

IV. PUBLIC DEBT SUSTAINABILITY ANALYSIS

A. Baseline: No Debt Relief

14. **The assumptions under the baseline scenario for total public debt (Table 2a and Figure 2a) are the same as those described under the External DSA baseline.** In these circumstances, total public debt (domestic and external) as a percent of GDP decreases over the long run, similar to the behavior of external debt described in the previous section.

15. **Despite a long run downward trend in the NPV of total public debt to GDP ratio, this remains very high, which points to a highly vulnerable debt position, particularly given the likelihood that the assumed strong fiscal stance and access to concessional loans may turn out to be overly optimistic.** Shocks to the economy are also likely to increase the debt burden significantly.

B. Alternative Scenarios and Stress Tests

16. The first alternative scenario (Table 2b, Scenario A1) assumes that GDP growth and the domestic primary balance remain at their historic averages. In this case, there is zero growth in GDP and the non-interest primary deficit remains at its six-year average (6 percent of GDP) in contrast to a gradual fiscal tightening assumed in the baseline. Guinea-Bissau's debt would be unsustainable, as the NPV of debt to GDP ratio would remain well above 250 percent over the estimation period, while the NPV of debt to revenues ratio declines slightly in the outer years. Debt service remains high at over 30 percent of revenues despite the assumption of highly concessional loans to finance the fiscal gaps.

17. **The second alternative scenario (Table 2b, Scenario A4) assumes that Guinea-Bissau reaches the completion point in 2010 and the corresponding debt relief is fully delivered.** Achieving completion point under the HIPC initiative by 2010 would significantly lower Guinea-Bissau's risk of debt distress, as the NPV of debt would decrease to 75 percent of GDP by 2011, which amounts to a debt reduction of over 160 percent of GDP in NPV terms with respect to the baseline scenario. Despite this reduction, the NPV of public debt to GDP would still remain at uncomfortably high levels.

18. **The stress tests to the baseline scenario show that Guinea-Bissau's public debt position is highly vulnerable to economic shocks.** In the case of NPV of debt-to-GDP and debt service-to-revenue ratios, they are most vulnerable to a negative GDP shock (Table 2b, Scenario B1); while the NPV of debt-to-fiscal revenues ratio is most severely affected by a one-time 30 percent depreciation in the exchange rate (Table 2b, Scenario B4)¹³. Both scenarios impose fairly severe conditions. The shock to GDP amounts to assuming negative growth of -3.8 percent for two years, which translates into a 45 percentage point difference in NPV of debt-to-GDP with respect to the baseline in only two years. Likewise, a one time 30 percent devaluation translates into a 100 percentage point increase in the NPV of debt-to-revenues ratio within three years.

V. DEBT DISTRESS CLASSIFICATIONS AND CONCLUSIONS

19. **In staffs' view, Guinea-Bissau is in debt distress.** Guinea-Bissau's external debt ratios are well above the country-specific indicative thresholds during the complete projection period, even after assuming full delivery of HIPC Initiative and MDRI debt relief. The public DSA suggests that Guinea Bissau's overall public sector debt dynamics are unsustainable in light of the current size and the evolution of the domestic debt stock. The risk rating remains unchanged with respect to the previous DSA.

¹³ Based on NPV of debt and debt service ratios projected ten years ahead.

20. **Prudent macro policies to rein in debt ratios will be crucial if the debt to GDP ratio is to be kept from growing over time.** Securing foreign aid on highly concessional terms is also crucial for Guinea-Bissau. The country's financial strategy should focus on strengthening its fiscal stance, avoiding nonconcessional debt, increasing the grant content of aid received, and providing a stable political and business environment that will favor additional investment as well as a more stable inflow of external aid than in the past. Containing the wage bill and avoiding off-budget expenditures will be key to reduce the current fiscal imbalance in a sustainable fashion.

Table 1. Guinea-Bissau: External Debt Outstanding, 2000–06¹

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006
Total external debt outstanding (end of year, including arrears)	762.3	776.9	853.9	915.2	1024.0	1002.1	993.3
Multilateral	436.3	441.3	450.3	491.5	517.2	493.7	480.8
African Development Bank Group	118.0	118.9	122.5	136.9	141.4	135.8	132.7
o/w Nigeria Special Fund	0.9	0.8	0.5	0.4	0.2	0.0	132.7
Arab Bank for Economic Development in Africa	8.7	8.8	9.7	12.8	9.2	9.2	9.3
Economic Community of West African States	3.1	3.1	3.8	5.1	3.9	3.9	3.9
European Investment Bank	7.6	7.6	11.2	12.7	8.7	8.5	8.5
International Fund for Agricultural Development	9.2	9.3	11.4	12.5	11.1	10.9	11.0
International Development Association	238.0	243.2	231.7	258.1	301.3	289.8	283.7
Islamic Development Bank	13.7	13.5	15.3	17.6	15.6	15.3	15.3
OPEC Fund	8.0	8.0	14.8	8.2	8.1	8.1	8.1
Banque Ouest Africaine de Developement	... ..	...	1.4	1.7	1.7	...	...
International Monetary Fund	25.0	23.5	22.3	19.3	15.5	12.2	8.3
Bilateral creditors	352.0	359.9	493.0	523.9	506.0	507.1	511.2
Paris Club (cutoff date: December 1986)	240.0	246.5	345.4	375.6	366.5	362.0	364.9
Belgium	7.8	8.1	9.1	11.2	15.5	16.9	17.3
Brazil	23.1	24.0	26.3	28.7	17.4	18.1	18.6
France	8.9	9.3	14.4	15.4	14.4	13.5	13.8
Germany	4.3	4.4	1.1	1.3	1.3	1.3	1.4
Italy	117.8	120.5	190.9	199.7	198.8	194.6	193.1
Portugal	70.7	72.7	18.8	20.0	107.0	106.1	108.9
Russia	...	...	71.6	85.2	0.7	0.7	0.7
Spain	7.5	7.6	13.2	14.0	11.3	10.8	10.9
Other bilateral creditors	112.0	113.4	147.6	148.4	139.5	145.1	146.4
Commercial	0.6	0.6	0.6	0.7	0.8	1.3	1.3
Banque Franco-Portugaise	0.6	0.6	0.6	0.7	0.8	1.3	1.3

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

¹ Estimates are based on incomplete and unreconciled data provided by the Guinea-Bissau authorities and on IMF and World Bank staff estimates and projections

Table 2. Guinea-Bissau: External Arrears Outstanding, 2000–06 ¹
(Millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006
Total stock of arrears outstanding (end of year)	141.7	137.5	169.1	206.4	293.8	327.0	349.8
Multilateral	29.3	17.5	22.2	28.5	31.8	33.8	35.8
African Development Bank (AfDB) 3/	0.0	0.0	0.0	0.0	0.0	0.0	
African Development Bank Group	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arab Bank for Economic Development in Africa	5.5	5.6	4.6	8.3	8.1	8.5	8.9
Economic Community of West African States	1.9	2.0	2.0	3.1	3.3	3.4	3.5
European Investment Bank	0.9	1.0	4.6	4.8	6.5	6.6	6.6
International Fund for Agricultural Development	0.9	1.0	2.0	2.2	3.1	3.4	3.7
International Development Association	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Islamic Development Bank	12.5	0.3	0.8	1.7	2.6	3.7	4.8
OPEC Fund	7.6	7.6	8.2	8.2	8.1	8.1	8.1
Banque Ouest Africaine de Developement	...	...	0.1	0.1	0.2	0.2	0.2
International Monetary Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	112.0	119.6	146.3	177.2	261.5	291.7	312.4
Paris Club (cutoff date: December 1986)	58.8	65.2	90.3	113.7	193.3	213.4	224.8
Belgium	1.8	2.1	0.6	1.0	3.6	5.0	6.4
Brazil	8.9	9.8	11.1	13.6	7.7	10.3	13.1
France	2.5	2.9	6.4	6.9	8.8	10.1	11.4
Germany	2.6	2.6	0.2	0.3	0.5	0.5	0.6
Italy	7.1	7.1	39.0	37.5	152.6	162.1	163.2
Portugal	9.1	11.1	13.1	15.1	16.2	19.8	23.4
Russia	...	...	2.1	3.4	0.1	0.2	0.3
Spain	3.0	3.1	1.5	2.3	3.9	5.4	6.5
Non-Paris Club	53.2	54.4	56.0	63.5	68.2	78.2	87.5
Abu Dhabi Fund for Arab Economic Development	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Algeria	1.5	1.5	5.9	6.5	5.9	6.5	7.1
Angola	18.8	18.8	18.8	18.8	17.0	17.0	17.0
Kuwait	17.9	17.9	1.6	3.4	7.3	11.0	14.6
Libya	0.7	0.7	4.1	4.1	4.1	4.1	4.1
Pakistan	1.3	1.3	1.6	1.8	2.0	2.6	2.6
Saudi Arabia	4.7	4.8	9.9	10.7	9.7	10.5	11.3
Taiwan, Province of China	8.1	9.2	13.9	18.0	22.0	26.4	30.6
Commercial							
Banque Franco-Portugaise	0.4	0.4	0.6	0.7	0.8	1.3	1.3

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

¹ Estimates based on incomplete and unreconciled data provided by the Guinea-Bissau authorities and on IMF and World Bank staff estimates and projections.

Table 1a. Guinea-Bissau: External Debt Sustainability Framework, Baseline Scenario, 2004-2027 1/

(In percent of GDP, unless otherwise indicated)

	Actual		Projections										2013-27	
	2004	2005	2006	Historical Average 6/	Standard Deviation 6/	2007	2008	2009	2010	2011	2012	2017	2027	Average
External debt (nominal) 1/	378.9	332.2	322.5			316.6	314.7	313.1	310.0	301.2	292.1	248.2	183.0	
o/w public and publicly guaranteed (PPG)	378.9	332.2	322.5			316.6	314.7	313.1	310.0	301.2	292.1	248.2	183.0	
Change in external debt	-8.2	-46.7	-9.7			-5.9	-1.9	-1.6	-3.1	-8.8	-9.0	-8.4	-5.4	
Identified net debt-changing flows	-55.1	-34.8	2.2			-0.9	-6.6	-5.6	-8.3	-9.1	-9.2	-8.9	-6.2	
Non-interest current account deficit	7.3	3.4	9.0	3.3	7.3	10.1	2.6	4.1	2.3	2.3	2.3	2.3	2.3	2.3
Deficit in balance of goods and services	16.2	17.6	30.8			20.5	19.3	18.0	16.0	15.9	15.7	15.0	14.1	
Exports	30.9	32.3	22.9			29.5	30.1	30.2	30.4	30.7	31.0	32.5	34.9	
Imports	47.1	49.9	53.7			49.9	49.9	49.4	48.2	46.5	46.7	47.5	48.9	
Net current transfers (negative = inflow)	-23.5	-14.3	-21.8	-18.7	3.5	-10.3	-16.6	-13.8	-13.7	-13.5	-13.4	-12.7	-11.8	-12.4
o/w official	-14.7	-9.4	-14.9			-3.4	-9.8	-7.0	-6.9	-6.7	-6.6	-5.9	-5.0	
Other current account flows (negative = net inflow)	0.0	0.0	0.0	-1.9	1.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net FDI (negative = inflow)	-3.5	-2.6	-3.1			-8.7	-7.2	-7.7	-8.7	-9.4	-9.5	-9.2	-6.5	
Endogenous debt dynamics 2/	-44.3	-35.5	-3.7			1.9	2.1	2.0	1.9	1.8	1.8	1.6	1.4	
Contribution from real GDP growth	-7.5	-11.8	-6.0			-10.6	-9.3	-9.7	-10.5	-11.2	-11.2	-10.8	-8.0	
Contribution from price and exchange rate changes	-41.0	-27.7	-0.9			...	...	...	...	...	...	...	...
Residual (3-4) 3/	46.8	-11.9	-11.9			...	...	...	...	...	...	...	...
o/w exceptional financing	-16.8	-14.2	-10.7			-6.0	-5.6	-4.5	-0.3	0.0	0.0	0.0	0.0	
NPV of external debt 4/	...	...	248.7			238.8	235.5	232.2	226.7	219.1	211.7	175.7	119.7	
In percent of exports	...	...	1087.1			810.5	782.5	768.2	746.8	714.1	683.4	540.5	343.4	
NPV of PPG external debt	...	...	248.7			238.8	235.5	232.2	226.7	219.1	211.7	175.7	119.7	
In percent of exports	...	...	1087.1			810.5	782.5	768.2	746.8	714.1	683.4	540.5	343.4	
In percent of government revenues	...	...	1272.0			1570.2	1126.6	1288.6	1258.0	1215.8	1175.1	974.8	664.3	
Debt service-to-exports ratio (in percent)	56.6	47.5	50.1			30.1	32.1	28.2	25.1	22.4	20.6	19.9	15.9	
PPG debt service-to-exports ratio (in percent)	56.6	47.5	50.1			30.1	32.1	28.2	25.1	22.4	20.6	19.9	15.9	
PPG debt service-to-revenue ratio (in percent)	101.8	87.1	88.6			58.2	46.3	47.3	42.3	38.2	35.4	36.0	30.7	
Total gross financing need (billions of U.S. dollars)	18.2	48.4	53.6			57.1	37.6	41.3	32.8	31.6	31.2	43.0	69.9	
Non-interest current account deficit that stabilizes debt ratio	1.0	50.1	18.7			16.0	4.6	5.7	5.4	11.2	11.3	10.6	7.7	
Key macroeconomic assumptions														
Real GDP growth (in percent)	2.2	3.5	1.8	0.0	3.8	3.7	3.1	3.3	3.6	3.8	4.0	4.5	4.4	
GDP deflator in US dollar terms (change in percent)	11.8	7.9	0.3	6.5	8.9	7.6	3.0	2.9	3.0	2.3	2.3	2.0	2.0	
Effective interest rate (percent) 5/	1.3	1.2	1.0	1.3	0.4	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.7	
Growth of exports of G&S (US dollar terms, in percent)	18.1	16.5	-27.7	2.2	19.5	43.6	8.5	6.7	7.2	7.3	7.4	13.4	7.5	6.6
Growth of imports of G&S (US dollar terms, in percent)	22.2	18.2	9.8	7.7	14.2	3.7	5.0	3.8	2.6	6.6	6.7	4.7	6.9	6.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	56.5	54.4	55.2	51.7	54.6	54.6	54.5	56.9	56.9
Aid flows (in billions of US dollars) 7/	81.3	60.3	63.7			130.3	106.6	115.4	135.9	108.8	111.9	145.3	250.5	
o/w Official grants	46.5	38.4	36.7			27.2	38.5	40.6	43.4	46.1	49.0	66.8	126.4	
o/w Concessional loans	26.2	11.8	16.8			96.7	66.7	73.4	92.5	62.7	62.9	78.5	124.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			23.8	20.5	21.0	22.1	18.3	17.9	17.5	16.4	
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			66.1	71.1	71.2	67.1	73.8	74.5	76.7	78.7	
Memorandum items:														
Nominal GDP (billions of US dollars)	270.2	301.6	308.0			343.4	364.6	387.4	413.4	439.0	466.7	636.7	1205.2	
(NPV-NPV-1)/GDPt-1 (in percent)	30.1	20.0	20.7			17.7	11.2	11.2	9.7	6.0	6.0	4.5	3.2	4.2
Aid flows (in percent of GDP) 7/	17.2	12.7	11.9			37.9	29.2	29.8	32.9	24.8	24.0	22.8	20.8	
o/w Official grants	9.7	3.9	5.4			28.1	18.3	19.0	22.4	14.3	13.5	12.3	10.3	
o/w Concessional loans														

Source: Staff simulations.

1/ Includes both public and private sector external debt.

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

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

4/ Assumes that NPV of private sector debt is equivalent to its face value.

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

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

7/ Defined as official grants, concessional loans, and debt relief.

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

Table 1b. Guinea-Bissau: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-27
(In percent)

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of debt-to-GDP ratio								
Baseline	239	236	232	227	219	212	176	120
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	239	235	231	227	219	212	178	127
A2. New public sector loans on less favorable terms in 2008-27 2/	239	240	242	241	237	232	209	170
A3. HIPC completion point attained in 2010, domestic arrears paid with concessional loans	239	236	232	84	57	58	58	50
A4. HIPC completion point attained in 2010, domestic arrears paid with additional grants	239	236	232	72	45	46	44	40
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	239	252	267	261	252	244	202	138
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	239	239	241	235	227	220	183	123
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	239	248	258	252	244	235	195	133
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	239	237	233	228	220	213	177	120
B5. Combination of B1-B4 using one-half standard deviation shocks	239	252	267	261	252	244	203	137
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	239	332	328	320	309	299	248	169
NPV of debt-to-exports ratio								
Baseline	811	782	768	747	714	683	541	343
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	811	782	765	747	714	684	548	365
A2. New public sector loans on less favorable terms in 2007-26 2/	811	798	799	794	771	750	645	487
A3. HIPC completion point attained in 2010, domestic arrears paid with concessional loans	811	782	768	273	183	186	177	143
A4. HIPC completion point attained in 2010, domestic arrears paid with additional grants	811	782	768	238	146	148	136	114
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	811	782	768	747	714	683	541	343
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	811	1040	1348	1311	1254	1200	952	596
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	811	782	768	747	714	683	541	343
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	811	787	772	751	718	687	543	345
B5. Combination of B1-B4 using one-half standard deviation shocks	811	927	1063	1034	989	946	750	472
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	811	782	768	747	714	683	541	343
NPV of debt-to-revenue ratio								
Baseline	1570	1127	1289	1258	1216	1175	975	664
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	1570	1125	1283	1258	1216	1176	988	706
A2. New public sector loans on less favorable terms in 2007-26 2/	1570	1149	1341	1338	1314	1289	1162	943
A3. HIPC completion point attained in 2010, domestic arrears paid with concessional loans	1570	1127	1289	465	314	323	320	277
A4. HIPC completion point attained in 2010, domestic arrears paid with additional grants	1570	1127	1289	401	248	254	246	220
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	1570	1208	1483	1448	1399	1352	1122	764
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	1570	1142	1336	1304	1261	1220	1014	682
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	1570	1188	1433	1399	1352	1306	1084	739
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	1570	1132	1295	1264	1222	1181	980	667
B5. Combination of B1-B4 using one-half standard deviation shocks	1570	1206	1483	1447	1399	1353	1124	760
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	1570	1590	1819	1775	1716	1658	1376	937

Table 1b. Guinea-Bissau: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-27 (continued)
(In percent)

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
Debt service-to-exports ratio								
Baseline	30	32	28	25	22	21	20	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	30	32	28	25	22	20	20	17
A2. New public sector loans on less favorable terms in 2008-27 2/	30	32	29	27	25	24	22	24
A3. HIPC completion point attained in 2010, domestic arrears paid with concessional loans	30	32	28	8	4	6	9	7
A4. HIPC completion point attained in 2010, domestic arrears paid with additional grants	30	32	28	8	4	5	9	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	30	32	28	25	22	21	20	16
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	30	42	48	43	39	35	35	28
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	30	32	28	25	22	21	20	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	30	32	28	25	22	21	20	16
B5. Combination of B1-B4 using one-half standard deviation shocks	30	38	38	34	31	28	28	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	30	32	28	25	22	21	20	16
Debt service-to-revenue ratio								
Baseline	58	46	47	42	38	35	36	31
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	58	46	47	42	38	35	36	32
A2. New public sector loans on less favorable terms in 2008-27 2/	58	46	48	45	43	41	40	47
A3. HIPC completion point attained in 2010, domestic arrears paid with concessional loans	58	46	47	14	7	10	17	14
A4. HIPC completion point attained in 2010, domestic arrears paid with additional grants	58	46	47	13	6	9	15	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	58	50	54	49	44	41	41	35
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	58	46	48	43	39	36	37	32
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	58	49	53	47	42	39	40	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	58	46	47	42	38	35	36	31
B5. Combination of B1-B4 using one-half standard deviation shocks	58	49	53	48	43	40	41	36
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	58	65	67	60	54	50	51	43
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	56	56	56	56	56	56	56	56

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

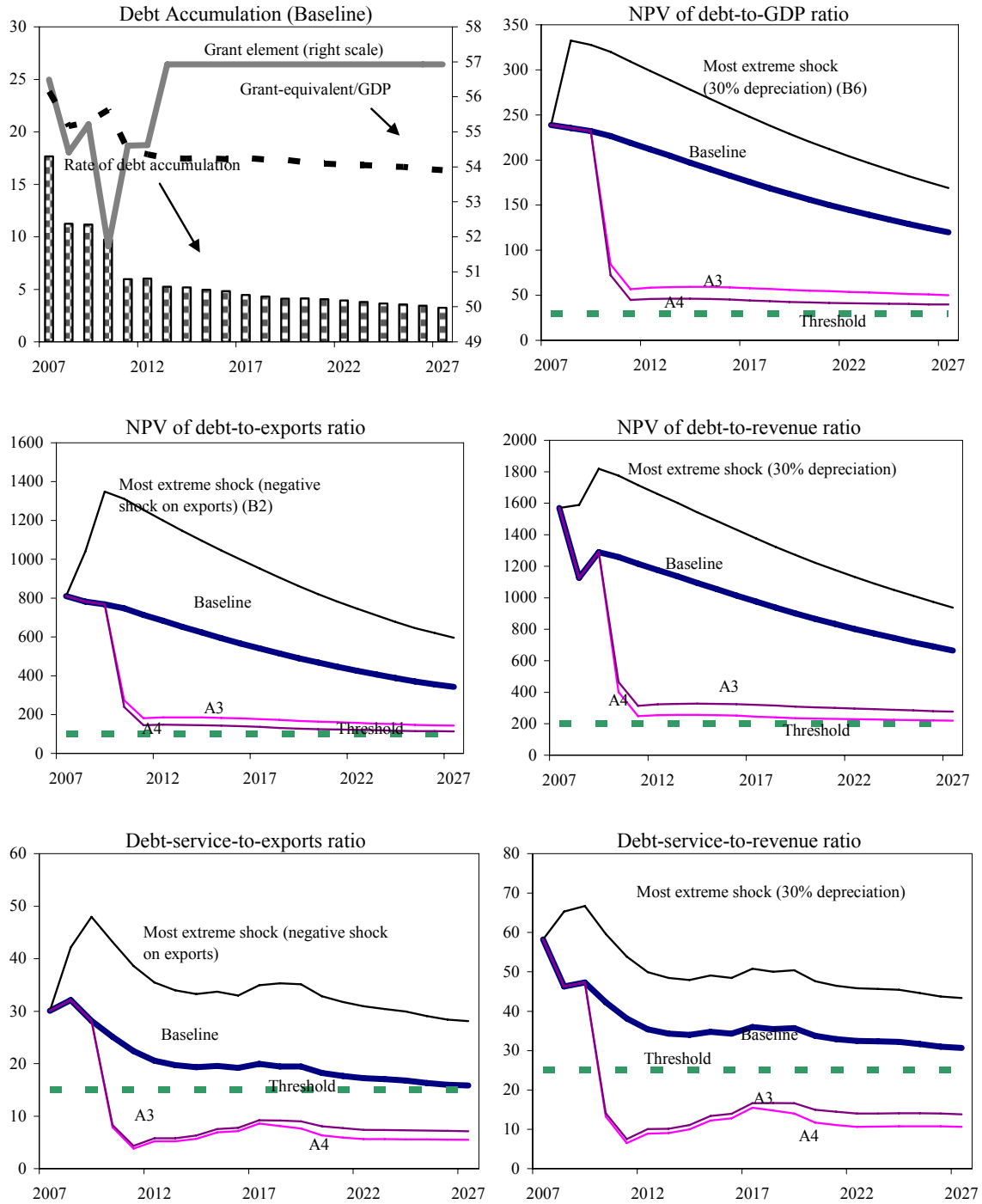
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 1a. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2007-2027



Source: Staff projections and simulations.

Table 2a.GNB: Total Public Sector Debt Sustainability Framework, Baseline Scenario, 2004-2027
(In percent of GDP, unless otherwise indicated)

	Actual						Historical Average 5/ Standard Deviation 5/	Estimate						Projections				2013-27 Average
	2004	2005	2006	2007	2008	2009		2010	2011	2012	2017	2027	2017-12 Average	2017	2027	2017-27 Average		
Public sector debt 1/																		
o/w foreign-currency denominated	429.6	386.0	379.7	362.9	352.2	342.8	332.5	321.5	310.4	301.2	292.1	258.6	184.0					
Change in public sector debt	378.9	332.2	322.5	316.6	314.7	313.1	310.0	301.2	292.1			248.2	183.0					
Identified debt-creating flows	-7.4	-43.6	-6.3	-16.8	-10.7	-9.5	-10.3	-11.0	-11.1			-9.8	-6.1					
Primary deficit	-36.3	9.5	-31.5	-8.1	-14.5	-12.6	-15.5	-12.9	-12.6			-10.3	-5.6					
Revenue and grants	10.7	7.9	6.7	14.4	5.0	6.5	4.7	4.7	4.7			6.7	4.7					
of which: grants	34.4	30.4	31.5	23.1	31.5	28.5	28.5	28.5	28.5			28.5	28.5					
Primary (noninterest) expenditure	17.2	12.7	11.9	7.9	10.6	10.5	10.5	10.5	10.5			10.5	10.5					
Automatic debt dynamics	-43.8	5.1	-35.7	37.6	36.4	35.1	33.2	33.2	33.2			-14.9	-10.3					
Contribution from interest rate/growth differential	-16.6	-24.5	-13.1	-19.1	-16.0	-16.0	-16.5	-16.7	-16.5			-14.9	-10.3					
of which: contribution from average real interest rate	-7.1	-10.1	-6.1	-5.7	-5.0	-4.9	-4.6	-4.4	-4.2			-3.4	-2.1					
of which: contribution from real GDP growth	-9.5	-14.4	-6.9	-13.4	-11.0	-11.1	-11.9	-12.3	-12.3			-11.6	-8.2					
Contribution from real exchange rate depreciation	-27.3	29.5	-22.6	-1.1	-3.0	-2.8	-3.4	-0.9	-0.8			...	...			
Other identified debt-creating flows	-3.2	-3.4	-2.5	-2.3	-0.4	-0.4	-0.3	0.0	0.0			0.0	0.0					
Privatization receipts (negative)	0.0	-0.1	0.8	-0.1	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)	-3.2	-3.3	-3.3	-2.2	-0.4	-0.4	-0.3	0.0	0.0			0.0	0.0					
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0					
Residual, including asset changes 6/	28.9	-53.1	25.2	-8.7	3.8	3.2	5.3	1.8	1.6			0.5	-0.5					
NPV of public sector debt																		
o/w foreign-currency denominated	50.6	313.6	305.8	285.1	273.0	261.8	249.2	239.4	230.0			186.1	120.7					
o/w external	0.0	259.8	248.7	238.8	235.5	232.2	226.7	219.1	211.7			175.7	119.7					
NPV of contingent liabilities (not included in public sector debt)	...	...	...	...	...	...	...	...	...			...	...
Gross financing need 2/	28.3	23.2	18.2	23.3	14.6	15.1	12.3	11.6	11.1			...	...			
NPV of public sector debt-to-revenue and grants ratio (in percent)	142.1	144.6	972.3	1231.9	867.7	918.4	873.9	839.7	806.8			652.6	423.3					
NPV of public sector debt-to-revenue ratio (in percent)	284.2	249.1	1564.3	1874.5	1306.2	1453.1	1382.7	1328.6	1276.5			1032.5	669.7					
o/w external 3/	...	1474.9	1272.0	1570.2	1126.6	1288.6	1258.0	1215.8	1175.1			974.8	664.3					
Debt service-to-revenue and grants ratio (in percent) 4/	50.9	50.5	36.4	38.3	30.7	29.9	26.7	24.1	22.4			22.7	19.4					
Debt service-to-revenue ratio (in percent) 4/	101.8	87.1	58.6	58.2	46.3	47.3	42.3	38.2	35.4			36.0	30.7					
Primary deficit that stabilizes the debt-to-GDP ratio	18.1	51.5	13.0	31.2	15.6	16.0	15.0	15.7	15.8			14.4	10.8					
Key macroeconomic and fiscal assumptions																		
Real GDP growth (in percent)	2.2	3.5	1.8	3.7	3.1	3.3	3.6	3.8	4.0			3.6	4.5					
Average nominal interest rate on forex debt (in percent)	1.1	1.2	0.9	0.6	0.7	0.7	0.6	0.6	0.6			0.6	0.7					
Average real interest rate on domestic currency debt (in percent)	-1.7	-7.1	0.5	-2.4	-2.5	-2.4	-2.4	-2.2	-2.2			-2.3	-1.9					
Real exchange rate depreciation (in percent, + indicates depreciation)	-7.3	8.2	-7.1	-0.4	-0.4	...	...	...	...			...	...
Inflation rate (GDP deflator, in percent)	1.7	7.7	-0.5	2.6	2.6	2.6	2.4	2.3	2.3			...	...			
Growth of real primary spending (deflated by GDP deflator, in percent)	38.9	-12.3	1.5	2.1	0.0	-0.6	-1.8	3.8	4.0			1.2	4.5					
Grant element of new external borrowing (in percent)	0.0	0.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0			50.0	50.0					

Sources: Country authorities; and Fund staff estimates and projections.
1/ Covers debt at the general government level. Liabilities to WAEMU associated with entry rights are expressed in NPV terms.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.

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

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

6/ Large residuals during 2004-08 are mostly explained by large differences between average and end-of-period exchange rates. While average exchange rate is used to express external debt in local currency, the end-of-period exchange rate is used to obtain the contribution of real exchange rate depreciation to the variation in total debt-to-GDP ratio.

Table 2b.GNB: Sensitivity Analysis for Key Indicators of Total Public Debt 2007-2027

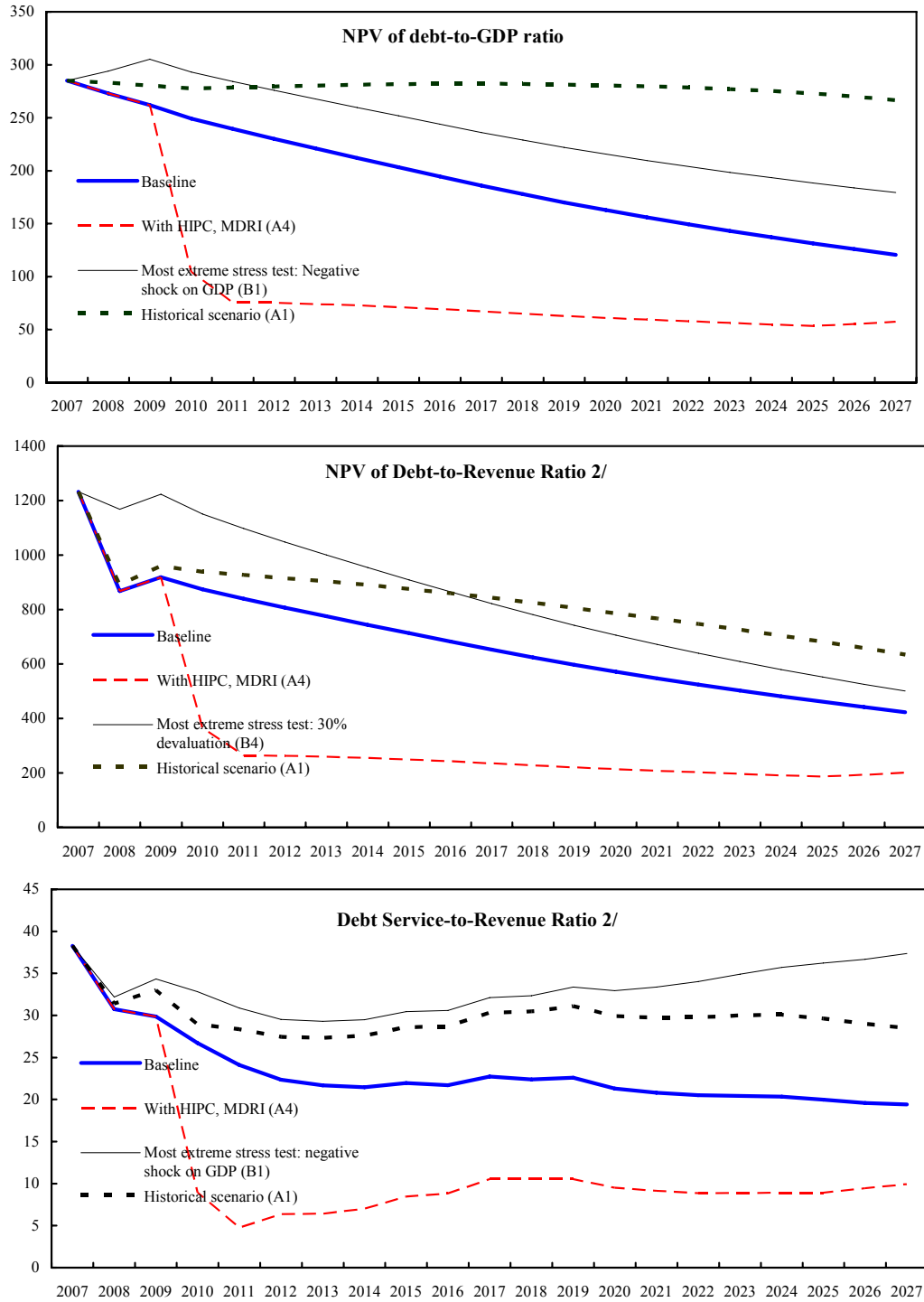
	Projections							2017	2027
	2007	2008	2009	2010	2011	2012	2017		
NPV of Debt-to-GDP Ratio									
Baseline	285	273	262	249	239	230	186	121	
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	285	283	280	278	278	279	282	267	
A2. Primary balance is unchanged from 2007	285	276	266	256	249	242	212	169	
A3. Permanently lower GDP growth 1/	285	275	267	256	249	242	209	170	
A4. With HIPC, MDRI, and paying domestic arrears with concessional loans	285	273	262	105	75	75	67	58	
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	285	294	305	293	284	276	236	179	
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	285	277	269	256	246	237	192	126	
B3. Combination of B1-B2 using one half standard deviation shocks	285	290	294	278	266	254	198	114	
B4. One-time 30 percent real depreciation in 2008	285	368	349	328	313	299	234	143	
B5. 10 percent of GDP increase in other debt-creating flows in 2008	285	282	271	258	248	239	194	127	
NPV of Debt-to-Revenue Ratio 2/									
Baseline	1232	868	918	874	840	807	653	423	
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	1232	890	960	939	927	915	843	634	
A2. Primary balance is unchanged from 2007	1232	876	932	898	873	850	742	591	
A3. Permanently lower GDP growth 1/	1232	873	930	891	862	835	712	560	
A4. With HIPC, MDRI, and paying domestic arrears with concessional loans	1232	868	918	365	264	263	235	201	
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	1232	913	1015	974	945	916	785	596	
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	1232	882	944	899	864	831	674	440	
B3. Combination of B1-B2 using one half standard deviation shocks	1232	906	991	938	896	856	668	383	
B4. One-time 30 percent real depreciation in 2008	1232	1169	1224	1151	1098	1048	822	500	
B5. 10 percent of GDP increase in other debt-creating flows in 2008	1232	897	950	905	870	837	680	445	
Debt Service-to-Revenue Ratio 2/									
Baseline	38	31	30	27	24	22	23	19	
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	38	31	33	29	28	27	30	28	
A2. Primary balance is unchanged from 2007	38	31	33	30	29	28	32	40	
A3. Permanently lower GDP growth 1/	38	31	30	28	25	24	27	32	
A4. With HIPC, MDRI, and paying domestic arrears with concessional loans	38	31	30	9	5	6	11	10	
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	38	32	34	33	31	30	32	37	
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	38	31	35	33	27	24	24	22	
B3. Combination of B1-B2 using one half standard deviation shocks	38	32	35	31	25	22	21	13	
B4. One-time 30 percent real depreciation in 2008	38	32	33	31	28	27	27	26	
B5. 10 percent of GDP increase in other debt-creating flows in 2008	38	31	41	31	27	24	24	23	

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 2a.GNB: Indicators of Total Public Debt Under Alternative Scenarios, 2007-2027 1/



Source: Staff projections and simulations.
 1/ Most extreme stress test is test that yields highest ratio in 2017.
 2/ Revenue including grants.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

Staff Report for the 2007 Article IV Consultation—Informational Annex

Prepared by the African Department
(In consultation with other departments)

August 28, 2007

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Guinea-Bissau: Relations with the Fund
(As of June 30, 2007)

I. Membership Status: Joined: March 24, 1977; Article VIII

II. General Resources Account:	SDR Million	%Quota
Quota	14.20	100.00
Fund holdings of currency	14.20	100.00
Reserve Position	0.00	0.00
Holdings Exchange Rate		

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	1.21	100.00
Holdings	0.07	7.44

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
PRGF Arrangements	4.26	33.61

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Principal	0.98	1.25	1.02	1.02	
Charges/Interest	<u>0.03</u>	<u>0.06</u>	<u>0.06</u>	<u>0.05</u>	<u>0.05</u>
Total	1.01	1.32	1.07	1.07	0.05

VII. Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	<u>Enhanced Framework</u>
Decision point date	Dec 2000
Assistance committed by all creditors (\$ million) ^{1/}	416.00
Of which: IMF assistance (\$ 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; assistance under the enhanced framework is expressed in NPV terms at the decision point. Hence the 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.

VIII. Implementation of MDRI Assistance: Not Applicable

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union, which includes Guinea-Bissau. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicates that progress has been made in strengthening the bank's safeguards framework since the 2002 safeguards assessment.

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms for improving risk management and risk prevention have been established and follow-up on internal and external audit recommendations has been strengthened.

The 2005 assessment identified a number of areas where further steps would help solidify the progress made. The status report on the implementation of safeguards assessment recommendations, received from the BCEAO in March 2007, and 2005 audited financial statements, indicate some progress, achieved by the Bank, in improving the external audit process (including adopting a multi year audit program), applying IFRS, expanding disclosures in the notes to financial statements on financial positions with the Fund by countries, including Guinea-Bissau, and further strengthening of the effectiveness of the internal audit function.

X. Exchange System and Exchange Rate Arrangement

Guinea Bissau accepted the obligations of Article VIII, Sections 2, 3, and 4 with effect from January 1, 1997. It joined the West African Economic and Monetary Union (WAEMU) in 1997, and has no separate legal tender. The exchange system common to all members of the union is free from multiple currency practices and exchange restrictions on the making of payments and transfers for current international transactions. Since January 1, 1999, the CFA franc has been pegged to the Euro at a fixed rate of €1=CFAF 655.95. On April 30, 2007, the rate of the CFA franc in terms of the SDR was CFAF 733.8=SDR 1. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus reflects only a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members.

XI. 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 March 16–30, 2006. The staff report (IMF Country Report No. 06/312) was discussed by the Executive Board on July 31, 2006. Selected Issues and Statistical Appendix (IMF Country Report No. 06/313) was also circulated to the Board.

XII. 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 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
FAD	Staff	April 2003	Revenue administration
STA	Expert	March 2003	GDDS—Real sector statistics
STA	Expert	May 2003	GDDS—Fiscal statistics
WEST AFRITAC	Resident Advisor	November 2003	Public expenditure management
WEST AFRITAC	Resident Advisor; Expert	February 2004	Tax administration
WEST AFRITAC	Resident Advisor; Expert	March 2004	Customs administration
WEST AFRITAC	Expert	May 2004	Tax administration
WEST AFRITAC	Resident Advisor	May 2004	Public debt management
WEST AFRITAC	Resident Advisor	June 2004	Budget preparation and execution
WEST AFRITAC	Resident Advisor	August 2004	Assessing the priority needs for technical assistance and assisting the authorities with the preparation of a work plan for improving compilation of balance of

			payments and international investment position statistics.
WEST AFRITAC	Resident Advisor; Short-Term Expert	August 2004	Government finance statistics
WEST AFRITAC	Short-Term Expert	September 2004	Government finance statistics
WEST AFRITAC	Short-Term Expert	October 2004	Customs administration
WEST AFRITAC	Resident Advisor	November 2004	Public expenditure management
WEST AFRITAC	Resident Advisor; Short-Term Expert	November 2004	Tax administration
WEST AFRITAC	Resident Advisor; Short-Term Expert	January 2005	Government finance statistics
WEST AFRITAC	Resident Advisor; Short-Term Expert	February 2005	Tax administration
WEST AFRITAC	Resident Advisor; Short-Term Expert	March 2005	Public expenditure management
WEST AFRITAC	Resident Advisor; Short-Term Expert	April 2005	Customs administration
WEST AFRITAC	Resident Advisor; Short-Term Expert	May 2005	Tax administration
WEST AFRITAC	Resident Advisor	June 2005	Microfinance supervision
WEST AFRITAC	Resident Advisor	June 2005	Microfinance supervision
WEST AFRITAC	Resident Advisor	October 2005	Government finance statistics
WEST AFRITAC	Resident Advisor; Short-Term Expert	November 2005	Customs administration
WEST AFRITAC	Resident Advisor; Short-Term expert	November 2005	Tax administration
WEST AFRITAC	Resident Advisor; Short-Term Expert	November 2005	Public expenditure management/accounting
WEST AFRITAC	Resident Advisor; Short-Term Expert	January 2006	Tax administration

WEST AFRITAC	Short-Term Expert	March 2006	Public expenditure management/accounting
WEST AFRITAC	Resident Advisor	March 2006	Real sector statistics
WEST AFRITAC	Short-term expert	July 2006	Government finance statistics
WEST AFRITAC	Resident Advisor	July 2006	Tax administration
WEST AFRITAC	Short-term expert	July-August 2006	Customs administration
WEST AFRITAC	Resident Advisor	December 2006	Public debt management
WEST AFRITAC	Short-term expert	January 2007	Government finance statistics
WEST AFRITAC	Resident Advisor	January 2007	Customs administration
WEST AFRITAC	Resident Advisor	February 2007	Tax administration
WEST AFRITAC	Resident Advisor	March 2007	Public finance management
WEST AFRITAC	Short-term expert	July 2007	Government finance statistics

XIII. Resident Representative

The Resident Representative in Senegal also covered Guinea-Bissau from September 1997 through July 2007. There is no longer a Resident Representative for Guinea-Bissau, but the local office is still open and staffed by a local economist.

Guinea-Bissau: Relations with the World Bank Group

(As of June 30, 2007)

1. As of June 30, 2007, IDA had approved 30 credits for Guinea-Bissau. Nine 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 in the social sector, three for structural adjustment, one for economic rehabilitation and recovery, one for private sector rehabilitation and development, and one for natural resource management. The total value of these projects is about \$324.9 million equivalent, of which \$306.6 million has been disbursed. As of June 30, 2007, the undisbursed balance was \$29.2 million.

Structural adjustment credits

2. IDA has approved a total of \$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 (\$5.3 million equivalent), the Saudi Fund for Development (\$3.2 million equivalent), the International Fund for Agricultural Development (\$5.3 million equivalent), the African Development Fund (\$23.3 million equivalent), the Netherlands (\$7.5 million equivalent), the U.S. Agency for International Development (USAID) (\$4.5 million), and Japan (\$2 million equivalent).

Lending program

3. During fiscal years 2005-2007, IDA approved an HIV/AIDS project (\$7 million), a coastal and biodiversity management project (USD\$3 million), a Multi-Sector Infrastructure Rehabilitation Project (\$15 million), and a grant under the Low Income Country Under Stress (LICUS) initiative (\$1.6 million). Moreover, IDA continues to provide interim assistance to the country as part of the Initiative for the Heavily Indebted Poor Countries (HIPC). For FY08, IDA will finalize its interim strategy (ISN) for Guinea-Bissau, and will prepare a budgetary assistance operation and a community-driven development project.

Nonlending Program

4. The Bank prepared a Public Expenditure Review (PER) in 2003 and an Integrated Poverty and Social Assessment (IPSA) in 2005. A PER update and a Country Integrated Fiduciary Assessment (CIFA) were prepared in FY2006. The Bank jointly prepared with the IMF a Joint Staff Advisory Note (JSAN) of the authorities' PRSP in FY07.

International Finance Corporation (IFC)

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

Guinea-Bissau: Statistical Issues

1. Despite the authorities' efforts to reestablish their statistical data capabilities, the quality of data has hampered effective surveillance. Data compilation was severely impaired during the 1998–99 civil war.
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. However, the metadata and plans for improvement need to be reviewed as they have not been updated since June 2001 (February 2003 for national accounts). An area-wide page for the WAEMU was introduced in the January 2003 issue of *IFS*.

National accounts

3. Inadequate data sources for national accounts statistics remain a major hurdle to improving the country's national accounts. The GDP aggregate is mostly based on crude assumptions and coefficients derived from the 1986 benchmark-year estimates.
4. The National Institute of Statistics and Censuses (INEC) was seriously affected by the armed conflict, and still requires substantial technical assistance to rebuild capacity for compiling production statistics. Guinea-Bissau is receiving technical assistance in real sector statistics through West AFRITAC. Thanks to recent efforts, the timeliness of annual national estimates has improved, with current price data being reported up to 2005. However, constant price GDP estimates remain seriously out of date.

Consumer prices

5. Since July 2002, a harmonized CPI has been compiled, based on the same structure as in other WAEMU countries. However, price data are collected only for the capital Bissau.

Government finance

6. 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 most recent annual data in the *Government Finance Statistics Yearbook (GFSY)* are for 1989.
7. In March and April 2003, two FAD missions—one in revenue administration and the other in expenditure management—visited Guinea-Bissau. 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 February mission assisted the authorities to set up of a unit for the monitoring of large enterprises in the Domestic Tax Department of the Ministry of Economy and Finance (MEF), and the March mission provided TA in the area of customs administration.

Monetary and financial statistics

8. Since Guinea-Bissau's entry in the WAEMU on May 1, 1997, the BCEAO has assumed responsibility for compiling and reporting monetary data for Guinea-Bissau to STA, as is the practice for other member countries in the Union. Guinea-Bissau has adopted the BCEAO's accounting and reporting procedures for monetary and financial statistics. Monthly data on monetary statistics for Guinea Bissau are reported on a regular basis for publication in *IFS*, albeit with some delays.

9. 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 the recording of such movements. In 2005, the BCEAO made substantial revisions to the estimates of banknotes in circulation in member states resulting from cross-border banknote movement. These revisions are due to changes in the method to estimate currency in circulation in the WAEMU countries. The revised method, based on updated sorting coefficients ("coefficients de tri"), has been applied retroactively from December 2003.

10. In March 2006, as part of the authorities' efforts to implement the MFSM's methodology, the BCEAO reported to STA test data for the central bank for June 2005 for all member countries using the Standardized Report Form (ISR). STA sent comments on the data to advance the work, but the BCEAO has not yet responded.

Balance of payments statistics

11. Guinea-Bissau reports trade data to AFR for operational purposes using information from customs. It also reports balance of payments and international investment position statistics to STA on an annual basis. Nevertheless, balance of payments data remain weak, due mostly to substantial unregistered trade and inconsistencies between data on net foreign assets as reported by the BCEAO and other economic indicators. 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 statistics

During the civil war, the computer system processing debt data was severely damaged, and little progress has been 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.

Guinea-Bissau: Table of Common Indicators Required for Surveillance

(As of July 16, 2007)

	Date of latest observation	Date received	Frequency of data ⁶	Frequency of reporting ⁶	Frequency of publication ⁶
Exchange rates	Current	Current	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ¹	Mar. 2007	July 2007	M	M	M
Reserve/base money	Mar. 2007	July 2007	M	M	M
Broad money	Mar. 2007	July 2007	M	M	M
Central bank balance sheet	Mar. 2007	July 2007	M	M	M
Consolidated balance sheet of the banking system	Mar., 2007	July 2007	M	M	M
Interest rates ²	May 2007	June 2007	M	M	M
Consumer price index	Feb. 2007	June 2007	M	M	M
Revenue, expenditure, balance and composition of financing ³ – general government ⁴					
Revenue, expenditure, balance and composition of financing ³ – central government					
Stocks of central government and central government-guaranteed debt ⁵					
External current account balance	2004	Oct. 2006	A	I	I
Exports and imports of goods and services	End 2003	Sept. 23, 2005	A	I	I
GDP/GNP	2005	Apr. 2006	A	I	I
Gross external debt					

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

Table 1. Guinea-Bissau: Nominal Gross Domestic Product by Sector, 2000–06

	2000	2001	2002	2003	2004	2005	2006
(Millions of CFA francs)							
Agriculture, fishing, and forestry	85,643	86,022	83,815	82,763	84,009	94,193	92,410
Industry (including water and electricity)	14,981	12,458	12,791	12,186	12,515	13,605	14,787
Construction	3,427	3,957	4,208	4,039	4,190	4,647	5,075
Commerce, restaurants, and hotels	23,337	21,388	21,762	21,578	23,352	26,274	27,909
Transport and communications	5,549	3,561	3,619	3,656	3,888	4,270	4,609
Banks, insurance, and other services	579	485	491	484	504	559	605
Public administration	13,825	15,603	13,045	10,485	11,849	12,757	13,268
GDP at factor cost	149,695	143,474	139,730	135,191	140,307	156,305	158,663
Indirect taxes	3,702	2,409	2,187	1,927	2,269	2,522	2,221
GDP at market prices	153,397	145,883	141,917	137,118	142,576	158,827	160,883
(Percent of GDP at factor cost)							
Agriculture, fishing, and forestry	58.8	60.0	60.0	61.2	59.9	60.3	58.2
Industry (including water and electricity)	10.0	8.7	9.2	9.0	8.9	8.7	9.3
Construction	2.3	2.8	3.0	3.0	3.0	3.0	3.2
Commerce, restaurants, and hotels	15.6	14.9	15.6	16.0	16.6	16.8	17.6
Transport and communications	3.7	2.5	2.6	2.7	2.8	2.7	2.9
Banks, insurance, and other services	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Public administration	9.2	10.9	9.3	7.8	8.4	8.2	8.4
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Annual percentage changes)							
Agriculture, fishing, and forestry	7.1	0.4	-2.6	-1.3	1.5	12.1	-1.9
Industry (including water and electricity)	7.1	-16.8	2.7	-4.7	2.7	8.7	8.7
Construction	22.4	15.5	6.3	-4.0	3.8	10.9	9.2
Commerce, restaurants, and hotels	10.4	-8.3	1.7	-0.8	8.2	12.5	6.2
Transport and communications	7.2	-35.8	1.6	1.0	6.3	9.8	7.9
Banks, insurance, and other services	-2.2	-16.2	1.1	-1.3	4.1	10.9	8.2
Public administration	39.5	12.9	-16.4	-19.6	13.0	7.7	4.0
GDP at factor cost	10.2	-4.2	-2.6	-3.2	3.8	11.4	1.5
GDP at market prices	11.0	-4.9	-2.7	-3.4	4.0	11.4	1.3

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

Table 2. Guinea-Bissau: Real Gross Domestic Product by Sector, 2003–06
(Constant 1986 prices)

	2003	2004	2005	2006
(Millions of CFA francs)				
Agriculture, fishing, and forestry	54,087.3	53,971.0	56,203.1	56,756.0
Industry (including water and electricity)	7,963.9	8,040.3	8,117.6	8,566.2
Construction	2,639.3	2,692.1	2,772.9	2,911.5
Commerce, restaurants, and hotels	14,101.9	15,002.1	15,677.2	16,012.3
Transport and communications	2,389.1	2,497.6	2,547.6	2,669.8
Banks, insurance, and other services	316.5	323.8	333.5	347.0
Public administration	6,852.3	7,612.0	7,612.0	7,930.7
GDP at factor cost	88,350.3	90,138.9	93,263.9	95,193.5
Indirect taxes	1,259.5	1,457.6	1,504.9	1,319.5
GDP at market prices	89,609.8	91,596.5	94,768.8	96,512.9
(Percent of GDP)				
Agriculture, fishing, and forestry	61.2	59.9	60.3	59.6
Industry (including water and electricity)	9.0	8.9	8.7	9.0
Construction	3.0	3.0	3.0	3.1
Commerce, restaurants, and hotels	16.0	16.6	16.8	16.8
Transport and communications	2.7	2.8	2.7	2.8
Banks, insurance, and other services	0.4	0.4	0.4	0.4
Public administration	7.8	8.4	8.2	8.3
GDP at factor cost	100.0	100.0	100.0	100.0
(Annual percentage change)				
Agriculture, fishing, and forestry	1.6	-0.2	4.1	1.0
Industry (including water and electricity)	-2.0	1.0	1.0	5.5
Construction	-1.3	2.0	3.0	5.0
Commerce, restaurants, and hotels	2.0	6.4	4.5	2.1
Transport and communications	3.9	4.5	2.0	4.8
Banks, insurance, and other services	1.5	2.3	3.0	4.0
Public administration	-17.3	11.1	0.0	4.2
GDP at factor cost	-0.5	2.0	3.5	2.1
GDP at market prices	-0.6	2.2	3.5	1.8

Source: Guinea-Bissau authorities, and IMF staff estimates.

Table 4. Guinea-Bissau: Output of Main Crops, 1997-2006
(Thousands of metric tons)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Rice	137.8	124.0	138.7	80.2	88.4	87.9	88.3	89.1	98.3	106
Other cereals	61.8	55.6	59.4	62.0	75.8	66.8	58.9	75.4	79.5	83.6
Manioc	31.7	32.0	32.0	32.0	34.0	34.0	38.0	38.0	38.0	38.0
Sweet potatoes	22.5	14.6	25.7	26.8	27.8	29.2	29.6	29.3	29.3	29.3
Coconut	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
Sugarcane	72.5	48.4	24.4	25.0	25.6	26.9	27.2	28.3	29.4	30.4
Vegetables	9.2	7.0	7.4	7.5	7.7	7.9	8.0	8.2	8.3	8.5
Fresh fruit	327.4	278.3	333.9	283.9	340.6	289.5	347.4	295.3	354.4	301.2
<i>Of which: cashews</i>	258.5	195.0	308.0	87.6	91.1	94.8	98.6	102.5	106.6	103.0
Cashew nuts	51.7	39.0	65.0	77.0	78.0	87.9	87.9	87.0	97.0	93.7
Groundnuts	15.8	12.0	12.5	16.2	16.7	17.2	17.7	18.2	18.8	19.3
Cotton	0.6	1.8	1.4	1.9	1.6	1.6	4.5	4.5	2.7	2.7
(Annual percentage changes)										
Rice	1.7	-10.0	11.8	-42.2	10.3	-0.6	0.5	0.9	10.3	7.8
Other cereals	0.2	-10.0	6.8	4.4	22.3	-11.9	-11.8	28.1	5.4	5.2
Manioc	92.8	0.9	0.0	0.0	6.3	0.0	11.8	0.0	0.0	0.0
Sweet potatoes	14.3	-35.1	76.3	4.0	4.0	5.0	1.3	-1.0	0.0	0.0
Coconut	5900.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sugarcane	2.0	-33.2	-49.6	2.5	2.5	5.0	1.3	3.9	3.7	3.6
Vegetables	3.4	-23.9	5.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Fresh fruit	60.8	-15.0	20.0	-15.0	20.0	-15.0	20.0	-15.0	20.0	-15.0
<i>Of which: cashews</i>	34.6	-24.6	57.9	-71.5	4.0	4.0	4.0	4.0	4.0	-3.4
Cashew nuts	33.9	-24.6	66.7	18.5	1.3	12.6	0.0	-1.0	11.5	9.3
Groundnuts	-3.9	-24.1	4.2	29.6	3.0	3.0	3.0	3.0	3.0	3.0
Cotton	21.2	185.7	-22.2	35.7	-15.8	0.0	181.3	0.0	-40.0	0.0

Sources: National Institute of Statistics and Census (INEC).

Table 5. Guinea-Bissau: Stocks, Production, and Uses of Cashew Nuts, 1992-2006

(In metric tons)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Stock at beginning of year	2,887	18,383	22,863	913	356	15,072	8,380	13,291	13,938	17,409	16,809	16,809	16,806	15,174	13,472
Production	19,418	21,748	24,793	27,768	38,600	51,697	39,000	65,000	77,000	78,000	87,865	87,893	87,000	97,000	93,700
Domestic consumption	-272	-278	-283	-288	-284	-289	-289	-303	-319	-335	-345	-355	-400	-446	-431
Exports	-3,650	-16,990	-46,460	-28,382	-25,000	-58,100	-33,800	-64,050	-73,210	-78,600	-84,579	-88,020	-107,926	-112,278	-89,500
Level of stocks	18,383	22,863	913	11	13,672	8,380	13,291	13,938	17,409	16,809	16,809	16,806	15,174	13,472	17,241
Change in stocks	15,495	4,480	-21,950	-902	13,661	-5,292	4,911	647	3,471	-600	0	-3	-1,632	-1,701	3,769

Sources: National Institute of Statistics and Census (INEC)

Table 6. Guinea-Bissau: Industrial and Artisanal Fishing, 1993-2006

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Artisanal fishing (all species)	16,407	17,578	18,917	20,088	22,312	17,961	18,141	18,322	18,505	18,876	19,819	26,000	27,000	28,000
	(In metric tons)													
Industrial fishing by domestic operators	3,393	3,546	3,723	4,070	4,272	3,439	3,473	3,508	3,543	3,614	3,795	3,984	4,184	4,393
Fish	406	410	450	480	505	407	411	415	419	427	449	471	495	519
Shrimp	69	71	76	81	85	68	69	70	70	72	76	79	83	87
Other crustaceans														
	(In millions of U.S. dollars)													
Fish and shrimp exports	0.9	0.7	0.3	0.2	0	0	1	1	1	1	1	1	1	1
Revenue from fishing licenses and EU compensations	11.3	11.7	12.1	13.3	15.1	1.7	13.0	10.7	10.3	12.2	13.8	17.0	14.3	13.8
Memorandum items:														
Number of fishing licenses	242	141	169	172	235	20	193	163	156	160	160	160	160	160
Number of authorized boats	162	120	108	110	150	13	124	104	100	102	102	102	102	102

Source: National Institute of Statistics and Census (INEC)

Table 7. Guinea-Bissau: Manufacturing Production in Major Industries, 1996-2006

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	(In thousands of metric tons)										
Food industries											
Hulled rice	73.6	79.6	59.7	62.7	65.8	69.1	68.4	67.7	67.1	66.4	65.7
Peanuts processing	8.1	8.2	5.9	6.2	6.5	6.8	6.7	6.6	6.6	6.5	6.5
Bakery products	7.8	8.2	5.8	6.3	6.9	7.6	7.7	7.9	8.0	8.2	8.4
Frozen fish	1.2	2.5	1.4	1.5	1.6	1.7	1.7	1.7	1.8	1.8	1.8
Dry and smoked fish	3.7	6.6	3.1	3.3	3.5	3.6	3.7	3.8	3.9	3.9	4.0
	(In millions of liters)										
Vegetable oils	4.3	4.1	3.1	3.2	3.4	3.6	3.6	3.7	3.8	3.9	3.9
Beverages	2.8	3.2	2.4	3.1	3.3	3.5	0.0	0.0	3.5	3.5	3.5
Distilled liquor	1.3	1.3	1.0	1.0	0.0	0.0	0.0	0.0	1	1	1
Dairy products	1.2	1.3	1.0	1.0	1.1	1.1	0.9	0.9	0.9	0.9	0.9
Nonfood industries											
	(In thousands of metric tons)										
Wood processing	18.2	21.4	10.2	10.7	11.2	11.8	11.4	11.0	10.7	10.4	10.0
Wood products	7.9	7.0	4.0	4.2	4.4	4.7	4.5	4.4	4.2	4.1	4.0
Soap	2.9	3.0	2.3	2.4	2.5	2.6	2.5	2.4	2.4	2.3	2.2

Source: National Institute of Statistics and Census (INEC)

Table 8. Guinea-Bissau: Electricity and Water Production, 1992-2006

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Electricity production	47,623	48,157	44,134	15,500	20,790	18,897	19,377	15,752	13,063	14,123	12,779
Of which: Bissau	40,715	42,344	40,134	12,000	17,290	16,397	16,877	13,252	9,563	10,623	9,279
Electricity consumption	42,861	43,341	39,721	13,950	18,711	17,007	17,439	14,177	11,757	12,711	11,501
	(In megakilowatts)										
Water production	6,661	7,127	4,249	5,084	5,364	6,515	7,087	6,248	3,577	3,205	3,644
Of which: Bissau	5,694	6,036	4,225	4,346	4,543	5,518	6,087	5,248	2,577	2,205	2,644
Water consumption	6,195	6,628	3,951	4,728	4,989	6,059	6,591	5,811	3,327	2,981	3,389
	(In millions of cubic meters)										

Source: National Institute of Statistics and Census (INEC)

Table 9. Guinea-Bissau: Harmonized Consumer Price Index,
City of Bissau, July 2001=100.
Period average

	Weight	2002	2003	2004	2005	2006
Consumer Price Index	10000	101.0	97.4	98.3	101.6	103.6
Food	5972	102.0	96.9	98.2	101.5	101.9
Bread and cereals	1387	100.1	99.2	107.7	107.8	105.2
Meat	865	100.7	101.2	102.9	104.6	101.5
Fish	1294	109.4	96.0	95.7	96.8	99.3
Fruits	133	84.6	82.2	97.9	126.9	122.1
Vegetables	714	101.2	83.7	74.9	80.8	83.1
Alcoholic beverages, tobacco, and related produc	180	...	99.4	101.1	102.3	102.6
Clothing and shoes	757	98.8	97.2	96.1	96.2	105
Housing, water, and electricity	1363	96.5	93.8	95.3	95.6	99.2
Furniture and household appliances	444	102.5	101.8	101.4	105.3	101.9
Health	228	104.7	108.1	106.8	107.8	116.1
Transport	557	100.3	100.4	101.8	117.2	121.5
Communication	96	...	101.0	101.4	101	104.9
Leisure, recreation, and culture	185	101.9	102.3	102.7	104.8	105.3
Education	70	105.5	106.1	111.5	116.6	134.2
Restaurants and hotels	45	101.0	99.1	98.1	98.9	104.5
Miscellaneous goods and services	103	100.0	100.0	101.1	100.5	104.8

Source: INEC.

Table 10. Guinea-Bissau: Central Government Operations, 2000–06

	2000	2001	2002	2003	2004	2005	2006
(Billions of CFA francs)							
Total revenue and grants	57.6	48.5	32.0	35.1	49.1	48.2	50.5
Total revenue	28.4	25.9	21.7	20.8	24.5	28.0	31.3
Tax revenue	16.4	16.2	11.9	11.9	11.8	18.3	18.5
<i>Of which: international trade taxes</i>	8.3	6.6	3.8	3.8	4.0	6.4	6.8
Nontax revenue	12.0	9.7	9.8	8.9	12.7	9.6	12.9
<i>Of which: fishing licenses and EU compensation</i>	7.6	7.6	8.5	8.0	9.0	7.5	7.2
Grants	29.2	22.6	10.3	14.3	24.5	20.2	19.1
Budget support	12.6	8.0	3.2	4.8	12.0	5.1	10.2
Project grants	16.6	14.6	7.1	9.5	12.5	15.2	8.9
Total expenditure and net lending	68.2	62.8	46.4	52.8	70.4	67.1	66.3
Current expenditure	51.9	41.1	33.7	34.9	42.1	44.0	46.6
Wages and salaries	10.5	11.0	10.5	13.6	16.2	21.3	20.5
Other goods and services	10.9	7.4	7.7	3.9	4.5	7.6	7.9
Transfers	5.3	7.2	7.4	5.1	5.0	6.1	8.3
Other current expenditures	16.4	3.3	1.2	4.5	7.7	2.4	4.9
Scheduled interest payments	8.8	12.2	6.9	7.7	8.7	6.7	5.0
External	8.8	11.6	6.1	7.3	6.0	6.3	0.1
Domestic	0.0	0.6	0.8	0.5	2.7	0.4	4.9
Capital expenditure	16.3	21.6	12.7	17.9	28.3	23.1	19.7
<i>Of which: domestically financed</i>	3.5	2.5	0.7	0.1	0.5	1.1	0.4
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance							
Excluding grants	-39.8	-36.8	-24.7	-32.0	-45.9	-39.2	-35.0
Including grants	-10.6	-14.2	-14.4	-17.7	-21.4	-18.9	-15.8
Changes in external interest arrears	-122.6	2.8	2.8	5.8	4.5	3.8	3.2
Changes in domestic arrears	0.0	1.9	1.4	14.8	1.5	-0.1	5.5
Float and errors and omissions (net)	4.4	-5.7	-0.2	-6.9	2.0	-1.0	0.0
Overall balance (cash basis)	-128.9	-15.3	-10.3	-4.0	-13.3	-16.2	-6.9
Financing	128.9	15.3	10.3	4.0	13.3	16.2	6.9
(Percent of GDP)							
Total revenue	18.5	17.8	15.3	15.2	17.2	17.6	19.5
Total expenditure and net lending	44.4	43.0	32.7	38.5	49.4	42.2	41.2
Current expenditure	33.8	28.2	23.8	25.5	29.5	27.7	29.0
Capital expenditure	10.6	14.8	8.9	13.1	19.9	14.5	12.2
Domestic primary balance 1/	-11.8	-3.7	-4.1	-5.0	-7.6	-6.9	-7.5
Overall balance (excluding grants)	-25.9	-25.2	-17.4	-23.3	-32.2	-24.6	-21.6

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

1/ Defined as revenue (excluding grants) minus primary current expenditure, minus domestically financed capital expenditure.

Table 11. Guinea-Bissau: Central Government Revenue, 2000–2006

	2000	2001	2002	2003	2004	2005	2006
	(Millions of CFA francs)						
Budgetary revenue	29,500	24,502	21,665	20,844	24,529	27,978	31,450
Tax revenue	17,500	14,790	11,876	11,941	11,830	18,334	18,475
Direct taxes	3,153	2,804	2,285	2,925	2,870	4,113	4,622
Income taxes	3,132	2,736	2,267	2,907	2,838	4,074	4,582
Corporate tax	1,739	1,336	1,080	2,139	1,596	1,973	2,479
Individual taxes	1,383	706	590	587	605	1,338	1,480
Land tax	9	694	597	181	637	763	623
Indirect taxes	13,266	11,986	9,591	9,016	8,961	14,220	13,853
Tax on goods and services		5,904	5,929	5,004	4,612	7,797	6,613
Special consumption tax (IEC)	5,398	2,353	2,424	1,436	1,420	2,148	1,309
On imports	4,584	1,275	1,374	1,258	1,370	2,148	1,309
On local production	814	1,078	1,050	178	50	0	0
General sales tax	n.a.	3,551	3,505	3,568	3,192	5,649	5,304
On imports	n.a.	2,572	2,599	2,900	2,236	4,271	3,845
On local production	n.a.	979	907	668	956	1,378	n.a.
International trade	8,915	6,602	3,810	3,754	4,047	6,426	6,807
Import duties	3,702	2,544	2,187	2,583	2,347	3,754	4,479
Export taxes	4,166	3,807	1,593	1,171	1,699	2,010	1,606
Other	611	251	30	0	0	662	722
Other taxes		392	0	0	50	77	0
Nontax revenue	12,000	9,722	9,733	8,903	12,699	9,644	12,977
Fees and duties	7,625	7,561	8,652	8,142	10,232	8,220	8,302
Fishing licenses and EU compensation	7,625	7,561	8,477	7,977	8,988	7,515	7,193
Other fees		0	175	165	1,244	705	1,109
Other nontax revenues	4,375	2,161	1,081	760	2,467	1,424	4,675
	(Percent of total revenue)						
Tax revenue	59.4	60.4	54.8	57.3	48.2	65.5	59
<i>Of which:</i>							
Income taxes	10.6	11.2	10.5	13.9	11.6	14.6	15
Taxes on goods and services	18.3	24.1	27.4	24.0	18.8	27.9	21
Taxes on international trade	30.2	26.9	17.6	18.0	16.5	23.0	22
Nontax revenue	40.7	39.7	44.9	42.7	51.8	34.5	41
<i>Of which:</i>							
Fishing licences	25.8	30.9	39.1	38.3	36.6	26.9	23
	(Percent of GDP)						
Tax revenue	11.4	10.1	8.4	8.7	8.3	11.5	10
<i>Of which:</i>							
Income taxes	2.0	1.9	1.6	2.1	2.0	2.6	3
Taxes on goods and services	3.5	4.0	4.2	3.6	3.2	4.9	4
Taxes on international trade	5.4	4.5	2.7	2.7	2.8	4.0	4
Nontax revenue	7.8	6.7	6.9	6.5	8.9	6.1	8
<i>Of which:</i>							
Fishing licences	5.0	5.2	6.0	5.8	6.3	4.7	4

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

Table 12. Guinea-Bissau: Central Government Expenditure, 2000–06
(Millions of CFA francs)

	2000	2001	2002	2003	2004	2005	2006
Total expenditure	68,173.8	62,761.0	46,408.9	52,829.5	70,417.5	67,132.3	66,246.4
Current expenditure	51,866.9	41,112.7	33,720.1	34,899.3	42,075.1	44,032.3	46,593.4
Current primary expenditure	43,066.9	28,886.3	26,868.1	27,190.8	33,347.5	37,316.7	41,578.7
Wages and salaries	10,499.1	10,992.0	10,527.0	13,645.4	16,168.1	21,256.8	20,514.6
Permanent staff	3,070.5	4,336.0	4,729.2	4,146.9	8,873.5	13,792.3	12,845.6
Temporary staff	2,908.4	1,956.0	1,903.1	1,187.4	1,294.7	2,529.7	385.1
Other expenditures on staff	4,520.2	4,700.0	3,894.8	8,311.1	5,999.9	4,934.9	7,283.9
Goods and services	10,900.0	7,392.5	7,695.5	3,921.9	4,495.5	7,605.9	7,900.9
Durables	481.2	228.8	449.9	741.2	184.6	409.9	651.0
Nondurables	1,272.0	0.0	219.0	0.0	3,044.9	5,024.4	4,004.7
Food and housing	4,356.8	1,643.0	2,300.2	2,713.8	711.7	1,225.6	1,400.0
Clothing	7.9	3.0	155.3	37.6	2.9	73.8	160.0
Transport	542.2	667.7	637.1	329.5	342.2	541.5	814.0
Other	4,239.9	4,850.0	3,934.0	99.7	209.2	330.6	871.2
Transfers	5,300.0	7,207.5	7,438.6	5,136.6	5,017.5	6,082.5	8,302.4
Civil servants	2,762.5	3,658.0	3,916.0	3,534.9	3,310.3	0.0	0.0
Public administration	1,693.4	319.0	1,809.0	319.0	1,350.8	0.0	0.0
Public enterprises	102.2	0.0	190.7	47.9	67.2	19.8	173.0
Other	741.9	3,230.5	1,522.9	1,234.8	289.2	6,062.6	8,129.4
Other current expenditures	16,367.9	3,294.3	1,207.0	4,486.8	7,666.4	2,371.5	4,860.8
Scheduled interest	8,800.0	12,226.3	6,851.9	7,708.5	8,727.6	6,715.6	5,014.7
Domestic	0.0	578.0	760.0	451.1	2,691.9	400.0	134.0
External	8,800.0	11,648.3	6,091.9	7,257.5	6,035.7	6,315.6	4,880.7
Capital expenditure	16,306.9	21,648.4	12,688.8	17,930.2	28,342.3	23,100.0	19,653.1
Foreign financed	12,836.9	19,175.0	11,998.0	17,869.6	26,344.2	21,400.0	17,683.3
Domestically financed	3,469.9	2,473.4	690.8	60.6	1,998.2	1,700.0	372.7

Source: Guinea-Bissau authorities, and IMF staff estimates.

Table 13. Guinea-Bissau: Public Sector Employment, 2000–06
(Number of staff at end of period)

	2000	2001	2002	2003	2004	2005	2006
Total government payroll	26,112	29,359	...	20,784	18,938	19,090	18,312
Presidency ¹	218	218	...	209	148	148	126
Council of Ministers	24	25	...	19	32	38	51
National Assembly			...				
Prime Minister's Office			...				
Fiscal Court	23	30	...	37	35	33	40
Supreme Court	157	169	...	142	150	148	182
State Attorney's Office	121	126	...	106	114	130	159
Ministries	25,569	28,791	...	20,271	18,459	18,593	17,754
Advancement of Women	159	...	...	...	...	22	
Agriculture	1,118	1,061	...	956	959	932	554
Ministry of Defense (MDN) and Armed Forces ²	2,612	2,481	...	5,337	5,337	5,337	5,404
Ministry of National Security (Interior)							3,514
Economy and Regional Development	9	63	...	...	...	...	67
Tourism and Territorial Administration							54
Education	5,067	5,606	...	5,215	5,166	5,136	4,566
Finance	794	802	...	751	719	143	697
Fisheries	162	165	...	126	122	119	133
Foreign Affairs and Guinea-Bissau Communities ³	164	181	...	104	102	115	110
Justice	148	149	...	169	119	117	95
Natural Resources and Environment	191	255	...	254	114	129	121
Public Administration and Reform	86	102	...	106	97	101	109
Public Health	2,144	2,162	...	1,787	1,750	1,717	1,501
Social Communication	59	58	...				
Social Infrastructure	343	344	...	274	255	...	158
Social Solidarity and Reinsertion of Combatants	71	69	...				49
Transport and Telecommunications	213	219	...	175	173	172	130
Secretariat of State of Commerce	123	160	...				135
Secretariat of State of Industry	103	...	...				58
Secretariat of State of Planning and Budgeting	71	77	...	59	56		59
Secretariat of State of Youth, Culture, and Sports	287	272	...	249		220	133
Demobilization Program and Ministry of ex-combatant	...	170	...				49
High Authority for Water and Energy	53	...	...	...	46	47	58
Not classified ^{4/}	...	438	...	...	3,444	3,768	
Other ^{5/}	11,651	14,015	...	4,709		518	

Source: Guinea-Bissau authorities, and IMF staff estimates.

¹ The military personnel assigned to the presidency are accounted for under the Ministry of Defense and the Ministry of Home Affairs.

² In the absence of detailed information, all Ministry of Defense and Ministry of Home Affairs staff are counted as military personnel.

³ Does not include embassy staff.

⁴ 2004–05 includes estimated number of paramilitary personnel.

⁵ Corresponds to an estimated number of contractual teachers whose situation is being regularized.

Table 14. Guinea-Bissau: Monetary Survey, 2000–06

	2000	2001	2002	2003 ¹	2004	2005	2006
	(Billions of CFA francs)						
Net foreign assets	28.5	31.5	48.3	13.7	32.5	36.7	43.2
Central bank	33.6	37.2	51.2	7.7	26.6	36.9	33.9
Deposit money banks	-5.1	-5.7	-3.0	6.0	5.9	-0.2	9.3
Assets	6.0	2.8	5.5	6.0	6.5	4.3	10.0
Liabilities	-11.0	-8.5	-8.4	0.0	-0.5	-4.6	-0.7
Net domestic assets	35.5	38.6	38.8	16.4	10.9	15.7	12.0
Net domestic credit	20.3	19.8	23.0	17.8	12.0	15.9	18.6
Net claims on government	15.8	15.4	18.8	15.2	9.7	12.5	12.2
Net claims on central government	15.8	15.4	18.8	15.2	9.7	12.5	12.2
Central bank	16.8	16.5	19.7	16.0	10.5	13.2	12.4
Claims	20.4	20.3	20.2	17.9	15.1	13.9	13.0
Advances to the treasury	14.2	14.2	14.3	12.0	9.5	8.4	7.6
Statutory limit	2.5	2.5	2.8	2.6	2.1	1.9	1.6
Use of Fund credit	11.7	11.7	11.4	9.5	7.4	6.3	4.1
Other advances	0.0	0.0	0.0	0.0	0.0	0.2	1.9
Consolidated loans	6.2	6.1	5.9	5.8	5.6	5.5	5.4
Deposits	-3.6	-3.7	-0.5	-1.9	-4.6	-0.7	-0.6
Deposit money banks	-0.9	-1.1	-0.9	-0.8	-0.7	-0.7	-0.1
Claims	0.0	0.0	0.3	0.5	1.0	3.0	3.6
Deposits	-0.9	-1.1	-1.2	-1.3	-1.7	-3.7	-3.7
Credit to the economy	4.5	4.4	4.2	2.7	2.3	3.4	6.3
Other items (net)	15.2	18.8	15.8	-1.4	-1.1	-0.2	-6.6
Liabilities	64.0	70.1	87.0	30.2	43.4	52.4	55.2
Broad money	64.0	70.1	87.0	30.2	43.4	52.4	55.2
Local currency	64.0	70.1	87.0	30.2	43.4	52.4	55.2
Base money	44.2	53.1	71.1	21.3	32.6	40.5	39.7
Demand deposits and quasi money	19.8	17.1	15.9	8.9	10.9	11.8	15.5
Demand deposits	18.6	16.3	14.6	8.3	10.3	11.0	12.7
Quasi money	0.9	0.8	1.3	0.6	0.6	0.8	2.8
(Annual change as percent of beginning-of-period money stock, unless otherwise indicated)							
Net foreign assets	51.0	4.7	23.9	-39.7	62.4	9.5	12.4
Net domestic assets	16.7	4.8	0.3	-25.7	-18.4	11.1	-7.1
Domestic credit	-1.5	-0.8	4.5	-6.0	-19.3	8.9	5.2
Credit to the government	17.8	-0.2	0.3	-2.4	-7.4	1.8	-0.6
Credit to the economy (percent)	-19.3	-0.1	-0.3	-1.8	-1.3	2.6	5.6
Other items (net)	18.2	5.5	-4.3	-19.7	0.9	2.1	-12.3
Broad money	67.7	9.5	24.2	-65.3	44.0	20.6	5.3
Velocity (GDP/M2)	2.4	2.1	1.6	4.5	3.3	3.0	2.9

¹In 2003, the BCEAO revised its estimate of currency in circulation, broad money, and net foreign assets.

Table 15. Guinea-Bissau: Central Bank of West African States (BCEAO), 2000–06¹
(Billions of CFA francs)

	2000	2001	2002	2003	2004	2005	2006
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
Net foreign assets	33.6	37.2	51.2	7.7	26.6	36.9	33.9
Net domestic assets	14.4	18.4	22.2	15.6	10.3	13.0	10.4
Net domestic credit	16.8	16.5	19.7	16.0	10.5	13.1	12.4
Net claims on the general government	16.8	16.5	19.7	16.0	10.5	13.1	12.4
Net claims on the central government	16.8	16.5	19.7	16.0	10.5	13.1	12.4
Claims	20.4	20.3	20.2	17.9	15.1	13.9	13.0
Statutory limit	2.5	2.5	2.8	2.6	2.1	1.9	1.6
Use of IMF credit	11.7	11.7	11.4	9.5	7.4	6.3	4.1
Other advances	0.0	0.0	0.0	0.0	0.0	0.2	1.9
Consolidated loans	6.2	6.1	5.9	5.8	5.6	5.5	5.4
Deposits	-3.6	-3.7	-0.5	-1.9	-4.6	-0.7	-0.6
Net claims on other government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the rest of the economy	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items, net	-2.4	1.8	2.5	-0.3	-0.1	-0.1	-2.0
Monetary base	47.6	55.3	73.2	23.0	36.9	49.9	44.4
Reserves	3.4	2.3	2.1	1.7	4.3	9.4	4.7
Currency in circulation	44.2	53.1	71.1	21.3	32.6	40.5	39.7
Other liabilities	0.3	0.2	0.2	0.3	0.0	0.0	0.0

Source: Central Bank of West African States (BCEAO), and IMF staff estimates.

¹ Since the BCEAO started its operations on May 2, 1997, the Guinea-Bissau peso (PG) was replaced by the CFA franc at a rate of 1 CFA franc = PG 65; earlier data have also been converted at this rate.

Table 16. Guinea-Bissau: Consolidated Accounts of the Deposit Money Banks, 2000–06
(Billions of CFA francs)

	2000 Dec.	2001 Dec.	2002 Dec.	2003 Dec.	2004 Dec.	2005 Dec.	2006 Dec.
Net foreign assets	-5.1	-5.7	-3.0	6.0	5.9	-0.2	9.3
Assets	6.0	2.8	5.5	6.0	6.5	4.3	10.0
Liabilities	-11.0	-8.5	-8.4	0.0	-0.5	-4.6	-0.7
Net domestic assets	24.6	22.7	18.9	2.9	4.9	10.5	-1.8
Reserves and cash	6.3	2.4	1.7	2.0	4.5	9.4	4.7
Net domestic credit	3.6	3.3	3.3	1.8	1.5	2.7	2.6
Net claims on the central government	-0.9	-1.1	-0.9	-0.8	-0.7	-0.7	-0.1
Claims	0.0	0.0	0.3	0.5	1.0	3.0	3.6
Deposits	-0.9	-1.1	-1.2	-1.3	-1.7	-3.7	-3.7
Credit to the economy	4.5	4.4	4.2	2.7	2.3	3.4	6.3
Private sector	4.5	4.4	4.2	2.7	2.3	3.4	6.3
Short-term credit	3.9	3.9	3.8	2.4	2.1	3.0	
Medium- and long-term credit	0.5	0.5	0.4	0.2	0.2	0.4	
Other items, net	14.7	17.1	13.9	-1.0	-1.1	-1.6	-9.1
Money and quasi money	19.5	17.1	15.9	8.9	10.9	11.8	15.5
Demand deposits (local currency)	18.6	16.3	14.6	8.3	10.3	11.0	12.7
Quasi money	0.9	0.8	1.3	0.6	0.6	0.8	2.8

Source: Central Bank of West African States, and IMF staff estimates.

Table 17. Guinea-Bissau: Balance of Payments, 2000-06

(Millions of US dollars)

	2000	2001	2002	2003	2004	2005	2006 Prel.
Goods and services	-42.7	-68.3	-43.7	-33.4	-43.8	-53.2	-94.8
Goods	-8.9	-28.3	-17.0	-8.6	-7.2	-16.5	-59.4
Exports, f.o.b	62.1	50.0	53.6	62.2	75.8	89.6	61.5
<i>Of which : cashew nuts</i>	59.8	47.2	47.3	55.7	72.8	84.9	56.5
Imports, f.o.b	71.0	-78.3	-70.6	-70.8	-83.0	-106.2	-120.9
<i>Of which: oil imports</i>	-4.7	-5.5	-5.5	-8.7	-12.5	-16.7	-21.3
Services (net)	-33.7	-40.0	-26.7	-24.8	-36.6	-36.6	-35.5
Credit	6.4	7.3	7.3	8.6	7.8	7.8	8.9
Debit	40.1	-47.3	-34.0	-33.4	-44.4	-44.4	-44.4
Income (interest scheduled)	-12.4	-15.9	-8.8	-12.5	-11.4	-12.0	-9.3
Current transfers (net)	42.9	40.1	30.7	39.3	61.6	47.6	70.5
Official	35.7	25.9	12.7	16.2	31.8	23.0	41.3
<i>Of which: balance of payments support grants</i>	17.7	10.9	4.6	8.3	22.7	9.6	19.6
<i>Of which: EU fishing compensation</i>	10.7	8.1	8.5	8.2	9.0	9.0	9.1
Private	7.2	14.2	18.0	23.1	29.8	24.5	29.2
<i>Of which: NGO</i>	5.0	2.2	0.3	0.3	0.3	0.3	0.3
<i>Of which: workers' remittances</i>	2.2	9.8	13.9	17.2	21.5	19.0	24.2
Current account							
Including official transfers	-12.2	-44.0	-21.8	-6.6	6.4	-17.6	-33.7
Excluding official transfers	-37.2	-61.8	-26.0	-14.7	-16.4	-31.6	-65.9
Excluding official transfers and interest payments	-24.8	-45.9	-17.3	-2.2	-5.0	-19.6	-56.5
Capital and financial balance	32.8	6.0	5.2	-114.4	-17.1	-5.7	-4.0
Capital account	23.4	12.4	39.2	16.3	29.2	45.0	33.6
Capital transfers	23.4	12.4	39.2	16.3	29.2	45.0	33.6
Financial account	9.4	-6.4	-34.0	-130.7	-46.4	-50.7	-37.6
Official medium- and long-term disbursements	3.9	6.3	7.1	13.8	26.2	11.8	16.8
Balance of payments support	0.7	2.3	0.0	3.9	14.4	0.0	0.0
Projects	3.2	4.0	7.1	9.9	11.8	11.8	16.8
Scheduled amortization (excluding IMF)	-17.6	-23.8	-28.3	-32.8	-35.9	-34.3	-25.7
T-bills	0.0	0.0	0.0	0.0	0.0	19.0	-2.0
Commercial banks' net foreign assets	4.5	0.9	-4.2	-16.9	0.2	11.2	-19.1
Private capital; and errors and omissions	18.6	10.2	-8.5	-94.8	-36.8	-58.4	-7.5
Overall balance	20.7	-38.1	-16.7	-121.0	-10.8	-23.3	-37.6
Financing	-20.7	38.1	16.7	121.0	10.8	23.3	37.6
Net foreign assets (increase -)	-32.1	-5.0	-20.2	75.0	-35.8	-19.6	5.8
<i>Of which : net IMF credits</i>	8.3	-0.7	-1.6	-4.8	-5.3	-2.1	-4.2
Debt relief	184.1	35.4	11.0	8.7	8.6	10.1	10.3
Change in debt-service arrears (decrease -)	-172.7	7.7	25.8	37.2	38.0	32.7	22.7
Memorandum items							
					(Percent of GDP)		
Current account balance							
Including official transfers	-5.6	-22.1	-10.7	-2.8	2.4	-5.8	-10.9
Excluding official transfers	-22.1	-35.1	-16.9	-9.7	-9.4	-10.5	-24.3

Source: BCEAO; and Fund Staff estimates

Table 18. Guinea-Bissau: Trade and Exchange Rate Indicators, 2000–06

	2000	2001	2002	2003	2004	2005	2006
Trade indicators							
Exports, f.o.b. (annual percentage change)							
Value (U.S. dollar terms)	21.3	-19.4	7.1	16.1	21.8	18.2	-31.4
Volume	25.6	3.8	-0.5	7.3	15.0	0.2	-16.4
Prices (U.S. dollar terms)	-3.4	-22.4	7.8	8.2	5.9	18.0	-17.9
Imports, f.o.b. (annual percentage change)							
Value (U.S. dollar terms)	8.3	10.3	-9.8	0.2	17.2	27.9	13.9
Volume	12.0	10.0	-14.3	-12.9	1.0	16.1	7.4
Prices (U.S. dollar terms)	-3.3	0.3	5.3	15.1	16.1	10.2	6.0
Terms of trade (deterioration -)	0.0	-22.6	2.3	-6.0	-8.7	7.1	-22.6
Exchange rates							
CFA franc per U.S. dollar							
Period average	709.9	732.4	694.6	580.1	527.6	526.6	522.4
End of period	731.0	735.1	644.2	533.7	489.2	553.3	496.6
Effective exchange rates (period average, 2000=100)							
Nominal	100.0	100.9	103.8	112.0	116.2	115.0	114.8
Real	100.0	101.3	104.5	105.6	107.4	106.7	106.4
	(In percent)						
Annual variations							
U.S. dollar per CFA franc; end of period	30.0	0.6	-12.4	-17.2	-8.3	13.1	-10.2
Effective exchange rates (depreciation -)							
Nominal	-5.9	0.9	2.9	7.8	3.8	-1.0	-0.1
Real	-0.9	1.3	3.2	1.0	1.8	-2.0	-0.3

Source: Guinea-Bissau authorities, and IMF staff estimates.

Table 19. Guinea-Bissau: Merchandise Exports, f.o.b., 2000–06

	2000	2001	2002	2003	2004	2005	2006 Prel.
	(Millions of U.S.dollars)						
Total merchandise exports	62.1	50.0	53.6	62.2	75.8	89.6	61.5
Agricultural products	60.7	48.5	49.0	56.7	73.2	85.1	56.7
Groundnuts	0.0	0.0	0.0	0.0	0.2	0.1	0.1
Cotton	0.5	1.3	1.6	0.9	0.1	0.0	0.0
Cashew nuts	59.8	47.2	47.3	55.7	72.8	84.9	56.5
Other	0.3	0.0	0.0	0.0	0.1	0.1	0.1
Fish products	0.2	0.8	0.1	0.2	0.3	0.9	1.0
Fish	0.0	0.0	0.1	0.1	0.2	0.6	0.7
Shrimp	0.1	0.8	0.0	0.1	0.1	0.3	0.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Wood products	0.4	0.4	0.9	0.9	0.2	0.2	0.2
Sawn wood	0.1	0.0	0.6	0.6	0.2	0.2	0.2
Logs	0.3	0.4	0.3	0.3	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.8	0.2	3.6	4.5	2.1	3.4	3.6
	(Thousands of metric tons)						
Volume							
Groundnuts	0.0	0.0	0.0	0.0	0.2	0.2	0.2
Cotton	7.8	27.5	34.1	13.6	1.6	0.0	0.0
Cashew nuts	73.2	78.6	86.7	95.8	100.9	113.6	92.1
Fish (frozen)	0.1	0.1	0.1	0.1	0.3	0.9	0.6
Shrimp (frozen)	0.0	0.3	0.0	0.0	0.0	0.1	0.1
Sawn wood	0.3	0.1	2.1	2.0	0.6	0.6	0.6
Logs	1.8	2.5	2.0	2.0	0.0	0.0	0.0
	(U.S. dollars per metric ton)						
Unit prices							
Groundnuts	786	753	655	856	910	769	829
Cotton	59	48	46	63	62	55	58
Cashew nuts	817	600	546	581	721	747	613
Fish	452	530	646	650	693	744	1,074
Shrimp	3,029	3,098	3,121	3,304	3,304	3,304	4,769
Sawn wood	285	283	273	284	324	328	342
Logs	181	158	146	146	174	182	187

Source: Central Bank of West African States, and IMF staff estimates.

Table 20. Guinea-Bissau: Merchandise Imports, c.i.f., 2000–06

	2000	2001	2002	2003	2004	2005	2006 Est.
	(Millions of U.S. dollars)						
Total merchandise imports	86.3	95.2	85.4	85.8	116.2	123.4	134.1
Foodstuffs	21.5	14.8	17.0	25.8	19.1	26.5	31.2
Rice	13.9	9.2	11.8	18.2	12.7	16.8	14.8
Wheat flour	1.5	1.2	1.4	2.5	1.8	3.4	5.5
Sugar	0.4	0.2	0.7	0.7	0.8	1.3	3.8
Oil	2.8	1.1	1.5	2.1	1.0	1.3	1.8
Dairy products	0.5	0.5	0.4	0.5	0.9	0.8	1.9
Others	2.5	2.7	1.1	1.8	1.9	3.0	3.4
Beverages and tobacco	6.0	4.9	4.9	5.5	4.9	6.9	6.6
Other consumer goods	4.7	4.1	3.9	5.0	9.8	9.3	10.4
Clothing and shoes	0.5	0.4	0.3	0.6	1.5	0.8	0.5
Durable consumer goods	2.8	3.7	3.7	4.5	5.7	3.7	4.7
Nondurable consumer goods	1.4	0.0	0.0	0.0	2.6	4.8	5.2
Petroleum products	4.7	5.5	5.5	8.7	12.5	16.7	21.1
Diesel and gasoline	4.4	5.1	5.0	7.7	8.9	13.8	19.2
Gas	0.1	0.2	0.2	0.3	1.4	0.0	0.0
Other	0.3	0.2	0.2	0.7	2.2	2.8	1.9
Construction material	6.5	2.8	4.2	7.2	12.5	7.6	7.4
Transport equipment	9.4	6.3	4.5	4.9	10.2	7.5	8.0
Passenger vehicles	5.2	4.5	3.2	3.4	7.5	5.0	5.8
Freight vehicles	3.4	1.4	1.0	1.1	2.1	2.0	1.5
Vehicle parts	0.9	0.3	0.3	0.5	0.6	0.5	0.7
Electrical equipment/machinery	5.4	3.7	2.3	6.0	10.6	7.4	5.4
Parts, accessories, and others	0.2	1.0	0.7	1.6	0.2	1.0	3.4
Nonregistered trade	27.9	52.1	42.4	21.1	36.4	40.6	40.5

Source: Central Bank of West African States, and IMF staff estimates.

Table 21. Guinea-Bissau: Direction of Trade, 2000–06
(Percent of total)

	2000	2001	2002	2003	2004	2005	2006
Exports							
Industrial Countries	4.2	3.8	9.8	13.0	27.4	4.3	2.8
France	0.7	0.0	0.2	0.3	0.0	0.0	0.0
Netherlands	0.1	0.0	0.0	0.2	0.4	0.3	0.0
Portugal	1.1	1.8	2.9	2.6	0.8	1.1	1.0
Spain	0.0	0.0	0.3	0.1	0.0	0.0	0.0
United States	0.4	0.0	0.0	2.6	22.2	0.2	0.3
Other	1.9	2.0	6.3	7.4	4.0	2.7	1.5
Africa	1.5	2.4	4.5	19.1	15.0	21.4	18.4
Cape Verde	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Gambia, The	0.1	0.1	0.1	0.2	0.1	0.2	0.2
Guinea	0.2	0.5	0.8	1.9	0.2	0.3	0.3
Nigeria	0.7	0.4	2.5	15.7	13.2	19.0	17.3
Senegal	0.0	0.0	0.0	0.9	1.1	1.5	0.0
Other	0.5	1.4	1.1	0.3	0.2	0.4	0.6
Asia	48.0	77.0	61.7	62.5	54.1	69.7	74.7
China	0.0	0.0	0.0	0.1	0.0	0.2	0.0
Thailand	0.2	31.2	23.8	0.0	0.2	0.0	0.0
India	45.0	44.5	36.1	62.3	52.2	67.4	72.7
Other	2.9	1.2	1.8	0.0	1.6	2.1	2.0
Other	46.2	16.9	23.9	5.3	3.5	4.5	4.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Imports							
Industrial countries	47.2	41.6	46.0	36.6	32.3	45.1	43.3
France	3.6	2.6	2.5	2.7	2.2	2.5	2.9
Germany	1.5	1.7	2.7	0.7	0.6	0.5	0.9
Italy	2.0	2.1	3.4	8.0	3.7	20.4	12.2
Netherlands	3.1	3.4	3.6	2.9	4.0	3.0	3.5
Portugal	26.8	20.7	20.9	13.3	13.8	12.7	17.6
Spain	1.2	1.8	2.5	4.4	2.3	1.2	1.6
Sweden	0.2	0.4	0.2	0.0	0.9	0.3	0.5
United Kingdom	1.8	2.2	1.8	0.9	0.8	0.3	0.7
Other	7.1	6.5	8.5	3.7	3.9	4.1	3.5
Africa	14.1	16.6	24.7	38.2	46.5	39.1	28.1
Cape Verde	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Senegal	12.2	14.6	21.5	36.2	44.5	34.6	22.5
Other	1.8	2.0	3.3	1.9	2.0	4.5	5.5
Asia	27.6	30.0	15.2	13.8	8.2	5.5	9.5
China	0.8	0.5	0.5	0.0	0.1	0.0	2.9
Japan	1.6	1.3	1.5	0.8	0.1	0.1	0.1
Pakistan	0.2	0.1	0.2	0.3	1.9	1.4	4.3
India	13.6	14.6	6.2	2.0	0.8	0.6	0.5
Other	11.5	13.6	6.8	10.7	5.4	3.4	1.7
United States	0.6	0.8	2.6	0.8	0.7	0.9	2.9
Other	10.4	11.0	11.5	10.6	12.3	9.4	16.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of West African States, Guinea-Bissau authorities; and IMF staff estimates.

Table 22. Guinea-Bissau: Services and Income, 2000–06

	2000	2001	2002	2003	2004	2005	2006
	(Millions of U.S. dollars)						
Services (net)	-33.7	-40.0	-26.7	-25.0	-36.7	-36.7	-35.5
Credit	6.4	7.3	7.3	8.6	7.7	5.6	8.9
Transportation	1.0	1.2	1.2	1.4	1.3	0.5	0.8
Foreign government embassies	3.5	4.0	4.0	4.7	1.1	0.5	0.9
Other	0.0	0.0	0.0	0.0	5.3	4.6	7.3
Debit	-0.9	-1.0	-1.0	-1.2	-44.5	-42.3	-44.4
Freight and insurance	-40.1	-47.3	-34.0	-33.6	-13.7	-18.4	-19.3
Technical assistance	-15.1	-16.5	-14.8	-14.7	0.0	0.0	0.0
Other transport and travel	-9.2	-14.2	-3.1	-2.5	-22.4	-19.1	-20.1
Scholarships	-6.9	-6.1	-6.1	-6.1	0.0	0.0	0.0
Other private	-0.8	-0.8	-0.6	-0.9	0.0	0.0	0.0
Miscellaneous	-7.9	-6.9	-6.9	-7.0	-8.4	-4.8	-5.1
Income (net)	-12.4	-15.9	-8.8	-12.5	-11.4	-12.0	-9.3
<i>Of which: IMF</i>	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1

Sources: Central Bank of West African States; and IMF staff estimates.

Table 23. Guinea-Bissau: External Debt Outstanding, 2000–06¹
(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006
Total external debt outstanding (end of year, including arrears)	762.3	776.9	853.9	915.2	1024.0	1002.1	993.3
Multilateral	436.3	441.3	450.3	491.5	517.2	493.7	480.8
African Development Bank Group	118.0	118.9	122.5	136.9	141.4	135.8	132.7
o/w Nigeria Special Fund	0.9	0.8	0.5	0.4	0.2	0.0	132.7
Arab Bank for Economic Development in Africa	8.7	8.8	9.7	12.8	9.2	9.2	9.3
Economic Community of West African States	3.1	3.1	3.8	5.1	3.9	3.9	3.9
European Investment Bank	7.6	7.6	11.2	12.7	8.7	8.5	8.5
International Fund for Agricultural Development	9.2	9.3	11.4	12.5	11.1	10.9	11.0
International Development Association	238.0	243.2	231.7	258.1	301.3	289.8	283.7
Islamic Development Bank	13.7	13.5	15.3	17.6	15.6	15.3	15.3
OPEC Fund	8.0	8.0	14.8	8.2	8.1	8.1	8.1
Banque Ouest Africaine de Developement	... ..	...	1.4	1.7	1.7	...	...
International Monetary Fund	25.0	23.5	22.3	19.3	15.5	12.2	8.3
Bilateral creditors	352.0	359.9	493.0	523.9	506.0	507.1	511.2
Paris Club (cutoff date: December 1986)	240.0	246.5	345.4	375.6	366.5	362.0	364.9
Belgium	7.8	8.1	9.1	11.2	15.5	16.9	17.3
Brazil	23.1	24.0	26.3	28.7	17.4	18.1	18.6
France	8.9	9.3	14.4	15.4	14.4	13.5	13.8
Germany	4.3	4.4	1.1	1.3	1.3	1.3	1.4
Italy	117.8	120.5	190.9	199.7	198.8	194.6	193.1
Portugal	70.7	72.7	18.8	20.0	107.0	106.1	108.9
Russia	...	...	71.6	85.2	0.7	0.7	0.7
Spain	7.5	7.6	13.2	14.0	11.3	10.8	10.9
Other bilateral creditors	112.0	113.4	147.6	148.4	139.5	145.1	146.4
Commercial	0.6	0.6	0.6	0.7	0.8	1.3	1.3
Banque Franco-Portugaise	0.6	0.6	0.6	0.7	0.8	1.3	1.3

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

¹ Estimates are based on incomplete and unreconciled data provided by the Guinea-Bissau authorities and on IMF and World Bank staff estimates and projections

Table 24. Guinea-Bissau: External Arrears Outstanding, 2000–06 ¹

(Millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006
Total stock of arrears outstanding (end of year)	141.7	137.5	169.1	206.4	293.8	327.0	349.8
Multilateral	29.3	17.5	22.2	28.5	31.8	33.8	35.8
African Development Bank (AfDB) 3/	0.0	0.0	0.0	0.0	0.0	0.0	
African Development Bank Group	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arab Bank for Economic Development in Africa	5.5	5.6	4.6	8.3	8.1	8.5	8.9
Economic Community of West African States	1.9	2.0	2.0	3.1	3.3	3.4	3.5
European Investment Bank	0.9	1.0	4.6	4.8	6.5	6.6	6.6
International Fund for Agricultural Development	0.9	1.0	2.0	2.2	3.1	3.4	3.7
International Development Association	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Islamic Development Bank	12.5	0.3	0.8	1.7	2.6	3.7	4.8
OPEC Fund	7.6	7.6	8.2	8.2	8.1	8.1	8.1
Banque Ouest Africaine de Developement	...	...	0.1	0.1	0.2	0.2	0.2
International Monetary Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	112.0	119.6	146.3	177.2	261.5	291.7	312.4
Paris Club (cutoff date: December 1986)	58.8	65.2	90.3	113.7	193.3	213.4	224.8
Belgium	1.8	2.1	0.6	1.0	3.6	5.0	6.4
Brazil	8.9	9.8	11.1	13.6	7.7	10.3	13.1
France	2.5	2.9	6.4	6.9	8.8	10.1	11.4
Germany	2.6	2.6	0.2	0.3	0.5	0.5	0.6
Italy	7.1	7.1	39.0	37.5	152.6	162.1	163.2
Portugal	9.1	11.1	13.1	15.1	16.2	19.8	23.4
Russia	...	...	2.1	3.4	0.1	0.2	0.3
Spain	3.0	3.1	1.5	2.3	3.9	5.4	6.5
Non-Paris Club	53.2	54.4	56.0	63.5	68.2	78.2	87.5
Abu Dhabi Fund for Arab Economic Development	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Algeria	1.5	1.5	5.9	6.5	5.9	6.5	7.1
Angola	18.8	18.8	18.8	18.8	17.0	17.0	17.0
Kuwait	17.9	17.9	1.6	3.4	7.3	11.0	14.6
Libya	0.7	0.7	4.1	4.1	4.1	4.1	4.1
Pakistan	1.3	1.3	1.6	1.8	2.0	2.6	2.6
Saudi Arabia	4.7	4.8	9.9	10.7	9.7	10.5	11.3
Taiwan, Province of China	8.1	9.2	13.9	18.0	22.0	26.4	30.6
Commercial							
Banque Franco-Portugaise	0.4	0.4	0.6	0.7	0.8	1.3	1.3

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

¹ Estimates are based on incomplete and unreconciled data provided by the Guinea-Bissau authorities and on IMF and World Bank staff estimates and projections



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IMF Executive Board Concludes 2007 Article IV Consultation with Guinea-Bissau

On September 17, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guinea-Bissau.¹

Background

Guinea-Bissau faces enormous challenges after nearly a decade of conflict, political instability and withdrawal of donor support. For most of the recent period, economic activity has remained sluggish with real GDP growing by less than half its pre-conflict levels. The fiscal balance has widened sharply—mainly because of an increase in the wage bill—while spending on health and education remained lower than the regional average. External assistance dwindled at the same time, leading to mounting domestic arrears and an unsustainable external debt position.

Since mid-2004, Guinea-Bissau has made important strides in overcoming the effects of this protracted period of instability. Nevertheless, Guinea-Bissau remains a fragile post-conflict country. Despite attempts to rebuild the government's administration and address economic problems, continued tensions among the major political parties, frequent changes in government, and lack of accountability and ownership of policies have worsened economic conditions.

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.

Economic activity in 2006 was weaker than expected, as the terms of trade deteriorated because of lower world prices for cashew nuts—Guinea-Bissau's main export—and rising international oil prices. Real GDP growth was less than 2 percent in 2006, down from 3.5 percent in 2005. Government intervention in price-setting in the cashew market, which disrupted the export supply chain, also hurt economic growth and cashew exports. As a consequence, the external current account deficit (excluding grants) widened significantly in 2006 even though private remittances surged. Inflation remained subdued, with the consumer price index increasing by an average of 2 percent, down from 3.4 percent in the previous year.

The fiscal stance severely deteriorated in 2006, reflecting a breakdown in fiscal controls. Weak management led to expenditure overruns, particularly in travel and representation costs, as well as large unbudgeted expenditures, including payment of (unaudited) domestic arrears of previous years, and excessive incentives paid to tax collectors. The wage bill shrank by almost 1 percent of GDP, but was higher than initially projected due to delays in implementing planned civil service reforms. Shortfalls in expected donor support exacerbated cash flow difficulties, and the government resorted to short-term borrowing from commercial banks and issuing treasury bills. These borrowings were insufficient, however, and large additional domestic arrears were accumulated by the year's end.

Financial activity expanded in 2006 with the opening of three new banks, bringing total banks in the country to four. However, despite an increase in bank deposits, financial intermediation remained low even by regional standards: credit to the public and private sectors was just 5 percent of GDP in 2006. As elsewhere in the region, banks are very liquid as the lack of profitable projects has left financial institutions with excess reserves. A large informal sector, lack of proper financial accounting in most firms, insufficient collateral, and banks only located in the capital Bissau are key obstacles to expanding bank lending.

Public debt is unsustainably high, and rapid accumulation of domestic arrears has stifled economic activity. Guinea-Bissau would remain at high risk of external debt distress even after possible HIPC and MDRI debt relief, while additional donor support is needed to reduce the outstanding domestic debt burden. Total public debt including arrears amounted to 436 percent of GDP in 2006, and scheduled annual debt service was about 58 percent of total government revenues during the same year.

Cashew marketing arrangements are expected to normalize in 2007 and should help economic activity rebound. Real GDP growth is projected at 3.7 percent. Inflation is expected to remain below 3 percent, in line with the West African Economic and Monetary Union (WAEMU) convergence criteria. The current account deficit is projected to narrow to 13.9 percent of GDP in 2007, down from 21.4 percent in 2006, reflecting higher exports of cashew nuts, including from last year's harvest.

The fiscal stance is expected to deteriorate further in 2007. The government's cash flow difficulties worsened in the first half of the year, as fiscal controls weakened further and donors continued to delay much-needed assistance. Tax revenues have been lower than expected in the part of the year. Moreover, delays in concluding a new fishing agreement with the EU has

resulted in postponement until 2008 of sizeable annual compensation expected in 2007, and government revenues are now projected some 4 percent of GDP lower than in 2006. Debt service due in 2007 on treasury bills and (uncollateralized) commercial borrowing contracted in 2006 are also adding financing pressures to the budget.

Faced with the extremely difficult fiscal situation and a large financing gap estimated for 2007, the new government implemented in April an emergency program to restore fiscal stability. The action plan envisages policy measures to increase fiscal revenues and restrain expenditures, as well as measures to improve financial management, enhance supervision and monitoring, and address some financing weaknesses. While some measures in the emergency program will have limited quantitative impact in the short run, they have important medium-term implications and signal the government's commitment to reverse the macroeconomic situation in 2007 and beyond. Donors have signaled their support for these measures and have begun to disburse earlier pledges. However, significant additional external financing is needed to close the 2007 financing gap and avoid substantial further domestic arrears.

Executive Board Assessment

Executive Directors commended the authorities for the progress that has been made in overcoming the effects of a long period of political instability in Guinea-Bissau, and they welcomed in particular the emergency fiscal program adopted by the new government. At the same time, the economy and institutions of government remain extremely fragile. Directors considered that the authorities' most immediate priorities should be to re-establish fiscal controls, improve economic management, enhance confidence, and promote further donor support.

Looking ahead, Directors noted that the main challenge will be the implementation of structural reform policies that will lay the basis for sustained growth and external viability, and for an improvement in the standard of living of the population and a reduction in poverty. Directors underscored the need to enhance the investment climate in order to foster private sector development, in particular by strengthening governance.

Directors considered that the new fiscal program is a promising start to restore fiscal stability and transparency and support the needed improvement in fiscal performance. They looked forward to its rapid implementation, in particular the introduction of measures to prevent extrabudgetary spending. Directors recommended that the Treasury Committee be made fully operational, in keeping with the objective of achieving greater transparency in the management of Treasury functions. Directors observed that current levels of fiscal revenues are insufficient to cover the government's financing needs. Given the limitations on increasing revenue collections in the short term, Directors called for a reduction in the civil service wage bill to a level commensurate with the available resources. The further accumulation of domestic arrears needs to be avoided.

Directors agreed that membership in the West African Economic and Monetary Union has served Guinea-Bissau well, providing an important anchor of nominal stability. However,

Guinea-Bissau's external competitiveness over the past years has been jeopardized by a weak fiscal policy, infrastructure bottlenecks, and a difficult business environment. Directors encouraged the authorities to focus on fiscal adjustment and productivity-enhancing reforms to boost growth and competitiveness within the monetary union.

Directors encouraged the authorities to reach early agreement on Emergency Post-Conflict Assistance, to be pursued in the context of a strong and credible commitment to fiscal discipline and the restoration of macroeconomic stability.

Directors observed that Guinea-Bissau will remain reliant on the support of donors over the medium term in order to reduce the outstanding domestic debt burden and achieve the country's economic and social objectives. Such support is likely to depend on the authorities' commitment to improve governance, strengthen institutional capacity, and implement key structural reforms. As Guinea-Bissau is severely debt distressed, and likely to remain so even after possible Heavily Indebted Poor Countries and Multilateral Debt Reduction Initiative relief, new financial assistance should be on highly concessional terms—preferably grants—so as not to add to the debt burden.

Directors encouraged the authorities to improve the provision of data for surveillance purposes and strengthen the statistical system. They recommended that the authorities seek technical assistance in this area.

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

	2003	2004	2005	2006	2007
Real GDP at market prices (annual percent change)	-0.6	2.2	3.5	1.8	3.7
Real GDP per capita (annual percent change)	-3.6	-0.8	0.2	-0.3	-0.4
Consumer price index (average, annual percent change)	1.6	0.8	3.4	2.0	3.0
Budgetary revenue (in percent of GDP)	15.2	17.2	17.6	19.5	15.2
Total domestic primary expenditure (in percent of GDP)	20.2	24.8	24.5	27.1	25.2
Domestic primary balance (in percent of GDP)	-5.0	-7.6	-6.9	-7.5	-10.0
Overall fiscal balance including grants (commitment basis, in percent of GDP)	-12.9	-15.0	-11.9	-9.7	-17.7
External current account (in percent of GDP)	-2.8	2.4	-5.8	-10.9	-11.9
Balance of payments deficit (percent of GDP)	-51.3	-4.1	-7.7	-12.2	-17.4
External public debt (percent of GDP)	474.5	487.7	440.6	436.1	402.9

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

**Statement by Laurean Rutayisire, Executive Director for Guinea-Bissau
September 17, 2007**

I - Introduction

At the outset, I would like on behalf of my Bissau-Guinean authorities to thank staff for the helpful discussions held during the 2007 Article IV consultations. My authorities are also grateful to the valuable support received from the international community notably development partners to help enhance the political and macroeconomic stability. The macroeconomic appraisal and policies contained in the candid staff report will enable my authorities to speed up their efforts in implementing economic and structural reforms.

Guinea-Bissau remains a very fragile post-country after experiencing over the past decade a great hardship due to political instability with a heavy toll on institutions, economic policies and growth. Thanks to the support of the international community and the strong determination of all stakeholders within the country towards consolidating the peace process, the political and economic situation is improving. The new government appointed last April - with strong support of the main political parties and trade unions - has embarked on an Emergency Program for the Restoration of Fiscal Stability aiming at stemming the economic deterioration, rein in fiscal policy and improve good governance including fight against corruption. Despite the deep deterioration of physical infrastructure, the lack of human resources, and difficult financial situation, the new government is making progress in implementing fiscal and structural measures and has restored the donors' confidence, which translated in the start of disbursement of pledges made during the meeting held in Geneva November 2006. In the same context, the authorities have reached agreement with the European Union on a new fishing accord covering the period 2007-11. Furthermore, they have resolved the problem in the export of cashew nuts, which suffered in 2006 from the decline in world prices and from the state's intervention, by reviewing their cashew-pricing policy in 2007 with a view to better reflect market prices.

As a result of past political and economic difficulties, the public debt is highly unsustainable both on domestic and external fronts. This situation hampers economic activity and remains a daunting challenge for my Bissau-Guinean authorities. Building on their emergency program and with the continuing assistance of their development partners, the authorities are strongly committed to reverse the trend through achieving macroeconomic stability, improving fiscal governance and transparency and addressing key structural issues. It is in this respect that my Bissau-Guinean authorities have expressed the critical need to pursue these reforms under the Fund's Emergency Post-Conflict Assistance (EPCA). Under a program supported by the EPCA, my authorities are hopeful to advance their policy agenda towards further restoration of macroeconomic stability, improve the domestic and external credibility and build the necessary track record for consideration of a new PRGF-supported program and eventual debt relief.

Since the last Board meeting, discussions on the EPCA were not concluded owing mainly to financing gap. My Bissau-Guinean authorities have pursued consultations with donors and have obtained the confirmation of their support to bridge the financial gap. My authorities are hopeful that with this constraint cleared a faster conclusion of the EPCA can be made.

II - Recent Macroeconomic Developments

Technical and institutional capacity constraints in addition to delays in obtaining donor support in a context of significant deterioration of the terms of trade explain the low performance made under the implementation of the Fund Staff-monitored programs in 2005 and 2006. However it is worth noting that the strong commitment to reforms and good policies of the new government has laid solid foundations for a clear break from the past.

In 2006, economic activity was less than expected due to the fall in world prices for cashew nuts coupled with the rise of international oil prices. The real GDP growth is estimated to less than 2 percent owing to the lack of energy affecting the industry and tourism sectors as well as the difficulties in the agricultural area. With the authorities' commitment to push ahead needed structural reforms and improve the business environment for the private sector, real GDP growth is projected at 3.7 percent in 2007.

The lack of donor support and difficulties experienced in export of cashew nuts led to a substantial deterioration of the fiscal stance in 2006. To address their financial difficulties, the authorities were obliged to borrow from commercial banks and issue treasury bills. These solutions could not stem the cash flows difficulties leading to the accumulation of large domestic and external arrears by the end of the year notably the civil service salaries. In order to restore fiscal discipline, the authorities adopted in April measures to institute tight control on discretionary spending, stop paying excessive incentives to tax collectors and re-instate and strengthen the Treasury Committee to monitor cash flow. On the revenue side, measures to collect tax arrears have been intensified.

In the monetary area, inflation remained low in 2006 with broad money growth slowing at 5 percent. The surge in private remittances has led to an accumulation of net foreign assets and a narrowing of the external current account deficit. The financial activity has expanded with the opening of three new banks bringing the total to four banks. The increase in deposits has made these banks very liquid. However, there is a need to further promote the financial intermediation notably in the area of credit to the private.

III - Policies and Structural Reforms for 2007

The adoption of an emergency program reflects the authorities' strong commitment to implement bold measures meant to boost fiscal revenue mobilization, restrain public

expenditure and promote transparent financial management. In this context the authorities intend also to lay grounds for restoring confidence and shoring up donor support so as to increase international aid inflows and speed up the economic recovery and structural reforms' implementation. Progress made so far is satisfactory and the authorities agree that full commitment of all stakeholders is crucial for a full implementation of the emergency fiscal program.

Fiscal policy

Prudent fiscal policy will be pursued with a view to stem the fiscal deterioration and meet current expenditures including full payment of civil service salaries. In particular, measures against unbudgeted expenditures as well as those avoiding expensive commercial borrowing will be fully enforced. Efforts to redress the shortfalls on the revenue front will also be intensified. To this end and in their efforts to increase revenue and achieve fiscal sustainability, my authorities agree to expand the tax base, strengthen tax administration, enforce fishing licenses and increase the collection of non tax revenues expected from oil and mining explorations.

In addition, an adequate functioning of the Treasury Committee will ensure that the Treasury is the sole entity entitled to receive revenues and pay expenditures. In the same vein, banking accounts of all ministries and public entities will be centralized in a single treasury account at the central bank. To improve fiscal transparency, a financial audit of all sources of government revenue will be undertaken under the control of Treasury. Therefore, all recommendations made by recent FAD and Afritac-West technical assistance missions are welcome and will be fully implemented. In view of capacity constraints facing the country, my authorities are hopeful that the international community and the Fund will pursue their assistance in institutional and capacity building.

Monetary Policy and Financial Reforms

The BCEAO is the regional central bank implementing the common monetary policy in the eight WAEMU countries including Guinea-Bissau. The sound implementation of the regional policy has translated in a low inflation. The adherence of Guinea-Bissau to WAEMU has helped to borrow at the regional market and finance the public expenditure. With the expansion of the banking sector, the authorities intend to promote the financial intermediation notably in the rural areas.

Structural Reforms and Competitiveness

My authorities are aware that the main challenges they face are to revive economic growth, build up infrastructure and public institutions in order to sustain the socio-political environment. In this regard, obstacles to growth have been identified and needed policies and

measures to address them will be implemented. Among these obstacles, there are weak fiscal policies, lack of basic services notably energy supply as well as telecommunications and low skills of labor force. The authorities are committed to re-establish credible and comprehensive budget preparation and execution procedures as well as to re-implement adequate systems of cash and debt management.

Regarding the economy's competitiveness within the regional exchange regime, the authorities are of the view that focusing their efforts on fiscal adjustment and productivity-enhancing reforms will boost economic growth and competitiveness. To this end, policies to be implemented will aim at resolving domestic arrears, reallocating spending towards productivity-enhancing projects, raising the efficiency of public administration, simplifying the regulatory framework and enhancing the judicial system with a view to improve confidence of investors. The authorities are very concerned about the poor electricity supply which is identified as one of the greatest impediment to economic and social development. They agree to work closely with development partners including the World Bank to cover the short-term power generation. They also press ahead the preparations to launch and implement the multi-sector infrastructure rehabilitation project.

With regard to the cashew nut sector which is the major source of exports and revenue for rural population, my authorities are committed to refrain from intervening in the price-setting mechanism. They intend also to look for alternative sources of fiscal revenues in order to reduce reliance on export taxes on cashew nuts. To this end the industrial processing of cashew nuts will be encouraged. To continue improving the enforcement and administrative control of fishing licenses, the authorities are making progress in the monitoring of the country's territorial waters and will also collaborate with neighboring countries under ongoing regional fishery initiatives supported by the European Union and the World Bank.

Debt Issue and External Support

The Debt Sustainability Analysis has rightly concluded that Guinea-Bissau is in debt distress. At end-2006, the total public debt reached \$1.24 billion or 403 percent of GDP. Domestic debt increased from 15 percent of total public debt in 2000 to 20 percent in 2006. External debt accounts for \$993 million with \$350 million in arrears. Debt due to multilateral institutions amounts to 48 percent of total public and publicly guaranteed debt and the remaining 52 percent is owed to bilateral and commercial creditors. My authorities are mindful of this unsustainable situation. They remain determined to strengthen fiscal stance, avoid non concessional debt and increase grant content of aid received. They will in particular make every effort to provide a stable political and business environment to favor private investment and increase inflow of external assistance. Relations with all creditors will be normalized to pave the way for the eligibility to debt relief under the HIPC Initiative and MDRI. My Bissau-Guinean authorities also fully agree that policies containing the wage bill and avoiding off-budget expenditure are needed to rein in the growth of public debt and give

a boost to the economic growth. In their hard efforts to benefit from the EPCA the authorities will take all necessary arrangements to meet needed requirements in order to remain current on debt service with multilateral creditors.

IV - Conclusion

My Bissau-Guinean authorities highly value the constructive dialogue held with staff under this Article IV consultation. They are cognizant that despite efforts made to sustain political stability and restore macroeconomic stability in the context of the emergency program launched last April, a lot remains to be done. They remain firmly committed to reforms with a view to pursue the adjustment process and sustain the momentum for prudent and sound policies. In this regard, my authorities' efforts need to be complemented by a strong and continued technical and financial assistance from the international community. My authorities would appreciate Board consideration for EPCA.