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2015 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA-BISSAU

In the context of the 2015 Article IV Consultation and request for a three-year arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its July 10, 2015 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 10, 2015, following discussions that ended on May 5, 2015, with the officials of Guinea-Bissau on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 24, 2015.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Guinea-Bissau.

The documents listed below have been or will be separately released

Letter of Intent sent to the IMF by the authorities of Guinea-Bissau*
Memorandum of Economic and Financial Policies by the authorities of Guinea-Bissau*
Technical Memorandum of Understanding*
Selected Issues
*Also included in Staff Report

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

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July 10, 2015

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IMF Executive Board Approves Three-Year US$23.9 million Extended Credit facility Arrangement for Guinea-Bissau and Concludes 2015 Article IV Consultation

The Executive Board of the International Monetary Fund (IMF) today approved a three-year SDR 17.04 million (about US$23.9 million, 120 percent of quota) arrangement under the Extended Credit Facility (ECF)[1] for Guinea-Bissau and also concluded the 2015 Article IV consultation.[2] The approval enables the immediate disbursement of an amount equivalent to SDR 2.84 million (about US$4.0 million, 20 percent of Guinea Bissau's quota).

The authorities' program, which is anchored on the government's *Strategic Plan* for 2014–18, aims to consolidate the fiscal position through better expenditure management and enhanced revenue mobilization, deepen institutional reforms, mitigate vulnerabilities, and develop the private sector to support growth and job creation. The program focuses on improving the policy framework by addressing governance and security issues, strengthening budgetary transparency as well as public investment and debt management, and improving compilation of statistics.

Following the Executive Board discussion on Guinea-Bissau, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

[1] The ECF provides financial assistance to all countries eligible for support under the Fund's Poverty reduction and Growth Trust (PRGT), and who have protracted balance of payments problems (i.e. when the resolution of the underlying macroeconomic imbalances would be expected to extend over the medium to long term). It supports the countries' economic programs aimed at moving toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. Access to ECF financing is determined on a case-by-case basis, taking into account the country's balance of payments need and strength of its economic program, and is guided by access norms. Financing under the ECF carries a zero interest through end-2016, has a grace period of 5½ years, and a final maturity of 10 years. The Fund reviews the level of interest rates for all concessional facilities under the PRGT every two years, with the next review expected to take place at end-2016.

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

“Guinea-Bissau’s new government has taken important steps to foster political stability and resume stalled reforms. The authorities’ economic program involves appropriately ambitious goals, notably strengthening the fiscal position, safeguarding financial stability, and improving the business environment. Nonetheless, the challenges ahead remain significant, and include an underfunded security sector reform, significant infrastructure gaps, and widespread poverty. The success of the program hinges on a satisfactory implementation of the authorities’ policy commitments, broad popular support, and continued assistance from Guinea-Bissau’s development partners.

“The authorities’ focus on fiscal reforms to improve budget execution and public financial management is welcome. Enhancing revenue mobilization will be important to create fiscal space for badly needed infrastructure and social spending. An effective debt management calls for a prompt upgrade of current practices and continued reliance on concessional borrowing.

“The authorities’ decision not to deploy scarce public resources to shore up troubled banks is in line with international best practice and welcomed. Safeguarding financial stability calls for heightened supervisory vigilance in the period ahead as well as closer collaboration with the WAEMU Banking Commission.

“Structural reforms will be necessary to promote economic diversification and more inclusive growth. Stepped up efforts to improve the business environment, including broader access to financial services, should boost Guinea-Bissau’s competitiveness and help reduce poverty. A bold overhaul or closure of the fund to promote agricultural development, in line with the findings from an audit underway, could pave the way for vigorous private sector development in a key sector.”

In November 2014, the IMF approved support for Guinea-Bissau under the Rapid Credit Facility to meet balance of payments financing needs and to catalyze additional development partner support. Since then, the newly-elected government has taken action to confront the country’s economic and social challenges, and development partner support has been re-kindred. The authorities instituted quick-win measures, including the setting up of a Treasury management committee and diverse measures to enhance domestic revenue mobilization. To mobilize development partner support for their *Strategic Plan*, the government organized a donor roundtable in Brussels in March this year, which yielded significant pledges from development partners.

Economic growth recovered in 2014, consumer price inflation declined, and external balances improved while the fiscal position deteriorated slightly. With a favorable cashew nuts harvest and a pickup in construction and telecommunication services, real GDP growth is estimated at 2½ percent in 2014 (up from 0.8 percent in 2013). Reflecting depressed domestic demand and weakening in global food and fuel prices, consumer prices were depressed, and average inflation declined to -1 percent. Economic activity is projected to pick up, with growth averaging around 4.7 percent in 2015–16, supported by the same drivers and pick-up in public investment.

The medium-term prospects for economic advancement and poverty reduction in Guinea Bissau hinge on addressing pervasive economic and political vulnerabilities. In addition to the security sector reform, this calls for structural reforms on a broad front to diversify the economy and improve governance and the business environment for private sector development and job creation.

The Executive Board also completed the 2015 Article IV consultation with Guinea-Bissau.

Executive Board Assessment[3]

"Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their determination to foster political and macroeconomic stability. However, noting that Guinea-Bissau still faces significant socio-economic challenges, Directors emphasized the need for continued strong commitment to prudent policies and comprehensive reforms. They agreed that the resumption of financial support from development partners will be critical to improving the country's economic prospects and reducing poverty.

"Directors emphasized the importance of fiscal discipline and efficient public spending. They encouraged sustained efforts to strengthen revenue mobilization and create additional fiscal space to address Guinea-Bissau's vast development shortfalls. In particular, Directors highlighted the need to strengthen public financial management, notably budget execution processes. They also called for continued progress with security sector reform.

"Directors emphasized the importance of securing a sustainable fiscal position by seeking financing on highly-concessional terms. Prudent borrowing will be essential in the light of Guinea-Bissau's large public investment plans and its vulnerability to shocks.

"Directors agreed that financial sector stability is critical for growth. In this regard, they encouraged the authorities to reinforce the banking system especially by strengthening bank oversight and addressing non-performing loans. Steps to promote financial deepening in collaboration with the relevant monetary union institutions will also be important.

"Directors stressed that structural reforms are necessary to bolster competitiveness and achieve diversified and inclusive growth. They agreed that, in order to boost private sector activity, priority should be given to enhancing the business environment, and improving infrastructure and access to financial services. Directors welcomed the audit of the fund to

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

promote agricultural development, and encouraged the authorities to overhaul its governance and operations in light of the findings.

"Directors stressed the importance of improving the quality and timeliness Guinea-Bissau's economic statistics. They encouraged the authorities to improve coordination among the various institutions involved in data production and ensure that adequate resources are allocated to them.

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

Table 1. Guinea-Bissau: Selected Economic Indicators, 2012–20

Population (million)	1.7		
Quota (current, million SDR; % total)	14.2 (0.01 percent)	Per capita GDP (2014 $)	639
Main products and exports	Cashew nuts are about 90 percent of exports	Literacy / Poverty Rate	55/69.3
Key export markets	India and Europe		

	2012	2013	2014		2015		2016	2017	2018	2019	2020
			RCF	Prelim.	RCF	Proj.			Proj.		
					(Annual percentage change, unless otherwise indicated)						
National accounts and prices											
Real GDP at market prices	-1.8	0.8	2.5	2.5	4.0	4.7	4.8	5.0	5.0	5.0	5.0
Real GDP per capita	-4.0	-1.4	0.3	0.3	1.7	2.4	2.5	2.7	2.7	2.7	2.7
GDP deflator	-0.8	-1.0	3.7	5.4	2.8	5.9	1.8	2.3	2.7	2.8	2.9
Consumer price index (annual average)	2.1	0.8	-0.8	-1.0	3.3	1.3	2.3	2.7	3.0	3.0	3.0
External sector											
Exports, f.o.b. (based on US$ values)	-44.8	16.3	14.8	12.7	4.9	13.1	7.2	5.2	5.5	5.6	5.7
Imports, f.o.b. (based on US$ values)	-24.4	0.6	26.2	24.7	4.2	7.9	10.4	8.7	8.1	10.1	10.6
Export volume	-27.2	18.6	-9.3	-1.4	4.9	8.7	5.0	2.0	2.3	2.3	2.3
Import volume	-26.0	1.5	30.9	30.9	7.4	26.1	9.8	6.7	6.9	9.6	10.4
Terms of trade (deterioration = -)	-29.7	-20.1	30.2	31.4	3.0	24.5	-0.3	0.7	1.3	2.0	2.4
Real effective exchange rate (depreciation = -)	4.9	-7.6	...	...		...	...	...	...	...	...
Nominal exchange rate (CFAF per US$; average)	510.2	493.9	...	493.5		...	...	...	...	...	...
Government finances											
Domestic revenue (excluding grants)	-12.5	-10.6	39.5	59.4	-0.6	17.1	17.9	-2.1	9.8	9.8	9.8
Domestic revenue (excluding grants and one-offs)	-12.5	-10.6	26.0	47.7	10.0	20.9	9.5	10.1	9.8	9.8	9.8
Total expenditure	-26.4	-2.1	58.2	86.4	-3.3	-0.6	11.9	4.0	6.2	9.3	8.8
Current expenditure	8.5	-20.1	58.6	75.8	-6.8	-5.2	3.4	5.3	5.6	8.8	8.7
Current expenditure (excluding elections-related spending)	8.5	-20.1	41.9	57.2	5.6	6.1	3.4	5.3	5.6	8.8	8.7
Capital expenditure	-80.4	152.9	57.1	115.4	6.5	9.4	28.2	1.8	7.2	10.1	9.1
Money and credit											
Net domestic assets [1]	14.0	8.4	-1.1	-4.2	7.3	-6.8	-7.6	-5.5	-3.2	-2.5	0.6
Credit to government (net)	11.3	0.3	8.2	0.5	0.0	1.8	-0.6	0.0	0.0	0.0	0.0
Credit to the economy	7.9	1.4	2.2	-2.9	2.4	2.7	2.7	3.0	3.1	3.2	3.3
Velocity (GDP/broad money)	3.1	2.7	2.5	2.2	2.4	2.2	2.2	2.1	2.1	2.1	2.1
					(Percent of GDP, unless otherwise indicated)						
Investments and savings											
Gross investment	7.3	7.0	7.1	10.8	7.1	12.4	13.6	13.2	13.1	13.4	13.5
Of which: government investment	2.1	3.1	1.9	7.2	1.9	7.1	8.5	8.1	8.0	8.2	8.3
Gross domestic savings	-3.9	-0.7	-2.7	1.1	-2.7	2.1	2.4	1.4	1.0	0.4	-0.4
Of which: government savings	-2.6	-2.2	-8.0	-4.0	-6.8	-1.2	0.5	-0.5	-0.1	0.1	0.2
Gross national savings	-1.5	2.7	6.7	9.6	3.2	8.8	8.9	7.7	7.1	6.2	4.9
Government finances											
Total revenue[2]	9.1	8.1	11.4	12.0	10.6	12.6	14.0	12.7	13.0	13.2	13.4
Total domestic primary expenditure	12.3	9.7	15.3	15.5	18.4	13.7	14.3	13.4	13.4	13.4	13.3
Domestic primary balance	-3.3	-1.6	-3.9	-3.5	-7.8	-1.1	-0.4	-0.7	-0.4	-0.2	0.1
Overall balance (commitment basis)											
Including grants	-2.2	-1.8	-1.8	-2.2	-3.5	-2.3	-2.1	-2.5	-1.8	-1.6	-1.3
Excluding grants	-4.6	-5.3	-10.0	-11.2	-8.7	-8.3	-8.0	-8.6	-8.1	-8.1	-8.0
External current account (including official current transfers)	-8.8	-4.4	-0.4	-1.2	-3.9	-3.6	-4.7	-5.5	-6.0	-7.2	-8.6
Excluding official transfers	-10.6	-5.1	-6.7	-5.4	-6.8	-5.3	-6.3	-7.1	-7.6	-8.9	-10.3
Nominal stock of public debt	47.3	49.8		51.9		50.9	49.5	48.7	46.4	44.3	42.1
Of which: external debt	17.9	16.6		17.2		18.0	16.6	15.9	16.2	16.8	17.5
					(US$ millions, unless otherwise indicated)						
Memorandum item:											
Nominal GDP at market prices (CFAF billions)	508.3	507.2	504.5	548.4	539.5	608.0	648.5	696.5	750.9	810.5	875.5

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

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

[2] One-off revenues amounted to 0.9 percent of GDP in 2014 (due to FUNPI's proceeds being transferred to the Treasury) and are expected to account for 0.5 percent of GDP in 2015 (due to the selling of 3G licenses) and 1.6 percent of GDP in 2016 (mostly due to revenue from the selling of seized illegal wood and the collection of associated taxes).

GUINEA-BISSAU

June 24, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context: A series of *coups d'état* since independence have resulted in chronic political instability and deterred economic and social progress. Guinea-Bissau has re-initiated progress since the assumption of office of the current inclusive government in mid-2014. The economy is now recovering after a decline in 2012 and marginal growth in 2013. Inflation remains low, and socio-political stability seems achievable. The *coup d'état* of April 2012 stalled implementation of the three-year Extended Credit Facility (ECF)-supported program approved by the Board in May 2010, and the arrangement lapsed subsequently. The Fund's support under the Rapid Credit Facility (RCF) disbursement of 2014 and the authorities' commitment to reforms have re-ignited donor confidence.

Article IV Discussions. Policy discussions focused on measures to overcome fragility; fiscal consolidation and public financial management reforms; restoring financial stability; borrowing policies and long-term debt sustainability; private sector development and structural reforms to enhance inclusive growth prospects.

The Proposed Program. The authorities' development program, anchored on the *Strategic Plan for 2014–18*, aims to consolidate the fiscal position through better expenditure management and enhanced revenue mobilization, deepen institutional reform, mitigate vulnerabilities, and develop the private sector to support growth and employment. The program focuses on improving the policy framework by addressing governance and security issues, strengthening budgetary transparency as well as public investment and debt management, and improving compilation of statistics. Structural benchmarks focus on these issues while QPCs include a floor on revenues collection and a ceiling on net credit to government (the anchor of the program).

Request for an Extended Credit Facility Arrangement. To support their medium-term economic reform program, the authorities request a three-year arrangement under the ECF in an amount equivalent to SDR 17.04 million (120 percent of quota).

Risks to the program include the still fragile political situation, which could delay implementation of reforms, adverse terms of trade developments, and weakening donor confidence, and the heightened risk of incursion of the Ebola virus from neighboring countries.

Approved By
Roger Nord (AFR) and Peter Allum (SPR)

Discussions took place in Bissau from April 23–May 5, 2015. The staff team comprised Messrs. Fischer (head), Kumah, da Silva, and Klos, and Ms. Newiak (all AFR), and Mr. Torrez (resident representative). Mr. Melhado, incoming resident representative, participated in some of the discussions. Mr. Fonseca (local economist of the IMF office in Bissau) provided assistance to the mission. The team met with His Excellencies, the President of Guinea-Bissau, José Mário Vaz; the Prime Minister, Domingos Simões Pereira, the Minister of Economy and Finance, Geraldo Martins, the National Director of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), João Fadia, other senior officials, and representatives of the private sector and development partners.

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ACRONYMS

AfDB	African Development Bank
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BCEAO	Central Bank of West African States
BOAD	*Banque Ouest Africaine de Développement*
CFA	*Communauté Financière Africaine (Franc)*
CPLP	Community of Portuguese-Speaking Countries
DGA	*Direction Générale de l'Agriculture*
DGCI	*Département de Gestion et de Commerce Internationale*
DMFAS	Debt Management and Financial Analysis System
DSA	Debt Sustainability Analysis
DSSRP	Defense Security Sector Reform Program
EAGB	Water and Electricity Company Guinea-Bissau
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EU	European Union
FATF	Financial Action Taskforce on Money Laundering
FCFA	*Franc Communauté Financière Africaine*
FUNPI	Fund to Promote the Industrialization of Agricultural Products
GDP	Gross Domestic Product
GIABA	Intergovernmental Action Group against Money Laundering
HIPC	Highly Indebted Poor Countries
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
MFI	Micro Finance Institution
NGO	Non-Government Organization
NPL	Non-Performing Loan
PFM	Public Financial Management
PIP	Public Investment Program
PRSP	Poverty Reduction Strategy Paper
SIGRHAP	Personnel Management System
SSA	Sub-Saharan Africa
SSR	Security Sector reform
SYDONIA	*Système Douanier Automatisé*
TA	Technical Assistance
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union

BACKGROUND: TAKING STOCK

A. Addressing Political Stability and Related Challenges

1. Since independence in 1974, Guinea-Bissau has had 18 actual, attempted or alleged military *coups*; the resultant chronic political instability deterred growth. The last *coup d'état* took place in April 2012 in the midst of the presidential election and interrupted an otherwise successful three-year ECF-supported program. Its effects were profound, as external financing and tax collection collapsed, and political uncertainty under the transitional government formed in May 2012 fostered rent-seeking and corruption. Following pressure and financial support from the international community, successful presidential and parliamentary elections brought President Vaz's government into power in July 2014. The security situation remains calm. A multi-party commission has been set up to review the constitution with the aim of clarifying the respective competencies of the President and the Prime Minister. In parallel, the government has initiated a comprehensive security sector reform that seeks to address pension benefits of the security forces, improve the efficiency of the national army, and end the recurrence of *coup*s.

2. The April 2012 *coup* coupled with a fall in cashew nut prices exacerbated economic fragility and heightened food insecurity and poverty. Between 2012 and 2013, the Bissau–Guinean economy was hit by a 40 percent fall in the international price of cashew nuts, contributing to large trade deficits, despite a compression of imports. The external current account balance deteriorated by almost 13 percentage points of GDP during 2012–13; the overall balance of payments deteriorated as well and was financed mainly by drawing down government deposits at the Central Bank of West African States (BCEAO) as financial support from traditional foreign partners was suspended. The domestic impact of the shock was a large decline in farm-gate cashew nut prices by over 60 percent, and poverty soared. At the same time, food insecurity doubled to 40 percent in 2013, according to a survey by the World Food Program.

3. The reduction of international support and the institutional decay deteriorated public finances and depressed economic activity. Despite scaling back current and capital spending, the government accumulated domestic and external arrears and social conditions worsened (which, among other things, ignited teacher strikes). The cash-strapped government increased its reliance on simplified spending procedures.[1] The economically disruptive *coup d'état* exacerbated the chronic regulatory forbearance in the banking sector, leaving two of the four banks with excessive levels of nonperforming loans.[2] In 2012 the economy contracted by 1.8 percent and barely recovered in 2013 with a growth of 0.8 percent (Text Table 1).

[1] Expenditures not classified in the expenditure tables presented by the National Budget Directorate.

[2] Regulatory forbearance persists on the regional level, see: IMF, 2015, "West African Economic and Monetary Union, Staff Report on Common Policies of Member States", SM/15/56.

Text Table 1. Guinea-Bissau: Recent Economic Developments

	2010	2011	2012	2013	2014
Real GDP growth (%)	4.4	9.4	-1.8	0.8	2.5
Real per capita income growth (%)	2.1	6.8	-4.0	-1.4	0.3
Consumer price inflation (%, annual average)	1.1	5.1	2.1	0.8	-1.0
Total revenue (incl. grants, % of GDP)	20.3	16.7	11.4	11.6	21.0
Total Expenditures (% of GDP)	20.5	18.1	13.7	13.4	23.1
Overall fiscal balance (incl. grants, commitment basis, % of GDP)	-0.2	-1.4	-2.2	-1.8	-2.2
Overall fiscal balance (excl. grants, commitment basis, % of GDP)	-9.8	-8.0	-4.6	-5.3	-11.2
External Current Account (incl. grants, % of GDP)	-8.7	-1.5	-8.8	-4.4	-1.2
Total Public Sector debt (Gross, % of GDP)	69.0	43.7	47.3	49.8	51.9

Source: IMF staff estimates

4. **In July 2014, the new democratically-elected government initiated an ambitious reform agenda to address Guinea-Bissau's developmental challenges within the framework of strategic plan with donor support.** The government has recently adopted a *Strategic Plan* that aims to consolidate past progress and advance socio-economic development in 2014–18, and launch Guinea-Bissau onto a virtuous cycle of progress by 2025. Encouraged by the renewed commitment of the country, development partners resumed support, and reaffirmed this through commitments at the roundtable held in Brussels on March 25, 2015 (Box 1). Prior to this, the IMF provided policy advice and financing in November 2014 under the Rapid Credit Facility to help address the country's urgent balance of payments and fiscal needs. The government successfully issued FCFA 15 billion in Treasury bonds to clear wage arrears, and prepared 2014 and 2015 budgets that were approved unanimously by the Parliament. While reforms largely halted under the military and transitional governments, the newly elected authorities have generally been responsive to Fund policy advice, and continue to build on technical assistance (TA) recommendations to advance structural reforms and improve policy formulation (Box 2).

Box 1. Outcome of the Brussels Donor Roundtable of March 25, 2015

The Government prepared a 10-year development and transformation plan with an intermediate 2020 milestone, consisting of six axes, twenty-three fields of actions, fifty-three programs and 115 projects for a cost of US$2.1 billion. At the Brussels roundtable, bilateral and multilateral development partners pledged approximately US$1.5 billion, of which 40 percent would be grants, 30 percent loans and the conditions for the remainder yet to be determined.

The annual and sectoral breakdown of the pledges is yet to be confirmed. About US$48.2 million (out of an estimated cost of US$82 million) for the special pension fund for demobilization of army personnel have been committed so far by international partners. However, the details of a more comprehensive reform–with a possible cost of US$260 million, as presented at the roundtable–are yet to be defined.

The current macroeconomic framework integrates foreign-financed public investment of US$545 million for 2015–20, significantly less than pledged but a substantial scaling up compared to the past. This excludes any envisaged amounts for the security sector reform, which is expected to be financed from both foreign and domestic sources (including budgetary transfers into the special pension fund). The public investment program would be adjusted as more information becomes available.

Box 2. Guinea-Bissau: Response to Fund Advice from the 2013 Article IV Consultation

Fund Advice	Response
Restore macroeconomic stability and foster economic growth by putting in place the conditions required for political stability and sustained support from development partners.	While progress was limited under the transitional government, the new government formed in 2014 sought political unity upon assumption of office and stepped up implementation of Fund advice. They initiated structural reforms that have begun to show good results in strengthened efficiency at the revenue authority. The government has adopted a *Strategic Plan* to address the country's developmental needs and catapult it onto a virtuous cycle of progress by 2025. For the medium-term, 2015–18, the plan aims to boost infrastructure investments, encourage industrialization and promote urban development. The plan drew considerable support from development partners at the Brussels Roundtable in March 2015. The authorities have embarked on a security sector reform focused at promoting professionalism in the security forces.
Adopt a prudent budget for 2013, which should be based on realistic revenue and financing estimates, and implement strict budgetary management in the face of tight financing constraints.	While the 2013 budget was not fully implemented by the transition government, the new government presented in late-2014, the 2014, and 2015 budgets to parliament and got them unanimously approved. Furthermore, the authorities established a Treasury committee that aims at tightening expenditure commitment procedures to improve non-priority spending monitoring and contain them to budgeted levels.
Enhance growth prospects; improving the business environment; promoting economic diversification; increasing access to finance; and maintaining debt sustainability.	To strengthen the business environment, the authorities have committed to audit the hitherto ill-managed fund for industrialization of agricultural products (FUNPI), and are determined to use the results from the audit to restructure or completely eliminate the fund. They continue to implement a fuel pricing mechanism that adjusts domestic pump prices to international price movements. The authorities have extended SYDONIA ++ (a global software for capturing and reporting customs data) to one major entry port, tightened controls over fuel imports and streamlining fuel tax exceptions, intensified audits of large taxpayers, established Bissau Link—a system for tax risk assessment of imports and scanning of containers—and set up a one-stop shop for potential investors.

B. Assessment of the Last ECF-Supported Program

5. Performance under the previous ECF-supported program (May 2010–May 2012) was overall positive.[3] Prior to the 2012 *coup d'état*, macroeconomic stability had improved and economic growth accelerated, while consumer price inflation rose as global food and fuel prices soared. Structural reforms included in the ECF-supported program included measures to restore fiscal sustainability, strengthen institutions, and reduce widespread poverty—most of these measures required TA and support from development partners. Progress in implementing measures to bolster public financial management was largely positive with some advancements made in tax

[3] The Board approved a new three-year ECF arrangement on May 7, 2010 (SDR 22.365 million). On December 2, 2011, the Board completed the third review and approved SDR 2.414 million of disbursement. The program was disrupted by the *coup d'état* of April 2012, and lapsed subsequently.

and customs administration, including the adoption of indicative ceilings on exempted fuel imports by embassies and international organizations, preparation of a comprehensive inventory of non-tax revenues, and establishment of SYDONIA++ in two border posts. Public debt management was strengthened through the introduction and use of DMFAS to record, monitor, and manage all public debt (external and domestic).

RECENT ECONOMIC DEVELOPMENTS AND SHORT-TERM OUTLOOK

6. Economic growth recovered in 2014, while inflation remained muted due to weak domestic demand (Figure 2 and Table 1). With a favorable cashew nuts harvest and a pickup in construction and telecommunication services, real GDP growth is estimated at 2½ percent in 2014 (up from 0.8 percent in 2013). Reflecting depressed domestic demand during the first half of 2014 and weakening in global food and fuel prices, consumer prices were depressed, and average inflation declined to -1 percent. Growth is projected to average around 4.7 percent in 2015, supported by the same drivers and continued public investment (MEFP ¶¶12, 13, and 14).

7. Domestic revenue mobilization exceeded expectations on account of quick-win measures (Tables 2 and Figure 3). Customs and tax revenues improved sharply in 2014 (by 39 percent and 9 percent, respectively), as the government tightened controls over fuel imports and streamlined tax exemptions (mainly on fuel), rehabilitated customs posts and intensified auditing of large taxpayers. These measures, *coup*led with the increase in tax revenues on account of output expansion and collection of FUNPI-related receipts by the Treasury (1 percent of GDP), increased total revenues to 12.0 percent of GDP in 2014 (from 8.1 percent in 2013). Expenditures also increased sharply in 2014 due to one-off spending related to elections, earmarked spending linked to EU fishing compensation, which resumed in 2014, as well as accounting of expenses that were previously recorded outside the budget.

8. Enhanced revenue mobilization enabled the government to clear a large amount of arrears accrued in recent years. The increase in revenues, the financial assistance from the World Bank through the payment of six months of teachers and health workers' salaries, and the placement of CFA 15 billion (2.7 percent of GDP) in one-year Treasury bills on the regional capital market, allowed the government to clear almost all wage arrears.[4] At the same time, the government cleared all external arrears (excluding debt in technical arrears for which the government is reaching out to the creditors to start or formalize rescheduling negotiations).[5]

[4] Guinea-Bissau has an old stock of domestic arrears dating to before 2013 and estimated at around 10 percent of GDP. However, only 26 percent of these arrears have been audited and recognized by the Government.

[5] The Government also has quota membership arrears to several international organizations, and is devising a plan to deal with them. It is making best efforts to conclude rescheduling agreements with the bilateral creditors, and has a credible plan and projected financing in place to eliminate the arrears with multilateral creditors.

9. The external position improved significantly in 2014, and the real effective exchange rate appears to be in line with fundamentals (Table 4, Figure 2, and SIP section II). The current account deficit dropped from 4.4 percent of GDP in 2013 to 1.2 percent in 2014. The improvement reflects an increase in cashew-nuts export value, and more generally a sharp improvement in the terms of trade (31.4 percent) as cashew nut prices increased, global food and fuel prices declined, and current transfers increased substantially. The terms of trade are expected to improve further in 2015, and cashew export volumes to increase somewhat. Nevertheless, the current account deficit would increase to 3.6 percent of GDP on account of an expected increase in imports as foreign investment is scaled up and incomes recover, particularly in the context of the resumption of traditional support by development partners as expressed in the promising results of the recent roundtable conference. (Box 1 and MEFP ¶2). Based on the external balance assessment for emerging markets and developing countries ("EBA-lite") Guinea-Bissau's and the WAEMU region's real effective exchange rate appears to be broadly in line with fundamentals.

MEDIUM-TERM FRAMEWORK

10. Creating employment opportunities and reducing poverty through sustained and inclusive growth are key objectives of the authorities' medium-term policy framework. Under their development strategy for 2014–18, the authorities aim to reach these objectives by strengthening fiscal consolidation efforts through public financial management (PFM) and tax reforms, ensuring that economic policies support macroeconomic stability, stepping up implementation of structural reforms to improve the business environment, and enhancing human capital development by improving the quality of public service and access to education, health and social protection. The resumption of financial support from traditional development partners is critical for medium-term economic prospects and poverty reduction.

Staff's assessment

11. The medium-term macroeconomic framework underpinning the ECF-supported program being requested by the authorities is consistent with their *Strategic Plan* (MEFP ¶¶12 and 13). It points to a favorable outlook with sustained growth, low inflation, and improving fiscal balances. The overall external position is expected to improve after a transitory worsening of the current account balance.

- *Growth prospects for 2015–18 are supported by buoyant cashew nuts production and diversification of agriculture; public investment spending financed by development partners as per commitments from the Brussels Donor Roundtable in March 2015, and continued expansion of the communication and other services sectors.* Baseline projections show that growth is expected to average 4.9 percent per year. Achievement of this growth profile relies heavily on realization of donor commitments at the Brussels Roundtable, which anticipates some US$1.5 billions to support the government's 10-year development and transformation plan. Staff stressed that effective public investment management, and structural reforms to improve the business environment would be needed to further enhance medium-term growth prospects.

- *Inflation is expected to pick up as economic activity expands and incomes recover.* Continued weakening in global food prices along with the authorities' planned measures to support agricultural production and diversification would help dampen food inflation somewhat. Reflecting these expectations, average inflation is projected to increase to 1.3 percent in 2015, 2.3 percent in 2016 and average just under 3 percent in 2017–18 (Text Table 2 and Figure 4).
- *While the current account deficit would increase in the next years, the overall external position would improve in the medium term.* The external current account deficit is projected to widen to around 6 percent of GDP by 2018, owing to increased capital imports financed by increased foreign direct investment, project grants and highly concessional loans. With the increase in financial inflows, the overall balance of payments should improve (Text Table 2 and Figure 4).

Text Table 2. Guinea-Bissau: Medium-Term Projections

	2014	2015	2016	2017	2018	2019	2020
Real GDP growth (%)	2.5	4.7	4.8	5.0	5.0	5.0	5.0
Real per capita income growth (%)	0.3	2.4	2.5	2.7	2.7	2.7	2.7
Consumer price inflation (%, annual average)	-1.0	1.3	2.3	2.7	3.0	3.0	3.0
Total revenue (incl. grants, % of GDP)	21.0	18.7	19.9	18.9	19.3	19.7	20.1
Total Expenditures (% of GDP)	23.1	20.9	22.0	21.3	21.0	21.3	21.4
Overall fiscal balance (incl. grants, commitment basis, % of GDP)	-2.2	-2.3	-2.1	-2.5	-1.8	-1.6	-1.3
Overall fiscal balance (excl. grants, commitment basis, % of GDP)	-11.2	-8.3	-8.0	-8.6	-8.1	-8.1	-8.0
External Current Account (incl. grants, % of GDP)	-1.2	-3.6	-4.7	-5.5	-6.0	-7.2	-8.6
Total Public Sector debt (Gross, % of GDP)	51.9	50.9	49.5	48.7	46.4	44.3	42.1

Source: IMF staff estimates

12. **The economic outlook is favorable but subject to considerable risks** (Appendix II). Downside risks could arise from adverse terms of trade, weakening of donor confidence, and unexpected political disruptions. At the same time, the heightened risk of incursion of the Ebola virus from neighboring countries into Guinea-Bissau, if realized, could impose significant human and economic costs on the economy and stall program implementation. On the upside, the risks stem from unexpected surges in business confidence on account of the success of the Brussels Roundtable, a stable political climate, and firmer commitment to policy implementation.

Authorities' views

13. **The authorities agreed with staff's medium-term projections and assessment of associated risks, but maintained that the growth prospects would be brighter than foreseen.** They emphasized that with resumption of development partner support and the determination of the new government to implement reforms to improve the business environment, address the infrastructure gap, and enhance public service delivery, economic growth could rebound faster than in staff's assessment. While acknowledging the possibility of the downside risks to the economic outlook, they accentuated the upside risks. They informed staff that they were taking measures, with support of development partners, to forestall the spread of the Ebola virus in Guinea-Bissau.

POLICY DISCUSSIONS AND THE PROPOSED PROGRAM

A. Overcoming Fragility

14. Fragility in Guinea-Bissau has been fueled by political instability, mainly through military *coups d'état* that disrupt the continuity of programs and structural reforms and hinder socio-economic progress (SIP section I). To address the burden of recurrent *coups d'état* by ill-controlled elements of the military forces, the government plans to restructure and modernize the defense and security sectors, including de-mobilizing excess troops. The government's objective is to reduce the military forces gradually to around 3,500. Reaching this goal would require retiring some 2,500 military personnel. The government also plans to rationalize the security forces. The cost of the security sector reform has been estimated at US$260 million, or a fraction of the estimated cost of fragility: for example, real per capita GDP could have been at least two thirds higher in 2013 had there been political stability since the end of the civil war in 1999.

Staff's assessment

15. In order to break from the past of economic stagnation the government needs to preserve political stability by reforming its security sector and by building a strong national consensus for its reform agenda. The last military *coup d'état* in April 2012 took a significant toll on the economy. Plagued by weak governance and growing corruption, rent seeking behavior soared, domestic revenue mobilization fell, and external financing shrunk. As a result, infrastructure investment and social spending declined and poverty soared. The new government that was elected in mid-2014 has made significant progress in tackling all of these issues. Staff underlined that sustained reform efforts, including security sector reform, would be critical to ensure durable economic and political stability and a decisive break with fragility (see SIP, section I).

Authorities' views

16. The authorities concurred with staff on the key role of political stability for sustained economic growth and development, and are committed to implementing the security sector reform. They recognize that chronic political instability has taken a heavy toll on social and economic progress in Guinea-Bissau, and that political stability is a necessary condition for long-term inclusive growth. They are committed to break with the past of instability and poor governance and start implementing the security sector reform in 2015. They intend to retire the first group of 500 soldiers by the end of the year, and continue discussions with development partners on the implementation of the wider security sector reform.

B. Stepping Up Fiscal Reforms

17. Despite recent improvements, domestic revenue mobilization remains weak, along with expenditure and debt management. The 2012 *coup d'état* and its resultant adverse impact on economic activities eroded the tax base and weakened tax administration. Consequently, tax performance and buoyancy declined. In 2012, the tax-GDP ratio declined to 7.7 percent of GDP, and further to 7.0 percent in 2013, the lowest among all countries in SSA. Recent efforts by the authorities to enhance tax administration have yielded some gains, but the tax gap (between potential and actual tax collections) remains large (Box 3). In addition to eroding the revenue base, the *coup d'état* undermined fiscal discipline. This resulted in the proliferation of expenditures outside formal channels, the accumulation of domestic and external arrears, and subsequent disruptions in public services. Finally, the inefficient public electricity and water company (EAGB) is a drain on public finances. In 2015 alone, the Government is making transfers of CFA 2.8 billion to EAGB to cover current and past losses.

18. Building debt management capacity remains a challenge. Following a significant build-up in domestic debt in recent years, partly to finance infrastructure projects, the fiscal strategy adopts a zero-ceiling on domestic financing and anticipates a decline in the stock of domestic debt over the medium term. At the same time, the authorities are in discussions with WAEMU to help cover part of the interest costs of any new contracting of debt from BOAD, which would make the loans concessional. On this basis, domestic debt is projected to decline by 2.7 percentage points of GDP to 30.2 percent of GDP by the end of the ECF program. The authorities have requested TA from IMF AFRITAC West to bolster debt management, including by reviewing the legal and institutional framework for public debt management and the process of public debt contracting.

Staff's assessment

19. The authorities' medium-term fiscal strategy should aim to achieve a sustainable fiscal position to support macroeconomic stability and long-term debt sustainability (MEFP ¶15–24). To build on the recent strong performance focused at addressing lapses, in revenue mobilization, PFM, and debt management, staff discussed with the authorities a broad set of measures to:

- *Strengthen revenue mobilization.* Key measures include: (i) implementing an intra-trade post in Safim(a major border post) to reconcile invoice merchandise data with actual contents of the cargo, and expansion of SYDONIA ++ to remaining posts (structural benchmark); (ii) drawing up a strategic plan for improving infrastructure and working conditions of officials of the domestic tax and customs administration; and (iii) implementing a new small-taxpayer regime through the introduction of taxpayer identification numbers (structural benchmark). Staff stressed the need to steadfastly implement these measures to expand the country's tax base, which is low compared to peers and all sub-Saharan Africa countries, as a reliable domestic source of financing the budget.
- *Increase efficiency of public spending and improve controls.* Infrastructure investment and other pro-poor spending will remain important priorities, while growth in spending on goods and services as well as wages and salaries will be muted in the medium term. To strengthen the efficiency of public investment management, the authorities will prepare quarterly reports on the execution of the public investment program (PIP) (structural benchmark). They are also committed to prepare a comprehensive study of the current mechanism of fuel pricing and subsidies. Although the government removed all fuel subsidies, it nonetheless intends to review its current fuel price mechanism to ensure that international prices are fully passed-through to

domestic retail prices and that price movements are shielded from political interference (Box 4). Staff underscored the need for continued expenditure restraint in view of the low revenue base and financing constraints.

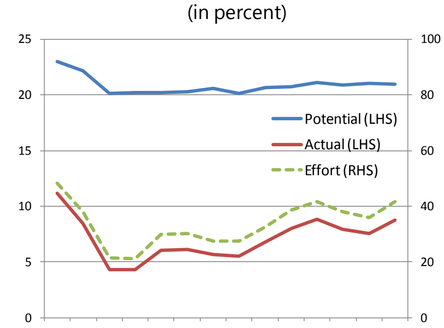
- *Accelerate PFM reforms.* Steps to address weaknesses in budget processes and expenditure management will be critical to meet fiscal targets. They include strengthening public financial management through weekly Treasury Committee meetings, and creating a single treasury account to instill transparency and accountability of budgetary funds. In this connection, the authorities will prepare a monthly rolling Treasury cash flow projection table consistent with the 2015 budget (structural benchmark). In addition, by March 2016, the authorities intend to prepare an inventory of all revenue sources and government accounts, and require that revenue collections be exclusively through the banking system (MEFP ¶19).
- *Restore the government's credibility by clearing remaining domestic arrears (MEFP ¶15).* The 2015 spending plans include the clearance of all outstanding domestic arrears from 2013–14 (CFA 0.5 billion for teachers' bonuses and CFA 2.4 billion to embassies). In addition, older arrears will also be cleared in 2016 after due audits and verification of the claims and the claimants' fiscal compliance. The government intends to start clearance of these arrears in 2016 with a cash payment of CFA 3 billion and issuance of treasury bonds with maturities ranging from one to six years to cover the remaining balance.

Box 3. Guinea-Bissau: Tax Potential versus Performance, 2001–14

Notwithstanding recent gains in tax administration that have boosted tax revenues, tax effort in Guinea-Bissau remains low and tax-GDP ratio is correspondingly low compared to peer countries in Sub-Saharan Africa. Panel econometric exercises carried out to investigate the extent of the tax gap, estimate the gap at around 12 percent of GDP in 2014.

A panel econometric analysis suggests a substantial gap between tax potential and actual tax collection in Guinea-Bissau. The analysis uses a stochastic time-varying tax frontier approach that measures tax capacity by regressing the tax-to-GDP ratio of sample countries on variables that serve as proxies for possible tax bases and other factors that affect the country's ability to raise tax revenues. Following the economic literature, the independent variables are identified as (i) population; (ii) GDP per capita; (iii) consumer price inflation; (iv) trade openness; (v) financial deepening; and dummy variables, including political stability, and control of corruption. The results indicate that the tax gap (between tax potential and actual tax collected) declined from 16 percent in 2004 to around 12 percent of GDP in 2014. The tax effort (i.e., the actual tax collection relative to the taxable capacity) increased from 21 percent in 2004 to around 42 percent in 2014. This implies that the recent improvements in tax revenue are mainly due to an improved tax administration rather than to an increase in the "broadly-defined" tax potential itself.

Figure 2. Guinea-Bissau: Tax Revenue
(in percent)



Guinea-Bissau's tax revenue has not kept up pace with economic growth. The country's revenue buoyancies are below unity, just as in SSA fragile states, but below all WAEMU and SSA averages for all three categories of taxes during 2000–11. At 0.73, the estimated average tax buoyancy for Guinea-Bissau fell below the estimates for WAEMU (0.76), SSA (0.84) and SSA fragile states (0.76).

20. Electricity tariffs need to be increased and EAGB restructured into an efficient and viable company. A tariff adjustment to at least cost recovery, together with a restructuring of the company—assisted by the World Bank—should help protect scarce budgetary resources while continuing to provide electricity. A World Bank study is underway to determine the current level of electricity subsidies, with results expected by November 2015. Staff stressed that remaining subsidized tariffs should be targeted to vulnerable households (MEFP ¶26).

21. The fiscal anchor for the 2015 economic program is a strict limit on domestic bank credit to the central government (effectively zero), making room for credit to the private sector. The drawdown of deposits by CFA 4.4 billion (0.7 percent of GDP) reflects the advance interest payment on Treasury bills in 2015 for 20*16* (CFA 1.4 billion) and a large part of the payments made in 2015 that were committed in 2014 (CFA 3 billion)[6]. This leaves a financing gap of CFA 4.7 billion (0.8 percent of GDP), equivalent to the first two tranches of the ECF program**.** Staff stressed that achieving this objective would require restoration of fiscal discipline to avoid any accumulation of unpaid bills in 2015, and to buttress fiscal policy credibility. In this context, staff underscored the usefulness of the weekly treasury committee meetings and the avoidance of extra-budgetary and improperly-documented spending (*DNTs*).

Authorities' views

22. The authorities concurred with the staff's assessment of the importance of increasing substantially government revenues, but would have preferred a stronger increase in expenditures, in accordance to their Strategic Plan. They see success of the ongoing security sector reforms as a prerequisite for socio-economic progress, as well as the success of their broader reform agenda. They also stressed that restoring fiscal discipline through decisive PFM reforms and expenditure controls is at the center of their policy priorities. However, the authorities also believe that the current level of spending is below what the country needs in view of the daunting infrastructure and social needs it faces. They hope this gap could be filled by a higher than expected volume of external financing. Meanwhile, they aim to increase the efficiency of capital spending by enhancing the capacity for project selection and execution.

[6] In January and February 2015 the Government executed payments amounting to CFA 3.7 billion for payments committed still in 2014 (including CFA 0.9 billon for the clearance of external arrears).

Box 4. Guinea-Bissau: New Fuel Pricing Mechanism

Guinea-Bissau introduced a semi-flexible fuel pricing mechanism in March 2015, which is overseen by a committee on fuel pricing consisting of representatives from the Ministry of Energy, Ministry of Economy and Finance, and fuel market operators. The committee recommends maximum sale prices per liter for the various fuel products—petrol, diesel, kerosene, mixed fuel oil, and Fuel 380—and imposes import duties (at 10 percent), excise tax (15 percent), and sales tax (10 percent) on the landed cost per liter of products. A road-user charge (4 percent) and a community levy (0.5 percent) are also levied. Petrol and diesel are subject to all these taxes, while kerosene is subject to only the community tax and mixed fuel oil is subject to all but the road-user tax and excise tax. The system helped the country stem recent global oil price increases.

As global fuel prices have weakened, the authorities have acted swiftly to partially transmit the gains to the public while eliminating subsidies and remaining current on obligations to *PetroMar:*

- The committee on fuel pricing maintained the semi-flexible pricing system.
- Reflecting variations in global oil prices, the domestic ex-pump price of diesel fuel was reduced by 7.4 percent in February 2015 and re-increased by 2.2 percent in March 2015.
- The initial reduction of fuel prices was lower than the reduction in international prices, which allowed the elimination of fuel subsidies with an estimated savings of around CFA 270 million;
- The government settled all arrears inherited from the previous government to *PetroMar*.

Maintaining the current fuel pricing mechanism put in place this March would avoid a recurrence of subsidies and boost domestic revenues from fuel imports to an estimated CFA 9.5 billion (1.6 percent of GDP or 10 percent of domestic revenues in 2015). Going forward, the Government will analyze further improvements to the fuel pricing mechanism to ensure full pass-through of international prices to domestic prices and to shield price movements from political interference.

C. Restoring Financial Stability

23. Guinea-Bissau's financial sector is shallow and faces diverse challenges that hamper its effective support of growth (Box 5). The number of people with an account at a financial institution has increased recently, owing to the government's decision to pay salaries only through the banking sector. However, Guinea-Bissau's financial intermediation remains the lowest in the WAEMU region, credit to the private sector remains lower than implied by the country's fundamentals, and the sector contributes only marginally to firms' investment programs, with banks preferring to invest in Treasury bills or deposit excess liquidity at the BCEAO as they perceive credit risk in the private sector as very high.

Staff's assessment

24. Recent financial soundness indicators point to financial sector vulnerabilities but a market-based solution to curb high levels non-performing loans (NPLs) and re-capitalize those banks affected by them is underway (Table 7, SIP section III). As a result of the 2012–13 decline in international cashew prices, and fueled by political uncertainty, credit quality has declined substantially. In particular, Guinea-Bissau's NPLs increased substantially (from 6.5 percent as of end December 2011 to 25.7 percent in June 2014), far above the average for the WAEMU despite lower provisioning rates. Profitability remains low, with average rates of return on assets below 3 percent. The banking sector remains overly exposed to the retail and wholesale trade, restaurants and hotels, and other services, which together account for around 75 percent of total credit. However, those banks which have been plagued by high NPLs have started to seize collateral and one bank agreed with the WAEMU Banking Commission on a phased increase in capital from CFA 5 billion to 20 billion.

25. Enforcing compliance with key prudential ratios would help safeguard financial stability and requires action on both regional and national levels. Recent capacity building efforts at the Banking Commission need to be reinforced by strengthening risk-based supervisory tools and processes. Timely provision of data by the national BCEAO branch to the supervisory authorities will be essential in this regard. A stronger corrective action framework should be put in place in order to reduce regulatory forbearance and better enforce compliance with prudential norms, including by taking timely and effective corrective measures against weak and/or noncompliant banks. The move to Basel II/III standards will take time but offers an opportunity to bring prudential rules closer to international norms. In the mean time, the regional authorities should step up the enforcement of the current rules, as well as start tightening certain rules where improvements are most pressing, for instance on concentration risk and provisioning of non-performing loans, and increase banks' capital adequacy levels, including through raising operating banks' minimum share capital to CFAF 10 billion by June 2016 as envisaged.

Authorities' views

26. The authorities shared the staff's assessment of the need to develop the financial sector, enhance access to credit, and reduce financial sector vulnerabilities. They intend to revise the national strategy document for the microfinance sector by consolidating existing initiatives and by signing a partnership agreement with the African Microfinance Network to boost the development of microfinance in rural areas and credit facilities for small- and medium-sized enterprises. They have adhered to recent recommendations of an MCM TA mission and shunned public intervention to avoid fiscal costs and moral hazard.

D. Maintaining Prudent Borrowing Policies

27. The debt sustainability analysis (DSA) indicates that Guinea-Bissau faces a moderate risk of debt distress, based on an assessment of public external debt, but a heightened overall risk of debt distress, reflecting the high level of total public debt. Under the baseline scenario, all indicators are expected to remain under their indicative thresholds throughout the projection period (2015–35). However, the present value (PV) of debt-to-exports breaches its threshold under the most extreme shock scenario.[7] Stress tests point to vulnerability to adverse shocks affecting key macroeconomic variables. Finally, the current debt management hard and software has serious shortcomings that need to be urgently addressed.

[7] The PV of debt is calculated using the standard discount rate of 5 percent.

Box 5. Financial Deepening and Inclusion in Guinea-Bissau

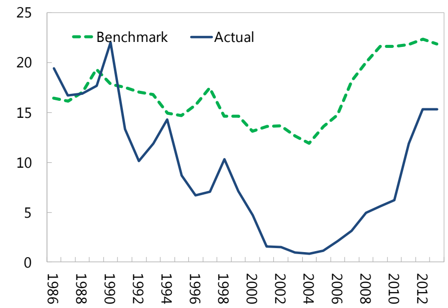
Credit to the private sector in Guinea-Bissau remains lower than implied by the country's fundamentals and financial access is low. The use of mobile payment services could make financial services more accessible to a wider population in the short-term. Social spending, infrastructure investments, and improvements of the business environment will be essential to deepen the financial market.

Guinea-Bissau's ratio of private sector credit to GDP is below the level implied by its fundamentals; Following the methodology Al Hussainy (2011) and Barajas et al. (2013), this benchmark ratio is derived based on a number of structural factors in a panel of over 120 emerging and developing countries for the period from 1986 to 2013. For the case of Guinea-Bissau, this benchmark level is much higher than the actual level of private credit in percent of GDP, implying that financial depth is lagging behind the level implied by the country's structural characteristics. A regression of the financial gap (actual private sector credit-to-GDP minus its benchmark) on macroeconomic, institutional and policy variables helps identify the drivers of the deviations from the benchmark for 2004–13. While causality is hard to establish in this empirical exercise and the effects represent mostly associations, increasing trade openness, health (social) spending, FDI inflows and improved infrastructure to the top performing WAEMU country in the category could decrease the financial gap by 4½, 3, 1¾, and 1¼ percentage points, respectively.

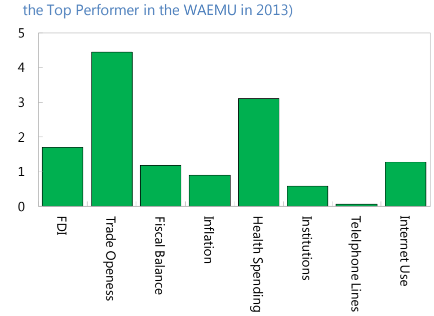
Direct contact with financial infrastructure remains low but mobile phone penetration could be a promising venue to increase financial access. Recent numbers suggest that around 36 percent of the population possess at least one SIM card, and two mobile payment providers currently operate in Guinea-Bissau, with equal market shares. In addition, the magnitude of remittances in Guinea-Bissau suggests a substantial market for cross-border mobile payments. The development of mobile financial services could thus serve as a means to increase financial inclusiveness for the unbanked population.

In the medium term, improvements in the business and legal environment will be necessary to improve access to financial services. The authorities need to address weak transparency, underdeveloped judicial and business environments, limited financial skills, and distortive taxation and suboptimal prudential regimes and regulatory forbearance, which remain the main obstacles to financial sector development. Lower collateral requirements stemming from a better legal environment and higher accounting standards could increase firms' access to financing and boost investment and GDP.

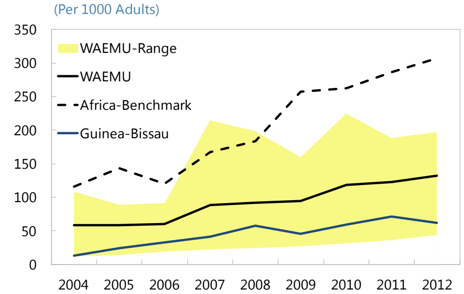
Guinea-Bissau: Credit to the Private Sector
(In Percent of GDP)



Factors which Close the Financial Gap
(Increase in Percent of GDP from Adjusting Each Factor to the Top Performer in the WAEMU in 2013)

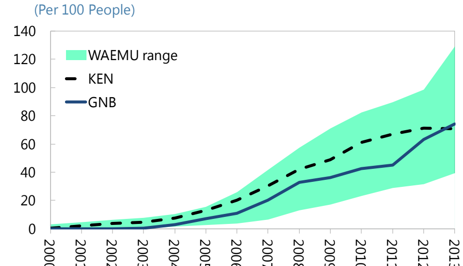


Depositors with Commercial Banks
(Per 1000 Adults)



Sources: IMF, Financial Access Survey

Mobile Cellular Subscriptions
(Per 100 People)



Sources: World Dvelopment Indicators 2014

Staff's assessment

28. Staff emphasized that the authorities should immediately address operational risk, continue to implement prudent borrowing policies and strengthen debt management capacity. In view of existing vulnerability, seeking grants and concessional loans for priority infrastructure projects remains important for Guinea-Bissau. In addition, improving debt management capacity is increasingly critical in light of the country's likely access to a mix of credit/lending offers following the promising results of the Brussels donor roundtable in March 2015. In view of this, staff encouraged the authorities to leverage TA in debt management from the IMF and other development partners to review the legal and institutional framework for public debt management along with debt contracting procedures. As an immediate step, staff urged the authorities to urgently repair their debt management soft and hardware.[8] To contain the risk of debt distress and support long-term debt sustainability, it will also be critical for the authorities to strengthen debt management, maintain prudent borrowing policies, periodically produce reports on external debt commitments, agreements and disbursements (structural benchmark), sustain fiscal consolidation efforts, continue implementation of growth-enhancing structural reforms, and promote economic diversification.

Authorities' views

29. The authorities broadly concurred with the staff's views on debt sustainability and its recommendations. They agreed that debt sustainability depends crucially on sound macroeconomic policies that would in turn increase their chances of accessing concessional financing. They maintained, however, that the pace of public investments would be determined on the basis of available external concessional resources. Thus, some risks identified in this DSA would not materialize if funding were not available. The authorities recognized the contributory role of prudent debt management and implementation of structural reforms to improve the business environment and to enhance overall growth and export prospects.

E. Enhancing Competitiveness and External Stability

Staff's assessment

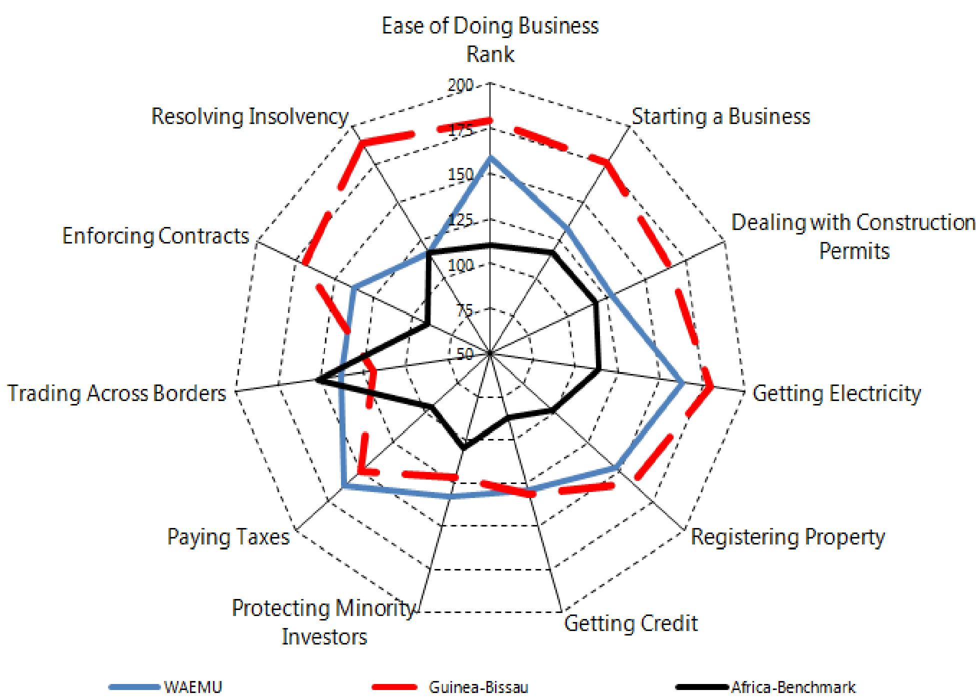
30. While Guinea-Bissau's real effective exchange rates appear broadly in line with fundamentals, significant improvements to governance and the business environment are necessary to safeguard external stability in the medium term (Box 6 and Figure 4). Guinea-Bissau has made significant progress in improving its business environment during 2005–11 but the country's relative rating in the Doing Business ranking has deteriorated compared to the last

[8] AFRITAC WEST conducted a TA mission to Bissau in June 2015 to help the authorities assess the system of debt data and related operational risks, examine the legal and institutional framework for public debt management, and review the domestic and external debt contracting processes. The mission also developed a roadmap for further TA in debt management.

assessment: only 10 out of 189 countries evaluated are currently ranked worse. While the emergency plan to provide electricity has shown first results, further improvements in access to and reliable electricity supply will be crucial. Starting a business and enforcing contracts are particularly challenging areas compared to other WAEMU countries and a benchmark group of fast-growing African economies. Guinea-Bissau's institutions and policies are also consistently ranked weaker than in other WAEMU countries in the Country Policy and Institutional Assessment. Going forward, major investments to close the infrastructure gap, with a view to decrease high transportation and communication costs, develop human capital, and improve governance will be critical to boost the economy's overall competitiveness.

Figure 1. Ease of Doing Business, 2015*

(Rank among 189 economies)



Sources: World Bank, Doing Business 2015

*These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

Authorities' views

31. The authorities agreed with staff's external stability assessment for Guinea-Bissau. They acknowledged the need to further improve the business environment and diversify the economy. They plan to design a strategy to promote the production and export of the main export product, cashew nuts, while leveraging international support to improve the quality of institutions and public delivery of health and education services.

F. Fostering Inclusive Growth

Staff's assessment

32. Progress toward the Millennium Development Goals, particularly in health and education has been sluggish, despite some satisfactory initial steps in addressing the infrastructure gap and meeting the health and educational challenges. At the same time, reducing unemployment and tackling income inequality continue to feature prominently among the government's developmental priorities. Hence, they have initiated an international audit of the ill-managed fund for processing of agricultural products (FUNPI) with support from the World Bank. The results from this audit (which are expected by end-September) would help define a new strategy to promote the cashew nuts sector and to reduce rural poverty. In addition, the authorities are committed to the three main pillars at the core of their request for donor support—(i) significantly increasing investment in infrastructure; (ii) encouraging industrialization; and (iii) improving urban development—to support inclusive growth.

33. Maintaining a stable macroeconomic environment and improved quality in social spending could help progress towards inclusive growth. The authorities plan to focus on measures to improve access to education and health services, strengthen social protection, empower women, and increase employment opportunities through economic diversification and expansion of access of credit by small and medium size enterprises. They agreed that quick-wins in the transformation process could emanate from a re-structuring or closure of the fund for industrialization of agricultural products (FUNPI), which should create a level field for private sector development and economic diversification, while helping reduce rural poverty.

34. Structural reforms to address corruption and endemic rent-seeking should be pursued to foster more inclusive growth. Initiatives taken by the authorities to implement an asset disclosure regime are a welcome development. However, for these initiatives to be meaningful the asset disclosure regime must focus on high-ranking public officials across the executive, legislative and judiciary branches and the accuracy of the declarations must be adequately verified. For this purpose, the entity responsible for verifying the accuracy of the declarations must be given sufficient autonomy and resources to effectively conduct its functions. In addition, these efforts would be completed by strengthening and effectively mobilizing the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) framework, which could assist in detecting, prosecuting and deterring corruption-related offenses and smuggling. In this context, although preliminary steps have been taken to implement the existing AML/CFT framework, the legal framework must be swiftly brought in line with the 2012 FATF standard and effectively implemented.

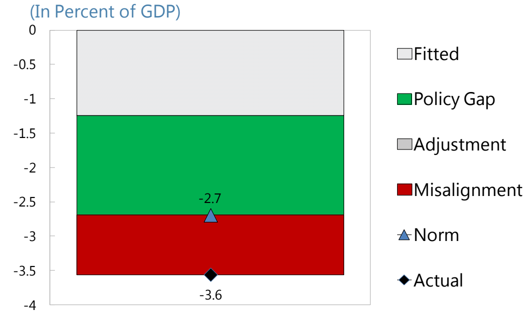
Box 6. External Stability Assessment

Based on the external balance assessment for developing and emerging markets (EBA-lite), Guinea-Bissau's real effective exchange rate (REER) appears to be broadly in line with the country's fundamentals. However, the economy remains exposed to shocks due to high export concentration and the country's fragile status. The business environment remains difficult.

The EBA-lite approach suggests that Guinea-Bissau's REER would be broadly in line with its fundamentals in 2015. To determine a possible REER misalignment, the EBA-lite methodology compares Guinea-Bissau's short-term current account balance to a current account benchmark implied by its macroeconomic fundamentals and policies (relative to the world's fundamentals, an optimal policy stance and the difference between actual and optimal policies in the rest of the world). The current account benchmark obtained for Guinea-Bissau is -2.7 percent of GDP, of which -1.5 percent of GDP are driven by the policy gap and another -1.2 percent by Guinea-Bissau's macroeconomic fundamentals. As the actual current account deficit is projected to increase to 3.6 percent of GDP in 2015, the misalignment of the current account thus amounts to -0.9 percent of GDP, implying a statistically insignificant overvaluation of the REER by 6.5 percent. As a result, the REER appears broadly in line with Guinea-Bissau's fundamentals.

Current Account Decomposition, 2015

(In Percent of GDP)



However, Guinea-Bissau's external position remains vulnerable to a range of risks. A stable political and security situation is the necessary condition for a sustainable external position. From the macroeconomic perspective, Guinea-Bissau's very high export concentration in cashew nuts poses the main risk to external stability as it leaves the country vulnerable to international price fluctuations. An increase in currently favorable oil prices could exert pressure on the current account as the economy is highly dependent on the import of petroleum products. In the medium term, continued flows of grants and access to concessional loans will be necessary to finance huge infrastructure development needs which in turn are the precondition for Guinea-Bissau's export base to develop.

Authorities' views

35. **The authorities concurred with staff's analysis and policy recommendations on inclusive growth.** They explained that addressing infrastructure gaps in energy, telecommunication, and water supply are key priorities. In addition, strengthening public institutions is critical, to lay the foundation for a business environment conducive to private sector development, economic growth and job creation. They maintained that progress on the security sector reform would provide a necessary pre-condition for progress in their planned economic and structural transformation of the country, and that it is a cost that the country has to pay to maintain peace and political stability.

G. Other Surveillance Issues

36. **Data provision and quality.** Weaknesses in the national accounts, government finance statistics, balance of payments statistics and debt statistics continue to hamper surveillance. In particular, estimates of growth and exports of cashew nut continue to be weak and needs to be addressed through institutional strengthening, a new production inventory and regular production

surveys (MEFP ¶28). Support from the IMF and development partners should help improve the quality and enhance the timeliness of data for surveillance and program monitoring.

37. Safeguards assessment. The BCEAO is the common central bank of the countries of the West African Economic and Monetary Union (WAEMU). The latest safeguards assessment of the BCEAO of December 13, 2013 found that the bank continued to have a strong control environment and has enhanced its governance framework, including the establishment of an audit committee to oversee the audit and financial reporting processes. The assessment also identified some limitations in the external audit process and recommended the selection of a second experienced audit firm to conduct joint audits to ensure the adequacy of this mechanism, the implementation of International Financial Reporting Standards (IFRS) (now envisaged for end-2015) and the strengthening of audit committee oversight.

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

PROGRAM MODALITIES AND ACCESS

39. It is proposed that Guinea-Bissau's program be supported by an arrangement under the IMF's ECF. The authorities' economic program aims to place the country on a virtuous path of sustainable and inclusive growth, while enhancing social equity, transparency and efficiency of public institutions (MEFP ¶2). Staff proposes an access level equivalent to 120 percent of quota (SDR 17.04 million), with a slight front-loaded disbursement of 20 percent of quota for each of the first two disbursements as one-off revenues in 2015 remain uncertain and Ebola-prevention remains underfunded. This access level and its phasing will also support the authorities' economic program, and help finance the country's protracted balance of payments needs and achieve its poverty reduction objectives. The access level is based on staff's assessment of Guinea-Bissau's outlook, the projected external financing requirement of about US$24 million during the program period, the strength of the envisaged policy adjustments, and the government's solid track record of policy implementation in PFM and strengthening institutions over the past nine months. It is in line with the ECF norm for countries with outstanding Fund credit of less than 100 percent of quota. By the end of the proposed program, total Fund credit would stand at about 170 percent of quota (Table 5).

40. Guinea-Bissau's capacity to repay the Fund is adequate. Debt service to the Fund is low and is projected to increase from 0.5 percent of exports of goods and services in 2016 to 0.9 percent in 2018 (Table 5). The DSA indicates that the risk of debt distress would remain moderate. In addition, Guinea-Bissau has a good track-record of timely payments of debt obligations to the Fund. The government is making best efforts to conclude rescheduling agreements with its official bilateral creditors (Paris Club and non-Paris Club) to whom it has arrears, and has a credible plan and projected financing in place to eliminate the arrears with the International Fund for Agricultural Development (IFAD), a multilateral creditor. This includes efforts to formalize agreements with Brazil, Russia, and Angola and to initiate negotiations with UAE, Libya, Pakistan, and Taiwan Province of China, and the International Fund for Agricultural Development (IFAD). The government is also making good-faith efforts to reach a collaborative agreement with the Franco-Portuguese bank, a private creditor with whom it is in arrears (MEFP ¶16). It has cleared all external arrears with other creditors and is current on its remaining external debt obligations.

41. Program performance will be assessed through semi-annual reviews, based on quantitative performance criteria and indicative targets (Table 8), structural benchmarks for the first year of the program and beyond to June 2016 (Table 9). The performance criteria for the first and the second reviews would be set for June 30 and December 31, 2015, respectively. The performance criteria will include (i) a floor on total domestic revenue; (ii) a ceiling on net domestic bank credit to the central government; (iii) a zero-ceiling on non-concessional external debt; (iii) a zero-ceiling on the stock of external debt owed or guaranteed by the central government with maturities of less than one year; and (iv) a zero-ceiling on external payment arrears.

42. Program implementation is subject to downside risks. Key risks to the macroeconomic outlook discussed above would also affect program performance. In addition, the authorities' ability to maintain fiscal discipline and break away from past practices in budget execution and to enhance debt management will be critical.

STAFF APPRAISAL

43. After peaceful elections and impressive early progress on structural reforms, the new government has a historic window of opportunity to escape fragility. The government benefits from wide support, including from the opposition parties, and traditional donors have returned in support of Guinea-Bissau. The government's *Strategic Plan* (2014–18) and the 2014 and 2015 budgets were approved in Parliament unanimously. Further evidence of the confidence in the government and the country was exhibited at the donor roundtable conference held in Brussels on March 25, 2015, where development partners committed some US$1.5 billion for the financing of the country's development agenda. The medium-term outlook is positive with continued strong growth and robust external position. Staff encourages the authorities to move steadfastly with the security sector reform and develop a sustainable pension scheme for affected security officers.

44. To enhance fiscal policy credibility and support macroeconomic stability staff urges the authorities to strengthen fiscal discipline and improve the efficiency of public spending. Staff welcomes the authorities' efforts to boost revenue mobilization and create fiscal space for priority spending, and encourages them to increase the efficiency of public spending, and to broaden the tax base to reach the revenue targets under the program. Staff urges the authorities to strengthen budget execution procedures, particularly commitment monitoring and capital spending management in the context of their medium-term PFM reform strategy. PFM reforms planned for the medium term are appropriately ambitious, given existing administrative capacity constraints, but are necessary for fiscal sustainability. Staff also stresses the urgency to reform the Water and Electricity Company EAGB both by restructuring the company and by increasing electricity tariffs. The current tariff structure provides subsidies to all consumers indiscriminately, which is costly to the budget and leads to an inefficient allocation of resources.

45. Staff urges the authorities to improve the production of key macroeconomic data which currently hamper effective surveillance. Staff encourages the authorities to improve the coordination among various institutions and ensure that adequate resources are allocated for the production of statistical data, including staffing, equipment, and training. Staff puts particular emphasis on the statistics of cashew nut production and export and urges the authorities to entrust an institution, like the Ministry of Agriculture, that has the required capacities and knowhow, with this task.

46. Staff welcomes the government's decision to audit the hitherto ill-managed cashew fund, the FUNPI, and strongly urges the authorities to move steadfastly to restructure or eliminate the fund. The restructuring or elimination of the FUNPI would help reduce poverty, as it has adverse redistributive effects on income, and would improve the business environment. Staff urges the authorities to use international best practice in the planned audit of the FUNPI, and to move expeditiously to restructure or eliminate the fund based on findings from the audit.

47. It will be important to restore financial sector stability. Staff commends the authorities for handling banking sector problems by following international best practice. It has sent a strong signal for the need of contract enforcement, avoiding moral hazard and safeguarding scarce public resources. Staff urges the authorities to closely monitor the banks' commitments to recapitalize and to liquidate seized collateral.

48. Staff urges the authorities to seek financing on grant or highly concessional terms, which staff considers essential in light of the large public investment plans and the vulnerable debt outlook to revenue and export shocks

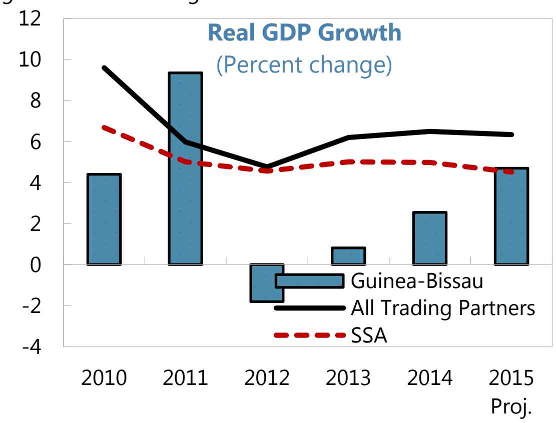
49. Staff supports the authorities request for a three-year arrangement under the ECF, with an access level of 120 percent of quota. The new program will help the authorities enhance macroeconomic stability and growth prospects. The program is appropriately ambitious, particularly in the fiscal reform area. This, combined with Guinea-Bissau's balance of payments needs, its low outstanding credit from the Fund, and its adequate capacity to discharge external debt obligations, justifies the proposed access level.

50. Staff recommends that the next Article IV consultation with Guinea-Bissau takes place within 24 months, subject to the Decision on consultation cycles for program countries.[9]

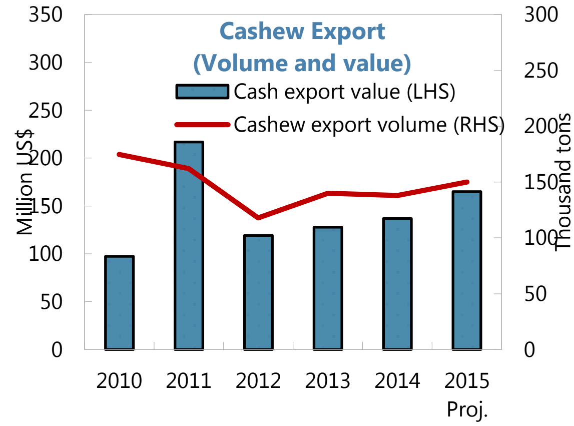
[9] Decision No. 14747–(10/96), September, 2010.

Figure 2. Guinea-Bissau: Economic Developments, 2010–15

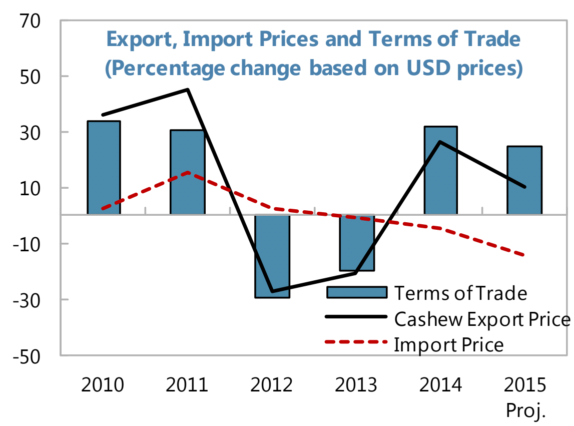
After being adversely affected by the 2012 coup, GDP growth is recovering...



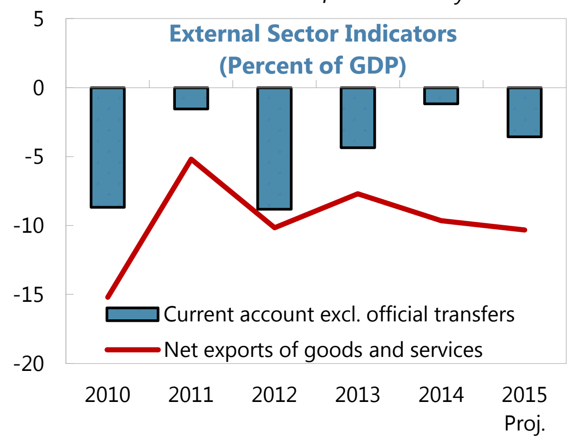
...along with increases in cashew export volumes and prices...



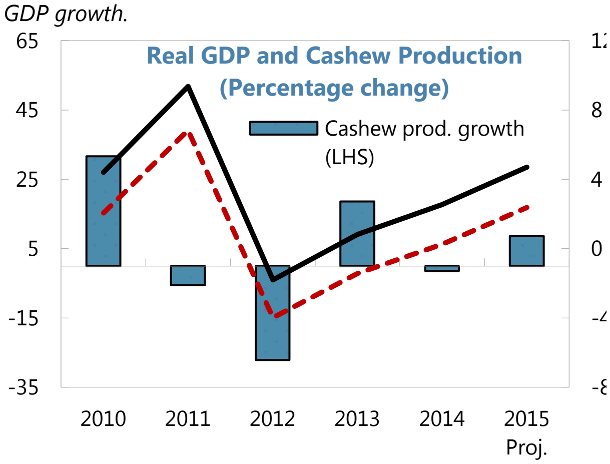
...leading to improvements in the terms of trade.



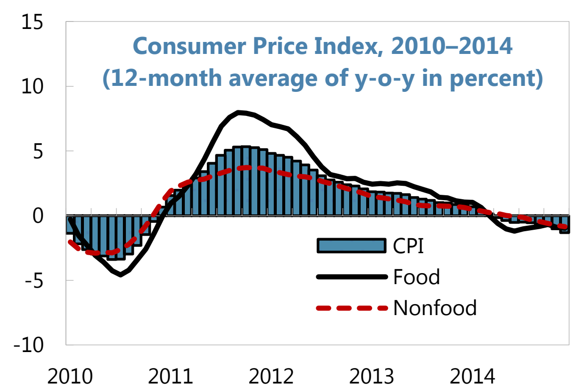
Higher exports and the resumption in foreign aid have narrowed the current account deficit in recent years.



Per capita income growth resumed, reflecting recovery of GDP growth.



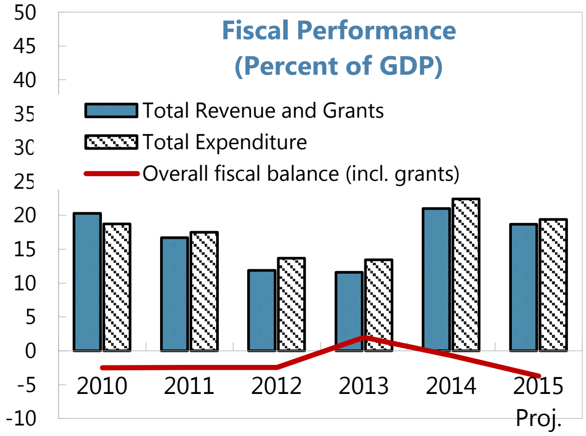
Inflation remains muted due to contained domestic demand and lower import prices.



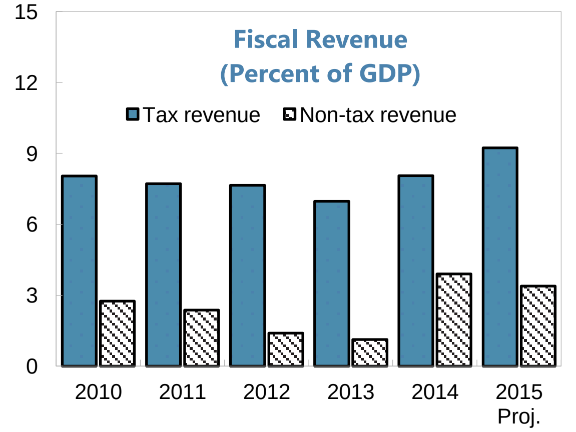
Sources: Guinea-Bissau's authorities and IMF staff estimates.

Figure 3. Guinea-Bissau: Additional Economic Developments, 2010–15

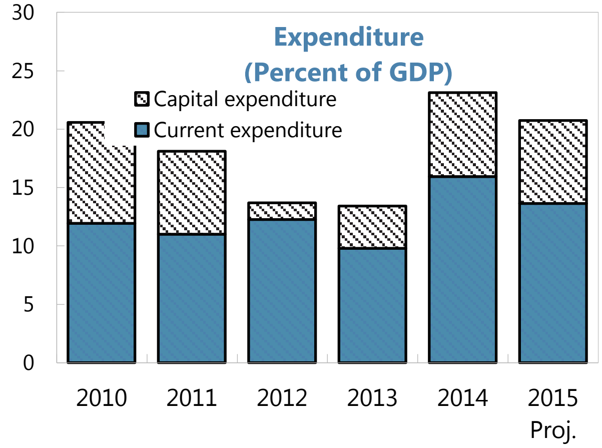
Revenues and expenditures have jumped recently, already reflecting normalization and better prospects.



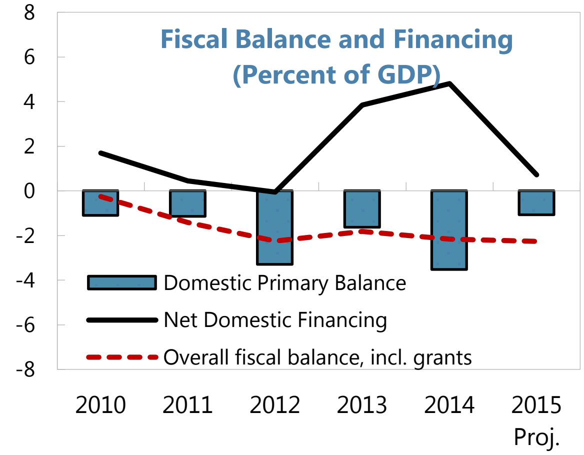
Reflecting recent quick-win reforms, domestic tax receipts have increased significantly.



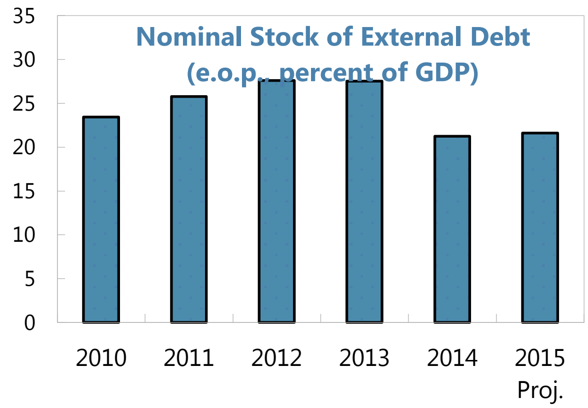
Capital expenditures have increased markedly, reflecting a better outlook and significant investment needs.



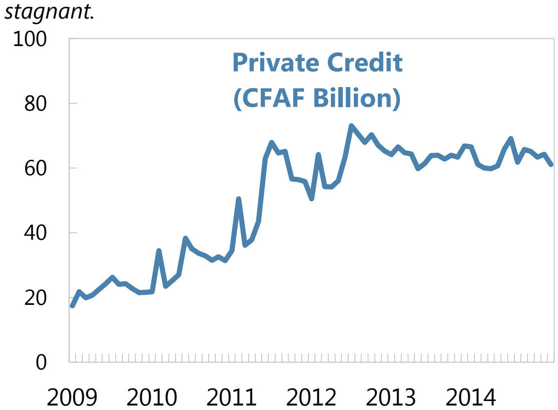
High domestic borrowing has returned to historical levels following renewed donor support…



…while external debt levels have remained low and stable after the 2010 debt relief.



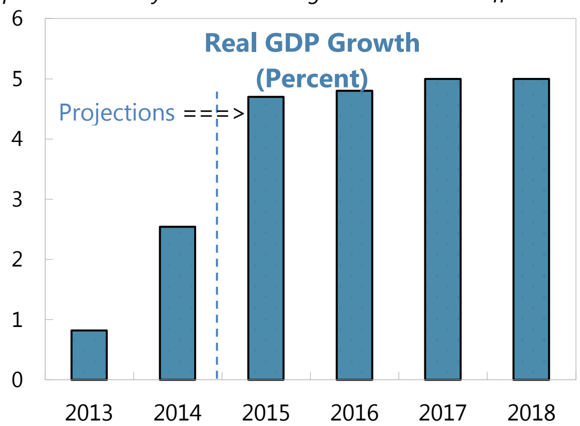
After years of exuberant growth, private credit has been stagnant.



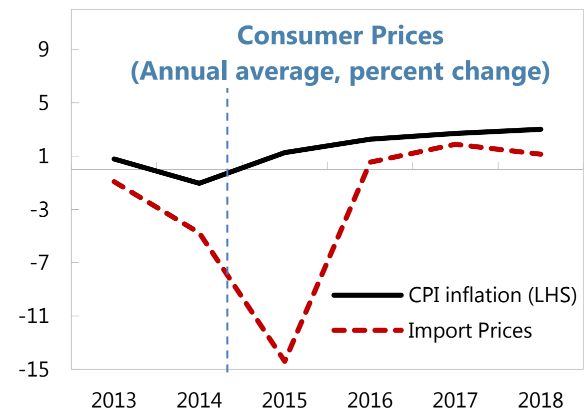
Sources: Guinea-Bissau's authorities and IMF staff estimates.

Figure 4. Guinea-Bissau: Medium-Term Outlook, 2013–18

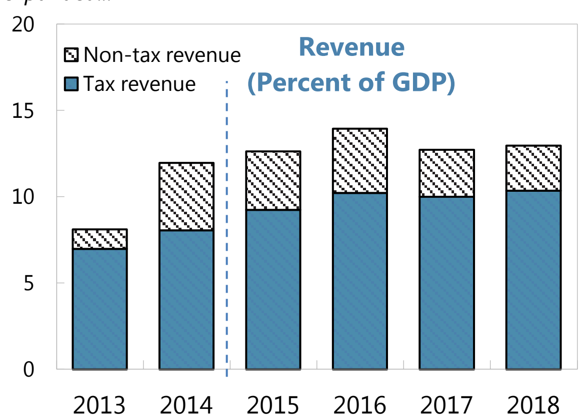
Economic prospects have improved markedly, reflecting political stability since the new government took office.



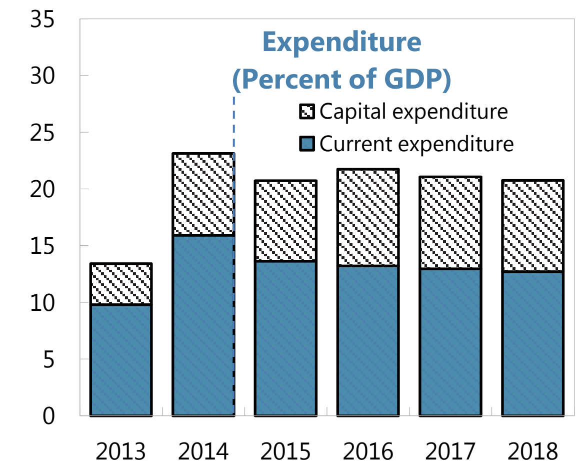
Consumer price inflation should rise but stabilize at low levels, as growth picks up and incomes increase.



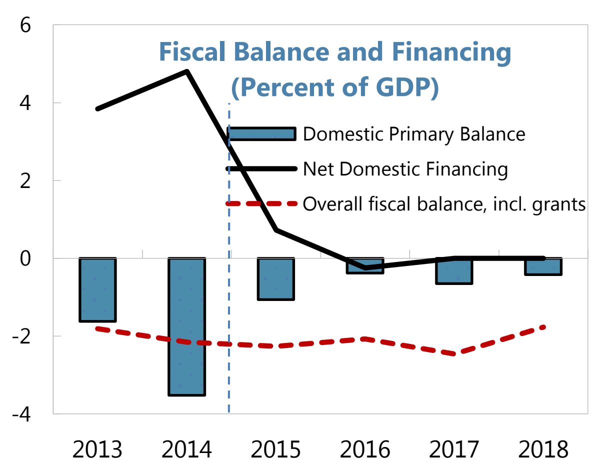
Domestic tax revenue should continue to increase, as tax administration is strengthened and the tax base expanded...



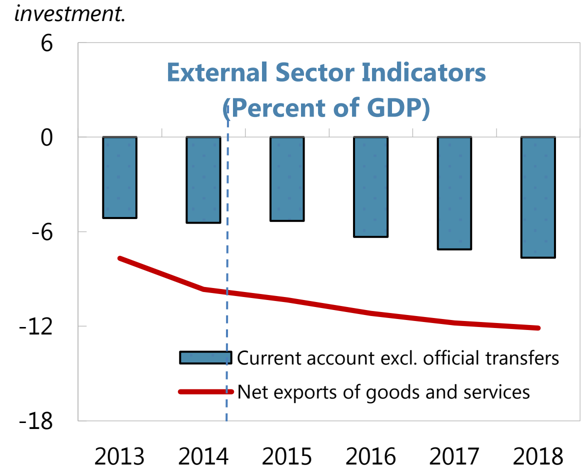
...while increases in expenditure should remain moderate...



...resulting in an overall deficit of around 2 percent of GDP.



The external current account deficit should increase, reflecting higher imports following scaling up of investment.



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

Table 1. Guinea-Bissau: Selected Economic Indicators, 2012–20

	2012	2013	2014		2015		2016	2017	2018	2019	2020
			RCF	Prelim.	RCF	Proj.			Proj.		
			(Annual percentage change, unless otherwise indicated)								
National accounts and prices											
Real GDP at market prices	-1.8	0.8	2.5	2.5	4.0	4.7	4.8	5.0	5.0	5.0	5.0
Real GDP per capita	-4.0	-1.4	0.3	0.3	1.7	2.4	2.5	2.7	2.7	2.7	2.7
GDP deflator	-0.8	-1.0	3.7	5.4	2.8	5.9	1.8	2.3	2.7	2.8	2.9
Consumer price index (annual average)	2.1	0.8	-0.8	-1.0	3.3	1.3	2.3	2.7	3.0	3.0	3.0
External sector											
Exports, f.o.b. (based on US$ values)	-44.8	16.3	14.8	12.7	4.9	13.1	7.2	5.2	5.5	5.6	5.7
Imports, f.o.b. (based on US$ values)	-24.4	0.6	26.2	24.7	4.2	7.9	10.4	8.7	8.1	10.1	10.6
Export volume	-27.2	18.6	-9.3	-1.4	4.9	8.7	5.0	2.0	2.3	2.3	2.3
Import volume	-26.0	1.5	30.9	30.9	7.4	26.1	9.8	6.7	6.9	9.6	10.4
Terms of trade (deterioration = -)	-29.7	-20.1	30.2	31.4	3.0	24.5	-0.3	0.7	1.3	2.0	2.4
Real effective exchange rate (depreciation = -)	4.9	-7.6	...	...		...	...	...	...	...	...
Nominal exchange rate (CFAF per US$; average)	510.2	493.9	...	493.5		...	...	...	...	...	...
Government finances											
Domestic revenue (excluding grants)	-12.5	-10.6	39.5	59.4	-0.6	17.1	17.9	-2.1	9.8	9.8	9.8
Domestic revenue (excluding grants and one-offs)	-12.5	-10.6	26.0	47.7	10.0	20.9	9.5	10.1	9.8	9.8	9.8
Total expenditure	-26.4	-2.1	58.2	86.4	-3.3	-0.6	11.9	4.0	6.2	9.3	8.8
Current expenditure	8.5	-20.1	58.6	75.8	-6.8	-5.2	3.4	5.3	5.6	8.8	8.7
Current expenditure (excluding elections-related spending)	8.5	-20.1	41.9	57.2	5.6	6.1	3.4	5.3	5.6	8.8	8.7
Capital expenditure	-80.4	152.9	57.1	115.4	6.5	9.4	28.2	1.8	7.2	10.1	9.1
Money and credit											
Net domestic assets [1]	14.0	8.4	-1.1	-4.2	7.3	-6.8	-7.6	-5.5	-3.2	-2.5	0.6
Credit to government (net)	11.3	0.3	8.2	0.5	0.0	1.8	-0.6	0.0	0.0	0.0	0.0
Credit to the economy	7.9	1.4	2.2	-2.9	2.4	2.7	2.7	3.0	3.1	3.2	3.3
Velocity (GDP/broad money)	3.1	2.7	2.5	2.2	2.4	2.2	2.2	2.1	2.1	2.1	2.1
			(Percent of GDP, unless otherwise indicated)								
Investments and savings											
Gross investment	7.3	7.0	7.1	10.8	7.1	12.4	13.6	13.2	13.1	13.4	13.5
Of which: government investment	2.1	3.1	1.9	7.2	1.9	7.1	8.5	8.1	8.0	8.2	8.3
Gross domestic savings	-3.9	-0.7	-2.7	1.1	-2.7	2.1	2.4	1.4	1.0	0.4	-0.4
Of which: government savings	-2.6	-2.2	-8.0	-4.0	-6.8	-1.2	0.5	-0.5	-0.1	0.1	0.2
Gross national savings	-1.5	2.7	6.7	9.6	3.2	8.8	8.9	7.7	7.1	6.2	4.9
Government finances											
Total revenue [2]	9.1	8.1	11.4	12.0	10.6	12.6	14.0	12.7	13.0	13.2	13.4
Total domestic primary expenditure	12.3	9.7	15.3	15.5	18.4	13.7	14.3	13.4	13.4	13.4	13.3
Domestic primary balance	-3.3	-1.6	-3.9	-3.5	-7.8	-1.1	-0.4	-0.7	-0.4	-0.2	0.1
Overall balance (commitment basis)											
Including grants	-2.2	-1.8	-1.8	-2.2	-3.5	-2.3	-2.1	-2.5	-1.8	-1.6	-1.3
Excluding grants	-4.6	-5.3	-10.0	-11.2	-8.7	-8.3	-8.0	-8.6	-8.1	-8.1	-8.0
External current account (including official current transfers)	-8.8	-4.4	-0.4	-1.2	-3.9	-3.6	-4.7	-5.5	-6.0	-7.2	-8.6
Excluding official transfers	-10.6	-5.1	-6.7	-5.4	-6.8	-5.3	-6.3	-7.1	-7.6	-8.9	-10.3
Nominal stock of public debt	47.3	49.8		51.9		50.9	49.5	48.7	46.4	44.3	42.1
Of which: external debt	17.9	16.6		17.2		18.0	16.6	15.9	16.2	16.8	17.5
(US$ millions, unless otherwise indicated)											
Memorandum item:											
Nominal GDP at market prices (CFAF billions)	508.3	507.2	504.5	548.4	539.5	608.0	648.5	696.5	750.9	810.5	875.5

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

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

[2] One-off revenues amounted to 0.9 percent of GDP in 2014 (due to FUNPI's proceeds being transferred to the Treasury) and are expected to account for 0.5 percent of GDP in 2015 (due to the selling of 3G licenses) and 1.6 percent of GDP in 2016 (mostly due to revenue from the selling of seized illegal wood and the collection of associated taxes).

Table 2a. Guinea-Bissau: Central Government Operations, 2012–18

(CFA Billions)

(CFAF billions)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
			Prelim.	Proj.		Proj.			
Revenue and Grants	58.1	58.9	115.0	113.5	129.1	131.5	144.7	159.5	175.7
Revenue	46.0	41.1	65.5	76.8	90.5	88.6	97.3	106.8	117.3
Tax revenue	38.9	35.4	44.2	56.2	66.2	69.6	77.7	86.7	96.5
Nontax revenue	7.1	5.7	21.4	20.6	24.2	18.9	19.5	20.1	20.8
(o/w) one-off revenues[1]	0.0	0.0	4.8	3.3	10.0	0.0	0.0	0.0	0.0
Grants	12.1	17.8	49.5	36.8	38.6	42.9	47.5	52.7	58.4
Budget Support	9.1	4.0	23.3	10.7	10.7	11.5	12.4	13.3	14.4
(o/w) Elections Support	0.0	0.0	9.3	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	3.1	13.8	26.2	26.1	27.9	31.4	35.1	39.3	44.0
Total expenditure	69.5	68.0	126.9	127.3	142.5	148.6	158.0	172.5	187.5
Current expenditure	62.3	49.7	87.4	84.1	87.2	92.2	97.6	106.0	114.9
Wages and salaries	25.1	24.3	32.3	32.5	34.6	34.6	36.0	38.8	42.0
Goods and services	12.8	9.0	12.2	14.6	19.0	20.4	21.3	23.0	24.8
Transfers	12.8	12.6	13.3	20.2	17.1	17.8	18.6	20.1	21.7
Other current expenditures	11.4	3.5	26.9	11.3	13.9	14.4	16.6	19.1	21.5
Scheduled interest	0.1	0.4	2.7	5.5	2.5	4.9	5.1	5.0	5.0
Capital expenditure and net lending	7.2	18.3	39.5	43.2	55.4	56.4	60.4	66.5	72.6
Public investment program	7.1	18.3	39.4	43.2	55.2	56.2	60.2	66.3	72.3
Domestically financed	0.6	0.0	0.1	4.6	8.3	5.8	7.9	7.7	6.7
Foreign financed	6.5	18.3	39.2	38.6	46.9	50.3	52.3	58.5	65.5
Other capital expenditure	0.1	0.0	0.1	0.0	0.2	0.2	0.2	0.3	0.3
Domestically financed	0.1	0.0	0.1	0.0	0.2	0.2	0.2	0.3	0.3
Overall balance (commitment)	-11.4	-9.2	-11.8	-13.8	-13.5	-17.1	-13.3	-13.1	-11.8
Overall balance, excluding grants (commitment)	-23.5	-26.9	-61.3	-50.6	-52.1	-60.0	-60.8	-65.7	-70.2
Net domestic arrears[2]	3.5	9.7	-1.8	-8.1	-3.0	0.0	0.0	0.0	-1.9
Accumulation current year	3.5	9.7	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years	0.0	0.0	-4.0	-8.1	-3.0	0.0	0.0	0.0	-1.9
External interest arrears current year	0.0	0.0	0.0	-0.9	0.0	0.0	0.0	0.0	0.0
Non Regularized Spending									
Float and statistical discrepancies	-5.8	9.9	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash)	-13.7	-9.4	-16.1	-22.8	-16.5	-17.1	-13.3	-13.1	-13.6
Financing	13.7	9.4	16.1	22.8	16.5	17.1	13.3	13.1	13.6
Domestic financing	9.0	4.9	3.4	4.2	-4.0	-3.3	-3.3	-2.4	-2.8
Bank financing	9.0	4.9	3.4	4.4	-2.2	-1.2	-1.2	-1.2	-1.8
BCEAO credit	0.0	0.0	2.9	0.0	-0.6	-1.2	-1.2	-1.2	-1.8
(o/w) IMF	0.0	0.0	2.9	0.0	-0.6	-1.2	-1.2	-1.2	-1.8
Deposits at the BCEAO (- = build up)[3]	9.3	-0.8	-7.9	4.4	-1.6	0.0	0.0	0.0	0.0
Domestic banks	-0.3	-4.3	8.5	0.0	0.0	0.0	0.0	0.0	0.0
(o/w) Regional (including T-bills)	0.0	10.0	15.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank financing	0.0	0.0	0.0	-0.2	-1.8	-2.1	-2.1	-1.3	-1.0
Foreign financing (net)	4.6	4.5	12.7	13.8	16.7	16.8	14.8	15.5	16.4
Disbursements	5.1	4.6	13.1	15.7	18.9	18.9	17.2	19.2	21.5
Projects Loans	5.1	4.6	13.1	12.5	18.9	18.9	17.2	19.2	21.5
Programs	0.0	0.0	0.0	3.2	0.0	0.0	0.0	0.0	0.0
Amortization (scheduled and arrears)	-0.5	-0.1	-2.9	-1.9	-2.2	-2.2	-2.3	-3.7	-5.1
External arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing gap (+ = financing need)	0.0	0.0	0.0	4.7	3.7	3.7	1.8	0.0	0.0
Additional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	4.7	3.7	3.7	1.8	0.0	0.0
Domestic primary balance	-16.8	-8.2	-19.4	-6.5	-2.7	-4.8	-3.4	-2.2	0.3
Revenue	46.0	41.1	65.5	76.8	90.5	88.6	97.3	106.8	117.3
Primary expenditure	62.9	49.4	84.9	83.2	93.1	93.4	100.7	109.0	116.9

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

[1] For 2014 it refers to FUNPI's proceeds, for 2015 is reflects the selling of 3G licenses, and for 2016 it mostly reflects the selling of seized illegal wood and the collection of associated taxes.

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

[3] In early 2015 CFA 3.7 billion were used to pay 2014 expenses.

Table 2b. Guinea-Bissau: Central Government Operations, 2012–18

(Percent of GDP)

	2012	2013	2014	2015	2016	2017	2018
			Prelim.	Proj.		Proj.	
Revenue and grants	11.4	11.6	21.0	18.7	19.9	18.9	19.3
Revenue	9.1	8.1	12.0	12.6	14.0	12.7	13.0
Tax revenue	7.7	7.0	8.1	9.2	10.2	10.0	10.4
Nontax revenue	1.4	1.1	3.9	3.4	3.7	2.7	2.6
(o/w) one-off revenues	n.a.	n.a.	0.9	0.5	1.5	0.0	0.0
Grants	2.4	3.5	9.0	6.0	6.0	6.2	6.3
Budget support	1.8	0.8	4.3	1.8	1.6	1.6	1.6
(o/w) Elections Support	n.a.	n.a.	1.7	0.0	0.0	0.0	0.0
Project grants	0.6	2.7	4.8	4.3	4.3	4.5	4.7
Total expenditure	13.7	13.4	23.1	20.9	22.0	21.3	21.0
Current expenditure	12.3	9.8	15.9	13.8	13.4	13.2	13.0
Wages and salaries	4.9	4.8	5.9	5.3	5.3	5.0	4.8
Goods and services	2.5	1.8	2.2	2.4	2.9	2.9	2.8
Transfers	2.5	2.5	2.4	3.3	2.6	2.6	2.5
Other current expenditures	2.2	0.7	4.9	1.9	2.1	2.1	2.2
Scheduled interest	0.0	0.1	0.5	0.9	0.4	0.7	0.7
Capital expenditure and net lending	1.4	3.6	7.2	7.1	8.5	8.1	8.0
Public investment program	1.4	3.6	7.2	7.1	8.5	8.1	8.0
Domestically financed	0.1	0.0	0.0	0.8	1.3	0.8	1.1
Foreign financed	1.3	3.6	7.2	6.3	7.2	7.2	7.0
Other capital expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestically financed	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (commitment)	-2.2	-1.8	-2.2	-2.3	-2.1	-2.5	-1.8
Overall balance, excluding grants (commitment)	-4.6	-5.3	-11.2	-8.3	-8.0	-8.6	-8.1
Net domestic arrears[1]	0.7	1.9	-0.3	-1.3	-0.5	0.0	0.0
Accumulation current year	0.7	1.9	0.4	0.0	0.0	0.0	0.0
Payment previous years	0.0	0.0	-0.7	-1.3	-0.5	0.0	0.0
External interest arrears current year	0.0	0.0	0.0	-0.2	0.0	0.0	0.0
Float and statistical discrepancies	-1.1	2.0	-0.1	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-2.7	-1.8	-2.9	-3.7	-2.5	-2.5	-1.8
Financing	2.7	1.8	2.9	3.7	2.5	2.5	1.8
Domestic financing	1.8	1.0	0.6	0.7	-0.6	-0.5	-0.4
Bank financing	1.8	1.0	0.6	0.7	-0.3	-0.2	-0.2
BCEAO credit	0.0	0.0	0.6	0.0	-0.1	-0.2	-0.2
(o/w) IMF	0.0	0.0	0.6	0.0	-0.1	-0.2	-0.2
Deposits at the BCEAO (- = build up)	1.8	-0.2	-1.5	0.7	-0.3	0.0	0.0
Domestic banks[4]	-0.1	-0.8	1.5	0.0	0.0	0.0	0.0
Regional (including T-bills)	0.0	2.0	2.7	0.0	0.0	0.0	0.0
Nonbank financing	0.0	0.0	0.0	2.3	-0.3	-0.3	-0.3
Foreign financing (net)	0.9	0.9	2.3	2.6	2.6	2.4	2.0
Disbursements	1.0	0.9	2.4	2.1	2.9	2.7	2.3
Projects	1.0	0.9	2.4	2.1	2.9	2.7	2.3
Programs	0.0	0.0	0.0	0.5	0.0	0.0	0.0
Amortization (scheduled and arrears)	-0.1	0.0	-0.5	-0.3	-0.3	-0.3	-0.3
External arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Gross financing gap (+ = financing need)	0.0	0.0	0.0	0.8	0.6	0.5	0.2
Additional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.8	0.6	0.5	0.2
Domestic primary balance	-3.3	-1.6	-3.5	-1.1	-0.4	-0.7	-0.5
Revenue	9.1	8.1	12.0	12.6	14.0	12.7	13.0
Primary expenditure	12.4	9.7	15.5	13.7	14.4	13.4	13.4

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

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

[4] Including transfers from FUNPI.

Table 3. Guinea-Bissau: Monetary Survey, 2011–18[1]

	2011	2012	2013	2014	2015	2016	2017	2018
				Prelim.		Proj.		
	(CFAF billions, unless otherwise indicated)							
Net foreign assets	119.3	84.5	94.9	160.7	204.1	250.2	299.2	338.7
Central Bank of West African States (BCEAO)	95.4	65.0	72.1	135.5	172.9	226.6	277.2	316.7
Commercial banks	23.9	19.5	22.8	25.2	31.2	23.6	22.0	22.0
Net domestic assets	87.4	94.3	104.7	84.1	67.4	46.8	30.5	19.9
Credit to the government (net)	11.2	21.1	21.7	22.5	26.9	25.3	25.3	25.3
Credit to the economy	50.5	64.2	66.6	61.1	67.7	75.1	83.9	94.1
Other items (net)	25.7	8.9	16.5	0.6	-27.2	-53.6	-78.7	-99.4
Money supply (M2)	173.3	162.8	186.9	244.8	271.4	297.0	329.7	358.6
Currency outside banks	85.5	83.4	90.9	151.8	168.3	184.1	204.4	222.3
Bank deposits	87.8	79.4	96.0	93.0	103.1	112.8	125.3	136.2
Base money (M0)	120.5	99.6	103.9	158.3	175.5	192.1	213.2	231.9
	(change in percent of beginning-of-period broad money)							
Contribution to the growth of broad money								
Money supply (M2)	39.1	-6.0	14.8	31.0	10.9	9.4	11.0	8.8
Net foreign assets	20.9	-20.1	6.3	35.2	17.7	17.0	16.5	12.0
BCEAO	24.9	-17.6	4.4	33.9	15.3	19.8	17.1	12.0
Commercial banks	-4.0	-2.5	2.0	1.3	2.5	-2.8	-0.5	0.0
Net domestic assets	45.0	4.0	6.4	-11.0	-6.9	-7.6	-5.5	-3.2
Credit to the central government	6.6	5.7	0.3	0.4	1.8	-0.6	0.0	0.0
Credit to the private sector	12.9	7.9	1.4	-2.9	2.7	2.7	3.0	3.1
Other items net	25.5	-9.7	4.6	-8.5	-11.4	-9.7	-8.5	-6.3
Memorandum items:								
Money supply (M2, annual percentage change)	39.1	-6.0	14.8	31.0	10.9	9.4	11.0	8.8
Base money (M0, annual percentage change)	60.0	-17.3	4.3	52.4	10.9	9.4	11.0	8.8
Credit to the private sector (annual percentage change)	46.7	27.2	3.6	-8.2	10.9	10.9	11.7	12.1
Velocity (GDP/M2)	3.0	3.1	2.7	2.2	2.2	2.1	2.1	2.1
Money Multiplier (M2/M0)	1.4	1.6	1.8	1.5	1.5	1.5	1.5	1.5

Sources: BCEAO; and IMF staff estimates and projections.

1/ End of period

Table 4. Guinea-Bissau: Balance of Payments, 2012–18

(CFAF billions)

	2012	2013	2014	2015	2016	2017	2018
			Prelim.		Proj.		
Current Account Balance							
Including all official transfers	-44.8	-22.1	-6.4	-21.7	-30.4	-38.1	-45.0
Excluding official transfers	-53.9	-26.1	-29.8	-32.3	-41.0	-49.6	-57.4
Goods and services	-51.6	-39.0	-52.9	-62.8	-72.5	-82.1	-91.0
Goods	-25.7	-14.8	-27.5	-30.2	-36.7	-43.6	-49.8
Exports, f.o.b	67.1	75.5	85.0	114.5	122.2	127.1	132.5
Of which: cashew nuts	60.9	63.1	67.5	97.0	101.6	105.0	108.8
Imports, f.o.b.	-92.8	-90.3	-112.5	-144.7	-158.8	-170.6	-182.3
Of which: food products	-32.2	-31.4	-38.9	-43.1	-45.9	-49.3	-53.2
petroleum products	-21.7	-21.5	-26.6	-29.5	-31.5	-33.8	-36.4
Services (net)	-25.9	-24.2	-25.4	-32.7	-35.9	-38.5	-41.2
Credit	11.1	18.9	16.6	21.3	23.4	25.2	26.9
Debit	-37.0	-43.1	-42.0	-54.0	-59.3	-74.1	-80.7
Incomes (net)	-14.6	-1.8	7.9	11.3	11.3	11.4	11.4
Credit	2.6	2.2	12.0	12.4	12.4	12.5	12.6
EU fishing compensation	0.2	0.0	5.7	6.0	6.0	6.0	6.0
Other license fees	2.4	2.2	6.3	6.4	6.4	6.5	6.5
Debit	-17.2	-4.1	-4.1	-1.2	-1.2	-1.1	-1.1
Of which: external interest	-0.6	-0.1	-1.3	-1.2	-1.2	-1.1	-1.1
Current transfers (net)	21.5	18.8	38.6	29.9	30.9	32.6	34.5
Official [1]	9.1	4.0	23.3	10.7	10.7	11.5	12.4
Of which: balance of payments support grants	9.1	4.0	23.3	10.7	10.7	11.5	12.4
Private	12.4	14.8	15.3	19.2	20.2	21.2	22.1
Of which: remittances	12.4	14.8	15.3	19.2	20.2	21.2	22.1
Capital and financial balance	52.7	28.5	67.3	54.3	80.4	85.0	82.7
Capital account	3.1	13.8	26.5	26.3	28.1	31.6	35.3
Financial account	49.7	14.7	40.8	28.0	52.2	53.4	47.4
Official medium- and long-term disbursements	3.4	4.6	13.1	12.5	18.9	22.1	17.2
Project loans	3.4	4.6	13.1	12.5	18.9	18.9	17.2
Amortization [2]	-0.6	-0.1	-0.4	-2.7	-3.0	-3.9	-3.6
Treasury bills and regional financing	0.0	10.0	15.0	0.0	0.0	0.0	0.0
Commercial bank net foreign assets	4.4	-3.3	-2.2	-6.0	7.6	1.6	0.0
Private net foreign assets	4.1	4.3	15.4	24.2	28.7	33.6	33.8
Errors and Omissions	-38.3	0.7	0.0	0.0	0.0	0.0	0.0
Overall balance	-30.4	7.1	60.9	32.6	50.0	46.9	37.7
Financing	30.4	-7.1	-60.9	-32.6	-50.0	-46.9	-37.7
Net foreign assets (increase = -)	30.4	-7.1	-63.4	-37.4	-53.7	-50.6	-39.5
Of which: net IMF credits	0.0	0.0	5.2	0.0	-1.0	-2.1	-2.1
purchases and loans	0.0	0.0	5.2	0.0	0.0	0.0	0.0
repurchases and repayments	0.0	0.0	0.0	0.0	1.0	2.1	2.1
Debt relief	0.0	0.0	2.5	0.0	0.0	0.0	0.0
Change in debt-service arrears (decrease = -)	0.0	0.0	0.0	-0.9	0.0	0.0	0.0
Gross financing gap	0.0	0.0	0.0	4.7	3.7	3.7	1.8
Proposed ECF financing	0.0	0.0	0.0	4.7	3.7	3.7	1.8
Memorandum items:							
Export volume of goods (annual percentage change)	-27.2	18.6	-1.4	8.7	5.0	2.0	2.3
Cashew export prices (US$ per ton)	1000	790	1000	1100	1103	1131	1159
Import volume of goods (annual percentage change)	-26.0	1.5	30.9	26.1	9.8	6.7	6.9
Imputed international reserves							
US$ millions	138.9	…	…	…	…	…	…
As percent of broad money	36.7	…	…	…	…	…	…
WAEMU gross official reserves (billions US$)	12.9	…	…	…	…	…	…
Percent of broad money	54.1	…	…	…	…	…	…
Scheduled debt service							
Percent of exports and service credits	1.9	2.2	-1.7	1.3	1.7	2.1	2.0
Percent of total government revenue	3.2	5.1	-2.6	2.3	2.8	3.6	3.4
Current account balance (percent of GDP)							
Including official transfers	-8.8	-4.4	-1.2	-3.6	-4.7	-5.5	-6.0
Excluding official transfers	-10.6	-5.1	-5.4	-5.3	-6.3	-7.1	-7.6

Sources: BCEAO; and IMF staff estimates and projections.

[1] Includes food aid and technical assistance to projects.

[2] Figures through 2014 reflect actual payments, while projections are based off of scheduled amortization

Table 5. Guinea-Bissau: Indicators of Capacity to Repay the Fund, 2014–24

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
						Projections					
Fund obligations based on existing credit											
(SDR millions)											
Principal	0.0	0.0	0.7	1.5	1.5	1.5	2.2	1.4	0.7	0.7	0.7
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Fund obligations based on existing and prospective credit											
(SDR millions)											
Principal	0.0	0.0	0.7	1.5	1.5	1.5	2.2	2.8	3.0	3.9	4.1
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Total obligations based on existing and prospective credit											
SDR millions	0.0	0.0	0.7	1.5	1.5	1.5	2.2	2.8	3.0	3.9	4.1
CFAF billions	0.0	0.0	0.6	1.2	1.2	1.2	1.7	2.3	2.4	3.1	3.3
Percent government revenue	0.0	0.0	0.7	1.3	1.2	1.1	1.5	1.8	1.7	2.0	2.0
Percent exports of goods and services	0.0	0.0	0.5	0.9	0.9	0.9	1.2	1.5	1.5	1.8	1.8
Percent debt service	0.0	0.0	34.3	48.1	38.4	37.6	54.4	57.9	70.6	101.4	115.8
Percent GDP	0.0	0.0	0.1	0.2	0.2	0.1	0.2	0.2	0.2	0.3	0.3
Percent quota	0.0	0.0	5.1	10.2	10.2	10.2	15.2	19.7	21.0	27.4	27.1
Percent reserves	0.0	0.0	0.3	0.4	0.4	0.3					
Outstanding Fund credit											
SDR millions	10.8	16.5	20.3	23.4	24.2	22.8	20.6	17.8	14.8	10.9	6.8
CFAF billions	8.1	13.6	16.7	19.2	19.8	18.5	16.7	14.4	12.0	8.8	5.5
Percent government revenue	12.3	17.7	18.5	21.7	20.3	17.4	14.2	11.2	8.5	5.7	3.2
Percent exports of goods and services	9.5	11.9	13.7	15.1	14.9	13.4	11.6	9.5	7.4	5.1	3.0
Percent debt service	973.9	1166.9	967.3	775.1	640.9	589.9	518.8	368.3	351.0	284.8	191.6
Percent GDP	1.5	2.2	2.6	2.8	2.6	2.3	1.9	1.5	1.2	0.8	0.5
Percent quota	76.0	116.0	142.9	164.7	170.5	160.4	145.1	125.4	104.4	77.0	44.9
Percent reserves	6.0	7.9	7.4	6.9	6.2	5.3					
Net use of Fund credit (SDR millions)	**3.6**	**5.7**	**3.8**	**3.1**	**0.8**	**-1.4**	**-2.2**	**-2.8**	**-3.0**	**-3.9**	**-4.1**
Disbursements	3.6	5.7	4.540	4.550	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.0	0.0	0.7	1.5	1.5	1.5	2.2	2.8	3.0	3.9	4.1
						(CFAF billions)					
Memorandum items:											
Nominal GDP	548.4	608.0	648.5	696.5	750.9	810.5	875.5	945.7	1021.1	1102.6	1190.6
Exports of goods and services	85.0	114.5	122.2	127.1	132.5	138.4	144.0	152.2	161.3	171.7	183.9
Government revenue	65.5	76.8	90.5	88.6	97.3	106.8	117.3	128.6	141.1	155.0	170.3
Debt service	0.8	1.2	1.7	2.5	3.1	3.1	3.2	3.9	3.4	3.1	2.9
Net Foreign Assets Central Bank	135.5	172.9	226.6	277.2	316.7	348.9	...	...	...	...	...
CFAF/SDR (period average)	750.0	825.1	824.5	821.1	817.4	814.2	809.1	809.1	809.1	809.1	809.1
Quota (SDR)	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	15.2

Sources: IMF staff estimates and projections.

Table 6. Guinea-Bissau: Proposed Schedule of Disbursements under the ECF Arrangement, 2015–18

Availability	Disbursements		Condition for Disbursemennt
	In millions of SDR	In percent of Quota	
July 10, 2015	2.840	20.00	Approval of the three-year ECF arrangement.
October 15, 2015	2.840	20.00	Board completion of the first review based on observance of performance criteria for June 30, 2015.
April 15, 2016	2.272	16.00	Board completion of the second review based on observance of performance criteria for December 31, 2015.
October 15, 2016	2.272	16.00	Board completion of the third review based on observance of performance criteria for June 30, 2016.
April 15, 2017	2.272	16.00	Board completion of the fourth review based on observance of performance criteria for December 31, 2016.
October 15, 2017	2.272	16.00	Board completion of the fifth review based on observance of performance criteria for June 30, 2017.
April 15, 2018	2.272	16.00	Board completion of the sixth review based on observance of performance criteria for December 31, 2017.
Total Disbursements	**17.040**	**120.0**	

Table 7. Guinea-Bissau: Financial Soundness Indicators, 2010–14

	2010	2011	2012	2013	Jun. 2014
			(in Percent)		
Solvency Ratios					
Capital to risk-weighted assets	28.5	22.3	23.7	22.7	20.1
Tier 1 capital to risk weighted assets	28.5	22.3	22.3	23.1	21.4
Capital to total assets	15.3	11.8	13.2	13.5	11.0
Sectoral distibution of credit					
Agriculture and fishing	3.1	4.1	3.4	2.6	2.6
Manufacturing	11.5	9.4	17.7	16.3	14.7
Electricity, gas, and water	2.8	11.5	9.6	11.1	10.4
Building and construction	3.4	4.0	3.3	4.1	3.9
Commerce	54.0	52.9	45.6	42.5	44.0
Transport and Communication	0.0	0.1	0.1	0.2	0.1
Services	1.3	0.6	0.3	0.4	0.4
Collectives and Social Services	0.0	0.0	0.0	0.0	0.0
Other activities	23.9	17.5	20.1	23.1	24.0
Asset quality					
Non-performing loans to total credit	9.8	6.5	6.4	11.6	25.7
Non-performing loans to capital	42.6	51.8	59.2	55.2	91.0
Provisions to gross non-performing loans	5.9	3.3	2.7		
Provisions to gross loans	16.3	13.0	10.7	11.6	19.0
Earnings and profitability					
Net Income to average assets (ROA)	1.1	2.5	2.6	2.9	2.9
Net Income to average equity (ROE)	6.2	17.7	18.0	17.9	17.5
Liquidity					
Liquid assets to total assets	22.2	30.0	34.3	25.2	34.0
Liquid assets to short term assets	33.0	42.2	49.0	49.5	60.1
Ratio of deposits to assets	33.1	35.6	45.9	56.2	59.2
Ratio of loans to deposits	56.7	58.6	78.9	72.5	82.0
Excess reserves / broad money					
Memorandum items					
Deposit rate	3.6	3.8	4.7	4.7	4.7
Lending rate	10.6	10.6	10.2	9.2	9.2

Table 8. Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets for 2015–16

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

	Dec. 2014	2015			2016			
		June	Sept. 1/	Dec.	Mar. 1/	Jun.	Sept. 1/	Dec.
	Stock	Proposed		Proposed	Proj.	Proj.	Proj.	Proj.
Performance criteria 1/								
Total domestic tax revenue (floor)	44.2	26.2	40.7	53.3	15.7	31.5	47.2	62.9
Net domestic bank credit to the central government (ceiling)	2.7	8.2	7.9	4.4	0.0	0.0	0.0	-1.6
Ceiling on new nonconcessional external debt (in $ million) 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling) 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling) 2/	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets								
New domestic arrears (ceiling)	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social and priority spending (floor)	21.3	12.9	19.4	25.8	7.7	21.7	23.2	31.0
Domestic primary balance (commitment basis, floor)	-19.4	-2.6	-6.0	-6.5	-0.7	-1.3	-2.0	-2.6
Non regularized expenditures (DNTs, ceiling)	...	0.41	0.62	0.83	0.21	0.43	0.64	0.86
Memorandum items:								
Clearance of domestic payment arrears	...	4.30	5.95	8.10	0.75	1.50	2.25	3.00
External budgetary assistance (US$ million) 3/	24.0	7.6	15.8	23.6	5.9	9.2	13.8	23.8
ECF disbursements (SDR millions, flow) 4/	10.79	0.0	2.84	2.84	0.0	2.27	0.0	2.27

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-September 2015 and end-March 2016 are indicative targets.

2/ These apply on a continuous basis.

3/ Comprises grants and loans.

4/ A disbursement of 20 percent of quota (SDR 2.84 million) is proposed on Board approval of the ECF arrangement in July.

Table 9. Guinea-Bissau: Proposed Structural Benchmarks under the ECF Program, 2015–16

Measures	Timing	Macro Rationale
Revenue Mobilization		
• Implement an intra-trade post in SAFIM to reconcile invoice merchandise data with actual contents of the cargo.	Sept. 2015	Strengthen revenue collection.
• Draw up a strategic plan for improving infrastructure and working conditions of officials of the domestic tax and customs administration.	Dec. 2015	Strengthen revenue collection.
• Implement a new small taxpayer regime by the introduction of universal NIF (tax payer identification number)	Dec. 2015	To improve voluntary compliance and raise tax revenue.
Expenditure management		
• Prepare a monthly rolling Treasury cash flow projection table consistent with the 2015 budget.	July 2015 for August 2015 and monthly thereafter	Enhance expenditure management.
• Transition to the payment of the salaries, wages, and allowances of all public servants (including the security service) through the banking system.	Sept. 2015	Reduce handling of cash by the Treasury and strengthen public financial management.
• Prepare a quarterly report on PIP execution.	Dec. 2015 for Sept. 2015 Report, quarterly thereafter	Enhance PIP execution and monitoring.
Debt management		
• Reinstall and operationalize debt management IT system.	July 2015	Enhance debt management capacity and borrowing policies.
• Prepare a quarterly report on external debt commitments, agreements and disbursements.	Dec. 2015 for Jun. 2015 Report, quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments.
Business Environment		
• Complete an international and comprehensive audit of the fund for industrialization of agricultural products (FUNPI)	Sept. 2015	To improve cashew nuts production and trade.
• Prepare an audit plan for all State-owned Enterprises and autonomous funds.	Mar. 2016	To improve service delivery by and financial sustainability of public enterprises.
• Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2016	Reduce transaction costs.

Appendix I. Letter of Intent

Bissau, Guinea-Bissau
June 20, 2015

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

Dear Managing Director,

1. After holding transparent and fair elections—with the help of the international community—we took office in mid-2014 and found the country in a critical situation. Our institutions, already weak before the military *coup*, had deteriorated even further. Arrears on salaries and foreign debt accumulated, shortage of electricity became chronic, and the State's capacity to provide public goods became virtually non-existent. Notwithstanding these seemingly insurmountable challenges, our commitment and determination to break with the past of chronic political instability has been resolute and we have started to place our country on the path of sustainable and inclusive growth.

2. After almost one year in office, we are encouraged by the initial positive results and are as resolutely committed to embark on the next phase of reforms. The emergency measures adopted helped the government to regain control over the economy, bringing renewed hope and a smile back to the faces of the people of Guinea-Bissau. The results of policies adopted with support from the Rapid Credit Facility disbursement were satisfactory. We now request from the IMF an Enhanced Credit Facility (ECF) arrangement in support of our program of economic and financial reforms. We are confident that this is a critical point in the history of our country: a break with a past of chronic political instability and despair, and a move towards sustained and inclusive development. Our ultimate objective is to move the country onto a virtuous cycle of progress by 2025. There is broad-based consensus, therefore, to maintain macroeconomic stability, implement needed reforms to promote better governance to support public sector efficiency and enhance private sector development and job creation.

3. The attached Memorandum of Economic and Financial Policies (MEFP) lays out the policies the government plans to adopt over the next three years. The government of Guinea-Bissau is convinced that the policies and measures contained in this MEFP will constitute the solid foundation the country needs to solve difficulties in its balance of payments and to face the challenges related to growth and poverty reduction. In support of our economic program, the Government of Guinea-Bissau requests a 36-month arrangement under Extended Credit Facility of the International Monetary Fund in an amount equivalent to SDR 17.04 million, or 120 percent of Guinea-Bissau's quota. The ECF arrangement will provide needed financing during the program period and signal our determination to implement sound policies, catalyze additional financing and technical

assistance from our development partners, and boosts investor and business confidence. Progress in implementation of our program will be assessed through semi-annual reviews, quantitative performance criteria, indicative targets, and agreed structural benchmarks as described in the attached memorandum.

4. We believe that the policies set forth in the attached MEFP are adequate to meet the objectives of the program, but we stand ready to undertake any further measures as may become appropriate as circumstances change. The government will consult the IMF staff, on its own initiative or at your request, before adopting any such measures, and in advance of any revisions to the policies contained in the MEFP. The government agrees to fully cooperate with the IMF to achieve policy aims and avoid introducing policies or measures that might increase the balance of payment difficulties faced by Guinea-Bissau. We will also provide timely information necessary for monitoring economic developments and the implementation of policies defined in the program, as agreed under the attached Technical Memorandum of Understanding (TMU), or upon request.

5. The government of Guinea-Bissau agrees to the publication of this Letter of Intent, together with the attached MEFP and the TMU, as well as of the Article IV Staff Report related to the disbursement request under the ECF and the Debt Sustainability Analysis.

Yours sincerely,

/ s /

Geraldo Martins
Minister of Economy and Finance
Guinea-Bissau

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

Attachment I. Memorandum on Economic and Financial Policies

June 20, 2015

Context

1. Following two very difficult, troubled years in the economic, social and political spheres after the *coup d'état* of April 2012, Guinea-Bissau returned to a period of hope and self-assertion. The new government immediately took measures to normalize its operations and discussed with its stakeholders a strategy to put the country back on a path of sustainable and inclusive growth. The government benefited from a disbursement under the Rapid Credit Facility (RCF) from the International Monetary Fund (IMF) which contributed towards catalyzing urgently needed resources from international partners. Performance relative to the policies supported by the RCF exceeded expectations in several areas, particularly with regard to mobilising domestic revenue.

2. The government's reform and development plans are ambitious and the challenges are enormous but so are the commitment and the will of the government to place the country on the path of sustainable and inclusive growth, social equity, transparency and effective institutions. After 18 actual, attempted or alleged military *coup*s since independence, the new government that took office in July 2014 aims to subject the military to public finance management procedures applied in other sectors of the government. The initiated security sector reform also demonstrates that the government wishes to break with a past of instability and poor governance. The government's vision of the future that received an encouraging endorsement by the donor community at the Brussels roundtable in March 2015 has the following three main pillars (i) significantly increasing investment in infrastructures, (ii) encouraging industrialisation and (iii) improving urban development.

A. Recent Economic Developments and Performance under RCF-Supported Policies

3. Economic activity recovered in 2014, and prices remained stable. After the economy contracted 1.8 percent in 2012 and virtually stagnated in 2013, economic activity remained weak during the first half of 2014, when it was negatively impacted by delays in civil servants' salary payments, constant cuts in the water and power supplies and high macroeconomic uncertainty. Timely measures taken by the new government, higher cashew prices, and an uptick in construction and telecommunications helped drive the economy during the second half of the year. Clearance of four months of salary arrears and income from higher cashew proceeds increased domestic demand resulted in an estimated 2.5 percent growth in 2014. This rather modest recovery of economic activity and a weak credit market contributed towards keeping inflation stable (-0.1 percent) in 2014.

4. The return to normal institutional activity and strong government commitment to reform led to a return of donor support. Peaceful elections were successfully held, and an inclusive government, strongly committed to adopting the reforms the country need was formed. This made it possible to rapidly benefit from an RCF disbursement from the IMF, restore the financial compensation agreement for fisheries with the EU and receive budget support from international partners, thus alleviating the tight fiscal situation.

5. **Initial results of the measures adopted by the new government with the support of the RCF disbursement exceeded expectations.** First measures to limit the use of fuel subsidies, improve compliance by large taxpayers, and step up custom controls to reduce fraud and under-invoicing resulted in a considerable increase in tax revenue. Tax revenue (*DGCI*) increased by 45 percent in the last quarter of 2014 year-on-year, while customs revenue (*DGA*) leaped by 145 percent over the same period, implying growth rates of 10 and 39 percent, respectively, and increasing tax pressure by 3.9 percentage points to 12.0 percent of GDP in 2014. Non-tax revenue almost tripled due to the resumption of fishing compensation payments and the transfer of funds collected by FUNPI to the budget. The government re-instated electricity supply by contracting a private company to install thermal generators that added 10MW to the Bissau grid. The government also laid off more than 200 interns who had been hired to the tax authority without following appropriate procedures and without the necessary qualifications.

6. **Increased revenue and the re-establishing of international financial flows allowed the government to start settling a number of arrears.** The long transition period caused considerable loss of fiscal control, resulting in arrears amounting to CFA 17,857 billion. Improvement in the fiscal situation—including the issuance of T-Bills amounting to CFA 15 billion—helped the government to start clearing arrears. Currently almost all salary arrears from 2013 and 2014 and all external arrears have been cleared.[1] In addition, the government is paying and renegotiating debts to state owned enterprises.[2]

7. **Apart from expected higher international cashew prices in 2015, the economy will also benefit from the government's decision to suspend the FUNPI collections this year.** Recent evidence suggests a negative effect of the FUNPI levy on poverty. The lack of a positive impact of the FUNPI receipts on the sector prompted the government to call for a full audit to be concluded by July 2014 of the FUNPI and its beneficiaries. Together with the higher cashew prices, the suspension of the FUNPI levy will increase income of cashew producers. This will significantly reduce poverty, as 100,000 cashew producers support an estimated 800,000 people 70 percent of which live below the poverty line. The suspension of FUNPI will likely reduce the amount of cashew nuts smuggled into neighbouring countries,

[1] There remains a small amount of arrears related to teachers' bonuses carried over from 2013 as well as payments of arrears to embassies.

[2] The government rescheduled a debt with Ecobank in the amount of CFA 6 billion from 2013, contracted by Guinea-Bissau Electricity and Water Company (EAGB), to be fully repaid by 2017. At the same time, *Petromar*—the fuel importing company—has been paying off a debt of approximately CFA 2 billion contracted by the military, through withholding tax due to the government. This debt is expected to be cleared in 2015. The European Investment Bank is demanding payment of an old debt of 2 million euros from *Guiné Telecom* from when it was still a 100 percent state owned company which the government intends to repay with the receipts from the planned privatization of the company.

8. The current account deficit narrowed to an estimated 1.2 percent of GDP in 2014 and is expected to remain stable in 2015. The 2014 improvement in the current account balance reflected the recovery of international cashew prices, a modest increase in cashew volume exported, and a large inflow of budgetary assistance of CFA 23 billion. Both cashew nut prices and export volumes are expected to increase in 2015. Improved terms of trade from low oil prices and higher cashew prices would cause the current account balance to remain relatively steady in 2015, despite high import demand driven by stronger GDP growth and import-intensive capital investments.

9. The banking sector is strengthening with the enforcement of non-performing loan (NPL) provisioning and capital injections. In line with IMF advice and international best practice, banks affected by the 2012 and 2013 decline in cashew nut prices have started provisioning for NPLs in line with regional regulation, seize collateral, and one bank decided on a phased increase of its capital subscription over the next two years as agreed with the regional banking commission. Seizing and liquidating collateral should significantly improve lending conditions as it demonstrates the banks' ability to enforce contracts. The total banking system's NPLs stood at 29.2 percent of gross loans at the end of December 2014. To remedy weak contract enforcement the Government is now also promoting leasing as a less risky credit instruments. To this end, a contract was signed end-April with the International Finance Corporation (IFC). As part of its commitments, the IFC will assist the government in the adoption of a legislation and institutional framework for leasing operations as well as in the building of capacity of technical partners to promote access to finance for SMEs and smaller businesses. It will also provide advisory services to stakeholders.

B. Policies for 2015 and the Medium Term

Overall strategy

10. The government's fiscal policy aims at increasing revenues to help finance key public services and narrow the infrastructure gap to reduce poverty and support sustained and inclusive growth. The government envisages implementing the 2015 budget as approved by Parliament in December 2014. If revenues exceed budgeted resources, the government intends to allocate the additional resources to non-salary priority spending, including in the social sectors and to the procurement of equipment for strengthening tax and customs administration. The Government also intends to submit to Parliament in 2015 the 2016 budget with a spending envelope that reflects available resources without recourse to the banking sector.

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

12. Following successful implementation of the emergency program, the government received pledges of US$1.5 billion from international partners at the recent round table to finance its medium-term development strategy (2015–25). The three main objectives of the strategy are to substantially increase investment in infrastructure, encourage industrialization and promote urban development. This would help to diversify the economy in the four key sectors—agriculture and agro-industry, fishery, tourism and mining.

13. The Government Development Program (2014–18) includes several measures to build sufficient energy supply to break from a chronic shortage of power. Around 28MW of energy shall be added to the national grid from the Kaléta and Sambangalou international hydro-electric power stations that Guinea-Bissau shares with Senegal, Guinea-Conakry and The Gambia through the OMVG energy project, with the first power station to be completed this year and the second one, once started, to be completed within 40 months. Further investments would cover instalments of low and medium voltage power lines, including building a 30km transmission network around Bissau as well as installing 219km of high voltage power lines, as part of the 1,760km of the OMVG project.

14. The poor state and limited size of the country's road network constrains private sector development and therefore requires massive investments. The government's investment strategy includes the re-construction of the Farim bridge and rehabilitation of the Buba-Catio road at an estimated cost of 276 billion FCFA by 2018.

Measures to Improve Fiscal Management

15. The government commits to clear all outstanding domestic arrears and to avoid accumulating new domestic or external arrears. It will pay the remaining stock of almost CFA 0.5 billion for teachers' bonuses and CFA 2.4 billion to embassies by the end of 2015. Furthermore, the government intends to clear any remaining domestic arrears[3] using the following strategy: (i) determine the true amount of any outstanding arrears through further auditing and verifications by mid-2016,[4] (ii) verify full tax compliance of all creditors by mid-2016 (with US-financed technical assistance), (iii) determine net government arrears after correcting for any tax obligations, and (iv) establish a repayment schedule for these arrears over a time period of five to seven years, included in the respective state budgets. The government intends to start clearance of these arrears in 2016 with an amount of CFA 3 billion and issue treasury bonds with maturities ranging from one to six years to cover the remaining balance.

[3] There are three types of domestic arrears (i) accumulated between 1974 and 1999 which have been audited, partially recognized and settled, (ii) accumulated between 2000 and 2007 which have been audited but for some of which validity remains doubtful, and (iii) accumulated between 2008 and 2012, including government backed guarantees, which have not been audited, yet.

[4] In this process, the government also intends to assess the level of outstanding membership fees to international institutions and define a strategy regarding membership cancellation, rescheduling and/or settling of obligation.

16. The government remains committed to reach rescheduling or debt relief agreements with Paris Club and non-Paris Club creditors. This includes efforts to formalize agreements with Brazil, Russia, and Angola and to initiate negotiations with the UAE, Libya, Pakistan and Taiwan, Province of China, and the International Fund for Agriculture Development (IFAD). The government is making best efforts to conclude rescheduling agreements with our official bilateral creditors (Paris Club and non-Paris Club) to whom it has arrears, and has a credible plan and projected financing in place to eliminate the arrears with the International Fund for Agricultural Development (IFAD), a multilateral creditor. The government is also making good faith efforts to reach a collaborative agreement with the Franco-Portuguese bank, a private creditor with whom it is in arrears.

17. The government will overhaul its currently weak debt management. The immediate priority (by July 2015) consists of re-installing and operationalizing the debt management IT system (DMFAS) and updating its debt database with any current and future debt obligations. The government further intends to elevate the current debt unit to the level of a directorate with more capacities and autonomy. It will seek long-term technical assistance from international partners to improve its capacity for debt recording, monitoring and overall debt management. In addition, in December 2015, it will start publishing quarterly reports on external debt commitments, agreements and disbursement with a lag of three months.

18. The government will carefully plan new investments and contract future debt only on highly concessional terms. To ensure that the risk of debt stress remains manageable, the government will carefully rank investments based on cost-benefit analysis, including social considerations, and its impact on macroeconomic stability. To avoid high interest payments in a situation of scarce government resources and weak debt management capacity, the government is also committed not to rely on non-concessional loans. In December 2014, the Government started quarterly meetings with all Project Implementation Units (PIUs) to take stock of the rate of project implementation and discuss challenges ahead. To further enhance coordination, the government will prepare, starting in December 2015 for September 2015, quarterly reports on PIP execution. In the medium term, the government will design a three-year PIP, fully integrated with the medium-term expenditure framework. For highly profitable projects where resources can be ring-fenced, the government could, after consultation and agreement with IMF staff, consider non-concessional borrowing.

19. To improve treasury management, transparency and budgetary controls, the government plans to take steps towards the creation of a Treasury Single Account (TSA). The government intends to merge the bank accounts of line ministries and other public bodies into a Treasury Single Account. To this end, by March 2016, the government will make an inventory of all revenue sources and government accounts and require beneficiaries to collect revenues exclusively through the banking system and to periodically report all their revenues to the Treasury. In a second step, the Ministry of Finance will consider releasing budgetary resources only to beneficiaries who comply with their reporting requirement.

20. The treasury committee will be strengthened and inter-ministerial communication will be improved. At the end of 2014, the government reintroduced the operational treasury committee and, this year, the high-level treasury committee, with strategic and monitoring functions. Both are essential for sound public financial management and should become an integral part of the budget implementation process, especially under tight budgetary conditions. The technical treasury committee will meet weekly to compile due payments, including scheduled debt payment, verify their budgetary justification, assess recent revenue outcomes against targets and plan payments in line with available resources. The Minister of Finance amended the terms of reference of the treasury committee to henceforth also include the head of the debt unit. The treasury committee will prepare, no later than by July 2015, a monthly rolling treasury cash flow projection table consistent with the 2015 budget. International partners have already committed technical assistance to support these efforts. The treasury committee secretariat prepares a set of supporting tables that help structure the functioning of the committee. Information on external debt service will be shared across all departments involved in the budgetary process on a timely and continued basis.

21. The government is committed to minimizing the use of irregular and improperly documented expenditure (*DNTs*) to emergency cases. The government will issue a cabinet decree, laying out which types of expenditure may justify irregular expenditure. To minimize *DNTs* the government has issued an order to reduce the number of stages in the expenditure process. Also, ministers are no longer authorized to make expenditure commitments, unless previously approved by the treasury committee.

22. To reduce the number of ghost workers and to better manage the wage bill, the Government plans to consolidate the financial module of the payroll system—under the Ministry of Economy and Finance—with the administrative module, under the Ministry of Public Administration. Currently, all civil servants are on the financial model of the payroll *(folha única)*, which includes not only salaries but also all allowances. However, the link between the payment of salaries and the human resource management is still deficient. Furthermore, payments of salaries through the banking system will now be extended to all civil servants, including for salaries below CFA 50,000 and all military personnel by September 2015.

Revenue measures

23. The government will continue to implement, enlarge and deepen reforms introduced to improve tax collection. The tax authority would: (i) increase controls and inspections of large and medium size companies; (ii) increase tax audits and controls and encourage the payment of taxes by non-compliant taxpayers, including for the port, APGB and airport authority; (iii) increase core functions in tax administration (register, tax returns, payments, taxpayer services, dispute resolution); and (iv) broaden the taxpayer base. Important structural reforms of *DGCI* and *DGA* include:

- **Setting up a professional auditing career structure,** and with the help of technical assistance complete by July 2015 the hiring of 100 competent tax officials through a competitive hiring process
- **Develop with the help of technical assistance and adopt by end of 2015 a detailed strategy for improving infrastructure and working conditions of officials of the**

domestic tax and customs administrations. This strategy should include an investment plan with cost estimates. In addition to the recently constructed building adjacent to the current headquarters of the DGCI, which it will furbish and equip with appropriate office supplies and computers by July 2015, it will also be necessary to construct or rehabilitate buildings of the regional and local tax offices and to provide staff with vehicles to carry their on-sight controls.

- **Streamline the tax system to ease payment of taxes, reduce distortions and improve tax collection.** To this end, the Government intends to
  - (i) Set up a committee to propose changes to the tax code and organize a tax conference by the year-end to discuss options for reforms with stakeholders,
  - (ii) Implement a number of initiatives to facilitate tax payments, such as the recently created one-stop office for cashew export, which includes the Ministry of Commerce, customs and tax officials, and where exporters can register exports and declare and pay taxes.
  - (iii) With the help of technical assistance, streamline tax declarations and tax payment procedures.
  - (iv) Carry out a far-reaching survey to identify and quantify all non-tax and tax levies, and charges not collected by the treasury. Public accountants will be appointed to check and advise on non-tax revenues of each ministry.
- **Implement an intra-trade post in SAFIM to reconcile invoice merchandise volumes with actual contents of the cargo** (structural benchmark)**.** Anti-fraud and under-invoicing controls will be stepped up, reconciling quantities declared with those actually leaving customs. Government will increasingly use scanners. These measures would facilitate reconciling trade (export and import) volumes with taxes paid and increase the collaboration between *DGCI* and customs *DGA* authorities. In the medium term, the government will also introduce a one-stop window for import clearance.
- **To improve voluntary compliance and raise tax revenue, implement a universal tax payer identification number (TIN) as part of a new small taxpayer regime by December 2015** (structural benchmark)**.**
- **Electronically connect the tax authority headquarters with its regional and local tax offices using the new IT system SIGF**.
- **Over the medium term, the government will extend the customs IT system SYDONIA++ to remaining border posts.**
- **To improve and strengthen the monitoring system of payments of customs duties, the Ministry of Finance will assess the efficiency of SGS, Bissau-Link and other companies that provide services to customs.**

24. The government plans to continue to restrict tax exemptions and fine-tune subsidies. To avoid unjustified tax exemptions and their abuse, the government will

(i) Identify and quantify the value of subsidies and tax exemptions, assess their impact on the poor, and transparently account for them in the budget,

(ii) Produce, with the help of technical assistance, by June 2016, a comprehensive study/analysis of the current mechanism of fuel pricing and subsidies and design an automatic fuel price mechanism to ensure international price pass-through and reduce the burden of the budget.

Other Measures

25. In the context of the security sector reform, the government intends to retire the first group of 500 soldiers by the end of 2015, and the design of the wider social security sector reform is ongoing. To this end, the government issued a decree creating a special pension fund with an estimated cost of US$82 million over the next five years, the time period within which a total of 2500 military personnel will be gradually retired. For this fund, the government has received commitments from ECOWAS amounting to US$46 million, US$1 million from Timor-Leste, and US$1.2 from the UN peace building fund and is following up on other pledges received at the Brussels round table. To contribute to its financial viability, the government will start transferring budgetary resources into the fund amounting to the salary equivalent of retired personnel. In addition, with the help of IMF technical assistance, the government will conduct an actuarial study of the special pension fund as well as the pension fund for civil servants (under which soldiers not qualifying for the special pension fund will fall) with a view to designing a sustainable social security system. The government will also continue discussions with partners on the implementation of the wider security sector reform for which ECOWAS committed an additional US$17 million and for which discussions on the content and support with other partners are ongoing.

26. The government wants to restructure the electricity and water company (EAGB) into a profitable, financially healthy enterprise, and privatize Guiné Telecom. The government will make EAGB an operationally viable company capable of self-financing its maintenance and investment. Transfers from the government to EAGB in 2015 are very costly to the state budget. To safeguard the state budget, while keeping social tariffs for the most vulnerable the government intends to align the company's tariff structures—last adjusted in 1997—to allow for maintenance cost and amortization, and improve operational efficiency. In line with a study conducted by the World Bank, the government intends to increase tariffs by December 2015 for regular customers to achieve at least cost recovery, while increasing social tariffs by 5 percent. The government will also prepare an audit plan by March 2016 for all SOEs and autonomous funds (structural benchmark). The government also intends to privatize Guiné Telecom by end-2016.

27. With a view to improving cashew nut production and trade, the government will complete an international and comprehensive audit of the Fund for Industrialization of Agricultural Products (FUNPI). This audit will be completed by end September 2015 and include all its beneficiaries. The government will publish the results of the audit. These results will serve as the basis for a new strategy, to be designed by June 2016, to promote cashew nut production and transformation. The government considers eliminating the FUNPI. At minimum, the FUNPI will remain inactive in the meantime.

28. The government will improve compilation of statistics. The government will improve the coordination among various institutions and ensure that adequate resources are allocated for the production of statistical data, including staffing, equipment, and training. For the national accounts, the government will start to hold regular meetings between BCEAO, ANCA, Customs, the Ministry of Trade and INE to reconcile official statistics. Furthermore, the government will reach out to partners to support a cashew nut production inventory, following which it will conduct annual cashew production surveys to estimate the contribution of the sector to economic growth. The government will decide which institution will take the lead responsibility in compiling raw data for cashew production. Finally, to strengthen the medium-term expenditure framework and enhance efficiency of public investments, the government will migrate to the new TOFE based on GFSM2001 and the TOFE 2009 directive.

29. To mitigate risks of organized crime and corruption, the government will continue to improve its AML/CFT framework. To this end, (i) a national strategy on AML/CFT, consistent with the FATF (Financial Action Taskforce on Money Laundering) standards and drafted with technical assistance by GIABA, will be submitted to parliament by the end of the year; (ii) high ranking government officials will be obliged to disclose their assets to the Secretary General of the Presidency of the Council of Ministers by September 2015; (iii) the financial intelligence unit (CENTIF-GB) will continue awareness raising activities to commercial banks and the general public on the importance of and compliance with AML/CFT measures; and (iv) and CENTIF will conduct training of border posts personnel to implement the new border declaration forms by June 2015.

Program Monitoring

30. The government intends to take all the necessary measures agreed in the context of the ECF-supported program. The program will be subject to semiannual reviews and semiannual performance criteria, indicative targets and structural benchmarks, as set out in Tables 1 and 2 of this Memorandum and in the attached Technical Memorandum of Understanding (TMU). In the first year of the ECF-arrangement two semiannual reviews are scheduled, the first will be based on PCs at end-June 2015 and completed on or after October 15, 2015, and the second review will be based on PCs at end-December 2015 and completed on or after April 15, 2016. To facilitate program monitoring, we are committed to providing detailed statistical information as specified in the TMU, which also defines the scope and frequency of data to be reported for program monitoring purposes.

Table 1. Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets for 2015–16

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

	Dec. 2014	2015			2016			
		June	Sept. 1/	Dec.	Mar. 1/	Jun.	Sept. 1/	Dec.
	Stock	Proposed		Proposed	Proj.	Proj.	Proj.	Proj.
Performance criteria 1/								
Total domestic tax revenue (floor)	44.2	26.2	40.7	53.3	15.7	31.5	47.2	62.9
Net domestic bank credit to the central government (ceiling)	2.7	8.2	7.9	4.4	0.0	0.0	0.0	-1.6
Ceiling on new nonconcessional external debt (in $ million) 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling) 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling) 2/	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets								
New domestic arrears (ceiling)	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social and priority spending (floor)	21.3	12.9	19.4	25.8	7.7	21.7	23.2	31.0
Domestic primary balance (commitment basis, floor)	-19.4	-2.6	-6.0	-6.5	-0.7	-1.3	-2.0	-2.6
Non regularized expenditures (DNTs, ceiling)	...	0.41	0.62	0.83	0.21	0.43	0.64	0.86
Memorandum items:								
Clearance of domestic payment arrears	...	4.30	5.95	8.10	0.75	1.50	2.25	3.00
External budgetary assistance (US$ million) 3/	24.0	7.6	15.8	23.6	5.9	9.2	13.8	23.8
ECF disbursements (SDR millions, flow) 4/	10.79	0.0	2.84	2.84	0.0	2.27	0.0	2.27

1/ The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-September 2015 and end-March 2016 are indicative targets.

2/ These apply on a continuous basis.

3/ Comprises grants and loans.

4/ A disbursement of 20 percent of quota (SDR 2.84 million) is proposed on Board approval of the ECF arrangement in July.

Table 2. Guinea-Bissau: Proposed Structural Benchmarks Under the ECF Program, 2015–16

Measures	Timing	Macro Rationale
Revenue Mobilization		
• Implement an intra-trade post in SAFIM to reconcile invoice merchandise data with actual contents of the cargo.	Sept. 2015	Strengthen revenue collection.
• Draw up a strategic plan for improving infrastructure and working conditions of officials of the domestic tax and customs administration.	Dec. 2015	Strengthen revenue collection.
• Implement a new small taxpayer regime by the introduction of universal NIF (tax payer identification number)	Dec. 2015	To improve voluntary compliance and raise tax revenue.
Expenditure management		
• Prepare a monthly rolling Treasury cash flow projection table consistent with the 2015 budget.	July 2015 for August 2015 and monthly thereafter	Enhance expenditure management.
• Transition to the payment of the salaries, wages, and allowances of all public servants (including the security service) through the banking system.	Sept. 2015	Reduce handling of cash by the Treasury and strengthen public financial management.
• Prepare a quarterly report on PIP execution.	Dec. 2015 for Sept. 2015 Report, quarterly thereafter	Enhance PIP execution and monitoring.
Debt management		
• Reinstall and operationalize debt management IT system.	July 2015	Enhance debt management capacity and borrowing policies.
• Prepare a quarterly report on external debt commitments, agreements and disbursements.	Dec. 2015 for Jun. 2015 Report, quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments.
Business Environment		
• Complete an international and comprehensive audit of the fund for industrialization of agricultural products (FUNPI)	Sept. 2015	To improve cashew nuts production and trade.
• Prepare an audit plan for all State-owned Enterprises and autonomous funds.	Mar. 2016	To improve service delivery by and financial sustainability of public enterprises.
• Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2016	Reduce transaction costs.

Attachment II. Technical Memorandum of Understanding

Bissau, Guinea-Bissau, June 24, 2015

INTRODUCTION

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

2. **Program exchange rates**.[1] For the purpose of the program, foreign currency denominated values for 2015 will be converted into local currency (CFA francs) using a program exchange rate of CFA 532.3/US$ and cross rates as of end December 2014.

QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on Total Domestic Tax Revenue

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

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

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

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

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

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

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

6. **Adjustment clauses**. The ceiling on changes in NCG will be adjusted (a) upwards (downwards) by up to the CFA value of the shortfall (excess) in external program grants and loans, including IMF drawings—the upward adjustment will be capped at the equivalent of CFA 10 billion; and (b) downwards (upwards) by the excess (shortfall) in the CFA value of any programmed privatization receipts. In addition, central government deposits at the BCEAO and the commercial banks will be adjusted downwards by any clearance of domestic arrears in excess of program.

7. **Data source**. The data source for the above will be the Table "*Position Nette Du Tresor*", submitted to the IMF staff monthly and adjusted by the stock of project-related deposits at the BCEAO and the commercial banks.

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

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

9. **Definition**. Those are defined as all forms of new debt with original maturity of one year or more contracted or guaranteed by the central government. For this purpose, new non-concessional external debt will exclude normal trade credit for imports and debt denominated in CFA franc, but will include domestically held foreign exchange (non-CFA franc) debts. This PC applies not only to debt as defined in the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 (00/85), August 24, 2000, Point 9, as revised on August 31, 2009, (Decision No. 14416–(09/91)) but also to commitments contracted or guaranteed for which value has not been received. Excluded from this PC are disbursements from the IMF and those debts subject to rescheduling or for which verbal agreement has been reached. This PC will apply on a continuous basis.

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

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

E. External Payment Arrears of the Central Government

11. **Definition**. External payment arrears of the central government are defined to include all debt-service obligations (interest and principal) arising from loans contracted or guaranteed by the government. The non-accumulation of external arrears is a continuous performance criterion during the program period. For the purposes of this performance criterion, external arrears are obligations that have not been paid on due dates (taking into account the contractual grace periods, if any). Excluded from this PC are those debts subject to rescheduling or restructuring (once a contractual agreement is signed or a verbal agreement reached), or are under litigation or negotiation. In addition, arrears on membership fees (which are to non-financial international organizations) are excluded. This PC will apply on a continuous basis.

QUANTITATIVE INDICATIVE TARGETS

A. New Domestic Arrears of Central Government

12. **Definition**. The ceiling on domestic arrears are defined as accounts payable (rest-a-payer) accumulated during the year, and still unpaid by one month after the quarter for wages and salaries (including pensions), and three months for goods, services and transfers, evaluated at the end of September 2015, and March 2015.

B. Social and Priority Poverty-Related Expenditures

13. **Definition**. Social and Priority Poverty-related expenditures are defined to include spending on health, education, and the gender ministry (Table 3).

C. Domestic Primary Balance (Commitment Basis)

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

D. Non-Regularized Expenditure (DNTs)

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

PROGRAM MONITORING

16. In the first year of the ECF arrangement two semiannual reviews are scheduled, the first will be based on PCs at end-June 2015 and completed on or after October 15, 2015, and the second review will be based on PCs at end-December 2015 and completed on or after April 15, 2016. The Bissau-Guinean authorities shall recommend policy responses, inform the IMF monthly about the progress of the program, and transmit supporting information necessary for the evaluation of QPCs and benchmarks in electronic format as indicated in the attached summary table to IMF staff (Table 1). The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.

17. **To properly monitor key macroeconomic variables, including performance indicators under the ECF, coordinate technical assistance and monitor progress in implementation of reforms, the government will staff its reform unit and provide it with the necessary means**. This reform unit periodically reports to the Minister of Finance progress in achieving agreed performance indicators and development objectives. It will also keep updated lists of all its partners, prioritize technical assistance and agree with partners on the division of labor in technical assistance. Finally, it will ensure the information sharing, including TA reports, with partners involved in the same area in order to avoid conflicting and overlapping advice.

Annex I. Implementation of the Revised Executive Board—— Decision on Performance Criteria with Respect to Foreign Debt

The term "debt" has the meaning set forth in Executive Board Decision, No. 6230-(79/140), Point 9, as amended, and which reads as follows: "(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt". (c) Excluded from this performance criterion are normal import-related credits, disbursements from the IMF, and those debts subject to rescheduling arrangements."

Table 1. Guinea-Bissau: Summary of Reporting Requirements

Information	Frequency	Reporting Deadline	Responsible
Fiscal Sector			
Central Government budget and outrun	Monthly	30 days after the end of the month	Budget Directorate
Grants	Monthly	30 days after the end of the month	Budget Directorate
Budgetary grants	Monthly	30 days after the end of the month	Budget Directorate
Project grants	Monthly	30 days after the end of the month	Budget Directorate
Chenge in the stock of domestic arrears	Monthly	30 days after the end of the month	Budget Directorate
Unpaid claims	Monthly	30 days after the end of the month	Budget Directorate
Interest arrears	Monthly	30 days after the end of the month	Budget Directorate
Proceeds from bonds issued in the regional WAEMU market	Monthly	30 days after the end of the month	Budget Directorate
Real and External Sector			
Updates on annual National Accounts by sector	Annually	Within 6 weeks of availability	CSO/MOEF [1]
Balance of Payments data	Annually	Within 6 weeks of availability	CSO/MOEF
Details of exports breakdown	Quarterly	30 days after the end of the quarter	CSO/MOEF
Details of imports breakdown	Quarterly	30 days after the end of the quarter	CSO/MOEF
CPI	Monthly	30 days after the end of the month	CSO/MOEF
Debt			
External and domestic debt and guaranteed debt by creditor	Monthly	30 days after the end of the month	DMU [2]
Disbursements	Monthly	30 days after the end of the month	DMU
Amortization	Monthly	30 days after the end of the month	DMU
Interest payments	Monthly	30 days after the end of the month	DMU
Stock of external debt	Monthly	30 days after the end of the month	DMU
Stock of domestic debt	Monthly	30 days after the end of the month	DMU
Arrears on interest and principal	Monthly	30 days after the end of the month	DMU
Exceptional domestic financing	Monthly	30 days after the end of the month	DMU
Copies of any new loan agreements	As occuring		DMU

1/ Central Statistics Office / Ministry of Economy and Finance.

2/ Debt Management Unit of the Ministry of Economy and Finance.

Appendix II. Guinea-Bissau: Risk Assessment Matrix

Source	Relative Likelihood	Potential Impact / Recommended Policy Response
Political instability	High	**Impact: High.** Decrease in external financing. Institutional decay, leading to a fall in fiscal pressure and hindering the government's ability to deliver public services. **Response:** Implement the security sector reform and reforms aimed at increasing fiscal pressure. Make the cost of political stability higher by delivering the economic and social benefits of sound macroeconomic policies.
High NPLs	Medium	**Impact: Medium.** The banking system is liquid, but constrained to providing credit. The Indians have been financing exports. **Response:** Increase oversight and enforce prudential regulations.
Adverse weather conditions	Medium	**Impact: Low.** Cashew is a perennial culture, and is less affected by poor weather compared to other cultures. **Response:** Foster the production of other agricultural products and diversify the economy.
External Risks		
Sharp fall in international cashew Prices	Low	**Impact: High.** Cashew represents around 90 percent of exports and is a key fiscal revenue. **Response:** Foster the production of other agricultural products, diversify the economy to make it more resilient, and promote cashew processing with policies that do not harm producers, such as the FUNPI.
Sharp fall in external financing	Medium	**Impact: High.** Reduced fiscal space impedes the government's ability to deliver public services. **Response:** Implement reforms to increase the fiscal pressure. Promote political stability and sound economic policies, reducing fiduciary risks. Protect social spending.
Sharp increase in oil prices.	Medium	**Impact: Medium.** Sharp rise in oil prices would increase BOP pressures, but also increase tax collection. **Response:** Rationalize energy subsidies and use extra resources to increase social spending, mitigating its effects and increasing welfare. Align domestic prices to international prices to reduce distortions.
Persistent dollar strength	High	**Impact: Medium.** Since the FCFA is pegged to the euro, a strong dollar would make Guinea-Bissau's exports more competitive and imports more expensive. **Response:** Reduce transaction costs for imports by increasing efficiency of the port in order to dampen the negative impact on import prices.
Ebola outbreak	Medium	**Impact: Medium.** Border closures could negatively impact trade. Could lead to shortage of rice and food price increases. **Response:** Extra resources to invest in prevention and, if risk materializes, care and containment strategy.

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

GUINEA-BISSAU

June 24, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS UPDATE

Approved By
Roger Nord and Peter Allum (IMF) and John Panzer (IDA)

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

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

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

[2] Debt sustainability thresholds are determined by the three-year (2011–13) average of the Country Policy and Institutional Assessment (CPIA) rating (2.7), which classifies Guinea-Bissau as having weak policy performance and institutional framework.

[3] The previous DSA update was prepared in October 20, 2014. IMF Country Report No. 14/318.

BACKGROUND

1. **Overall, Guinea-Bissau's public external debt position has improved somewhat, prompted by concessional financing, but careful debt management is crucial for sustainability.** The debt burden has been declining in recent years due to net repayments to multilateral and bilateral creditors (Text Table 1). All debt owed to Paris Club creditors (except Russia and Brazil[4]) has been canceled or rescheduled as specified in the Paris Club Agreed Minutes for Guinea Bissau's debt treatment, following HIPC and MDRI assistance. About half of the remaining public external debt is owed to multilateral creditors and the other half to non-Paris Club creditors. The government is current on all scheduled debt service to these creditors, except for technical arrears. Technical arrears are either debt under negotiation for rescheduling or debt for which verbal agreement for debt rescheduling or cancellation has been reached (see also footnote 1 of Text Table 1). The authorities are making best efforts to conclude rescheduling agreements with these bilateral creditors and have a credible plan and projected financing in place to eliminate the arrears with multilateral creditors. They are also making good faith efforts to reach a collaborative agreement to resolve their arrears to the Franco-Portuguese bank.

Text Table 1. Guinea-Bissau: Nominal External Debt Stock, 2012–14

	2012	2013	2014	2014
		Percent of GDP		*Percent of total debt*
Total	27.1	26.2	24.3	100.0
Multilateral creditors	13.5	13.0	12.1	49.9
of which				
IMF	1.1	1.1	1.4	5.8
IDA	5.6	5.4	5.8	24.0
AfDB	1.9	1.8	0.2	0.9
Others	4.9	4.7	4.7	19.2
Bilateral creditors	13.6	13.2	12.2	50.0
Paris Club	0.0	0.0	0.0	0.0
Non-Paris Club	13.6	13.2	12.2	50.0
of which: Technical arrears 1/	8.9	8.6	7.9	32.6
Commercial (Technical arrears)	0.03	0.03	0.03	0.1

1/ Includes debt of US$48.2 million to Taiwan Province of China, US$32.8 million to Angola, US$3.7 million to Libya, US$3 million to Pakistan, and US$0.3 to the United Arab Emirates. These debts were contracted before the HIPC cut-off date of 1986.
Source: Guinea-Bissau Authorities and Staff estimates.

2. **Public domestic debt has increased in recent years but is expected to decline in the medium term.** Guinea-Bissau issued a CFAF 10 billion Treasury bond in 2013 and another CFAF 15 billion in 2014, increasing the domestic debt to GDP ratio to 34.7 percent in 2014. The

[4] Brazil is an ad hoc participant of the Paris Club that was participating in the Paris Club meetings and is expected to provide debt relief in line with the Paris Club Agreed Minutes for Guinea-Bissau's debt treatment under the HIPC initiative.

reclassification in 2014 of debt owed to the West African Development Bank (BOAD) to domestic debt added some 1 percent of GDP to domestic debt.[5] It is expected to decline gradually in the medium term, averaging 30.1 percent of GDP during 2015–20, reflecting the authorities' commitment to switch away from expensive domestic debt to more concessional external debt contracting.[6]

UNDERLYING ASSUMPTIONS

3. The macroeconomic outlook reflects recent political and macroeconomic stability, particularly following the 2014 elections. The success of the elections, recent IMF support under the Rapid Credit facility (RCF), the success of the country's roundtable meetings in Brussels in March 2015 to solicit financing from development partners for re-building the economy, and the prospects of an IMF ECF-supported program, have helped the resumption of financial support by Guinea-Bissau's development partners. Therefore, the baseline scenario assumes economic recovery to be driven by a rise in investments financed through concessional borrowing and grants. In particular, compared to the previous DSA, current assumptions are:

- The medium-term growth projections point to an increase in growth relative to the immediate past years. For 2015, projected GDP growth is 0.7 percentage points higher than under the previous DSA update, and the long-term average growth is increased to 5.0 percent per year. This assumes increasing public investment, reflected in a strong increase in imports over the long term compared to the previous assessment, and continued implementation of sound macroeconomic policies and structural reforms.
- The fiscal projections feature higher revenue and grants than under the previous DSA, along with correspondingly higher spending. The latter reflects expectations of higher foreign support for addressing the infrastructure gap and enhancing the efficiency of, and access to, public service delivery in priority health and education sectors. As a result, the primary balance is projected at 0.8 percent of GDP, but to worsen to average 1.3 percent per year in the long term (Text Table 2).[7]
- The non-interest external current account deficit is projected to decline to average 4.6 percent of GDP in the long term, reflecting the authorities' efforts to improve the business environment, including upgrades to infrastructure, and to increase exports. Historical non-interest current account figures, as well as exports and imports figures, have been revised by the authorities to more fully capture available information.

[5] Since the 2014 DSA, BOAD is considered to be domestic debt, in line with the treatment applied by other WAEMU countries.

[6] The authorities are in the process of auditing an old stock of domestic arrears dating back to before 2013 and estimated at around 10 percent of GDP. Once these audits are completed and arrears are recognized, the public debt outlook would deteriorate.

[7] The reckoning of the primary balance follows closely the definition used in the framework for low-income countries' DSA, and thus differs from the concept of domestic primary balance used in the Staff Report.

Text Table 2. Guinea-Bissau: Evolution of Selected Macroeconomic Indicators

	2012	2013	2014	2015	Long Term[1]
Real GDP growth (percent)					
Previous DSA	-2.2	0.3	*2.5*	*4.0*	4.0
Current DSA	-1.8	0.8	2.5	4.7	5.0
Revenue and Grants (percent of GDP)					
Previous DSA	11.9	12.4	19.5	15.8	17.2
Current DSA	11.4	11.6	21.0	18.7	23.0
Primary (non-interest) expenditure (percent of GDP)					
Previous DSA	14.0	14.1	19.1	18.9	17.6
Current DSA	13.5	13.2	22.0	17.9	24.3
Primary balance (percent of GDP)					
Previous DSA	-2.1	-1.7	-0.4	-3.1	-0.4
Current DSA	-2.0	-1.6	-1.0	-0.8	-1.3
Non-interest current account deficit (percent of GDP)					
Previous DSA	4.6	4.0	0.3	3.8	4.9
Current DSA	8.8	4.3	0.9	3.5	4.6
Growth of exports (percent)					
Previous DSA	-41.4	5.4	13.2	4.3	6.4
Current DSA	-44.8	16.3	12.7	13.1	7.5
Growth of imports (percent)					
Previous DSA	-25.2	-1.2	21.2	4.7	5.5
Current DSA	-24.4	0.6	24.7	7.9	6.2

[1] Long term value of the indicator is defined as an average over the last 15 years of the projections.
Source: Guinea-Bissau Authorities and staff estimates.

Box 1. Baseline Macroeconomic Assumptions

Real GDP growth is projected to reach 4.7 percent in 2015, following poor economic growth in 2012 (-1.8 percent) and 2013 (0.8 percent), and a slight recovery in 2014 (2.5 percent). The pickup in 2014 was mainly due to the resumption of infrastructure investments, provision of water and electricity, and expansion in cashew nuts production. Over the long run, growth is expected to stabilize at around 5 percent, on account of sound economic policies, increased investment, particularly in infrastructure, and structural reforms (in public financial management, tax administration and debt management) with associated efficiency gains.

Consumer price inflation declined continuously from 2.1 percent in 2012 to -1 percent in 2014, following years of depressed consumer demand as payment arrears were accumulated. With the clearance of payment arrears and increasing cashew nut prices, disposable incomes are expected to recover. As a result, inflation is expected to increase to 1.3 percent and 2.3 percent in 2015 and 2016, respectively, and converge to 3 percent in the medium to long term.

Government balances: The primary fiscal deficit is expected to reach 0.8 percent of GDP in 2015, and 1.3 on average in the medium to long term. Reflecting these developments, domestic debt is projected to decline in the medium term, reaching around 24.7 percent of GDP by 2020. In the long run, the authorities' commitment to prudent debt management, coupled with regular repayment of outstanding debt, is expected to help decrease the public debt-GDP ratio significantly by the end of the projection period, 2035.

External current account balance: The expected increase in imports, partly to finance infrastructure development, and the expected short-term weakening of the fiscal balance are expected to increase the external current account deficit to average 6 percent of GDP per year during 2015–20. Thereafter, the current account deficit is expected to improve to around 5 percent of GDP by 2035, reflecting improved exports and fiscal performance.

Financing flows: FDI is expected to pick up, as political stability takes hold and the business environment and infrastructure are improved. Current official transfers are expected to average 1.7 percent of GDP during 2015–20, and to remain at about this level until the end of the projection horizon. Concessional loans are assumed to be at the standard terms—i.e., on 0.75 percent interest rate with 40 (IDA) and 50 (AFDB) years maturity and ten-year grace period. Paris Club (Non-Paris Club) loans assume average interest rates of 1.9 (1.6) percent with 23 (23) years of maturity and 11 (6) years grace period.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

External Debt Sustainability Analysis

4. **Under the baseline scenario, all debt burden indicators are expected to remain under their respective policy-dependent thresholds.** Reflecting scaled up concessional external borrowing, PV indicators are expected to increase in the medium-term but to remain at sustainable levels over the whole projection period. External debt service is expected to increase in the medium to long term, resulting in gradual increases in the debt service-to-exports ratio and the debt service-to-revenue ratio.

5. **While favorable under the baseline, the external debt outlook is sensitive to extreme shocks.** Based on standardized stress-tests, Guinea-Bissau's external debt outlook is particularly vulnerable to an export shock. Under this extreme shock scenario, the PV of debt-to-exports indicator breaches the threshold by 2017 and remains above it for the remainder of the projection period (Figure 1c). A shock to the terms of trade or a one time-depreciation would also result in a significant deterioration in other indicators of external public debt vulnerability. However, these indicators would remain well below the thresholds even under these extreme scenarios. Nonetheless, the assessment is highly susceptible to a breach of the debt-to-exports ratio, given the country's narrow export base, exposure to cashew price volatility, and the risk that the planned investments may not in the end help diversify and boost exports.

Public Debt Sustainability Analysis

6. **Total (external and domestic) public debt indicators are projected to decline gradually over time after an initial increase** (Figure 2, Tables 3 and 4). Under the baseline scenario, the PV of public debt-to-GDP ratio is expected to decline gradually from 42 percent in 2015 to 20 percent by end-2035, due to the expectation of a switch to more concessional foreign financing of planned infrastructure projects that are in the pipeline as well as robust economic growth. Likewise, the PV of public debt-to-revenue ratio is projected to decline gradually into the long term, along with the PV of debt service-to-revenue ratio. The PV of debt-to-revenue and PV of debt-to-GDP ratios, however, are sensitive to shortfalls in economic growth (Table 4). However, the overall assessment depends critically on a favorable baseline scenario for growth, exports, and FDI.

7. **Risks to the baseline scenario are linked to the country's high dependence on cashew exports and foreign (concessional) support, and political tensions, but there is also an upside potential to economic growth.** Adverse weather conditions and external market fluctuations could potentially dampen receipts from cashew exports. A weakening of the external environment could yield lower-than-expected remittances and concessional support. These factors translate into important downside risks to the outlook for growth, FDI and the current account dynamics. The possibility of renewed political instability is a major source of downside risk in the case of Guinea-Bissau. On the upside, improvements in infrastructure and the business environment would increase economic growth and exports above the baseline assumptions and reduce the country's risk of debt distress. The results of the DSA are contingent on the availability of projected concessional external financing as well as on the ability of authorities to improve their debt management capacity.

CONCLUSION

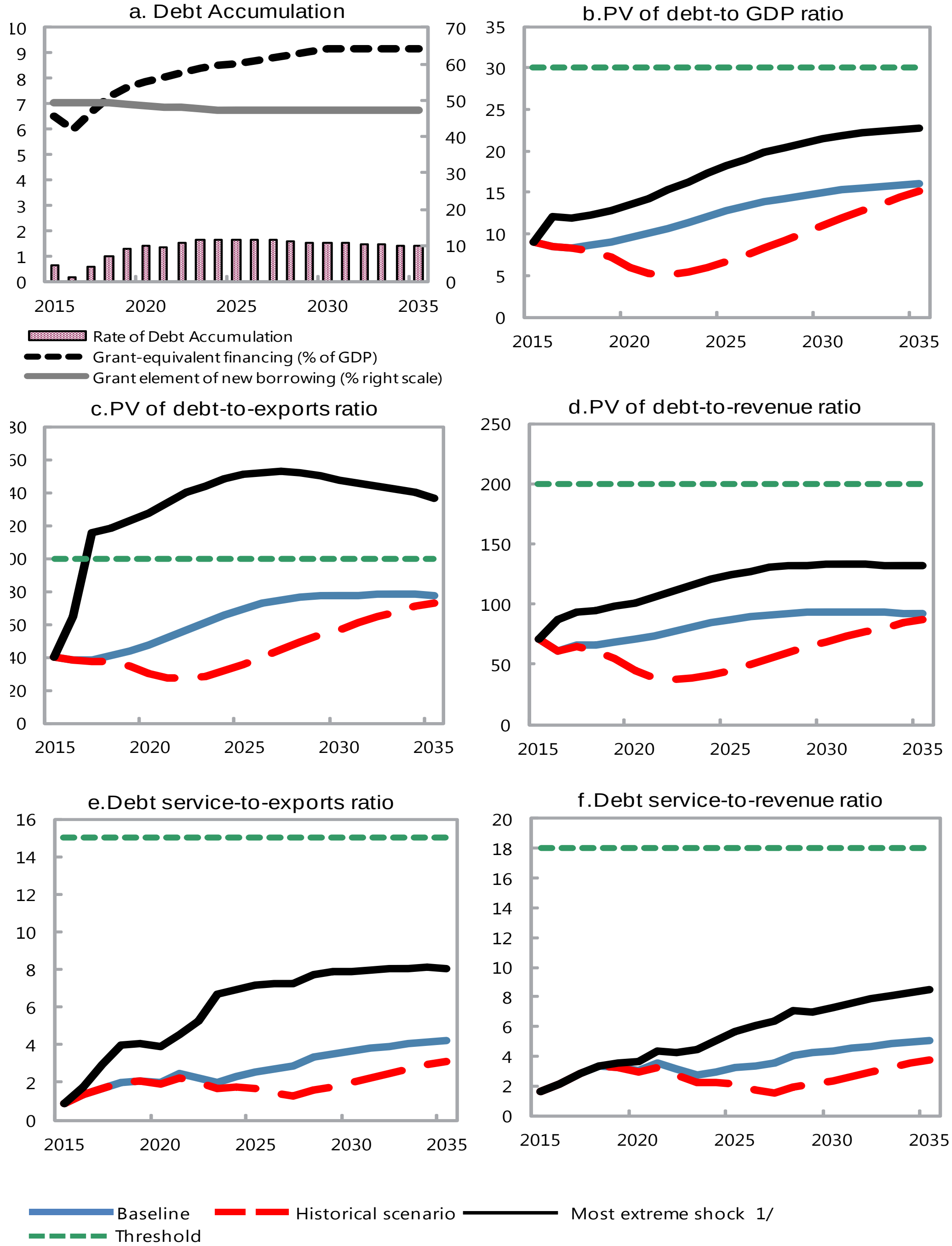
8. In the staff's view, Guinea-Bissau faces a moderate risk of debt distress. The standardized exercise shows that all indicators of external public debt vulnerability would remain below their policy-dependent thresholds under the baseline assumptions, and total public debt vulnerabilities are expected to decline in the medium to long term. However, stress tests show that the outlook is sensitive to shocks, given the narrow export base. Proactive debt management favorably skewed towards concessional borrowing and grant financing of public investments, reinforced by steadfast implementation of structural measures to boost exports, could help maintain (and even improve) these indicators into the medium and long term. To support these policies, sound macroeconomic management and careful consideration of borrowing opportunities would be essential.

9. Prudent debt management and monitoring are critical, as the country gears up to step up investments in infrastructure and priority social sectors. Non-concessional borrowing from BOAD in recent years, in view of difficulties in accessing external financing, has resulted in an increase in domestic debt. Notwithstanding the domestic debt dynamics described above, it is essential to strengthen debt management, particularly as the country gears up to close the infrastructure deficit and improve public service delivery. Any sizable negative deviation from the fiscal projections under the ECF-supported program would stall the projected decline in the public debt path.

AUTHORITIES' VIEWS

10. The authorities broadly concur with the staff's views on debt sustainability analysis and recommendations. They agree that debt sustainability depends crucially on sound macroeconomic policies that would in turn increase their chances of accessing concessional financing. They emphasized that the pace of public investment would be determined on the basis of available external concessional resources. Thus, some risks identified in this DSA may not materialize. The authorities recognize the contributory role of prudent debt management and implementation of structural reforms to improve the business environment and to enhance overall growth and export prospects.

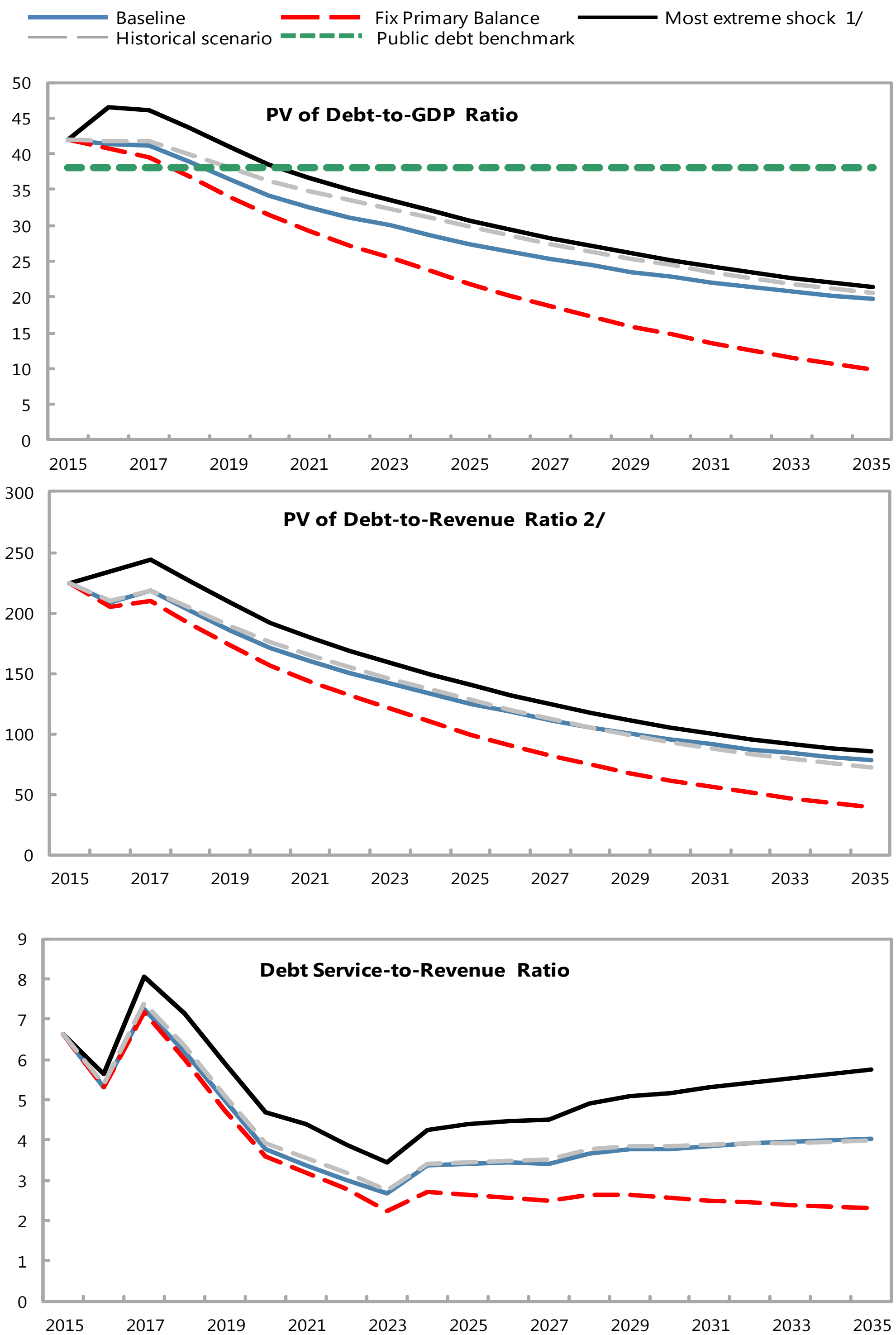
Figure 1. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–35 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a Terms shock

Figure 2. Guinea-Bissau: Indicators of Public Debt Under Alternative Scenarios, 2015–35 [1/]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Table 1. Guinea-Bissau; External Debt Sustainability Framework, Baseline Scenario, 2012–35

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**17.9**	**16.6**	**17.2**			**18.0**	**16.6**	**15.9**	**16.2**	**16.8**	**17.5**		**22.0**	**26.0**	
of which: public and publicly guaranteed (PPG)	17.9	16.6	17.2			18.0	16.6	15.9	16.2	16.8	17.5		22.0	26.0	
Change in external debt	0.6	-1.3	0.6			0.8	-1.4	-0.7	0.3	0.6	0.6		0.8	0.1	
Identified net debt-creating flows	10.0	1.9	-2.0			-0.3	0.4	0.8	1.7	3.0	4.1		0.8	-0.4	
Non-interest current account deficit	**8.8**	**4.3**	**0.9**	**3.2**	**3.4**	**3.5**	**4.6**	**5.4**	**5.9**	**6.9**	**8.0**		**4.8**	**3.6**	4.6
Deficit in balance of goods and services	10.2	7.7	9.7			10.3	11.2	11.8	12.1	12.9	13.8		9.9	7.8	
Exports	15.4	18.6	18.5			22.3	22.5	21.9	21.2	20.7	20.1		18.4	20.8	
Imports	25.5	26.3	28.2			32.7	33.6	33.6	33.3	33.6	33.9		28.4	28.6	
Net current transfers (negative = inflow)	-4.2	-3.7	-7.0	-6.6	2.4	-4.9	-4.8	-4.7	-4.6	-4.5	-4.4		-4.2	-3.7	-4.0
of which: official	-1.8	-0.8	-4.3			-1.8	-1.6	-1.6	-1.6	-1.6	-1.6		-1.6	-1.6	
Other current account flows (negative = net inflow)	2.9	0.3	-1.7			-1.9	-1.8	-1.7	-1.6	-1.5	-1.4		-1.0	-0.5	
Net FDI (negative = inflow)	**-0.7**	**-1.9**	**-1.9**	**-2.0**	**0.9**	**-3.0**	**-3.5**	**-3.9**	**-3.6**	**-3.3**	**-3.3**		**-3.1**	**-3.0**	-3.1
Endogenous debt dynamics 2/	**1.9**	**-0.5**	**-1.0**			**-0.8**	**-0.7**	**-0.7**	**-0.7**	**-0.6**	**-0.7**		**-0.8**	**-1.0**	
Denominator: 1+g+r+gr	0.9	1.0	1.1			0.9	1.1	1.1	1.1	1.1	1.1		1.1	1.1	
Contribution from nominal interest rate	0.0	0.1	0.3			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
Contribution from real GDP growth	0.3	-0.1	-0.4			-0.9	-0.8	-0.8	-0.7	-0.7	-0.8		-1.0	-1.2	
Contribution from price and exchange rate changes	1.6	-0.4	-0.9			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-9.5**	**-3.2**	**2.6**			**1.1**	**-1.8**	**-1.5**	**-1.4**	**-2.3**	**-3.4**		**0.0**	**0.6**	0.0
of which: exceptional financing	0.0	0.0	-0.5			0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	8.3			9.0	8.5	8.4	8.6	9.0	9.5		12.7	16.0	
In percent of exports	...	...	45.0			40.3	38.0	38.3	40.5	43.7	47.3		69.1	77.0	
PV of PPG external debt	**...**	**...**	**8.3**			**9.0**	**8.5**	**8.4**	**8.6**	**9.0**	**9.5**		**12.7**	**16.0**	
In percent of exports	**...**	**...**	**44.9**			**40.3**	**38.0**	**38.3**	**40.5**	**43.7**	**47.3**		**69.1**	**77.0**	
In percent of government revenues	**...**	**...**	**69.7**			**71.3**	**61.1**	**65.7**	**66.4**	**68.6**	**71.0**		**87.2**	**92.4**	
Debt service-to-exports ratio (in percent)	**1.2**	**1.8**	**2.1**			**0.9**	**1.3**	**1.7**	**2.0**	**2.1**	**2.0**		**2.5**	**4.2**	
PPG debt service-to-exports ratio (in percent)	**1.2**	**1.8**	**2.1**			**0.9**	**1.3**	**1.7**	**2.0**	**2.1**	**2.0**		**2.5**	**4.2**	
PPG debt service-to-revenue ratio (in percent)	**2.0**	**4.1**	**3.2**			**1.6**	**2.2**	**2.9**	**3.3**	**3.2**	**3.0**		**3.2**	**5.0**	
Total gross financing need (Millions of U.S. dollars)	82.6	27.7	-7.3			7.2	15.7	22.6	36.1	57.7	80.9		49.7	71.3	
Non-interest current account deficit that stabilizes debt ratio	8.2	5.6	0.3			2.7	5.9	6.1	5.7	6.3	7.4		3.9	3.4	

Table 1. Guinea-Bissau; External Debt Sustainability Framework, Baseline Scenario, 2012–35 (continued)

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
	2012	2013	2014	Average	Deviation	2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
Key macroeconomic assumptions															
Real GDP growth (in percent)	-1.8	0.8	2.5	3.2	2.8	4.7	4.8	5.0	5.0	5.0	5.0	4.9	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	-8.3	2.3	5.5	4.8	10.4	-11.1	2.3	3.5	3.9	4.0	4.5	1.2	2.8	2.8	2.8
Effective interest rate (percent) 5/	0.1	0.4	1.9	0.8	0.6	0.5	0.7	0.5	0.5	0.7	0.6	0.6	0.7	0.9	0.8
Growth of exports of G&S (US dollar terms, in percent)	-45.9	24.8	7.7	13.6	30.0	12.2	7.7	5.8	5.9	6.3	6.6	7.4	7.3	10.2	8.2
Growth of imports of G&S (US dollar terms, in percent)	-25.2	6.2	15.9	10.4	14.0	7.9	10.4	8.7	8.1	10.1	10.6	9.3	5.5	9.1	6.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	49.2	49.2	49.2	49.2	48.9	48.6	49.1	47.3	47.3	47.5
Government revenues (excluding grants, in percent of GDP)	9.1	8.1	12.0			12.6	14.0	12.7	13.0	13.2	13.4		14.6	17.3	15.5
Aid flows (in Millions of US dollars) 7/	42.2	42.9	109.5			69.7	66.7	82.3	100.8	117.0	132.1		213.2	486.6	
of which: Grants	23.8	35.9	100.3			62.6	66.0	74.2	83.1	93.2	105.0		168.9	391.1	
of which: Concessional loans	18.5	7.0	9.2			7.1	0.7	8.1	17.7	23.8	27.1		44.3	95.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			6.5	6.0	6.6	7.3	7.7	7.9		8.6	9.2	8.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			92.9	99.3	93.2	88.1	86.4	86.2		85.6	86.4	86.1
Memorandum items:															
Nominal GDP (Millions of US dollars)	996.1	1027.0	1111.3			1034.2	1108.5	1205.0	1314.1	1434.3	1573.1		2310.0	4978.5	
Nominal dollar GDP growth	-10.0	3.1	8.2			-6.9	7.2	8.7	9.1	9.2	9.7	6.1	8.0	8.0	8.0
PV of PPG external debt (in Millions of US dollars)			85.8			93.2	95.0	101.3	113.6	130.5	150.5		296.5	802.3	
(PVt-PVt-1)/GDPt-1 (in percent)						0.7	0.2	0.6	1.0	1.3	1.4	0.9	1.7	1.4	1.5
Gross workers' remittances (Millions of US dollars)	24.3	30.0	31.0			32.7	34.6	36.6	38.7	41.0	43.5		58.1	103.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	8.1			8.7	8.3	8.1	8.4	8.8	9.2		12.4	15.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	39.1			35.3	33.3	33.6	35.6	38.4	41.6		60.8	70.0	
Debt service of PPG external debt (in percent of exports + remittance	...	...	1.8			0.8	1.2	1.5	1.8	1.8	1.8		2.2	3.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 2. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35

(in percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	9	9	8	9	9	10	**13**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	9	9	8	8	7	6	**7**	15
A2. New public sector loans on less favorable terms in 2015-2035 2/	9	9	9	9	10	11	**17**	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	9	9	9	9	10	10	**14**	18
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	9	11	15	15	16	16	**17**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	9	9	10	10	11	11	**15**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	9	10	12	12	12	12	**15**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	9	11	15	15	15	16	**18**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	9	12	12	12	13	14	**18**	23
PV of debt-to-exports ratio								
Baseline	40	38	38	41	44	47	**69**	77
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	40	38	38	37	35	30	**36**	73
A2. New public sector loans on less favorable terms in 2015-2035 2/	40	38	40	44	50	56	**93**	116
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	40	38	38	41	44	48	**70**	78
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	40	65	115	118	123	128	**151**	137
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	40	38	38	41	44	48	**70**	78
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	40	45	53	55	58	62	**80**	80
B5. Combination of B1-B4 using one-half standard deviation shocks	40	51	71	73	77	80	**100**	96
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	40	38	38	41	44	48	**70**	78
PV of debt-to-revenue ratio								
Baseline	71	61	66	66	69	71	**87**	92
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	71	61	65	61	55	45	**45**	87
A2. New public sector loans on less favorable terms in 2015-2035 2/	71	62	68	72	78	84	**117**	139
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	71	64	72	73	75	78	**96**	102
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	71	81	122	119	118	117	**117**	101
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	71	67	78	79	82	85	**104**	110
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	71	73	91	91	91	92	**101**	96
B5. Combination of B1-B4 using one-half standard deviation shocks	71	79	118	116	116	117	**122**	111
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	71	87	94	94	98	101	**124**	132

Table 2. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35 (continued)
(in percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
Debt service-to-exports ratio								
Baseline	1	1	2	2	2	2	**3**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	1	1	2	2	2	2	**2**	3
A2. New public sector loans on less favorable terms in 2015-2035 2/	1	1	2	2	2	2	**4**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	1	1	2	2	2	2	**3**	4
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	1	2	3	4	4	4	**7**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	1	1	2	2	2	2	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	1	1	2	2	2	2	**3**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	2	3	3	3	**4**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	1	1	2	2	2	2	**3**	4
Debt service-to-revenue ratio								
Baseline	2	2	3	3	3	3	**3**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	2	2	3	3	3	3	**2**	4
A2. New public sector loans on less favorable terms in 2015-2035 2/	2	2	3	3	4	4	**6**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	2	2	3	4	4	3	**4**	6
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	2	2	3	4	4	4	**6**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	2	2	3	4	4	4	**4**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	2	2	3	4	4	3	**4**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	3	4	4	4	**5**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	2	3	4	5	5	4	**5**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	47	47	47	47	47	47	**47**	47

Sources: Country authorities; and staff estimates and projections.

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

Table 3. Guinea-Bissau: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–35

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
									2.7						
Public sector debt 1/	47.3	49.8	51.9			50.9	49.5	48.7	46.4	44.3	42.1		36.6	29.8	
of which: foreign-currency denominated	17.9	16.6	17.2			18.0	16.6	15.9	16.2	16.8	17.5		22.0	26.0	
						32.9	32.9	32.7	30.2	27.5	24.7				
Change in public sector debt	3.7	2.4	2.1			-1.0	-1.4	-0.8	-2.3	-2.1	-2.2		-1.0	-0.4	
Identified debt-creating flows	3.5	1.2	-1.0			-2.7	-1.9	-1.4	-2.2	-2.2	-2.6		-1.0	-0.5	
Primary deficit	2.0	1.6	1.1	0.7	3.1	-0.1	1.1	1.7	1.1	1.0	0.6	0.9	1.5	1.5	1.4
Revenue and grants	11.4	11.6	21.0			18.7	19.9	18.9	19.3	19.7	20.1		21.9	25.2	
of which: grants	2.4	3.5	9.0			6.0	6.0	6.2	6.3	6.5	6.7		7.3	7.9	
Primary (noninterest) expenditure	13.5	13.2	22.0			18.6	21.0	20.6	20.4	20.6	20.6		23.4	26.6	
Automatic debt dynamics	1.4	-0.5	-1.6			-2.7	-3.0	-3.1	-3.3	-3.2	-3.2		-2.5	-2.0	
Contribution from interest rate/growth differential	0.9	-0.1	-2.8			-3.6	-2.9	-2.9	-3.1	-3.0	-2.8		-2.3	-1.8	
of which: contribution from average real interest rate	0.1	0.3	-1.5			-1.2	-0.5	-0.6	-0.7	-0.7	-0.7		-0.5	-0.3	
of which: contribution from real GDP growth	0.8	-0.4	-1.2			-2.3	-2.3	-2.4	-2.3	-2.2	-2.1		-1.8	-1.4	
Contribution from real exchange rate depreciation	0.5	-0.3	1.1			0.9	-0.2	-0.2	-0.2	-0.3	-0.4		...	...	
Other identified debt-creating flows	0.0	0.0	-0.4			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	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)	0.0	0.0	-0.5			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	...	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.2	1.2	3.1			1.7	0.5	0.6	-0.1	0.1	0.4		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	43.0			41.9	41.4	41.1	38.8	36.5	34.2		27.4	19.8	
of which: foreign-currency denominated	...	...	8.3			9.0	8.5	8.4	8.6	9.0	9.5		12.7	16.0	
of which: external	...	...	8.3			9.0	8.5	8.4	8.6	9.0	9.5		12.7	16.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	8.6	8.4	7.2			6.2	6.9	7.1	6.0	5.4	4.5		3.6	2.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	205.0			224.4	208.0	217.8	201.5	185.6	170.2		124.9	78.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	359.8			332.0	296.8	323.2	299.9	277.1	255.1		187.4	114.0	
of which: external 3/	...	...	69.7			71.3	61.1	65.7	66.4	68.6	71.0		87.2	92.4	
Debt service-to-revenue and grants ratio (in percent) 4/	4.5	6.1	2.4			6.6	5.3	7.2	6.2	5.0	3.8		3.4	4.0	
Debt service-to-revenue ratio (in percent) 4/	5.7	8.8	4.2			9.8	7.6	10.7	9.2	7.4	5.7		5.1	5.9	
Primary deficit that stabilizes the debt-to-GDP ratio	...	...	-1.0			0.9	2.5	2.5	3.3	3.1	2.7		2.5	1.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-1.8	0.8	2.5	3.2	2.8	4.7	4.8	5.0	5.0	5.0	5.0	4.9	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	0.1	0.4	1.9	0.8	0.6	0.5	0.7	0.5	0.5	0.7	0.6	0.6	0.7	0.9	0.8
Average real interest rate on domestic debt (in percent)	1.5	1.5	-5.0	-3.1	5.3	-3.4	-1.2	-1.0	-1.6	-1.8	-1.9	-1.8	-1.8	-1.1	-1.6
Real exchange rate depreciation (in percent, + indicates depreciation)	3.1	-1.8	7.0	-0.6	7.5	5.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-0.8	-1.0	5.4	3.8	5.8	5.9	1.8	2.3	2.7	2.8	2.9	3.0	2.8	2.8	2.8
Growth of real primary spending (deflated by GDP deflator, in percent	-23.5	-1.3	71.3	4.7	24.5	-11.7	18.5	2.8	3.8	6.5	4.9	4.1	7.3	5.8	6.8
Grant element of new external borrowing (in percent)	...	...	...	...	...	49.2	49.2	49.2	49.2	48.9	48.6	49.1	47.3	47.3	...

Sources: Country authorities; and staff estimates and projections.

1/ Central government and central government guaranteed debt only.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

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

Table 4. Guinea Bissau: Sensitivity Analysis for Key Indicators of Public Debt, 2015–35

	2015	Projections 2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	42	41	41	39	37	34	27	20
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	42	42	42	40	38	36	30	21
A2. Primary balance is unchanged from 2015	42	41	40	37	34	31	22	10
A3. Permanently lower GDP growth 1/	42	42	42	40	38	36	31	31
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	42	44	46	44	42	40	35	31
B2. Primary balance is at historical average minus one standard deviations in 2016-201	42	43	44	41	39	36	29	21
B3. Combination of B1-B2 using one half standard deviation shocks	42	43	45	43	40	38	33	28
B4. One-time 30 percent real depreciation in 2016	42	45	44	42	39	36	27	17
B5. 10 percent of GDP increase in other debt-creating flows in 2016	42	47	46	44	41	38	31	21
PV of Debt-to-Revenue Ratio 2/								
Baseline	224	208	218	201	186	170	125	78
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	224	209	219	204	189	175	127	72
A2. Primary balance is unchanged from 2015	224	205	210	191	173	157	99	39
A3. Permanently lower GDP growth 1/	224	209	220	205	191	176	140	118
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	224	216	236	221	207	193	156	121
B2. Primary balance is at historical average minus one standard deviations in 2016-201	224	215	231	214	197	181	133	82
B3. Combination of B1-B2 using one half standard deviation shocks	224	215	231	216	201	187	147	108
B4. One-time 30 percent real depreciation in 2016	224	227	235	216	196	177	122	67
B5. 10 percent of GDP increase in other debt-creating flows in 2016	224	234	244	226	208	191	140	85
Debt Service-to-Revenue Ratio 2/								
Baseline	7	5	7	6	5	4	3	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	5	7	6	5	4	3	4
A2. Primary balance is unchanged from 2015	7	5	7	6	5	4	3	2
A3. Permanently lower GDP growth 1/	7	5	7	6	5	4	4	5
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	7	5	8	7	5	4	4	6
B2. Primary balance is at historical average minus one standard deviations in 2016-201	7	5	7	6	5	4	4	4
B3. Combination of B1-B2 using one half standard deviation shocks	7	5	8	7	5	4	4	5
B4. One-time 30 percent real depreciation in 2016	7	6	8	7	6	5	4	6
B5. 10 percent of GDP increase in other debt-creating flows in 2016	7	5	8	7	5	4	5	5

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

June 24, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By

The African Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of April 30, 2015)

Membership Status
Joined: March 24, 1977; Article VIII

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	14.20	100.00
Fund Holdings of currency (Exchange Rate)	13.89	97.38
Reserve Tranche Position	0.32	2.26
SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	13.60	100.00
Holdings	12.38	91.02

Outstanding purchases and Loans:	**SDR Million**	**Percent Quota**
RCF Loans	3.55	25.00
ECF Arrangements	7.24	51.00

Latest Financial Arrangements:

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

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

	Forthcoming				
	2015	**2016**	**2017**	**2018**	**2019**
Principal		**0.72**	**1.45**	**1.45**	**1.45**
Charges/Interest	**0.00**	**0.00**	**0.00**	**0.00**	**0.02**
Total	**0.00**	**0.73**	**1.45**	**1.45**	**1.47**

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

Implementation of HIPC Initiative:

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

Debt Relief by Facility (SDR Million)

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

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

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

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

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

Safeguards Assessments:

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

Exchange System and Exchange Rate Arrangement

Guinea Bissau accepted the obligations of Article VIII, Sections 2, 3, and 4 with effect from January 1, 1997. It joined the WAEMU in 1997, and has no separate legal tender. The exchange system is free from multiple currency practices and exchange restrictions on the making of payments and transfers for current international transactions. Since January 1, 1999, the CFA franc has been pegged to the Euro at a fixed rate of € l=CFAF 655.957. On May 20, 2015, the rate of the CFA franc in terms of the SDR was CFAF 834.61=SDR 1. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus reflects only a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members.

Article IV Consultation

Guinea-Bissau was on the 12-month consultation cycle; staff proposes a switch to a 24-month cycle. The last Article IV consultation discussions with Guinea-Bissau were held in Bissau, April 29–May 10, 2013. The staff report was discussed by the Executive Board and the consultation was concluded on June 21, 2013. Elections in 2014 and subsequently the time needed for the formation of a new Government delayed the current 2015 Art. IV consultation.

Technical Assistance (2008–15)			
Department	**Type of Assistance**	**Time of Delivery**	**Purpose**
West AFRITAC	Short-term expert	June 2008	Customs administration
West AFRITAC	Short-term expert	June 2008	Public Expenditure management
STA	Expert	June 2008	Balance of Payment Statistics
West AFRITAC	Short-term expert	July 2008	Government finance statistics
West AFRITAC	Short-term expert	August 2008	Multisector Statistics
West AFRITAC	Short-term expert	September 2008	Real sector Statistics
West AFRITAC	Short-term expert	May 2009	National Accounts
West AFRITAC	Long-term expert	June 2009	National Accounts
West AFRITAC	Short-term expert	June 2009	Public Expenditure management
West AFRITAC	Short-term expert	June 2009	Public Debt management
West AFRITAC	Short-term expert	June 2009	Bank Supervision
West AFRITAC	Short-term expert	September 2009	Customs administration
West AFRITAC	Short-term expert	November 2009	Public Debt management
West AFRITAC	Short-term expert	November 2009	Real Sector Statistics
West AFRITAC	Short-term expert	February 2010	Public Debt Management
West AFRITAC	Short-term expert	February 2010	Government Finance Statistics
West AFRITAC	Short-term expert	May 2010	Revenue administration
West AFRITAC	Short-term expert	July 2010	National Accounts
FAD	Staff	September 2010	Tax Revenue and Customs Administration
West AFRITAC	Short-term expert	September 2010	Expenditure management
West AFRITAC	Short-term expert	September 2010	National Accounts
West AFRITAC	Short-term expert	February 2011	Tax Administration
West AFRITAC	Short-term expert	February 2011	Government Finance Statistics
West AFRITAC	Short-term expert	March 2011	Government Finance Statistics
West AFRITAC	Short-term expert	April 2011	Public Debt Management
West AFRITAC	Short-term expert	April 2011	Public Financial Management,
West AFRITAC	Short-term expert	April 2011	Public Financial Management
West AFRITAC	Short-term expert	April 2011	Real Sector Statistics
West AFRITAC	Short-term expert	June 2011	Government Finance Statistics
FAD	Staff	September 2011	Tax Reform Strategy, Modernization of the DGCI and Revenue Mobilization
FAD	Staff	September 2011	Customs Administration
FAD	Short-term expert	October 2011	Tax Administration
West AFRITAC	Short-term expert	October 2011	Modernization of the DGCI
West AFRITAC	Short-term expert	October 2011	Real Sector Statistics, National Accounts
West AFRITAC	Short-term expert	January 2012	Public Financial Management, Accounting
West AFRITAC	Short-term expert	January 2012	Public Financial Management
FAD	Short-term expert	February 2012	Tax Administration
West AFRITAC	Short-term expert	February 2012	Public Financial Management

Technical Assistance (2008–15)			
Department	**Type of Assistance**	**Time of Delivery**	**Purpose**
West AFRITAC	Short-term expert	February 2012	Real Sector Statistics
FAD	Short-term expert	March 2012	Tax Administration
West AFRITAC	Short-term expert	March 2012	Customs Administration
West AFRITAC	Short-term expert	February 2013	Public Financial Management
West AFRITAC	Short-term expert	April 2013	Public Financial Management
West AFRITAC	Short-term expert	April 2013	National Accounts
FAD	Staff	April 2013	Revenue Administration
West AFRITAC	Short-term expert	September 2013	Real Sector Statistics
West AFRITAC	Short-term expert	September 2013	Customs Administration
West AFRITAC	Short-term expert	October 2013	Government Finance Statistics
West AFRITAC	Short-term expert	March 2014	Real Sector Statistics
West AFRITAC	Short-term expert	August 2014	Tax Administration
West AFRITAC	Short-term expert	September 2014	Customs Modernization
West AFRITAC	Short-term expert	September 2014	Real Sector Statistics
FAD	Staff	September 2014	Public Financial Management
FAD	Staff	September 2014	Tax Administration
West AFRITAC	Short-term expert	September 2014	Government Finance Statistics
West AFRITAC	Short-term expert	February 2015	Macroeconomic Analyzing and Prevision
West AFRITAC	Short-term expert	February 2015	Tax Administration
West AFRITAC	Short-term expert	March 2015	Public Financial Management
West AFRITAC	Short-term expert	March 2015	National Accounts
West AFRITAC	Short-term expert	April 2015	Real Sector Statistics
FAD	Staff	April 2015	Revenue Administration

Resident Representative

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

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

WORLD BANK GROUP RELATIONS

1. **Guinea-Bissau joined the World Bank three years after independence in 1977. The International Development Association (IDA) has approved 50 projects (including trust funded projects) for Guinea-Bissau, totaling commitments of US$433 million**. As a grant recipient, Guinea-Bissau has 5 current grants from the IDA as of April 14, 2015. The current portfolio consists of IDA lending operations and Trust Funds. IDA-funded projects amount US$78.5 million. They include emergency electricity and water rehabilitation, bio-diversity conservation, rural community-driven development, public sector strengthening, private sector rehabilitation and agribusiness development and regional fisheries. Trust-funded grants— drawing on European Union funds, the State and Peace-Building Fund, and the Global Environmental Facility—provide an additional US$15 million for emergency food security, including rice production and school feeding/food-for-work programs in collaboration with the World Food Program (WFP), as well as participatory rural development, and to provide technical assistance to the emerging extractive industries sectors.

As of April 14, 2015, Guinea-Bissau had 3 credits from IDA. As a borrower, based on an original principle of US$ 84 million, US$88.6 million has been disbursed. Guinea-Bissau's borrower's obligation is US$51.1 million.

Budget Support Operations

2. **The Bank does not currently provide budget support to Guinea-Bissau.** However, as in 2014, under the 2015-2016 Country Engagement Note (CEN), the Bank envisages to scale up payments of salaries for teachers and health workers for a six-month period in 2015. Future budget support operations will hinge on the progress Guinea-Bissau makes on improving Public Financial Management.

Lending Program

3. **In May 2015, the Bank approved a CEN for Guinea-Bissau for, based on two pillars: (i) building institutions and (ii) strengthening the provision of basic services.** The CEN will guide the World Bank Group's engagement in Guinea-Bissau in FY15/16, after which it will be replaced by a Country Partnership Framework (CPF). The CPF will be informed by a Systematic Country Diagnostic, an analysis of the key constraints to achieving the World Bank Group's twin goals of eradicating extreme poverty and boosting shared prosperity. This analysis is currently under preparation and will draw on the Country Economic Memorandum which the World Bank published in January 2015.

4. **The current IDA Portfolio is composed of six national IDA operations, and one regional IDA operation for a total commitment amount of US$78.5 million.** The focus of the WB program is is on Emergency Electricity & Water Rehabilitation (US$37.3 million Rural Community Developmental (US$20 million), Biodiversity Conservation Project (US$1.95 million), Regional

Fisheries (US$6 million), Private Sector Rehabilitation and Agribusiness project (US$8.2 million), Emergency Food Security support (US$7 million), Public Sector Strengthening Project (US$5 million) and TA for extractive industries (US$2.86 million). As of April 14, 2015, the IDA undisbursed balance was US$36 million.

5. Trust-funded grants provide an additional US$15 million for emergency food security, including rice production and school feeding/food-for-work programs in collaboration with the United Nations World Food Program (WFP). These trust-funded grants also go toward rural community driven development, and technical assistance for economic management, for extractive industries. The trust-funded grants draw on the State Peace-Building (SPF) Trust Fund (Participatory Rural Development, Technical Assistance to the Ministry of Finance on Economic Management, Extractive Industries Sectors Technical Assistance) and European Union funds.

AFRICAN DEVELOPMENT BANK GROUP RELATIONS

6. From the approval of the first project to the country in 1976, to May 2015, the AfDB had approved 50 operations for Guinea-Bissau, excluding multinational projects, for a net commitment of UA 373 million (about CFAF 310 billion). 29.7 percent of these operations have been in the social sector, 29.2 for infrastructure, 23.2 percent in the multi-sector, 17.5 percent in agriculture and 2.3 in Finance. As of April 2013, the active portfolio comprises six (6) ongoing projects representing a total net amount of UA 21.32 million, and a disbursement rate of 18%.

Lending Program

7. During the period January 2008–April 2014, AfDB approved an interim HIPC debt release (US$17.48 million), a fragile State Facility grant (UA 2 million), a fish sector support grant (UA 2 million), a health sector grant (UA 6 million), an emergency support grant to cholera (UA 0.33 million), a capacity building grant to public administration (UA 7.86 million) and an emergency budget support to budgetary reforms (UA 5.7 million).

8. In May 2015, the AfDB approved a new budget support operation to the tune of UA5 million (FCFA 4.1 million). The program is built around two components: (i) the strengthening of transparency, internal and external control of budget execution and the fight against corruption, and (ii) the strengthening of budget management. It will be complemented by an institutional support project of UA5m (FCFA 4.1 million) under finalisation.

9. In the non-governance sector, the AfDB is currently preparing a UA 13.3 million energy project for the rehabilitation of the electricity network of the city of Bissau. The project will be co-financed by the European Investment Bank for up to EUR 10 million.

Non-lending Program

10. In January 2015, the AfDB approved its 2015-2019 country strategy and Country Portfolio Performance Assessment. The approved strategy is based on two pillars, namely (i) strengthening of governance and the foundations of the State; and (ii) development of infrastructure that will foster inclusive growth. A Regional Integration Strategy Paper for West Africa for 2011–15 was released in March 2011. Recent economic and sector studies include a review of the transport sector, the agriculture sector and a country gender profile to be released in the course of 2015.

STATISTICAL ISSUES

Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in the national accounts and balance of payments. Data compilation was impaired during the 1998–99 civil conflict. Given weak capacity and outdated practices, the authorities have improved their data compilation in the recent years, with technical assistance from international and regional institutions.
National Accounts: In the second quarter of 2010, the National Institute of Statistics (INE) published revised national accounts data for 2003–08, based on the *System of National Accounts 1993*. Since then, the INE has continued to release annual national accounts data. The new data have a broader coverage of all sectors of the economy, and as a result, the GDP level has doubled. The new data provides GDP in both current and constant (2003) prices, and GDP deflators. Several missions from AFRITAC West, during 2013 to 2015, continued improving the compilation of national accounts. Recently a TA from AFRITAC recommended revising GDP data from 2013 onwards to reflect better data sources from balance of payments and producer prices.
Price Statistics: Since July 2002, a harmonized consumer price index (CPI) has been compiled, based on the same methodology as in other West African Economic and Monetary Union (WAEMU) countries. The CPI was updated in 2010 (new base year 2008-2009, improvement in compilation techniques, extended coverage of products and increase in outlets). Price data are collected only for the capital city, Bissau. An AFRITAC mission improved recently the compilation of CPI based on revised estimates of the average final household consumer price for 2011.
Government Finance Statistics: Since 2007, the monthly worksheet table for the State Financial Operations is compiled on a regular basis and used as a basic tool for monitoring the program by the IMF. In March 2010, a government finance statistics (GFS) mission from West AFRITAC provided technical assistance to the authorities in compiling and disseminating GFS and implementing action plans designed to improve the GFS data dissemination to users. Under the West AFRITAC work program, a government finance statistics technical assistance missions visited GNB in October 2013 and September 2014. These missions stressed the need for the Ministry of Economy and Finance to start implementing the recommendations of previous GFS missions.
Monetary and Financial Statistics: Monetary and financial statistics, compiled and disseminated by the regional Central Bank of West African States (BCEAO), are broadly adequate, and their institutional coverage is comprehensive. Accuracy is somewhat hampered by the use of outdated sorting coefficients to estimate cross-border amounts of banknotes among BCEAO countries, which in turn are used to estimate currency in circulation and to adjust the net foreign assets of each member country.

<table>
<tr><td colspan="2">Financial Sector Surveillance</td></tr>
<tr><td colspan="2">Balance of Payments Statistics: Guinea-Bissau reports balance of payments, and international investment position statistics to STA on an annual basis but with delays. Guinea-Bissau moved to BPM6 methodology for both balance of payments and international investment position statistics in September 2013 reviewing back series since 2007. Balance of payments data are weak, mostly due to substantial unregistered trade and inconsistencies between financial account transactions and the position data in the IIP. The large number of small-scale operators, a large informal sector, and institutional weaknesses hamper the data collection. While no external debt data are published by the Ministry of Finance, stock and flow data are regularly produced and transmitted to the BCEAO. Guinea-Bissau also participates in the Coordinated Direct Investment Survey (CDIS) and has been reporting inward direct investment position as at end December 2011.</td></tr>
<tr><td colspan="2" align="center">Data Standards and Quality</td></tr>
<tr><td>Guinea-Bissau has participated in the General Data Dissemination System since November 2001. Metadata for all data categories and plans for improvement need to be updated.</td><td>No data ROSC is available.</td></tr>
<tr><td colspan="2" align="center">Reporting to STA</td></tr>
<tr><td colspan="2">Currently no monthly, quarterly or annual government finance data is submitted for reporting in the International Financial Statistics (IFS) or the Government Finance Statistics Yearbook. Monthly data on monetary statistics for Guinea Bissau are reported on a regular basis for publication in the IFS with some delays.</td></tr>
</table>

Guinea-Bissau: Table of Common Indicators Required for Surveillance					
	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]
Exchange rates	Current	Current	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	Mar. 2013	Apr. 2013	M	M	M
Reserve/base money	Mar. 2013	Apr. 2013	M	M	M
Broad money	Mar. 2013	Apr. 2013	M	M	M
Central bank balance sheet	Mar. 2013	Apr. 2013	M	M	M
Consolidated balance sheet of the banking system	Mar. 2013	Apr. 2013	M	M	M
Interest rates[2]	Apr. 2013	May 2013	M	M	M
Consumer price index	Mar. 2013	May 2013	M	M	M
Revenue, expenditure, balance and composition of financing[3] – general government[4]	Mar. 2013	Mar. 2013	M	Q	Q
Revenue, expenditure, balance and composition of financing[3]– central government	Mar. 2013	Mar. 2013	M	Q	Q
Stocks of central government and central government-guaranteed debt[5]	Dec. 2011	Apr. 2013	A	I	I
External current account balance	Dec. 2012	Jun. 2014	A	I	I
Exports and imports of goods and services	Dec. 2012	Jun. 2014	A	I	I
GDP	2012	Apr. 2013	A	I	I
Gross external debt	2012	Apr. 2013	A	I	I
International Investment Position[6]	2011	Jun. 2014	A	I	I

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

Statement by Mr. Ngueto Tiraina Yambaye, Executive Director for Guinea-Bissau and by Mr. Siradiou Mamadou Bah, Senior Advisor to the Executive Director
July 10, 2015

I. Introduction

On behalf of our Bissau-Guinean authorities, we would like to thank Staff, Management and the Executive Board for their continued support to Guinea-Bissau. Following the successful completion of the legislative and presidential elections in April and May 2014, the new Government set itself the task to address the country's development challenges. The authorities are appreciative of the Fund technical assistance, policy dialogue and the disbursement received in November 2014 under the Rapid Credit Facility to address the country's balance of payments and financing needs for 2014. This financial support has catalyzed the resumption of donors' assistance and paved the way for the implementation of the much-needed reforms. In this regard, a ten-year development plan has been prepared and it aims at consolidating past progress and to transform the economy going forward. The constructive engagement of the Fund has been instrumental in helping our authorities organized in March 2015, in Brussels, a Donors' Roundtable which was successful. In this meeting, donors pledged about 1.5 billion USD to support the authorities' development projects, over the next ten years, including the reform of the security sector.

Cognizant of the daunting socio-economic challenges facing Guinea-Bissau, our authorities are strongly committed to strengthen the newly recovered political stability and lay out the solid foundations for a higher, sustained and inclusive economic growth and to fight poverty. In this regard, they have adopted a strategic plan for 2014–18 to further enhance the fiscal position, deepen structural reforms, mitigate vulnerabilities and develop a vibrant private sector supportive of growth and employment. In support of their strategic plan, the authorities are requesting a three-year arrangement under the IMF Extended Credit Facility (ECF). Based on a broad consensus and the positive results of policy measures implemented under the RCF, our Bissau Guinean authorities are strongly determined to implement the ECF-supported arrangement to maintain macroeconomic stability, improve public finance management, implement needed reforms to promote better governance and enhance private sector development.

II. Recent Economic Developments

In 2012–13, the economy experienced a deep deterioration due notably to the suspension of donors' assistance, sharp decline in the international price of cashew and a lax fiscal policy. In this context, growth contracted by 1.8 percent in 2012 and increased by only 0.8 percent in 2013. The overall fiscal balance deteriorated by 4.6 percent of GDP in 2012 and by 5.3 percent of GDP in 2013. Over the period, the current account deficit also increased to 4.4 percent of GDP. With a decline in farm-gate cashew nut prices (the country's main source of export proceeds) by over 60 percent, poverty soared and food insecurity doubled. Moreover, the budgetary pressures translated into tight compression in social spending and large accumulation of domestic and external arrears.

Our authorities are strongly determined to reverse this situation initiated in the second half of 2014 a set of reforms that have begun to yield positive results in restoring macroeconomic stability and fostering economic growth by implementing a strict budgetary management in the face of tight financing constraints. In 2014, real GDP growth is estimated at 2.5 percent driven by an increased cashew nuts harvest, construction and telecommunications services. Average inflation declined to -1 percent in a context of decreasing global food and fuel prices. Thanks to measures tightening controls over fuel imports, streamlining tax exemptions and intensified auditing of large tax payers, total revenue amounted to 12 percent of GDP in 2014 from 8.1 percent of GDP in 2013. The increases in revenues coupled with the donors' assistance and the issuance of one-year Treasury –bills on the regional capital market enabled the authorities to clear a large amount of arrears accrued in recent years. The overall fiscal balance is estimated at 2.2 percent of GDP and the current account deficit declined to 1.2 percent of GDP in 2014. As regards the FUNPI (the Fund to promote the Industrialization of Agricultural Products) issue, the authorities have suspended the cashew nuts collections this year due to the lack of positive impact of the Fund on the sector. This measure will lead to an increase in the income of cashew producers; reduce the amount of smuggling and poverty as well.

The Bissau Guinean authorities are grateful to the Fund for its contribution to the successful Donors' Round Table held on March 25, 2015 in Brussels. The authorities presented their medium-term development strategy for 2015–25 and sought the assistance and contribution of international partners for its financing. The plan's objectives are to increase investment in infrastructure, diversify the economy through the development of agriculture and agro-industry, fishery, tourism and mining sectors, and reform the security sector.

As regard the reform in the security sector, significant progress has been made since last September. The authorities have announced a number of initiatives aimed at reforming and professionalizing the armed forces. This includes the first retirement of 500 soldiers by the end of 2015. With the external assistance, they will develop a sustainable pension scheme for affected security personals. Already a decree creating a special pension fund over the next five years has been issued.

III. Medium-Term Program and Policies for 2015

The steadfast implementation of the ECF-supported program will enable our authorities to solve the country's financing difficulties while addressing the challenges related to growth and poverty reduction. In this regard, they are committed, to take steps to increase revenues, finance key public services, and foster sustained and inclusive growth to reduce poverty in the country.

1. Fiscal Policy and Debt Sustainability

The fiscal policy will aim at increasing fiscal revenues through the implementation of needed reforms to finance key public services. In executing the 2015 budget, if revenues exceed budgeted resources, the additional resources will be allocated to non-salary priority sending. Moreover, to improve treasury management, transparency and budgetary controls, steps will be taken towards the creation of a Treasury Single Account (TSA), and the Treasury Committee and communication will be strengthened. The authorities are also committed to minimize the use of improperly documented expenditure (DNTs) to emergency cases. To better manage the wage bill, the financial module of the payroll will be consolidated with the administrative module. This will address the deficient link between the payment of salaries and the human resource management while reducing the number of ghost workers. With regard to revenue measures, the authorities will continue to implement, enlarge and deepen reforms initiated to improve tax collection. In particular, controls and inspections of large and medium-size companies will be increased as well as tax audits and payments of taxes by non-compliant taxpayers. In addition, actions streamlining the tax system will be enforced to reduce distortions and improve tax collection. In the same vein, efforts to further restrict tax exemptions and fine-tune subsidies will be pursued.

The authorities welcome the debt sustainability analysis update highlighting that Guinea Bissau faces a moderate risk of debt distress. However, the high level of total public debt has led to a heightened overall risk of debt distress. Given the need to further improve fiscal and debt sustainability, the authorities are committed to pursue prudent fiscal and debt management policies while strengthening debt management capacity. With technical assistance from the Fund and other development partners, a legal and institutional framework for public debt management and debt contracting procedures will be introduced. The authorities will continue to rely on concessional borrowing and grants to finance investments.

2. Financial Policy

Cognizant of the challenges and vulnerabilities facing the financial sector, the authorities are determined to safeguard the sector’s stability by following international best practices. In close collaboration with the WAEMU regional banking commission, they will enforce compliance with prudential ratios including provisions to non-performing loans and capital injections. Efforts to deepen the financial intermediation and encourage access to credit and banking services will be strengthened. The national strategy document for the micro finance sector will be revised to consolidate existing initiatives.

Our Bissau Guinean authorities are committed to continue improving their AML/CFT framework. In this regard, a national strategy on AML/CFT consistent with the Financial Action Taskforce on Money Laundering (FATF) standards will be submitted to parliament by the end of the year. High ranking officials will disclose their assets to the Council of Ministers by September 2015 and the Financial Intelligence Unit will continue its awareness raising activities to commercial banks and the general public.

3. Structural Reforms and Fostering Growth

In order to achieve a higher, sustained and inclusive growth, the authorities are determined to improve the business environment and foster productive investment. Efforts to reduce the cost of doing business will be pursued through needed investments to close the infrastructure gap, develop human capital and further promote the rule of law which are critical to increasing the economy's overall competitiveness. With international support, the quality of institutions and public delivery of health and education services will be improved. In addition, the authorities plan to restructure the electricity and water company (EAGB) into a profitable, financially healthy enterprise and privatize *Guiné Telecom*. The audit of FUNPI will be completed by end September 2015 whose results will serve as the basis for a new strategy to promote cashew nut production and transformation.

IV. Conclusion

Over the past years, Guinea-Bissau's economic activities have been severely affected by the political instability and significant drop of cashew prices with a heavy toll on the public finances. Under the RCF disbursement, the macroeconomic situation has been stabilized and far reaching reforms have been initiated which are yielding positive results. The Bissau-Guinean authorities would like to deepen the reforms already started and to embark on a medium term economic and financial reform to address the challenges facing the economy. They have prepared with staff's assistance a program of adjustment for which they are requesting Fund support under the ECF. They have full ownership of the program and are strongly committed to implement the policy measures set out therein. The program will constitute a solid foundation to help solve the country's balance of payments and fiscal difficulties and lay the foundation for growth and poverty reduction. We would, therefore, greatly appreciate Directors' support for this request. Our authorities will also continue to need the strong support of development partners to further enhance the macroeconomic stability and reform process to achieve sustained and inclusive growth.