INTERNATIONAL MONETARY FUND

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GUINEA-BISSAU

June 2018

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR EXTENSION AND AUGMENTATION OF ACCESS, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE AND STAFF REPORT

In the context of the Fifth Review Under the Extended Credit Facility Arrangement, Request for Extension and Augmentation of Access, and Financing Assurances Review, 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.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 1, 2018, following discussions that ended on April 6, 2018, with the officials of Guinea-Bissau on economic developments and policies underpinning the IMF arrangements under the Extended Credit Facility. Based on information available at the time of these discussions, the Staff Report was completed on May 16, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- 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 the Economic and Financial Policies *
Technical Memorandum of Understanding *
*Also included in Staff Report

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

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Press Release No. 18/209
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June 1, 2018

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Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under the ECF Arrangement with Guinea-Bissau, Approves US$ 4.3 Million Disbursement, and Augments Access and Extends Arrangement

On June 1, 2018, the Executive Board of the International Monetary Fund (IMF) completed the fifth review of Guinea-Bissau's performance under an economic program supported by an Extended Credit Facility (ECF) arrangement. The completion of the review enables the release of SDR3.028 million (about US$4.3 million), bringing total disbursements under the arrangement to SDR17.04 million (about US$24.2 million).

In addition, the Executive Board approved the authorities' request for a one-year extension of the ECF arrangement to July 9, 2019 and an augmentation of access by SDR 5.68 million. The extension and augmentation will help anchor macroeconomic stability during the upcoming election period, support reforms focused on revenue mobilization and addressing gaps in essential infrastructure, and help meet balance of payments needs. It will bring Guinea-Bissau's total access under the current arrangement to SDR 22.72 million (about US$32.2 million) or 80 percent of quota.

Guinea-Bissau's three-year ECF arrangement for SDR 17.04 million (60 percent of quota) was approved by the Executive Board on July 10, 2015 (see Press Release No. 15/331).

Program implementation for the fifth review has been good. All performance criteria and indicative targets were met, as were six of eight structural benchmarks, with one of the remaining two benchmarks subsequently completed and the other underway.

Economic activity has remained robust. Real GDP grew by an estimated 5.9 percent in 2017, with consumer price inflation of 1.1 percent, an external current account deficit of 0.5 percent of GDP, and a fiscal deficit (cash basis) of 1.5 percent of GDP. The outlook is broadly positive, with growth projected at 5.3 percent in 2018, but subject to significant risks stemming from the still fragile political environment and adverse terms of trade developments.

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

“Robust economic growth in Guinea-Bissau, at around six percent for the past three years, has been supported by favorable terms of trade and improved economic management. The authorities’ program implementation has been strong, with a notable improvement in fiscal outcomes.

“The outlook is broadly positive, with the recent consensus-based agreement on a new government offering the prospect of greater political stability. At the same time and posing new challenges, the terms of trade gains that supported economic expansion for the past three years have partially reversed.

“Maintaining a strong reform drive will be crucial for continued improvements in outcomes. A further strengthening of tax and customs administration is essential for the domestic revenue mobilization needed to undertake priority infrastructure and social spending. Moreover, planning and execution frameworks will need to be enhanced for scaled-up spending to have the desired results.

“Continued progress toward improving conditions for private enterprise will also be important. Boosting private investment depends on effectively reducing regulatory uncertainty, combatting corruption and rent seeking, and enhancing transparency in public administration. Overcoming the longstanding problems in electricity provision is also essential and requires fundamental reform of the public power utility.

“Strengthening the banking system will be critical for maintaining financial sector stability and expanding financial intermediation. Decisive action toward any bank that remains undercapitalized by the end-June deadline extended by the Banking Commission will be important, and any intervention should minimize the costs to the state and adhere to best international practices, including avoidance of market distortions and conflicts of interest.

“The one-year extension and augmentation of the ECF arrangement will help anchor macroeconomic stability during the upcoming election period, support reforms focused on mobilizing revenue and addressing gaps in essential infrastructure, and help meet balance of payments needs.”

…..

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

	2015	2016	2017		2018		2019	2020	2021	2022	2023
		Prel.	EBS/17/116	Est.	EBS/17/116	Proj.	Projections				
National accounts and prices											
Real GDP at market prices	6.1	6.3	5.5	5.9	5.0	5.3	5.1	5.0	5.0	5.0	5.0
Real GDP per capita	3.8	4.0	3.2	3.6	2.7	3.0	2.9	2.7	2.7	2.7	2.8
GDP deflator	12.1	6.1	7.2	5.9	1.6	0.1	2.2	2.4	2.5	2.8	2.8
Consumer price index (annual average)	1.5	1.5	2.2	1.1	2.3	2.0	2.2	2.3	2.5	2.6	2.8
External sector											
Exports, f.o.b. (based on US$ values)	51.8	9.6	24.5	18.7	7.1	4.0	9.5	8.8	8.4	8.5	8.4
Imports, f.o.b. (based on US$ values)	-3.5	11.2	30.0	23.1	13.2	15.7	8.7	8.8	8.4	8.5	8.4
Export volume	19.1	-6.9	-8.6	-5.2	5.5	7.0	6.6	5.8	5.2	5.1	4.8
Import volume	15.7	14.6	18.6	13.3	10.3	8.2	7.4	7.2	6.6	6.9	6.9
Terms of trade (deterioration = -)	54.4	13.9	28.7	31.2	-0.1	-7.4	2.4	2.4	2.3	2.7	2.9
Real effective exchange rate (depreciation = -)	-2.5	1.9	...	-0.1	...	...	...	...	...	...	...
Exchange rate (CFAF per US$; average)	591.2	592.8	...	580.9	...	...	...	...	...	...	...
Government finances											
Domestic revenue (excluding grants)	29.4	-0.6	8.7	19.1	22.9	16.2	15.7	12.7	11.6	12.2	12.8
Domestic revenue (excluding grants and one-offs)	30.4	5.2	10.0	20.5	22.9	13.7	18.2	12.7	11.6	12.2	12.8
Total expenditure	11.3	0.9	-5.2	6.1	15.7	15.2	12.6	10.8	11.1	11.3	11.2
Current expenditure	5.0	8.8	-12.2	-3.5	12.3	8.2	16.0	10.9	10.7	12.7	11.9
Capital expenditure	25.5	-14.2	11.7	29.2	22.3	27.7	7.4	10.5	11.8	9.0	9.9
Money and credit											
Net domestic assets[2]	18.2	-2.5	-9.7	6.1	0.6	-0.4	2.0	1.6	1.7	1.9	1.8
Of which:											
Credit to government	4.6	1.8	-0.5	-2.8	0.0	0.5	0.3	-0.4	-0.3	-0.4	-0.5
Credit to the economy	13.0	2.2	-8.3	-7.7	1.5	1.6	1.7	2.0	2.0	2.2	2.3
Velocity (GDP/broad money)	2.1	2.1	2.3	2.2	2.3	2.2	2.2	2.2	2.2	2.2	2.3
Investments and savings											
Gross investment	8.1	7.8	8.5	10.5	8.7	12.7	12.8	13.3	13.7	13.8	14.0
Of which: government investment	8.0	6.1	6.1	7.0	7.0	8.5	8.5	8.7	9.1	9.1	9.3
Gross domestic savings	3.4	3.0	2.9	6.2	2.5	6.2	6.9	7.6	8.4	8.8	9.3
Of which: government savings	-0.5	-2.5	0.6	0.6	1.5	1.2	1.3	1.6	1.8	1.8	2.0
Gross national savings	9.9	9.1	7.8	10.0	6.4	9.4	10.6	11.1	11.6	11.8	12.1
Government finances											

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators (continued)

Total revenue	13.7	12.1	11.7	12.8	13.5	14.1	15.2	15.9	16.5	17.2	17.9
Total domestic primary expenditure	15.2	14.1	11.3	12.3	12.8	12.8	14.2	14.9	15.6	16.4	17.2
Domestic primary balance	-1.5	-2.0	0.4	0.5	0.8	1.3	1.0	1.0	0.9	0.8	0.8
Overall balance (commitment basis)											
Including grants	-3.0	-4.7	-1.7	-1.3	-1.9	-2.5	-2.2	-2.0	-2.1	-2.1	-1.9
Excluding grants	-9.4	-8.6	-5.8	-6.7	-5.5	-7.3	-7.2	-7.1	-7.3	-7.4	-7.3
External current account	1.9	1.3	0.0	-0.5	-2.3	-3.2	-2.3	-2.2	-2.1	-2.0	-1.8
Excluding official current transfers	1.0	1.2	-0.4	-0.8	-2.3	-3.2	-2.3	-2.2	-2.1	-2.0	-1.8
Stock of central government debt	51.7	53.3	49.2	50.1	48.3	50.3	48.8	47.4	46.0	44.6	43.2
Of which: external debt	15.1	14.7	12.5	12.4	13.0	12.0	12.2	12.8	14.1	15.3	16.1
Memorandum item:											
Nominal GDP at market prices (CFAF billions)	619.7	698.7	780.7	784.0	832.7	826.5	888.6	955.4	1028.5	1110.0	1198.4
WAEMU gross official reserves (billions of US$)	12.4	10.4	…	13.0	…	…	…	…	…	…	…
(percent of broad money)	43.8	35.0	…	35.3	…	…	…	…	…	…	…

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

[1] Excludes the 2015 bank bailout of CFAF 34.2 billion. A final determination by the courts on the legality of the bailout contracts remains pending.

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

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

May 16, 2018

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR EXTENSION AND AUGMENTATION OF ACCESS, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Extended Credit Facility (ECF): The three-year ECF arrangement was approved on July 10, 2015, with total access of 60 percent of quota (SDR 17.04 million). The fourth review was completed on December 11, 2017. The equivalent of SDR 3.03 million (11 percent of quota) will be made available upon Executive Board completion of the fifth review.

Context: A fragile state, Guinea-Bissau has maintained robust growth at around 6 percent for the past three years despite a political crisis that led to multiple changes of government and absence of a functioning parliament for most of the period. A recent consensus-based appointment of a new Prime Minister and agreement to undertake parliamentary elections in November 2018 are relieving political tensions.

Program performance: Program performance has been good. All performance criteria and indicative targets for the fifth review were met, as were six of eight structural benchmarks, with one of the remaining two benchmarks subsequently completed and the other underway. The authorities are requesting completion of the fifth review and a financing assurances review in view of their continued efforts and progress in enhancing fiscal management and addressing external arrears.

Extension: The authorities have requested a one-year extension of the current ECF arrangement to July 2019. This would enable provision of additional Fund resources via an augmentation of access of SDR 5.68 million, bringing total access under the arrangement to 80 percent of quota.

Staff supports completion of the fifth review under the ECF arrangement, extension of the arrangement, and augmentation of access. The one-year extension and augmentation of the program would help anchor macroeconomic stability during the election period, support reforms focused on revenue mobilization and addressing gaps in essential infrastructure, and help meet balance of payments needs arising from higher oil prices and reduced fishing compensation.

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

Discussions took place in Bissau during March 21–April 3, 2018. The staff team comprised Messrs. Tobias Rasmussen (head) and Francis Kumah (both AFR), and Mmes. Elena Arjona Perez, Cristina Cheptea (both AFR) and Keyra Primus (FAD), and Mr. Oscar Melhado (IMF Resident Representative in Bissau). Mr. Romão Varela (OED) participated in the discussions. Mr. Gaston Fonseca and Ms. Gemilia Pereira (both IMF Res Rep office in Bissau) assisted the mission. The team met with His Excellency, the President of Guinea-Bissau, José Mário Vaz; Prime Minister, Artur Silva; Finance Minister, João Alage Fadia; National Director of the *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO), Ms. Helena Nosolini Embaló; Attorney General, Bacari Biai; and other senior officials and representatives of the private sector, civil society, and development partners. Mission members also met with BCEAO headquarters in Dakar and had several video conferences including the Banking Commission Secretariat in Abidjan. Edna Mensah provided research support and Jacques Treilly provided assistance for the preparation of this report.

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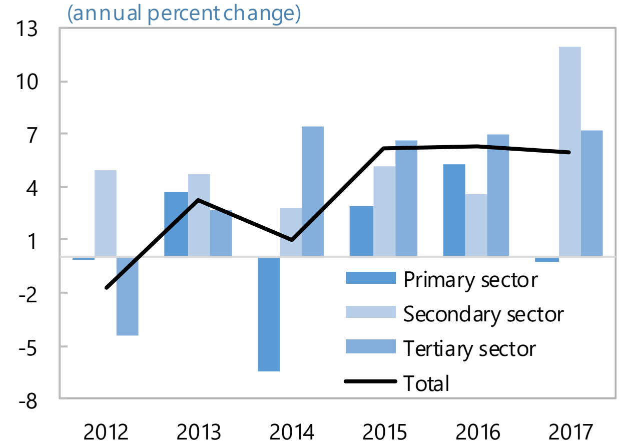
BACKGROUND AND RECENT ECONOMIC DEVELOPMENTS

1. **The recent formation of government represents an important step in resolving the political crisis that has plagued the country.** The appointment of Aristides Gomes as Prime Minister in mid-April 2018 followed ECOWAS-led intermediation efforts and reflected consensus among the key national political stakeholders. This led to the first sitting of Parliament in two and a half years, agreement on undertaking new Parliamentary elections in mid-November 2018, and formation of a government with broad support. Since the second half of 2015, frequent changes of government and the absence of a functioning Parliament had complicated policymaking and enactment of legislation.

2. **Economic activity has remained robust (Table 1 and Figure 1).** Real GDP growth was estimated at 5.9 percent in 2017, slightly higher than previously estimated and broadly maintaining the pace in place since 2015. While consumer price inflation remained subdued at 1.1 percent, cashew prices rose by about 40 percent in 2017, raising farmers' real incomes despite a decline in the volume of agricultural output. That stimulated economic activity generally, with construction particularly strong.

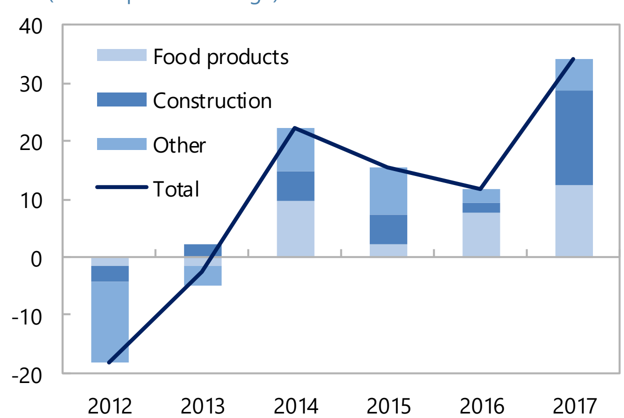
Real GDP Growth by Sector
(annual percent change)



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

3. **The external current account turned to a small deficit (Table 2).** While exports benefited from higher cashew prices, imports increased even more rapidly due mainly to a doubling of construction material purchases. With lower income from fishing licenses resulting primarily from the still inconclusive negotiations with EU, the current account balance swung from a surplus of 1.3 percent of GDP in 2016 to an estimated deficit of 0.5 percent in 2017. Nevertheless, the overall balance was positive at 2.9 percent of GDP in 2017, contributing modestly towards reserves accumulation at the regional level (coverage at 4.2 months of imports at end-2017 (SM/18/56)).[1]

Contribution to Nominal Import Growth
(annual percent change)



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

[1] In addition, Côte d'Ivoire and Senegal issued Eurobonds in early 2018, which would have further benefitted regional reserves.

4. Government revenue and grants rose strongly (Tables 3a-3b). Buoyant economic activity and revenue mobilization efforts helped raise the tax-to-GDP ratio by 1.3 percentage points in 2017, 1.1 percentage points above the program target. The higher collection was mainly driven by corporate income tax, sales tax, and import duties. In addition, budget support from Saudi Arabia and increased project support from multilateral donors caused grants to increase by 1.5 percent of GDP. The main area of weakness was non-tax revenue, where the loss of fishing compensation from the EU drove a 0.6 percent of GDP decline compared to 2016. Continuing the positive trend from last year, tax revenue in the first quarter of 2018 was 13.3 percent higher than the same period in 2017. The recent performance of non-tax revenue has, however, been disappointing, with lower-than-planned receipts from fishing and from sale of seized illegally cut timber.[2]

Guinea-Bissau: Revenue Performance
(percent of GDP)

	2016	2017	
		Prog.	Prel.
Revenue and grants	16.0	15.9	18.3
Revenue	12.1	11.7	12.8
Tax revenue	9.1	9.3	10.4
Direct taxes	2.6	2.5	2.7
of which: Corporate income tax	1.4	1.3	1.7
Indirect taxes	6.5	6.8	7.6
Import duties	1.5	1.5	2.0
Domestic sales tax	2.9	3.1	3.6
Other indirect taxes	2.0	2.2	2.1
Nontax revenue	3.0	2.4	2.4
Grants	4.0	4.1	5.5

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

5. Expenditure fell relative to GDP but exceeded the program target for 2017. Current expenditure was 1.1 percent of GDP above the program target. This was mainly due to higher spending on goods and services and an increase in 'other' expenditure (partly the result of bonus payments relating to revenue collection), partly offset by reduced transfers to the public electricity and water utility (EAGB). Capital spending exceeded the program target as well as the 2016 outturn by 0.9 percent of GDP, with the increase driven by grant-financed projects in the social sector.

6. The overall deficit in 2017 was down sharply from 2016 and slightly lower than programed. The overall cash deficit in percent of GDP was 1.5 in 2017, compared to the program target of 1.8 and 4.2 in 2016. Financing was largely from within the region via issuance of treasury securities on the regional market and project lending from *Banque Ouest Africaine de Développement* (BOAD). Borrowing from domestic commercial banks declined.

Guinea-Bissau: Expenditure Performance and Financing
(percent of GDP)

	2016	2017	
		Prog.	Prel.
Expenditure	20.7	17.6	19.6
Expense	14.6	11.5	12.6
Wages and salaries	5.0	4.3	4.5
Goods and services	1.7	2.4	2.8
Transfers	4.0	3.0	2.7
Interest	0.7	0.4	0.5
Other	2.9	1.4	2.0
Net acquisition of nonfinancial assets	6.1	6.1	7.0
Domestically financed	0.2	0.3	0.3
Foreign financed (including BOAD)	5.8	5.8	6.7
Overall balance, including grants (cash)	-4.2	-1.8	-1.5
Domestic financing (net)	3.8	1.5	1.4
Of which: Net domestic bank credit	2.3	-0.2	-0.2
External financing (net)	0.4	0.3	0.1

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

[2] The number of ships fishing under license in Guinea-Bissau waters dropped following recent rules for refueling and other connected operations. Also, by the April 22nd end of the export window provided by CITES, receipts from timber sales were only about one third of the amount that the authorities originally planned (0.8 percent of annual GDP on gross basis).

7. Advances in revenue administration and public financial management helped secure the positive outcomes. The authorities stepped up collection of tax arrears (CFAF 0.6 billion) and raised tax compliance through extension and better use of tax identification numbers (TINs) and the rollout of uniform sales invoices. Moreover, the weekly meetings of the Treasury Committee helped improve budget execution and maintain control over expenditure amid the higher revenues. Notably, in a break from the past, government avoided non-regularized expenditures ("DNTs") and incurrence of arrears. A series of audits of public entities also helped enhance transparency and accountability.

8. Financial intermediation remained weak amidst high non-performing loans (NPLs) and low profitability (Tables 4 and 5). Notwithstanding the robust economic growth, gross credit to the private sector is estimated to have declined by 2.9 percent in 2017. Credit net of provisions declined by 25.3 percent, reflecting the large provisions mandated by the Banking Commission in early 2017. The still weak evolution of credit is partly a reflection of banks curtailing lending in response to high NPLs (35.3 percent of loans at end-2017 on gross basis, 15.6 percent net of provisions). Low return on assets, 0.9 percent in 2017, has also been a factor. Moreover, uncertainties remain on the voiding of the 2015 bank bailout and the resolution of undercapitalization in one bank (Box 1).

Box 1. Status of Voided Bank Bailout and the Affected Banks

Legal uncertainty continues over the 2015 bailout of two banks that government subsequently voided. In late 2017, a lower court ruled itself not competent to try the civil case, considering among others an arbitration clause in the contract. Government appealed this decision to a higher court. Reaching a final court ruling could be a protracted process.

In December 2017, both banks were issued instructions by the regional Banking Commission (BC) to meet the minimum capital requirement by end-June 2018. The banks were also informed that they until then could not issue dividends and must report monthly on actions taken. While one of the two banks subsequently reached regulatory compliance, the other remains significantly undercapitalized.

PROGRAM PERFORMANCE

9. Program performance has been good, with all performance criteria and indicative targets for the fifth review met, as were six of eight structural benchmarks (Tables 6a and 7a).

- **Performance criteria (PCs):** The end-2017 target for tax revenue was exceeded by CFAF 12 billion (17.3 percent). Also, consistent with the respective zero-ceilings under the program, there was no new non-concessional or short-term external borrowing and no external arrears were accumulated. Net domestic bank credit to central government (NCG) was CFAF 0.2 billion below the program ceiling, notwithstanding two loan guarantees signed during the year.[3]
- **Indicative targets (ITs):** The domestic primary balance was CFAF 0.8 billion above the program floor for end-2017. At the same time, no new domestic arrears were accumulated, there was no

[3] The loan guarantees comprised CFAF 1.8 billion to Bissau City for construction of a market, of which only CFAF 0.4 billion was disbursed; and CFAF 0.9 billion for a pilgrimage program.

non-regularized spending, and social and priority spending exceeded the program floor by CFAF 8.2 billion (26.5 percent). Preliminary data indicate that all ITs for March 2018 were met.

- **Structural benchmarks (SBs):** Six out of the eight SBs applicable to the fifth review were met. Two benchmarks were not completed on time (MEFP ¶11). First, the government could not complete as envisaged a draft bill for a new small taxpayer regime. This measure will be addressed as part of a broader tax policy reform underway (MEFP ¶18). Second, the upgrading of debt management software (DMFAS 6.0) was not completed by the December 2017 target date but only in early 2018. Along with technical assistance (TA) provided from UNCTAD and the World Bank, the authorities aim to start producing by end-2018 an enhanced quarterly debt report covering both domestic and external debt.

Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets

(Billions of CFAF, unless otherwise indicated)

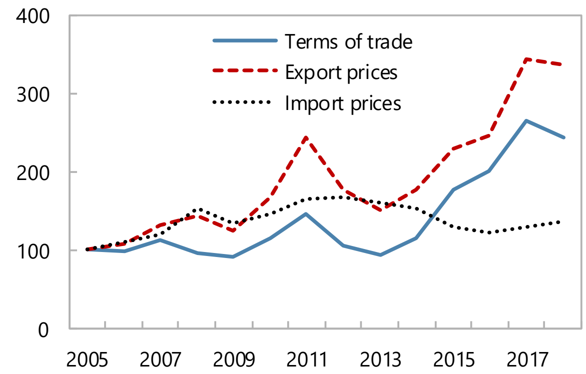
	2016	December, 2017		
		Prog.	Prel.	Status
Performance criteria[1]				
Total domestic tax revenue (floor)	63.5	69.3	81.3	met
Net domestic bank credit to the central government (ceiling)[2]	15.9	0.0	-0.2	met
Ceiling on new non-concessional external debt (US$ millions)[3]	0.0	0.0	0.0	met
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[3]	0.0	0.0	0.0	met
External payment arrears (ceiling)[3]	0.6	0.0	0.0	met
Indicative targets				
New domestic arrears (ceiling)	4.0	0.0	0.0	met
Social and priority spending (floor)	32.2	31.0	39.2	met
Domestic primary balance (commitment basis, floor)	-14.2	3.1	3.9	met
Non regularized expenditures (DNTs, ceiling)	1.9	0.5	0.0	met
Memorandum items:				
Clearance of domestic payment arrears	6.1	2.2	2.4	
External budgetary assistance (US$ millions)[4]	0.4	4.8	4.8	
ECF disbursements (SDR millions)	5.1	6.1	6.1	
Concessional loans (US$ millions)[5]	7.1	12.0	9.5	

[1] The performance criteria and indicative targets are defined in the TMU.
[2] 2017 includes new loan guarantees (CFAF 0.4 billion for Bissau City and CFAF 0.9 billion for pilgrims).
[3] These apply on a continuous basis.
[4] Comprises budget support grants and program loans (for budget support).
[5] Comprises project loans with grant elements exceeding or equal to 35 percent.

ECONOMIC OUTLOOK AND RISKS

10. The economic outlook is broadly positive but involves new challenges. An ongoing scaling up of public investment will help advance growth by addressing gaps in critical infrastructure. Moreover, the recent progress on overcoming the country's political crisis should help advance the reform agenda and lessen uncertainty for private investors. At the same time, Guinea-Bissau's terms of trade have deteriorated, with higher prices of oil imports and likely lower prices for cashew exports. This year's cashew campaign is also under pressure from the doubling of the official farmgate reference price, which was more than the market could support and delayed the onset of transactions.

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



Sources: Guinea-Bissau authorities; IMF staff calculations.

11. The updated macroeconomic framework for 2018–19 underpins a favorable baseline outlook with sustained growth, low inflation, and moderate fiscal and external deficits.

- Economic growth is projected to average 5.3 percent a year, supported by enhanced electricity supply and improvements in the business climate, but moderating somewhat from earlier years given the less favorable terms of trade.
- Inflation is, given higher global oil prices, projected to rise to about 2 percent a year.
- The external current account deficit is projected to widen to 2-3 percent of GDP, given the worsened terms of trade as well as rising imports associated with the increased investment and expanding economic activity.
- The fiscal deficit is projected to widen due to the higher capital expenditure but to stay within the 3 percent of GDP WAEMU criterion.

Guinea-Bissau: Performance on WAEMU Convergence Criteria

	2017	2018	2019
First-order criteria			
Overall balance/GDP[1] (≥ - 3 percent)	-1.5	-2.9	-2.6
Average consumer price inflation (≤ 3 percent)	1.1	2.0	2.2
Total debt/GDP (≤ 70 percent)	50.1	50.3	48.8
Second-order criteria			
Wages and salaries/tax revenue (≤ 35 percent)	43.1	38.2	39.0
Tax revenue/GDP (≥ 20 percent)	10.4	11.4	12.0

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

12. The baseline outlook is subject to significant risks (Annex I). The recent progress towards political stability could quickly derail in the still fragile environment. Spending pressures in the run-up to elections could lead to fiscal slippages. Cashew exports could be lower than projected if market disruptions from the high reference price are not quickly resolved or if international prices weaken. Growth generally could prove more sensitive to lower cashew prices than presumed. Reaching agreement on fishing compensation with the EU, assumed to be achieved 2019, could drag on. Upside risks include the possibility of positive terms of trade movements as well as large-scale donor support resulting from the resolution of the political crisis and renewed reform momentum.

Guinea-Bissau: Official Financial Assistance,[1] 2015–19
(Billions of CFAF, unless otherwise indicated)

	2015	2016	2017		2018	2019
	Act.	Act.	EBS/17/116	Prel.	Projections	
Total	52.8	45.8	52.8	60.5	69.7	72.0
Grants	40.1	27.6	32.3	42.8	39.0	44.0
Budget	5.6	0.3	2.8	2.8	0.0	0.0
Project	34.5	27.4	29.5	40.1	39.0	44.0
Loans	12.7	18.2	20.5	17.7	30.6	28.0
Budget[2]	2.3	4.2	4.9	4.9	4.6	2.2
Project	10.3	14.0	15.6	12.8	26.0	25.8
			(USD Millions)			
Total	89.4	77.3	90.8	104.2	131.6	137.6
Grants	67.9	46.6	55.5	73.8	73.7	84.2
Loans	21.4	30.7	35.3	30.4	57.9	53.4
			(Percent of GDP)			
Total	8.5	6.6	6.8	7.7	8.4	8.1
Grants	6.5	4.0	4.1	5.5	4.7	5.0
Loans	2.0	2.6	2.6	2.3	3.7	3.1
Miscellaneous items:						
Nominal GDP (US$ millions)	1,048	1,179	1,342	1,350	1,562	1,699

Source: Guinea-Bissau authorities.
[1] Includes only aid to the government sector (about 85-90 percent of total); the remainder goes to non-governmental organizations.
[2] ECF financing.

POLICY DISCUSSIONS

13. Policy discussions focused on: (i) maintaining fiscal discipline and mobilizing revenue to enable priority spending; (ii) raising investment to address essential infrastructure gaps and support growth; (iii) maintaining debt sustainability; (iv) safeguarding financial stability; and (v) improving economic statistics. The Fund is providing TA relating to all these areas (Annex II).

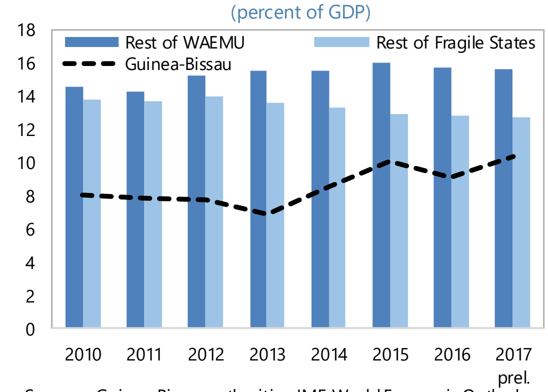
A. Fiscal Policy: Expanding Fiscal Space for Priority Spending

14. The key fiscal challenges for Guinea-Bissau are revenue mobilization and controlled scaling up of spending in priority areas. Although increased, the tax-to-GDP ratio remains well below that of comparators and the level needed to satisfy essential needs. Against the backdrop of uncertainties in donor support and nontax revenue, further increases in revenue are essential to make room for planned increases in priority spending while keeping the overall fiscal deficit within the 3 percent of GDP WAEMU target.

Enhancing Revenue Mobilization

15. Ongoing administrative reforms will support revenue mobilization (MEFP ¶¶16 and 17). The use of TINs and uniform sales invoices can still be expanded. Moreover, the recent inclusion of the tax directorate (DGCI) in the tax exemptions committee and its plans to produce estimates of tax expenditure will help better control tax exemptions. In customs, the recent rollout of the SYDONIA software to three border posts and accompanying application of the general tariff regime for goods imported by land can further help collections, but systems still need to be fully established. To compensate for the underperformance in non-tax revenue and achieve the projected 1.2 percentage point increase in the overall revenue-to-GDP ratio in 2018, forceful implementation of recommendations from Fund TA will be required. Specifically:

Guinea-Bissau: Tax Revenue
(percent of GDP)



Sources: Guinea-Bissau authorities; IMF, World Economic Outlook.

- Using the statement of contributions and taxes to ensure that applicable taxes are withheld at source and transferred to the tax office.
- Ensuring that all Group A taxpayers file returns for industrial contribution.
- Extending the Integrated Tax Management System to all tax districts and departments.
- Stepping up collection of tax arrears by establishing a special tax collection working group to enforce tax collection from large debtors (proposed SB for September 2018).
- Requiring the use of TINs for payment of taxes and all related transactions with public agencies (proposed SB for September 2018).
- Reintroducing collection of stamp duty on air transportation.

16. Going forward, envisioned tax policy reforms would complement the administrative reforms (MEFP ¶18). Following recent Fund TA, the authorities intend to undertake a fundamental reform to modernize and simplify the tax system. The first step will be to submit a reform plan to the Council of Ministers by July 2018 (proposed SB). The focus in the near term would be on strengthening and broadening indirect taxes by curtailing legislative and administrative exemptions. The next steps would be to streamline the range of fees and charges applicable to the cashew sector or otherwise levied by public bodies, fundamentally overhaul income taxes to put in place a system with clear and simple rules appropriate to the country context, and over time extend the coverage of recurrent property taxes based on market value. Establishing a dedicated tax policy unit in the Ministry of Finance will be key to taking the reforms forward.

Maintaining Fiscal Discipline while Scaling up Priority Spending

17. The authorities aim to make room for higher capital spending by containing current spending and strengthening public financial management (MEFP ¶21). Capital expenditure is now projected to increase by 1.5 percent of GDP in 2018, with the increase driven by a few large investment projects in road and energy infrastructure. This would, along with revenue mobilization efforts, be enabled by keeping non-interest current spending broadly unchanged as a ratio to GDP. To ensure that the deficit remains within 3 percent of GDP, the Treasury Committee will align expenditure with available resources, guided by monthly cash-flow projections, and reducing capital and non-priority current spending (e.g., official travel) if needed.

18. Recent audits of state-owned enterprises have opened new avenues for enhancing fiscal transparency and forestalling contingent liabilities on public resources. Representing a major step forward, nine audits covering state-owned enterprises and other public bodies were completed in 2017. The audits revealed significant weaknesses in financial management, internal control, and procurement functions, with many instances of non-conformity or non-compliance on transactions related with procurement, asset management, and staff expenses. The authorities aim to use the audit results and follow-up investigations to address the shortcomings (MEFP ¶30). Moreover, another 15 audits are scheduled for completion by end 2018.

B. Raising Investment to Boost Growth

19. Addressing inadequacies in basic infrastructure is critical to sustaining Guinea-Bissau's recent growth performance. A key constraint is grossly insufficient electricity supply, with coverage limited to the capital and overall only 15 percent of the population having access. Moreover, where electricity is available, it is subject to frequent outages and is expensive at an average price of around US$0.4 per kWh. Another major constraint is the port of Bissau, which lacks sufficient capacity and is in urgent need of repair. The planned scaling up of public investment in these and other areas can help remove bottlenecks to growth, but international experience highlights the importance of ensuring that the process is well managed (Box 2).

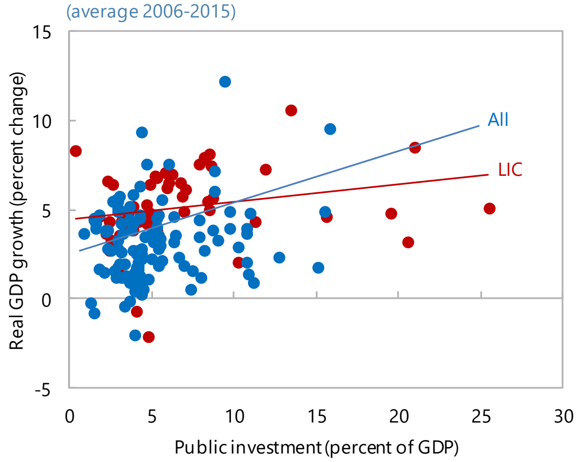
20. Public investment planning and management require strengthening. There are weaknesses along the project chain from initial identification to integration into budget frameworks. These were reflected in the about 10 percent of GDP of mostly non-concessional loans signed in 2017 for projects that, although well justified, were largely not reflected in budget plans (only 0.3 percent of GDP was included in the 2018 budget). While capacity constraints mean that disbursement of these loans is for the most part unlikely to start before 2019, their early signing does point to shortcomings in planning. Overcoming these weaknesses will require strengthening of project selection, appraisal, and procurement procedures, and improved coordination among the different agencies involved. Specifically, for the power sector, it will be essential to complete the management improvement plan for EAGB in line with the World Bank supported project (proposed SB for September 2018). The authorities are committed to taking steps in these areas (MEFP ¶20), and a donor roundtable on the energy sector planned to take place later this year should help with coordination and financing.

21. Higher private investment will also be critical to sustaining growth. While recent foreign direct investment in hotels and a cement factory mark an improvement, private investment levels in Guinea-Bissau remain exceptionally low, reflecting the history of political instability and poor governance. Further progress will require improvements in the business environment. A key element will be ensuring transparent and pro-competitive policies in the cashew sector, with prices set by market forces. Another key element will be to strengthen the legal and institutional framework to combat corruption and rent seeking, including implementation of a comprehensive asset disclosure regime for public officials (MEFP ¶¶32-33),

Box 2. Scaling-up Public Investment[1]

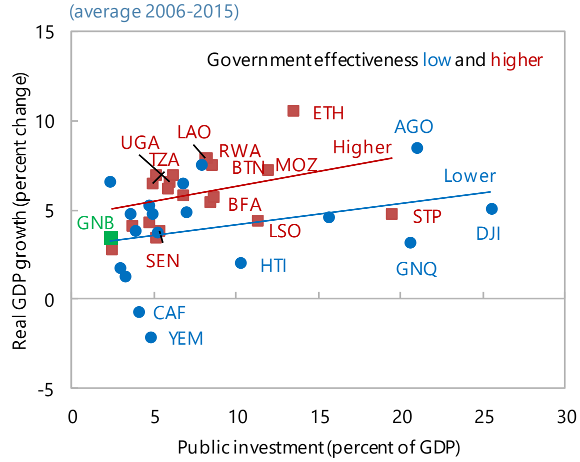
International experience shows that public investment can have a significant impact on growth depending on how it is carried out. Calderon and Serven (2010) estimated that African countries could boost annual economic growth by about 1.5 percentage points by cutting in half their infrastructure deficit with respect to other regions. However, the link between growth and public investment is stronger where government effectiveness is higher, and it depends on how the investment is financed. The efficiency with which low-income countries convert public investment into growth is generally lower than in more developed economies (Gupta and others, 2014).

Investment and Growth
(average 2006-2015)



Sources: Investment and Capital Dataset; and WEO.

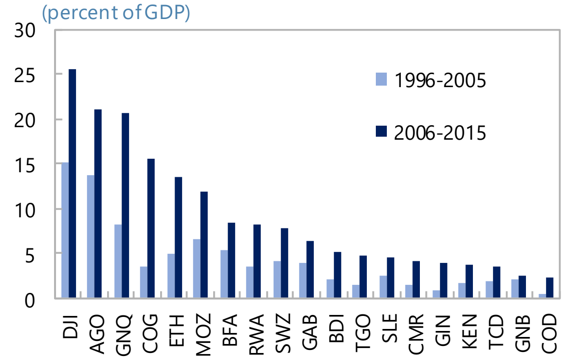
Investment and Growth in Least Developed Countries
(average 2006-2015)



Sources: Investment and Capital Dataset; WB; and WEO.

In Guinea-Bissau, a history of low and volatile public capital spending, weak investment management, and poor maintenance have resulted in a large infrastructure deficit. Filling this gap will take many years of sustained investment and will require enhanced planning, improved project selection procedures, careful consideration of financing costs, and greater focus on management and maintenance of new assets. Without this, the added expenditure may not yield any tangible benefits, with failed past investments in domestic power generation being a cautionary example.

Public Investment: Selective SSA Countries
(percent of GDP)



Sources: Investment and Capital Dataset; and WEO.

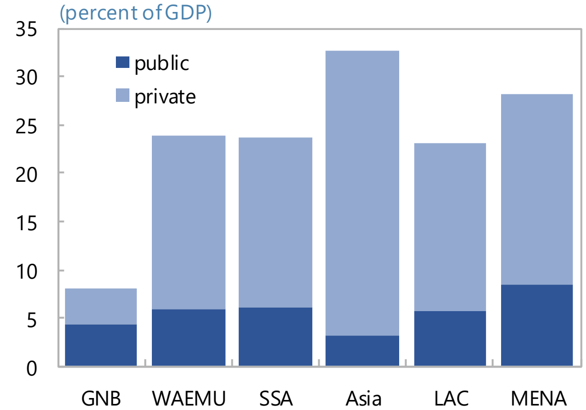
[1] Calderon, C., and L. Serven, 2010, "Infrastructure and Economic Development in Sub-Saharan Africa," *Journal of African Economies*, Vol. 19, pp. i13-i87.

Gupta, S., A. Kangur, C. Papageorgiou, and A. Wane, 2014, "Efficiency-Adjusted Public Capital and Growth," *World Development*, Vol. 57, pp. 164–178.

C. Maintaining Debt Sustainability

22. Risks to debt sustainability are being contained. The improved fiscal position helped lower government debt from 53.3 percent of GDP in 2016 to 50.1 percent in 2017. In addition, debt management has been strengthened by reduced recourse to expensive bank overdrafts and by the introduction of the new debt management software, with further improvements underway (MEFP ¶¶22 and 24). Debt sustainability analysis (Box 3 and attached) indicates moderate risk of external debt distress with heighted vulnerabilities on total public debt, reflecting high domestic debt (37.7 percent of GDP at end-2017).

Investment, 2010-16
(percent of GDP)



Source: WEO.

23. The authorities plan to continue to limit borrowing in line with program targets (MEFP ¶¶15 and 24). In view of the risks to the economy (see ¶12 above) and cognizant of absorption and debt management constraints, the authorities are committed to avoiding non-concessional and short-term external debt. While the non-concessional project loans signed in 2017 (all from BOAD) are in domestic currency, and hence not subject to the PC on non-concessional external borrowing, the authorities are exploring ways to make the financing of these new projects more concessional. They are also proposing to expand the program ceiling for net domestic credit to central government to include all non-concessional borrowing in domestic currency.

24. Arrears and contingent liabilities are being tackled gradually (MEFP ¶¶23 and 25). Efforts towards addressing external arrears on pre-HIPC debts have among others resulted in debt relief on near-Paris Club terms on arrears to Exim Bank of Taiwan Province of China; clearance of arrears to the United Arab Emirates; and agreement (still to be ratified) on restructuring of arrears to Brazil. Negotiations with other bilateral creditors (Angola, Libya, Pakistan, and Russia) for the remaining legacy arrears are ongoing. On arrears to domestic suppliers, the authorities are seeking support from development partners to audit all outstanding claims (estimated at more than CFAF 100 billion) by end-2018, with a view to finalizing a strategy for settling the legitimate claims.

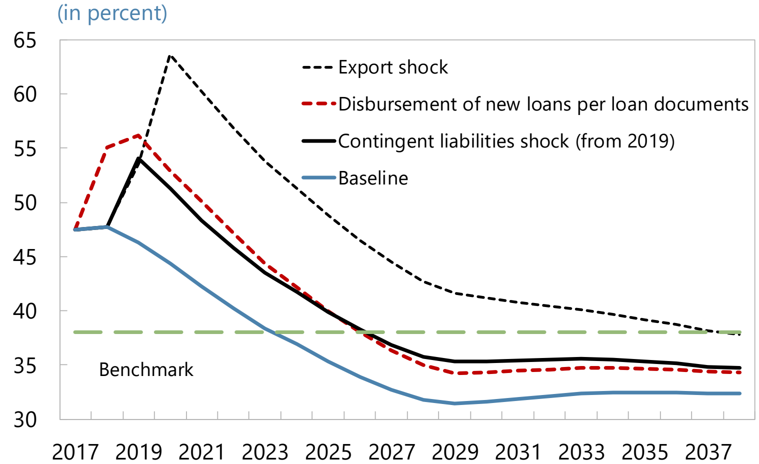
D. Safeguarding Financial Stability

25. Recapitalizing banks as required and resolving high levels of NPLs is crucial to safeguarding financial stability and supporting healthy growth of the financial sector (MEFP ¶¶26 and 27). The still unresolved status of the 2015 bank bailout and the overhang of NPLs is impeding credit extension. Moreover, banks that do not meet the minimum capital requirement by the end-June deadline face intervention by the regional Banking Commission (BC). In its discussions with national and regional authorities, staff has stressed the importance of firm regulatory action and of ensuring that any rectification of undercapitalization minimizes costs to the economy and respects international best practices. Staff's expectation, backed by the strong warning given by the BC, is that the BC will act resolutely towards any Guinea-Bissau bank that fails to meet the end-June deadline. This would likely involve the appointment of a temporary administrator and initiation of resolution procedures, in line with the BC's regulations. The national authorities have expressed full support for firm action by the BC, and their evaluation of options is being guided by Fund TA.

Box 3. Debt Sustainability

The current scaling up of government investment to address gaps in the country's infrastructure will need to be carefully managed to keep Guinea-Bissau's debt burden on a declining trajectory. Under the baseline scenario, where investment increases gradually and is counterbalanced by strengthening of revenues to keep the fiscal deficit below 3 percent of GDP, the overall debt-to-GDP ratio continues to decline. Reflecting constraints in implementation capacity and in line with the public investment plan for 2018, this scenario assumes that the new loans signed in 2017 mostly only start disbursing in 2019. The projects could then be largely executed within a three-period, although this might require reprioritizing among projects in the pipeline.

Present Value of Public Debt-to-GDP Ratio
(in percent)



Sources: Guinea-Bissau authorities; IMF staff calculations.
1/ New loans (total CFAF 87.1 billion): solar power plant; emergency diesel power plant; 14 localities OMVG network expansion; road Buba-Catio phase III, rice value chain, port rehabilitation.

The baseline trajectory is subject to risks. These include a fall in cashew prices, which could cause export earnings to drop and weaken debt service capacity. Further, considering Guinea-Bissau's history of conflict, a reescalation of political tensions could frustrate prudent economic and fiscal policies. Another risk is materialization of contingent liabilities, estimated at about 10 percent of GDP in total.

In an alternative scenario where all the new loans from 2017 are disbursed within two years, as projected in loan documents, public debt would spike. Debt servicing costs would also rise sharply, given that the bulk of the new loans are on non-concessional terms. Such an outcome would put debt sustainability at risk.

Disbursement Scenarios for Loans Signed in 2017

Description	Total Cost (CFAF billion)	2018 (CFAF billion)	2021 Accumulated disbursements (percentage of total loan)
Total Central Government	64.0		
Baseline (per budget)		2.5	74.2
Per loan documents		56.9	100.0
Non-Central Government (SOEs)	22.6		
Baseline		0.0	50.1
Per loan documents		11.3	100.0

Sources: National Authorities; World Bank; and IMF estimates.

Guinea-Bissau: Borrowing Program, 2016–19
(Disbursed public debt, in billions of CFAF, including guaranteed debt)[1]

	2016	2017	2018 proj.		2019 proj.	
	Vol.	Vol.	Vol.	Present value	Vol.	Present value
Sources of debt financing	**28.9**	**21.1**	**30.5**	**24.0**	**28.0**	**20.2**
Foreign Currency	10.6	9.0	10.2	6.0	13.0	7.1
Of which: Concessional	10.6	9.0	10.2	6.0	13.0	7.1
AfDB	1.6	1.0	1.7	0.9	3.2	1.8
IDA	2.9	1.9	1.9	0.9	3.7	1.7
IMF	4.2	4.9	4.5	3.1	2.2	1.6
Other	1.9	1.2	2.0	1.1	3.9	2.0
Domestic Currency	18.2	12.1	20.4	18.0	15.0	13.1
Domestic banks (net)	0.7	-6.2	0.0	0.0	0.0	0.0
BOAD[2]	7.6	8.7	20.4	18.0	15.0	13.1
Other regional (T-bills, net)	10.0	9.6	0.0	0.0	0.0	0.0
Uses of debt financing	**28.9**	**21.1**	**30.5**		**28.0**	
Infrastructure	9.9	10.0	17.7		18.7	
Social sector	0.0	0.0	0.0		0.0	
Rural development	2.9	0.5	7.6		4.6	
Budget financing[3]	14.9	8.3	4.5		2.2	
Other	1.2	2.3	0.7		2.5	
Memorandum items						
Gov. guarantees (stock outstanding)	4.6	5.9	5.3		5.3	

Source: Guinea-Bissau authorities.

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

[2] BOAD financing (shown on gross basis) is partly concessional.

[3] IMF, domestic banks, and regional T-bills.

26. Deepening financial markets while cleaning up balance sheets should rekindle lending to the private sector (MEFP ¶28). In consultation with commercial banks, the authorities are developing measures to help banks reduce NPLs, including by facilitating collection of collateral. which should help banks clean up their balance sheets and step up financial intermediation. Further, the authorities are updating their national plan for financial inclusion, following BCEAO recommendations, and will continue to implement incentives for small and medium-term enterprises in accordance with measures adopted by the WAEMU Council of Ministers in September 2015.

E. Improving Statistics

27. Weaknesses in statistics continue to hamper good economic management. There is a paucity of high frequency activity indicators, and significant inconsistencies between national accounts, fiscal, monetary, and balance of payments data. With help from development partners, the national statistics institute is enhancing coverage of economic statistics, with several projects (including enterprise and agricultural surveys) ongoing or in the developmental phase. Supported by

IMF TA, the authorities plan to publish by July 2018 revised national accounts with updated base year following a mini household survey. There is also progress in adopting new methodologies for monetary and balance of payments statistics, and in enhancing cooperation among official data producers. Nevertheless, much remains to be done to improve data consistency across and within different datasets.

PROGRAM MODALITIES

28. **The authorities have requested a one-year extension and augmentation of the ECF arrangement through to July 2019.** The extension would provide continuity and give the authorities time to articulate policies that could be supported by a new multi-year successor arrangement after the November 2018 elections. The augmentation is needed to meet balance of payments needs arising from higher oil prices and delays in EU fishing compensation, and is supported by the good program performance as well as the strong prospective revenue adjustment effort. The augmentation (two disbursements of 10 percent of quota each) would involve augmentation of access by SDR 5.68 million, bringing total access under the program to SDR 22.72 million (80 percent of quota) (Table 8).

29. **Program performance will continue to be assessed semi-annually (MEFP ¶¶35-36, Tables 6b and 7b).** For 2018, prospective program performance will be assessed relative to the proposed PCs for end-June PCs and end-December, as well as ITs and SBs. The sixth program review (following extension of the ECF-supported arrangement) will be based on the end-June 2018 PCs, and is scheduled to be completed on or after October 15, 2018. The PCs and ITs are defined in the attached Technical Memorandum of Understanding. To enhance oversight over expensive project loans, the PC on net domestic credit to government will be expanded to cover all non-concessional borrowing in local currency, including disbursements from the regional development bank, BOAD. Proposed new SBs include:

- By end-July 2018, submit to Council of Ministers a strategy for comprehensive tax reform, with coverage including small tax payers and with rules that are simple and minimize discretion in assessment.
- By end-September 2018: (i) establish a Special Tax Collection Working Group to enforce tax collection from large debtors; (ii) require the use of TINs for payment of taxes and all related transactions with public agencies; and (iii) start implementation of management service contract for EAGB.

30. **Financing assurances:** The program, including the proposed augmentation, is fully financed to July 2019. Guinea-Bissau owes arrears to Angola, Brazil, Libya, Pakistan, and Russia who have all consented to Fund financing notwithstanding these arrears. The country remains current on its remaining external debt service obligations. It meets its obligations to the IMF in a timely manner and has adequate repayment capacity (Table 9). Continued IMF engagement is mobilizing support from development partners, as seen by the increase in grants in 2017 and projected increases in project loans. Development partners have been considering budget support but the extended absence until recently of a functioning parliament has been an obstacle.

31. **Safeguards assessment:** The 2018 assessment, conducted on a four-year cycle for regional central banks, found that the BCEAO continues to maintain a strong internal control environment. Key recommendations from the last assessment in 2013 have been implemented. The bank adopted International Financial Reporting Standards in 2015 and the selection criteria for the external auditors has been strengthened. The audited financial statements in the period since the last assessment have had unmodified (clean) audit opinions and are published on a timely basis.

STAFF APPRAISAL

32. **Guinea-Bissau's economy has registered strong growth for the third year in a row and the outlook remains broadly positive, although with new challenges.** Increased fiscal space has enabled a scaling up of much needed public investment, and the recent appointment of a government of consensus offers the prospect of closing the door on the political crisis that has plagued the country since the second half of 2015. At the same time, the terms of trade gains that supported economic expansion for the past three years have partially reversed, and foreign exchange earnings are also under pressure from lower fishing-related receipts.

33. **Fiscal management has continued to strengthen.** Tax collection rose and the fiscal deficit narrowed sharply in 2017, enabling a significant reduction in the ratio of public debt to GDP and bolstering debt sustainability. Administrative reforms have contributed importantly to the improved outcomes, with the Treasury Committee since late 2016 playing a pivotal role in strengthening expenditure control while avoiding non-regularized transactions and incurrence of arrears. Moreover, a series of audits of public entities have helped enhance transparency and governance.

34. **Maintaining the strong reform drive will be crucial for continued improvements in outcomes.** The targeted increase in government revenue is critical to enabling higher priority spending, and it hinges on forceful implementation of planned reforms in tax and customs administration. Systems for collecting non-tax receipts and transferring proceeds to the main government account also need strengthening. This all requires close monitoring of progress. If revenue increases fall short of target, the authorities should be prepared to curtail capital spending to maintain the overall fiscal deficit within the 3 percent of GDP WAEMU criterion. On the spending side, achieving desired outcomes will require enhancing frameworks for budget formulation and execution. Quickly addressing shortcomings identified in the recent audits would help reinforce good governance.

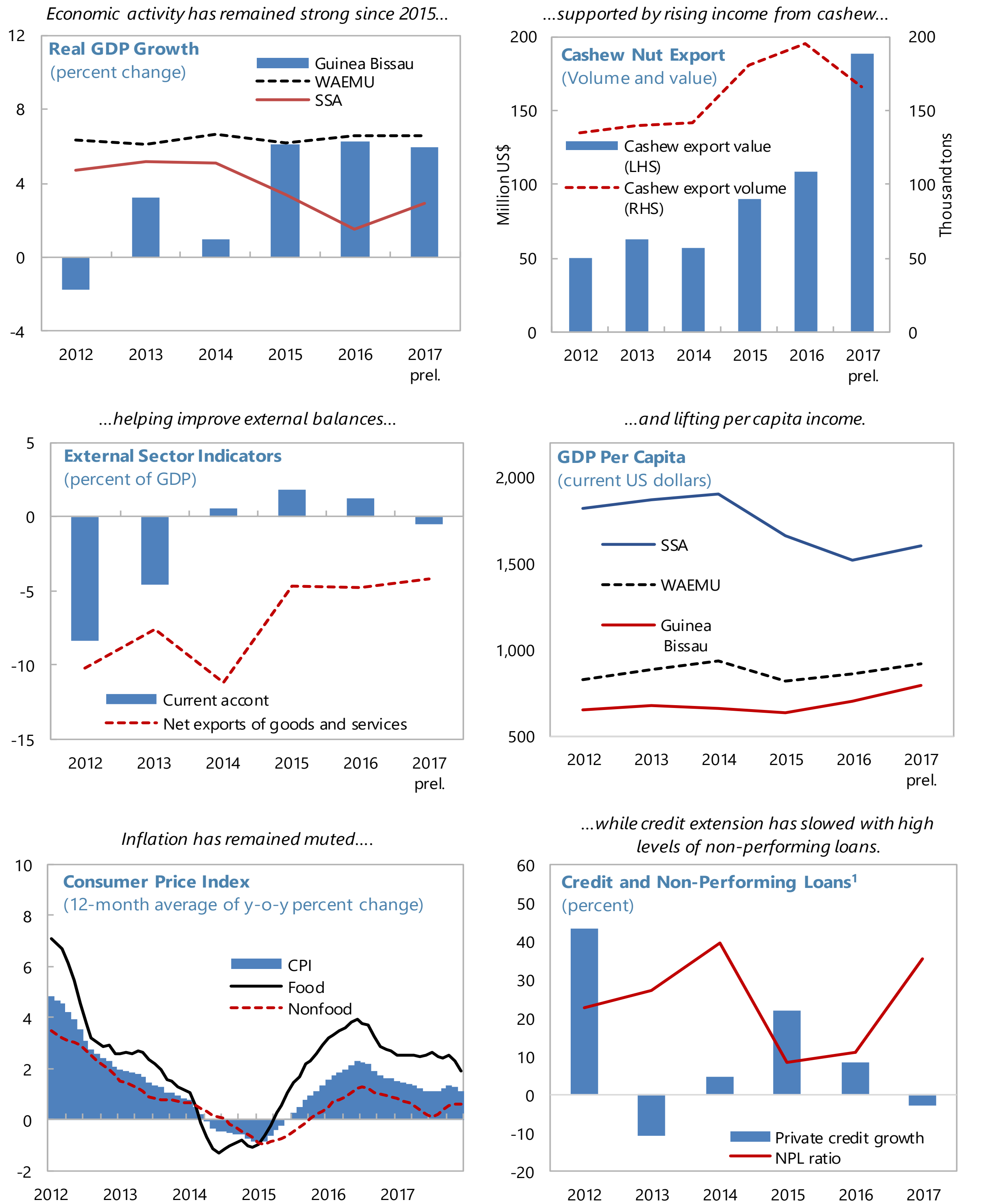
35. **The planned scaling up of public investment also requires supportive reforms.** Investing in infrastructure can help remove obstacles to growth but demands careful preparation. Loans should not be signed if projects are not backed by a sector plan and ready to be executed. The authorities should work closely with development partners to improve coordination, strengthen procedures for project selection, and seek concessional financing. There is also need for greater focus on management aspects, especially in the power sector where avoiding repeats of past failures to improve electricity supply depends fundamentally on reforming the public utility, EAGB.

36. Achieving sustained and inclusive growth depends as well on improvements in other key areas. Strengthening service delivery in health and education is critical, as is improving the business environment for the private sector. In the cashew sector it is necessary to make clear that the official reference price is not a minimum price, so transactions can freely take place at levels determined by market forces. Another central aspect is combatting corruption by strengthening legislative and institutional frameworks (including by increasing the resources and capacity of relevant enforcement agencies) and enhancing transparency in public administration. Strengthening economic statistics will also be important and should be properly resourced.

37. To safeguard financial sector stability, non-compliance with prudential norms should be quickly ended. Any bank that remains undercapitalized by the end-June deadline extended by the Banking Commission should promptly be placed under temporary administration and resolution procedures should be initiated. Actions taken in this direction should adhere to best international practices, including avoidance of market distortions and conflicts of interest.

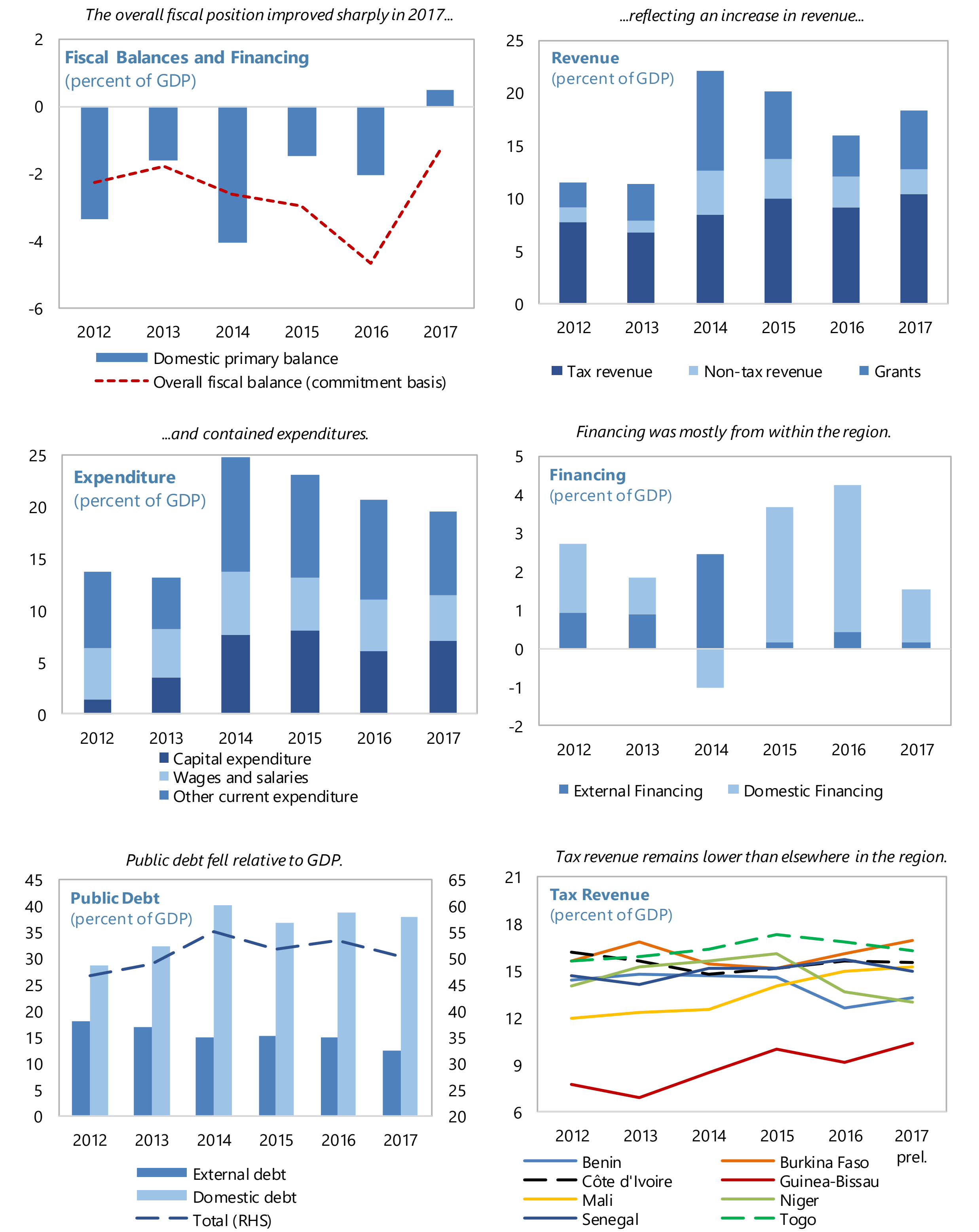
38. Staff recommends completion of the fifth program review, extension and augmentation of access, and a financing assurances review. This recommendation is based on the progress made under the program and actions taken to address shortcomings. Moreover, the authorities' policy and reform plans, as articulated in their MEFP, would support attainment of macroeconomic stability and inclusive growth.

Figure 1. Guinea-Bissau: Economic Developments



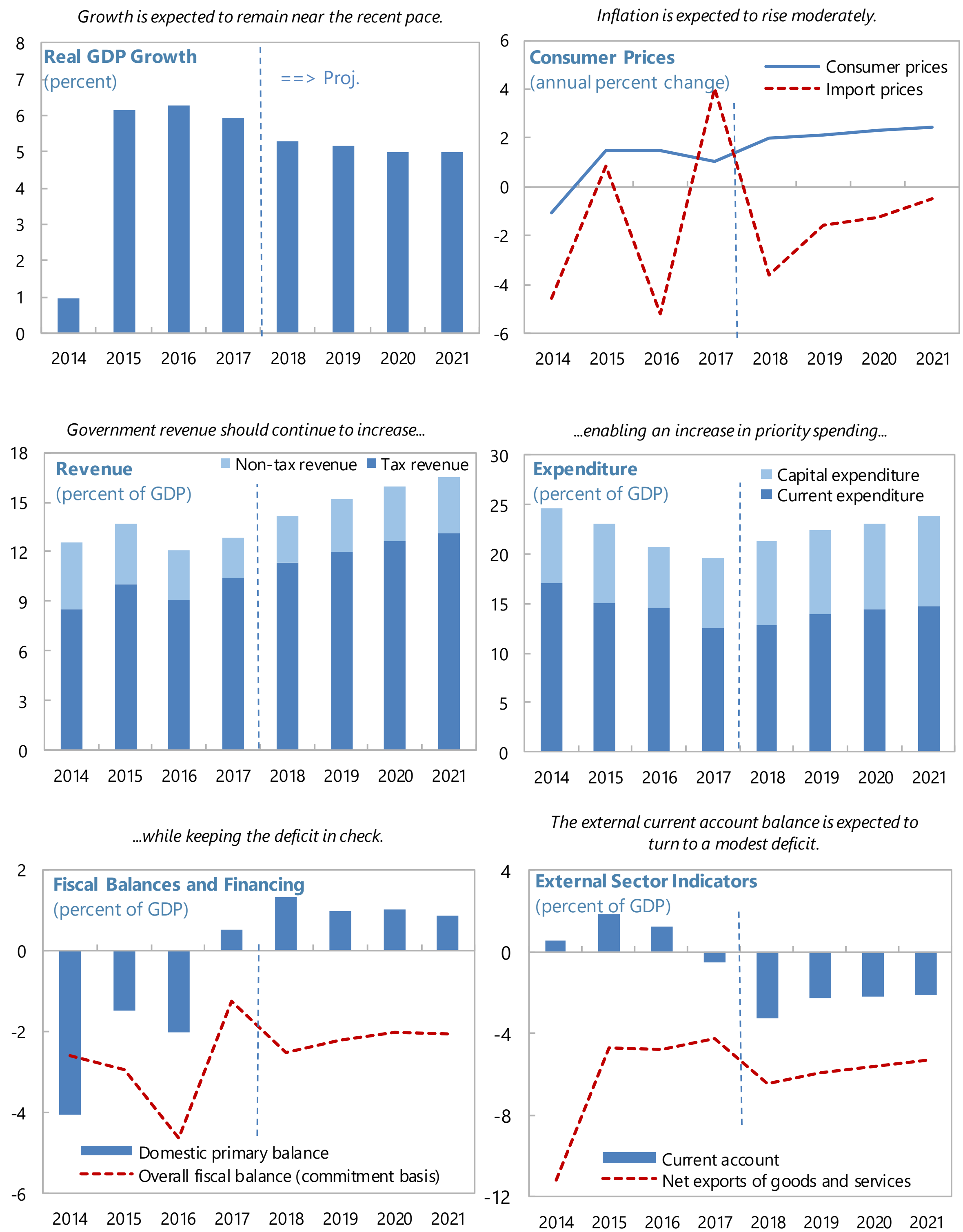
Sources: Guinea-Bissau authorities; and IMF staff estimates.
[1] NPLs for 2015 and 2016 have not been adjusted for the voided bailout transactions.

Figure 2. Guinea-Bissau: Fiscal Developments



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

Figure 3. Guinea-Bissau: Medium-Term Outlook



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

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

	2015	2016	2017		2018		2019	2020	2021	2022	2023
		Prel.	EBS/17/116	Est.	EBS/17/116	Proj.	Projections				
				(Annual percent change, unless otherwise indicated)							
National accounts and prices											
Real GDP at market prices	6.1	6.3	5.5	5.9	5.0	5.3	5.1	5.0	5.0	5.0	5.0
Real GDP per capita	3.8	4.0	3.2	3.6	2.7	3.0	2.9	2.7	2.7	2.7	2.8
GDP deflator	12.1	6.1	7.2	5.9	1.6	0.1	2.2	2.4	2.5	2.8	2.8
Consumer price index (annual average)	1.5	1.5	2.2	1.1	2.3	2.0	2.2	2.3	2.5	2.6	2.8
External sector											
Exports, f.o.b. (based on US$ values)	51.8	9.6	24.5	18.7	7.1	4.0	9.5	8.8	8.4	8.5	8.4
Imports, f.o.b. (based on US$ values)	-3.5	11.2	30.0	23.1	13.2	15.7	8.7	8.8	8.4	8.5	8.4
Terms of trade (deterioration = -)	54.4	13.9	28.7	31.2	-0.1	-7.4	2.4	2.4	2.3	2.7	2.9
Real effective exchange rate (depreciation = -)	-2.5	1.9	...	-0.1	...	...	...	...	...	...	...
Exchange rate (CFAF per US$; average)	591.2	592.8	...	580.9	...	...	...	...	...	...	...
Government finances											
Domestic revenue (excluding grants)	29.4	-0.6	8.7	19.1	22.9	16.2	15.7	12.7	11.6	12.2	12.8
Domestic revenue (excluding grants and one-offs)	30.4	5.2	10.0	20.5	22.9	13.7	18.2	12.7	11.6	12.2	12.8
Total expenditure	11.3	0.9	-5.2	6.1	15.7	15.2	12.6	10.8	11.1	11.3	11.2
Current expenditure	5.0	8.8	-12.2	-3.5	12.3	8.2	16.0	10.9	10.7	12.7	11.9
Capital expenditure	25.5	-14.2	11.7	29.2	22.3	27.7	7.4	10.5	11.8	9.0	9.9
Money and credit											
Net domestic assets[2]	18.2	-2.5	-9.7	6.1	0.6	-0.4	2.0	1.6	1.7	1.9	1.8
Of which:											
Credit to government	4.6	1.8	-0.5	-2.8	0.0	0.5	0.3	-0.4	-0.3	-0.4	-0.5
Credit to the economy	13.0	2.2	-8.3	-7.7	1.5	1.6	1.7	2.0	2.0	2.2	2.3
Velocity (GDP/broad money)	2.1	2.1	2.3	2.2	2.3	2.2	2.2	2.2	2.2	2.2	2.3
				(Percent of GDP, unless otherwise indicated)							
Investments and savings											
Gross investment	8.1	7.8	8.5	10.5	8.7	12.7	12.8	13.3	13.7	13.8	14.0
Of which: government investment	8.0	6.1	6.1	7.0	7.0	8.5	8.5	8.7	9.1	9.1	9.3
Gross domestic savings	3.4	3.0	2.9	6.2	2.5	6.2	6.9	7.6	8.4	8.8	9.3
Of which: government savings	-0.5	-2.5	0.6	0.6	1.5	1.2	1.3	1.6	1.8	1.8	2.0
Gross national savings	9.9	9.1	7.8	10.0	6.4	9.4	10.6	11.1	11.6	11.8	12.1
Government finances											
Total revenue	13.7	12.1	11.7	12.8	13.5	14.1	15.2	15.9	16.5	17.2	17.9
Total domestic primary expenditure	15.2	14.1	11.3	12.3	12.8	12.8	14.2	14.9	15.6	16.4	17.2
Domestic primary balance	-1.5	-2.0	0.4	0.5	0.8	1.3	1.0	1.0	0.9	0.8	0.8
Overall balance (commitment basis)											
Including grants	-3.0	-4.7	-1.7	-1.3	-1.9	-2.5	-2.2	-2.0	-2.1	-2.1	-1.9
Excluding grants	-9.4	-8.6	-5.8	-6.7	-5.5	-7.3	-7.2	-7.1	-7.3	-7.4	-7.3
External current account	1.9	1.3	0.0	-0.5	-2.3	-3.2	-2.3	-2.2	-2.1	-2.0	-1.8
Excluding official current transfers	1.0	1.2	-0.4	-0.8	-2.3	-3.2	-2.3	-2.2	-2.1	-2.0	-1.8
Stock of central government debt	51.7	53.3	49.2	50.1	48.3	50.3	48.8	47.4	46.0	44.6	43.2
Of which: external debt	15.1	14.7	12.5	12.4	13.0	12.0	12.2	12.8	14.1	15.3	16.1
Memorandum item:											
Nominal GDP at market prices (CFAF billions)	619.7	698.7	780.7	784.0	832.7	826.5	888.6	955.4	1028.5	1110.0	1198.4
WAEMU gross official reserves (billions of US$)	12.4	10.4	...	13.0	...	...	...	...	...	...	...
(percent of broad money)	43.8	35.0	...	35.3	...	...	...	...	...	...	...

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

[1] Excludes the 2015 bank bailout of CFAF 34.2 billion. A final determination by the courts on the legality of the bailout contracts remains pending.

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

Table 2. Guinea-Bissau: Balance of Payments

(Billions of CFAF)

	2015	2016	2017		2018		2019	2020	2021	2022	2023
		Prel.	EBS/17/116	Est.	EBS/17/116	Proj.	Projections				
Current Account Balance	11.5	8.9	-0.1	-3.8	-19.0	-26.7	-20.4	-20.7	-21.8	-22.1	-22.2
Goods and services	-29.1	-33.5	-38.7	-33.2	-52.1	-53.4	-52.9	-53.6	-54.5	-55.3	-56.3
Goods	26.8	27.5	31.6	26.1	22.7	7.1	8.9	9.6	10.3	11.1	12.0
Exports, f.o.b	149.2	164.0	198.8	190.7	204.2	180.6	195.5	210.2	226.3	244.2	263.7
Of which: cashew nuts	90.5	108.7	195.6	188.4	200.8	173.2	179.9	187.3	196.4	206.7	218.4
Imports, f.o.b.	-122.4	-136.5	-167.2	-164.6	-181.5	-173.6	-186.6	-200.6	-216.0	-233.1	-251.7
Of which: food products	-48.7	-60.2	-67.0	-73.8	-71.5	-65.0	-57.0	-62.8	-64.7	-69.8	-75.3
petroleum products	-31.0	-28.0	-36.0	-38.0	-38.3	-46.8	-47.3	-48.7	-51.1	-54.7	-59.1
Services	-55.9	-61.0	-70.3	-59.3	-74.8	-60.5	-61.8	-63.2	-64.7	-66.4	-68.3
Credit	21.5	21.2	19.2	23.8	20.7	24.3	24.8	25.4	26.0	26.7	27.4
Debit	-77.4	-82.2	-89.5	-83.1	-95.5	-84.7	-86.6	-88.5	-90.7	-93.1	-95.7
Incomes	15.1	17.6	13.8	1.6	13.9	7.5	12.5	12.2	11.2	11.0	11.0
Credit	16.5	19.7	15.8	2.8	14.7	8.4	14.3	14.4	14.4	14.5	14.6
EU fishing compensation	4.1	4.1	0.0	0.0	5.9	0.0	5.9	5.9	5.9	5.9	5.9
Other license fees	8.7	8.1	8.8	7.6	8.8	8.4	8.4	8.5	8.5	8.6	8.7
Debit	-1.4	-2.0	-2.0	-1.2	-0.8	-0.9	-1.8	-2.2	-3.3	-3.6	-3.6
Of which: external interest	-1.4	-2.0	-2.0	-1.2	-0.8	-0.9	-1.8	-2.2	-3.3	-3.6	-3.6
Current transfers (net)	25.5	24.7	24.8	27.8	19.2	19.2	20.0	20.7	21.5	22.3	23.1
Official	5.6	0.3	2.8	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private	19.9	24.5	22.0	25.0	19.2	19.2	20.0	20.7	21.5	22.3	23.1
Of which: remittances	19.4	23.2	18.5	18.5	19.2	19.2	20.0	20.7	21.5	22.3	23.1
Capital account[1]	35.4	29.6	53.8	64.2	30.5	39.2	44.2	49.0	53.7	59.1	65.1
Of which: official transfers	34.5	27.4	29.5	40.1	30.3	39.0	44.0	48.8	53.5	58.9	64.9
Financial account	-11.5	23.4	11.2	37.3	-16.6	-13.4	3.4	7.5	11.1	16.1	22.0
FDI	-9.6	-14.0	-11.3	-21.6	-19.2	-22.9	-25.8	-23.9	-25.7	-27.7	-30.0
Other investment	-1.9	37.4	22.5	58.9	2.5	9.5	29.1	31.4	36.8	43.8	51.9
Official medium- and long-term disbursements	-10.0	-13.5	-15.6	-12.7	-18.8	-25.1	-23.2	-24.5	-26.1	-27.6	-28.0
Amortization	1.4	3.9	29.9	28.2	2.4	3.8	3.6	4.3	6.1	6.3	5.9
Treasury bills (regional financing)	-1.0	-10.0	-10.0	-9.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial bank net foreign assets	-23.5	40.5	0.0	-16.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other net foreign assets	31.2	16.5	18.2	69.8	19.0	30.8	48.8	51.6	56.8	65.2	74.0
Errors and Omissions	-19.1	-21.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	39.3	-6.4	42.4	23.1	28.1	25.9	20.5	20.7	20.9	21.0	21.0
Financing	-39.3	6.4	-42.4	-23.1	-28.1	-28.1	-22.7	-20.7	-20.9	-21.0	-20.0
Financing gap (ECF augmentation)	0.0	0.0	0.0	0.0	0.0	2.2	2.2	0.0	0.0	0.0	1.0
Net foreign assets (increase = -)	-39.3	6.4	-42.4	-23.1	-28.1	-28.1	-22.7	-20.7	-20.9	-21.0	-20.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Cashew export quantity (thousands of tons)	181	195	177	166	186	171	177	182	187	193	199
Cashew export prices (US$ per ton)	1,300	1,400	1,900	1,949	1,938	1,910	1,948	1,992	2,042	2,098	2,161
Import volume of goods (annual percentage change)	15.7	14.6	18.6	13.3	10.3	8.2	7.4	7.2	6.6	6.9	6.9
Oil prices (international, US$ per barrel)	50.8	42.8	50.3	52.8	50.2	62.3	58.2	55.6	54.1	53.6	53.6
Scheduled debt service											
Percent of exports and service credits	0.6	1.1	1.5	1.5	1.3	1.7	1.2	1.4	1.3	1.4	1.7
Percent of total government revenue	1.2	2.4	3.6	3.2	2.5	3.0	2.0	2.2	2.0	2.0	2.3
Current account balance (percent of GDP)	1.9	1.3	0.0	-0.5	-2.3	-3.2	-2.3	-2.2	-2.1	-2.0	-1.8
Official transfers (percent of GDP)	6.5	4.0	4.1	5.5	3.6	4.7	5.0	5.1	5.2	5.3	5.4
WAEMU gross official reserves (billions of US$)	12.4	10.4	…	13.0	…	…	…	…	…	…	…
(percent of broad money)	43.8	35.0	…	35.3	…	…	…	…	…	…	…

Sources: BCEAO; and IMF staff estimates and projections.

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

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

(Billions of CFAF)

	2015	2016	2017		2018				2019	2020	2021	2022	2023
		Prel.	December		June		December		Projections				
			EBS/17/116	Est.	EBS/17/116	Proj.	EBS/17/116	Proj.					
Revenue and grants	125.0	112.0	123.9	143.3	64.4	66.7	142.9	155.7	179.1	201.0	223.4	249.4	279.8
Tax revenue	61.9	63.5	72.9	81.3	42.3	42.3	92.6	94.0	106.7	120.5	134.6	153.0	174.1
Nontax revenue	22.9	20.8	18.8	19.1	7.1	9.4	20.1	22.8	28.3	31.7	35.2	37.5	40.8
Grants	40.1	27.6	32.3	42.8	15.0	15.0	30.3	39.0	44.0	48.8	53.5	58.9	64.9
Budget support	5.6	0.3	2.8	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	34.5	27.4	29.5	40.1	15.0	15.0	30.3	39.0	44.0	48.8	53.5	58.9	64.9
Expenditure	143.3	144.5	137.0	153.4	76.1	80.7	158.6	176.7	199.0	220.4	244.9	272.5	302.9
Expense	93.7	102.0	89.6	98.4	49.2	51.9	100.5	106.5	123.6	137.1	151.7	171.1	191.4
Wages and salaries	31.8	34.8	33.3	35.1	18.5	18.0	36.5	35.9	41.6	45.2	49.6	57.3	64.4
Goods and services	16.2	12.0	18.6	21.9	9.8	11.0	21.7	22.4	27.0	30.2	34.1	38.3	43.0
Transfers[2]	18.9	28.3	23.3	21.5	9.8	9.6	19.7	21.9	25.9	30.1	32.4	37.2	42.0
Non regularized spending	2.7	1.9	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	4.6	5.1	3.3	4.1	1.6	3.7	3.1	6.5	5.4	4.4	4.3	4.3	4.3
Other	19.4	20.0	10.6	16.0	9.5	9.5	19.5	19.8	23.7	27.3	31.3	34.0	37.8
Net acquisition of nonfinancial assets	49.5	42.5	47.5	54.9	27.0	28.8	58.1	70.1	75.4	83.3	93.1	101.5	111.5
Domestically financed	4.9	1.6	2.4	2.2	4.0	2.5	8.9	6.0	8.1	10.1	13.5	14.9	18.5
Foreign financed (including BOAD)	44.6	40.9	45.1	52.7	23.0	26.3	49.1	64.1	67.3	73.3	79.7	86.6	92.9
Overall balance, including grants (commitment)	-18.3	-32.5	-13.1	-10.1	-11.7	-14.0	-15.7	-20.9	-19.9	-19.5	-21.5	-23.1	-23.1
Overall balance, excluding grants (commitment)	-58.4	-60.1	-45.3	-52.9	-26.7	-29.0	-45.9	-60.0	-63.9	-68.2	-75.0	-82.0	-88.0
Change in arrears	-6.1	-1.5	-3.0	-3.1	-1.8	-1.2	-3.2	-3.0	-3.3	-2.2	-2.0	-1.7	-1.2
Domestic arrears[3]	-5.2	-2.1	-2.2	-2.4	-1.8	-1.2	-3.2	-3.0	-3.3	-2.2	-2.0	-1.7	-1.2
Accumulation current year	2.2	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-7.4	-6.1	-2.2	-2.4	-1.8	-1.2	-3.2	-3.0	-3.3	-2.2	-2.0	-1.7	-1.2
External arrears	-0.9	0.6	-0.8	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-0.4	0.3	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-0.5	0.3	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancies	1.6	4.3	2.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-22.7	-29.7	-14.1	-11.9	-13.5	-15.2	-18.8	-23.9	-23.2	-21.7	-23.5	-24.8	-24.3
Financing[4]	22.7	29.7	14.1	11.9	13.5	15.2	18.8	23.9	23.2	21.7	23.5	24.8	24.3
Domestic financing (net)[5]	21.8	26.6	11.9	10.8	10.3	15.0	10.7	21.2	13.5	5.2	-1.5	-1.9	-2.5
BCEAO credit	2.3	3.6	4.9	3.7	2.4	1.8	2.4	3.4	1.1	-1.6	-1.5	-1.7	-2.7
(o/w) IMF	2.3	3.6	4.9	3.7	2.4	1.8	2.4	3.4	1.1	-1.6	-1.5	-1.7	-2.7
Deposits at the BCEAO (- = build up)	2.7	5.3	0.0	-4.8	0.0	0.0	0.0	-1.7	0.0	0.0	0.0	0.0	0.0
Other domestic (net)	16.8	17.8	7.0	11.9	7.9	13.3	8.3	19.5	12.5	6.9	5.0	5.0	5.0
Local commercial banks	7.8	0.7	-11.7	-6.2	3.8	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regional commercial banks (T-bills)	1.0	10.0	10.0	9.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regional project financing (BOAD)	8.0	7.1	8.7	8.6	4.2	9.7	8.3	19.5	12.5	6.9	5.0	5.0	5.0
Foreign financing (net)	0.9	3.0	2.1	1.1	3.2	0.1	8.1	2.7	9.7	16.5	25.0	26.7	26.8
Disbursements	2.1	6.4	6.9	4.1	3.9	1.6	10.5	5.6	10.8	17.6	26.1	27.8	27.8
Projects	2.1	6.4	6.9	4.1	3.9	1.6	10.5	5.6	10.8	17.6	26.1	27.8	27.8
Programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.1	-3.4	-29.9	-28.1	-0.6	-1.5	-2.4	-2.9	-1.1	-1.2	-1.1	-1.1	-1.1
Debt relief[6]	0.0	0.0	25.1	25.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
One-off revenues[7]	5.6	1.0	0.0	0.0	0.0	0.0	0.0	2.5	0.0	0.0	0.0	0.0	0.0
Net domestic credit to central government (cash)[8]	11.5	15.9	-1.7	-1.5	7.9	13.3	8.3	17.8	12.5	6.9	5.0	5.0	5.0
Domestic primary balance (commitment)[9]	-9.3	-14.2	3.1	3.9	-2.1	1.1	6.3	10.7	8.7	9.4	8.9	8.8	9.2

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

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

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

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

[4] BOAD has been reclassified from foreign to domestic financing and figures for EBS/17/116 have been adjusted accordingly.

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

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

[7] For 2015 sale of 3G licenses, sale of seized illegal timber, and Euroatlantico receipts; for 2016 sale of 3G licenses; for 2018 sale of seized illegal timber.

[8] For 2017, NCG as shown does not include the loan guarantees (CFAF 1.8 billion to Bissau City, of which only CFAF 0.4 billion was disbursed; and CFAF 0.9 billion for pilgrims).

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

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

(Percent of GDP)

	2015	2016	2017		2018				2019	2020	2021	2022	2023
		Prel.	December		June		December		Projections				
			EBS/17/116	Est.	EBS/17/116	Proj.	EBS/17/116	Proj.					
Revenue and grants	20.2	16.0	15.9	18.3	7.7	8.1	17.2	18.8	20.2	21.0	21.7	22.5	23.3
Tax revenue	10.0	9.1	9.3	10.4	5.1	5.1	11.1	11.4	12.0	12.6	13.1	13.8	14.5
Nontax revenue	3.7	3.0	2.4	2.4	0.9	1.1	2.4	2.8	3.2	3.3	3.4	3.4	3.4
Grants	6.5	4.0	4.1	5.5	1.8	1.8	3.6	4.7	5.0	5.1	5.2	5.3	5.4
Budget support	0.9	0.0	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	5.6	3.9	3.8	5.1	1.8	1.8	3.6	4.7	5.0	5.1	5.2	5.3	5.4
Expenditure	23.1	20.7	17.6	19.6	9.1	9.8	19.0	21.4	22.4	23.1	23.8	24.6	25.3
Expense	15.1	14.6	11.5	12.6	5.9	6.3	12.1	12.9	13.9	14.4	14.8	15.4	16.0
Wages and salaries	5.1	5.0	4.3	4.5	2.2	2.2	4.4	4.3	4.7	4.7	4.8	5.2	5.4
Goods and services	2.6	1.7	2.4	2.8	1.2	1.3	2.6	2.7	3.0	3.2	3.3	3.4	3.6
Transfers[2]	3.1	4.0	3.0	2.7	1.2	1.2	2.4	2.6	2.9	3.1	3.2	3.4	3.5
Non regularized spending	0.4	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.7	0.7	0.4	0.5	0.2	0.5	0.4	0.8	0.6	0.5	0.4	0.4	0.4
Other	3.1	2.9	1.4	2.0	1.1	1.1	2.3	2.4	2.7	2.9	3.0	3.1	3.2
Net acquisition of nonfinancial assets	8.0	6.1	6.1	7.0	3.2	3.5	7.0	8.5	8.5	8.7	9.1	9.1	9.3
Domestically financed	0.8	0.2	0.3	0.3	0.5	0.3	1.1	0.7	0.9	1.1	1.3	1.3	1.5
Foreign financed (including BOAD)	7.2	5.8	5.8	6.7	2.8	3.2	5.9	7.8	7.6	7.7	7.7	7.8	7.8
Overall balance, including grants (commitment)	-3.0	-4.7	-1.7	-1.3	-1.4	-1.7	-1.9	-2.5	-2.2	-2.0	-2.1	-2.1	-1.9
Overall balance, excluding grants (commitment)	-9.4	-8.6	-5.8	-6.7	-3.2	-3.5	-5.5	-7.3	-7.2	-7.1	-7.3	-7.4	-7.3
Change in arrears	-1.0	-0.2	-0.4	-0.4	-0.2	-0.1	-0.4	-0.4	-0.4	-0.2	-0.2	-0.2	-0.1
Domestic arrears[3]	-0.8	-0.3	-0.3	-0.3	-0.2	-0.1	-0.4	-0.4	-0.4	-0.2	-0.2	-0.2	-0.1
Accumulation current year	0.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-1.2	-0.9	-0.3	-0.3	-0.2	-0.1	-0.4	-0.4	-0.4	-0.2	-0.2	-0.2	-0.1
External arrears	-0.1	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancies	0.3	0.6	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-3.7	-4.2	-1.8	-1.5	-1.6	-1.8	-2.3	-2.9	-2.6	-2.3	-2.3	-2.2	-2.0
Financing[4]	3.7	4.2	1.8	1.5	1.6	1.8	2.3	2.9	2.6	2.3	2.3	2.2	2.0
Domestic financing (net)[5]	3.5	3.8	1.5	1.4	1.2	1.8	1.3	2.6	1.5	0.5	-0.1	-0.2	-0.2
BCEAO credit	0.4	0.5	0.6	0.5	0.3	0.2	0.3	0.4	0.1	-0.2	-0.1	-0.2	-0.2
(o/w) IMF	0.4	0.5	0.6	0.5	0.3	0.2	0.3	0.4	0.1	-0.2	-0.1	-0.2	-0.2
Deposits at the BCEAO (- = build up)	0.4	0.8	0.0	-0.6	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Other domestic (net)	2.8	2.6	0.9	1.5	1.0	1.6	1.0	2.5	1.7	1.0	0.5	0.4	0.4
Local commercial banks	1.3	0.1	-1.5	-0.8	0.5	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regional commercial banks (T-bills)	0.2	1.4	1.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regional project financing (BOAD)	1.3	1.1	1.1	1.1	0.5	1.2	1.0	2.5	1.7	1.0	0.5	0.4	0.4
Foreign financing (net)	0.2	0.4	0.3	0.1	0.4	0.0	1.0	0.3	1.1	1.7	2.4	2.4	2.2
Disbursements	0.3	0.9	0.9	0.5	0.5	0.2	1.3	0.7	1.2	1.8	2.5	2.5	2.3
Projects	0.3	0.9	0.9	0.5	0.5	0.2	1.3	0.7	1.2	1.8	2.5	2.5	2.3
Programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.2	-0.5	-3.8	-3.6	-0.1	-0.2	-0.3	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1
Debt relief[6]	0.0	0.0	3.2	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
One-off revenues[7]	0.9	0.1	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Net domestic credit to central government (cash)[8]	1.8	2.3	-0.2	-0.2	1.0	1.6	1.0	2.3	1.7	1.0	0.5	0.4	0.4
Domestic primary balance (commitment)[9]	-1.5	-2.0	0.4	0.5	0.0	0.0	0.8	1.3	1.0	1.0	0.9	0.8	0.8

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

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

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

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

[4] BOAD has been reclassified from foreign to domestic financing and figures for EBS/17/116 have been adjusted accordingly.

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

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

[7] For 2015 sale of 3G licenses, sale of seized illegal timber, and Euroatlantico receipts; for 2016 sale of 3G licenses; for 2018 sale of seized illegal timber.

[8] For 2017, NCG as shown does not include the loan guarantees (CFAF 1.8 billion to Bissau City, of which only CFAF 0.4 billion was disbursed; and CFAF 0.9 billion for pilgrims).

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

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

	2015	2016	2017		2018		2019	2020
		Prel.	EBS/17/116	Est.	EBS/17/116	Proj.	Projections	
	(CFAF billions)							
Net foreign assets	167.4	201.5	243.9	207.9	272.0	236.0	256.5	277.2
Central Bank of West African States (BCEAO)	159.5	153.1	195.5	176.2	223.6	204.3	224.8	245.6
Commercial banks	7.9	48.4	48.4	31.6	48.4	31.6	31.6	31.6
Net domestic assets	134.0	126.4	94.9	146.4	97.0	145.0	152.5	158.9
Credit to the government (net)[2]	47.9	53.3	51.6	44.2	49.2	46.0	47.0	45.3
BCEAO, net	28.0	37.7	42.5	37.0	42.5	38.8	39.9	38.2
Deposits	6.0	0.8	0.8	5.7	0.8	7.4	7.4	7.4
Credit	34.0	38.4	43.3	42.7	43.3	46.2	47.3	45.6
Commercial banks, net	19.9	15.6	9.1	7.2	6.7	7.2	7.2	7.2
Deposits	3.7	7.3	7.3	8.0	7.3	8.0	8.0	8.0
Credit	23.6	22.9	16.4	15.2	14.0	15.2	15.2	15.2
Credit to the economy (net of provisions)	93.9	100.4	73.3	75.0	78.4	80.8	87.3	95.4
Other items (net)	-7.7	-27.3	-30.0	27.2	-30.7	18.1	18.2	18.2
Money supply (M2)	301.4	327.9	338.8	354.3	369.0	381.0	409.0	436.1
Currency outside banks	194.6	224.2	231.4	233.5	252.1	251.1	269.5	287.4
Bank deposits	106.8	103.8	107.4	120.8	116.9	129.9	139.5	148.7
Base money (M0)	202.1	232.9	235.0	243.5	256.0	261.8	281.1	299.8
	(Change in percent of beginning-of-period broad money)							
Contribution to the growth of broad money								
Money supply (M2)	24.8	8.8	3.3	8.1	8.9	7.5	7.4	6.6
Net foreign assets	6.5	11.3	12.9	1.9	8.3	7.9	5.4	5.1
BCEAO	16.3	-2.1	12.9	7.0	8.3	7.9	5.4	5.1
Commercial banks	-9.7	13.4	0.0	-5.1	0.0	0.0	0.0	0.0
Net domestic assets	18.2	-2.5	-9.7	6.1	0.6	-0.4	2.0	1.6
Credit to the central government	4.6	1.8	-0.5	-2.8	0.0	0.5	0.3	-0.4
Credit to the private sector	13.0	2.2	-8.3	-7.7	1.5	1.6	1.7	2.0
Other items (net)	0.7	-6.5	-0.9	16.6	-0.9	-2.5	0.0	0.0
Memorandum items:								
Money supply (M2, annual percentage change)	24.8	8.8	3.3	8.1	8.9	7.5	7.4	6.6
Base money (M0, annual percentage change)	26.5	15.2	0.9	4.6	8.9	7.5	7.4	6.6
Credit to the private sector (annual percentage change)	50.1	6.9	-27.0	-25.3	7.0	7.8	8.0	9.2
Gross credit to the private sector (CFAF billions)[2]	98.2	106.2	95.5	103.1	99.5	111.1	120.0	131.1
(annual percentage change)	22.0	8.2	0.9	-2.9	4.2	7.8	8.0	9.2
Provisions for loan losses (CFAF billions)	4.3	5.9	...	28.1	...	...	...	...
Velocity (GDP/M2)	2.1	2.1	2.3	2.2	2.3	2.2	2.2	2.2
Money multiplier (M2/M0)	1.5	1.4	1.4	1.5	1.4	1.5	1.5	1.5

Sources: BCEAO; and IMF staff estimates and projections.

[1] End of period. Includes the bank bailout in the data for 2015-16 and does not include Bank Atlantique.

[2] Gross of provisions and including Bank Atlantique.

Table 5. Guinea-Bissau: Financial Soundness Indicators of the Banking System[1]

(Percent)

	2011	2012	2013	2014	2015	2016	2017
Capital Adequacy							
Capital to risk-weighted assets	17.4	21.0	17.3	25.8	28.9	4.8	5.5
Capital to total assets	4.3	5.2	9.5	11.5	8.8	3.5	28.9
Sectoral distribution of credit							
Agriculture and fishing	2.1	3.0	1.9	1.0	0.3	2.1	1.6
Extractive industries	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Manufacturing industries	1.4	1.5	1.3	1.0	1.3	1.0	1.4
Electricity, gas, and water	3.5	3.6	3.1	3.2	0.2	2.3	3.0
Building and construction	4.0	3.2	2.3	1.7	1.3	3.3	6.0
Commerce	52.9	52.3	53.8	54.2	58.0	54.3	64.0
Transport and communication	0.1	0.1	0.1	0.0	0.1	1.1	1.7
Insurance and enterprise services	0.6	0.5	0.3	0.0	0.0	2.5	3.1
Other activities	35.4	35.9	37.2	38.8	38.8	33.4	18.5
Asset quality							
Non-performing loans (gross) to total credit	6.7	22.6	27.0	39.4	8.2	10.8	35.3
Non-performing loans (net) to total credit	2.9	14.4	16.3	22.6	6.0	7.9	15.6
Non-performing loans (net) to capital	35.6	195.3	110.5	115.1	28.2	23.7	24.7
Provisions to gross non-performing loans	51.8	31.2	39.1	46.2	46.7	45.5	64.3
Provisions to gross loans	2.7	6.1	9.4	15.7	4.8	6.2	21.9
Earnings and profitability							
Net income to average assets (ROA)	2.5	0.1	-3.2	-1.4	0.2	1.0	0.9
Net income to average equity (ROE)	17.7	0.6	-21.2	-13.6	2.0	8.4	6.3
Liquidity							
Liquid assets to total assets	72.3	58.1	58.2	62.2	68.3	57.3	58.9
Liquid assets to short term assets	104.0	84.0	74.0	75.5	87.5	70.5	68.4
Ratio of deposits to assets	86.3	77.1	76.5	75.0	69.0	55.7	55.9
Ratio of loans to deposits	69.0	94.5	86.0	85.2	93.1	96.6	90.1
Memorandum items:							
Deposit rate (average)	4.2	4.6	4.7	4.6	4.5	4.2	4.0
Lending rate	9.9	10.1	9.5	9.4	10.7	10.8	10.2

Source: BCEAO.

Table 6a. Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets for 2017

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

	2016	2017								
		Mar.[1]		Jun.		Sept.[1]		Dec.		
		Prog.	Prel.	Prog.	Prel.	Prog.	Prel.	Prog.	Prel.	Status
Performance criteria[1]										
Total domestic tax revenue (floor)	63.5	16.3	13.0	33.4	41.4	48.9	63.0	69.3	81.3	met
Net domestic credit to the central government (ceiling)[2]	15.9	8.0	11.3	6.4	-0.4	0.0	-1.2	0.0	-0.2	met
Ceiling on new non-concessional external debt (US$ millions)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	met
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	met
External payment arrears (ceiling)[3]	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	met
Indicative targets										
New domestic arrears (ceiling)	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	met
Social and priority spending (floor)	32.2	7.7	10.8	21.7	23.2	23.2	34.4	31.0	39.2	met
Domestic primary balance (commitment basis, floor)	-14.2	-6.4	-2.2	-5.1	6.2	-1.0	6.0	3.1	3.9	met
Non regularized expenditures (DNTs, ceiling)	1.9	0.3	0.0	0.4	0.0	1.0	0.0	0.5	0.0	met
Memorandum items:										
Clearance of domestic payment arrears	6.1	0.4	0.4	0.4	1.4	0.4	1.5	2.2	2.4	
External budgetary assistance (US$ millions)[4]	0.4	0.0	0.0	0.0	4.8	0.0	4.8	4.8	4.8	
ECF disbursements (SDR millions, flow)	5.1	0.0	0.0	3.0	0.0	0.0	3.0	3.0	3.0	
Concessional loans (US$ millions)[5]	7.1	4.6	2.4	5.4	4.8	5.4	8.0	12.0	9.5	

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

[2] 2017 includes new loan guarantees (CFAF 0.4 billion for Bissau City and CFAF 0.9 billion for pilgrims to Mecca).

[3] These apply on a continuous basis.

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

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

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

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

	2017	2018				
		Mar.[1]		Jun.	Sept.[1]	Dec.
		Prog.	Est.	Proposed targets		
Performance criteria[1]						
Total domestic tax revenue (floor)	81.3	12.1	14.8	40.2	68.7	89.3
Net domestic credit to the central government (ceiling)[2]	-0.2	13.7	3.9	13.3	13.6	19.1
Ceiling on new non-concessional external debt (US$ millions)[3]	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)[3]	0.0	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling)[3]	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
Social and priority spending (floor)	39.2	7.8	7.8	26.0	33.0	42.0
Domestic primary balance (commitment basis, floor)	3.9	-11.7	2.9	1.1	10.0	10.7
Non regularized expenditures (DNTs, ceiling)	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Clearance of domestic payment arrears	2.4	0.9	0.1	1.2	2.3	3.0
External budgetary assistance (US$ millions)[4]	4.8	0.0	0.0	0.0	0.0	0.0
ECF disbursements (SDR millions, flow)	6.1	0.0	0.0	3.0	0.0	3.0
Concessional loans (US$ millions)[5]	9.5	3.4	6.3	12.6	16.8	21.0

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

[2] Coverage expanded for 2018 to include all non-concessional borrowing in domestic currency, including project financing from regional lenders (projected at CFAF 19.1 billion in 2018).

[3] These apply on a continuous basis.

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

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

Table 7a. Guinea-Bissau: Structural Benchmarks Under the ECF Program, 2015–June 2018			
Measures	**Timing**	**Macro Rationale**	**Status**
Revenue Mobilization			
Implement an intra-trade post in SAFIM to reconcile invoice merchandise data with actual contents of the cargo.	September 2015	Strengthen revenue collection.	Met.
Draw up a strategic plan for improving infrastructure and working conditions of officials of the domestic tax and customs administration.	December 2015	Strengthen revenue collection.	Not met. A new strategic plan for the tax administration was finalized in April 2017.
Implement a new small taxpayer regime by the introduction of universal NIF (tax payer identification number).	December 2015	To improve tax administration and compliance.	Not met.
Extend the new uniform sales invoice to all taxpayers.	September 2017	To improve tax administration and compliance.	Met.
Complete the assignment of taxpayer identification numbers to all taxpayers.	September 2017	To improve tax administration and compliance.	Met.
Prepare a draft law, with technical assistance from the IMF, for a new small taxpayer regime that is simple and transparent, protects the revenue base, lowers compliance costs, and ensures global participation.	December 2017	To improve tax administration and compliance.	Not met. Benchmark replaced by new measure on tax reform (see Table 7b).
Expenditure management			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2015 budget.	July 2015 for August 2015 and monthly thereafter.	Enhance expenditure management.	Met.
Transition to the payment of the salaries, wages, and allowances of all public servants (including the security service) through the banking system.	September 2015	Reduce handling of cash by the Treasury and strengthen public financial management.	Not met. Implemented in October 2015.
Prepare a quarterly report on PIP execution. July 2015 for August 2015 and monthly thereafter.	December 2015 for Sept. 2015 Report, quarterly thereafter.	Enhance PIP execution and monitoring.	Met.
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2017 budget.	December 2016 for January 2017, and monthly thereafter.	Enhance expenditure management.	Met.

Table 7a. Guinea-Bissau: Structural Benchmarks Under the ECF Program, 2015–June 2018 (continued)			
Measures	**Timing**	**Macro Rationale**	**Status**
Prepare timely quarterly reports on ministry-level budget execution with details along economic classification of expenses.	December 2016, and quarterly thereafter.	Enhance budget execution and monitoring.	Met.
As a precursor of the planned Treasury Single Account, draw up a list (including 2015 accounts) of own-source revenues collected by ministries, departments and government agencies.	December 2016	Strengthen public expenditure management.	Met.
Debt Management			
Reinstall and operationalize debt management IT system.	July 2015	Enhance debt management capacity and borrowing policies.	Not met. Implemented with delay.
Prepare a quarterly report on external debt commitments, agreements and disbursements.	December 2015 for June 2015 Report, quarterly thereafter.	Enhance debt management capacity and transparency in external debt commitments.	Met.
Prepare a quarterly report on external debt commitments, agreements, and disbursements.	December 2016 for September 2016 Report, and quarterly thereafter.	Enhance debt management capacity and transparency in external debt commitments.	Met.
Council of Ministers to issue a decree to clarify the debt issuance authority and the procedure for the issuance of government guarantees, on-lending operations, and large liabilities.	December 2016	Bring Guinea-Bissau's debt management policy in line with the WAEMU regulation.	Not met. Completed in June 2017.
Prepare a quarterly report on external debt commitments, agreements, and disbursements.	December 2016 for September 2016 Report, and quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments.	Met.
Install the newest version of the debt management software, DMFAS 6.0, and commence its use for effective debt analysis and debt service projections.	December 2017	Strengthen debt management and eschew payment arrears.	Not Met. The software was installed in early 2018.

Table 7a. Guinea-Bissau: Structural Benchmarks Under the ECF Program, 2015–June 2018 (continued)			
Measures	**Timing**	**Macro Rationale**	**Status**
Business Environment and Overall Policy			
Complete an international and comprehensive audit of the fund for industrialization of agricultural products (FUNPI).	September 2015	To improve cashew nuts production and trade.	Not met. Completed in April 2016.
Prepare an audit plan for all State-owned Enterprises and autonomous funds.	December 2016	To improve service delivery by, and financial sustainability of, public enterprises.	Not met. Rescheduled for November 2016.
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2016	Reduce transaction costs.	Not met. Rescheduled for June 2017.
Prepare an audit plan for all State-owned Enterprises and autonomous funds.	November 2016	To improve service delivery by, and financial sustainability of, public enterprises.	Met.
EAGB will submit reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and on monthly basis starting from October 2016.	December 2016	To instill transparency in EAGB operations and financial position.	Not met. Reset for July 2017 and completed in October 2017.
Complete, with assistance of the WAEMU Banking Commission, an assessment of the two banks affected by the bailout, and articulate an action plan to bring these banks into compliance with prudential norms.	April 2017	To strengthen the health of the banking system.	Met.
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2017	Reduce transaction costs.	Met.
EAGB will submit reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and on a monthly basis starting from October 2016.	October 2017 and monthly thereafter	To instill transparency in EAGB operations and financial position.	Met. However, the quality of data remains poor.

Table 7a. Guinea-Bissau: Structural Benchmarks Under the ECF Program, 2015–June 2018 (concluded)

Measures	Timing	Macro Rationale	Status
Submission of a 2018 budget to Council of Ministers.	December 2017	Proper fiscal management.	Met.
Submit management improvement plan for EAGB to the Council of Ministers.	March 2018	To enhance efficiency in the utility, reduce electricity supply costs, and avoid contingent liabilities.	Met.

Table 7b. Guinea-Bissau: Proposed Structural Benchmarks Under the ECF Program, 2018			
Measures	**Timing**	**Macro Rationale**	**Status**
Revenue Mobilization			
Submit to Council of Ministers a strategy for comprehensive tax reform, with coverage including small tax payers and with rules that are simple and minimize discretion in assessment.	July 2018	To improve tax administration and compliance.	New benchmark.
Establish Special Tax Collection Working Group to enforce tax collection from large debtors.	September 2018	To improve tax compliance and collection.	New benchmark.
Require the use of TINs for payment of taxes and all related transactions with public agencies.	September 2018	To improve tax administration and compliance.	New benchmark.
Expenditure Management			
Prepare a monthly rolling Treasury cash flow projection table consistent with the annual budget.	Ongoing, on monthly basis.	Enhance expenditure management.	Preexisting benchmark.
Prepare timely quarterly reports on ministry-level budget execution with details along economic classification of expenses.	Ongoing, on quarterly basis.	Enhance budget execution and monitoring.	Preexisting benchmark.
Debt Management			
Prepare a quarterly report on external debt commitments, agreements, and disbursements.	Ongoing, on quarterly basis.	Enhance debt management capacity and transparency in external debt commitments.	Preexisting benchmark.
Business Environment and Overall Policy			
EAGB will submit reports detailing its financial flows on a monthly basis.	Ongoing, on monthly basis.	To instill transparency in EAGB operations and financial position.	Preexisting benchmark.
Start implementation of service contract for EAGB management.	September 2018	To enhance efficiency in the utility, reduce electricity supply costs, and avoid contingent liabilities.	New benchmark.

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

Availability	Disbursements: In millions of SDR	Disbursements: In percent of Quota[2]	Condition for Disbursement	Status
July 10, 2015	2.84	10.0	Approval of the three-year ECF arrangement.	Disbursed
October 15, 2015	2.84	10.0	Board completion of the first review based on observance of performance criteria for June 30, 2015.	Disbursed
April 15, 2016	2.272	8.0	Board completion of the second review based on observance of performance criteria for December 31, 2015.	Disbursed
April 15, 2017	3.030	10.67	Board completion of the third review based on observance of performance criteria for December 31, 2016.	Disbursed
October 15, 2017	3.030	10.67	Board completion of the fourth review based on observance of performance criteria for June 30, 2017.	Disbursed
April 15, 2018	3.028	10.66	Board completion of the fifth review based on observance of performance criteria for December 31, 2017.	
October 15, 2018[3]	2.84	10.0	Board completion of the sixth review based on observance of performance criteria for June 30, 2018.	
April 15, 2019[3]	2.84	10.0	Board completion of the seventh review based on observance of performance criteria for December 31, 2018.	
Total Disbursements	**22.72**	**80.0**		

Source: IMF staff estimates.

[1] The first and second ECF-reviews were combined and completed on December 2, 2016. The third review was completed on July 6, 2017. The fourth review was completed on December 11, 2017.

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

[3] Proposed additional disbursements under the extension of the ECF arrangement.

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

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections					
					(SDR millions, unless otherwise indicated)					
Fund obligations based on existing credit										
Principal	1.45	1.45	1.45	1.29	1.59	2.80	2.80	2.80	2.23	1.21
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fund obligations based on existing and prospective credit										
Principal	1.45	1.45	2.16	2.00	2.30	3.51	3.82	4.26	3.98	2.95
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total obligations based on existing and prospective credit										
SDR millions	1.45	1.45	2.16	2.00	2.30	3.51	3.82	4.26	3.98	2.95
CFAF billions	1.12	1.11	1.64	1.52	1.74	2.65	2.89	3.22	3.01	2.23
Percent government revenue	0.96	0.82	1.08	0.89	0.91	1.24	1.18	1.15	0.93	0.60
Percent exports of goods and services	0.54	0.50	0.70	0.60	0.64	0.91	0.92	0.96	0.83	0.57
Percent debt service	31.50	41.83	48.23	45.63	46.36	54.20	57.57	54.41	49.11	32.70
Percent GDP	0.13	0.12	0.17	0.15	0.16	0.22	0.22	0.23	0.20	0.14
Percent quota	5.11	5.11	7.61	7.04	8.10	12.36	13.45	15.00	14.01	10.39
Percent reserves	0.55	0.49	0.67	0.57	0.61	0.86				
Outstanding Fund credit										
SDR millions	21.18	25.60	26.28	24.28	21.98	18.47	14.65	10.39	6.42	3.46
CFAF billions	16.30	19.60	19.99	18.41	16.64	13.97	11.08	7.86	4.86	2.62
Percent government revenue	13.96	14.51	13.13	10.84	8.74	6.50	4.51	2.79	1.50	0.70
Percent exports of goods and services	7.95	8.90	8.49	7.30	6.14	4.80	3.54	2.34	1.34	0.67
Percent debt service	460.17	738.49	586.81	553.89	443.06	285.18	220.79	132.70	79.21	38.36
Percent GDP	1.97	2.21	2.09	1.79	1.50	1.17	0.86	0.56	0.32	0.16
Percent quota	74.58	90.14	92.54	85.49	77.39	65.04	51.58	36.58	22.61	12.18
Percent reserves	7.98	8.72	8.14	6.91	5.79	4.53				
Net use of Fund credit	4.42	1.39	-2.16	-2.00	-2.30	-3.51	-3.82	-4.26	-3.98	-2.95
Disbursements	5.868	2.840	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Repayments and repurchases	1.45	1.45	2.16	2.00	2.30	3.51	3.82	4.26	3.98	2.95
					(CFAF billions)					
Memorandum items:										
Nominal GDP	826.5	888.6	955.4	1,028.5	1,110.0	1,198.4	1,293.9	1,397.0	1,508.2	1,628.4
Exports of goods and services	204.9	220.3	235.5	252.3	270.9	291.1	312.8	336.3	361.6	388.8
Government revenue	116.7	135.0	152.2	169.8	190.5	214.9	245.5	281.2	322.9	371.6
Debt service	3.5	2.7	3.4	3.3	3.8	4.9	5.0	5.9	6.1	6.8
Net Foreign Assets Central Bank	204.3	224.8	245.6	266.4	287.4	308.4	…	…	…	…
CFAF/SDR (period average)	769.5	765.6	760.6	758.1	757.2	756.4	756.4	756.4	756.4	756.4
Quota (SDR)	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4

Source: IMF staff estimates and projections.

Table 10. Guinea-Bissau: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]
Exchange Rates			D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	February 2018	April, 2018	M	M	M
Reserve/Base Money	February 2018	April, 2018	M	M	M
Broad Money	February 2018	April, 2018	M	M	M
Central Bank Balance Sheet	February 2018	April, 2018	M	M	M
Consolidated Balance Sheet of the Banking System	February 2018	April, 2018	M	M	M
Interest Rates[2]	February 2018	April, 2018	M	M	M
Consumer Price Index	February 2018	April, 2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	December 2017	April, 2018	M	Q	Q
Stocks of Central Government Domestic Debt[5]	December 2017	February, 2018	M	M	M
Stocks of Central Gov.-Guaranteed Domestic Debt[5]	2017	April, 2018	A	I	I
External Current Account Balance	2017	February, 2018	A	A	A
Exports and Imports of Goods and Services	2017	April, 2018	M	M	M
GDP	2017	April, 2018	A	A	A
Gross External Debt	2017	April, 2018	M	Q	Q
International Investment Position[6]	2016	October, 2017	A	I	I

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

Annex I. Risk Assessment Matrix[1]

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

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

Annex II. Capacity Development Strategy Note Summary

1. The Fund's engagement with Guinea-Bissau—through TA and the ECF-supported program entered in mid-2015—is helping spur the authorities' efforts to build institutional capacity and advance structural reforms. Notwithstanding challenges stemming from political uncertainties and lingering capacity constraints, TA departments and AFRITAC West are successfully delivering TA and training in key areas identified in the ECF arrangement. This includes tax and customs administration, PFM (including Treasury management), debt management, banking, and economic statistics. The TA has, along with support from other development partners, contributed to an increasing trend in tax and customs revenues, and, more recently, improvements in PFM and debt management.

2. TA in 2017 delivered encouraging results as it overlapped with a buoyant economy and added reform momentum since late 2016. TA in 2017 was mainly geared towards tax and customs administration, where it along with strong economic growth and rising cashew prices, contributed to a 28 percent nominal increase in tax revenue. There were also notable accomplishments in PFM and debt management, including elimination of non-regularized expenditure, halting of arrears accumulation, reprofiling of debts, and reduced debt servicing costs. These advances helped secure a much-improved fiscal position. At the same time, TA faced significant constraints in absorption capacity, stemming from lack of needed equipment, undefined work procedures, and insufficiently trained staff. TA recommendations have generally been welcomed by the authorities but implementation has often been slow.

3. For 2018, TA should continue to focus on revenue mobilization and public finances more generally. Although increased, government revenue remains well below that of peer countries and is insufficient to address pressing social and infrastructure spending needs. To help enhance revenue mobilization, TA will need to continue to help build basic administration capacity but will also need to extend into tax policy where there has been little change in decades and there is scope for simplification and modernization. In addition, as enhanced fiscal space enables rising expenditure, stepped up TA in PFM will be important to improve budgeting and planning procedures. TA efforts should continue to consolidate and track budget execution and management.

4. Other important TA areas include banking, economic statistics, and legal affairs. In the financial sector, MCM is advising on how to address high NPLs and on securing compliance with prudential regulations. In statistics, real sector data will be the main area of focus, given plans to publish rebased national accounts. In addition, LEG would help the authorities strengthen capacity of the Financial Intelligent Unit (CENTIF) to undertake its core AML/CFT functions, and develop the capacity of the Ministry of Finance and Economy to undertake AML/CFT supervision of exchange houses.

TA Plan for 2018 (FY2019)

Priorities	**Objectives**
Public Financial Management	*Improve budget forecasting, execution, and control* • Record all expenditures in the financial management system (SIGFIP) before payment. • Strengthen the capacity of the new unit in the Directorate General of Budget and update early year projections in the second half of the year. • Prepare budget proposal on a timely basis. • Ensure that all items in the budget are classified correctly. • Broaden the budget horizon by preparing a multi-year expenditure plan. • Streamline budget execution procedure and leave financial verification within SIGFIP. • Strengthen treasury management, and improve coordination between budget and cash management.
Tax Policy	*An overall assessment of the tax system* • Simplifying the fragmented, complex, and outdated tax legislation. • Assessing draft legislative proposals. • Identifying improvements to Guinea-Bissau's approach to taxing the cultivation, processing and export of cashew nuts.
Customs Administration	*Enhance collection of duties and taxes, ensure customs control, and facilitate legitimate trade* • Strengthen the capacity of the unit in charge of auditing goods value assessment. • Strengthen core customs functions, including valuation and risk management.
Tax Administration	*Strengthen administrative performance, raise compliance and improve revenue collection.* • Establish a risk compliance strategy. • Guarantee necessary resources for the tax administration's operations. • Implement the IT strategic plan to provide support for core processes. • Ensure that taxpayers are registered and captured in the IT system. • Develop and implement a policy to manage tax arrears. • Strengthen fundamental processes, such as registration, filing and payment. • Update auditing practices to enhance compliance. • Strengthen the large tax payers office.
Debt Management	*Enhance capability of the Ministry of Finance's Debt Directorate and ensure consistency between debt projections and annual budgets/fiscal projections.* • Build debt directorate workforce for middle office and public securities tasks. • Redeploy personnel based on the new organization of services. • Update the manual of procedures. • Finalize a draft bill on the creation and functioning of a debt management committee. • Install DMFAS 6.0 with assistance of the World Bank and UNCTAD.
Financial Sector	*Safeguard financial stability, improve financial intermediation.* • Recapitalize banks to meet the minimum capital requirement. • Reduce NPLs, including by facilitating collection of collateral. • Bring legal closure to the 2015 bank bailout. • Develop/design a national plan for financial inclusion.
Economic Statistics	*Enhance compilation and dissemination* • Publish by July 2018 revised national accounts with updated base year. • Strengthen INE institutional capacity. • Design a template for CsPro to process survey data. • Migrate to MS Excel for processing of survey data. • Complete household survey on employment, informal sector, and expenditure. • Use MS Excel template for processing financial statement developed by TA experts. • Collect necessary data to produce the industrial production index. • Involve Ministry of Finance to produce a revised organizational structure of INE. • Strengthen BCEAO capacity in BOP compilation.

5. **AFR staff, TA departments, and AFRITAC West observed that political instability, fragile institutions, and low absorption capacity are the key challenges to effective implementation of TA recommendations.** Guinea-Bissau's history of conflict and pervasive rent seeking coupled with ongoing capacity constraints and weak policy coordination entail a high risk of suboptimal outcomes. To mitigate these risks, efforts are needed to insulate economic institutions from political interference. There is also the need to strengthen efforts to coordinate Fund TA with assistance provided by other development partners (such as World Bank, EU, and US Treasury who are also providing TA in the fiscal area) to minimize duplication and cost. The Fund encourages other TA providers to share their TA plans and recommendations through our Res Rep office.

Authorities' Views

6. **The authorities agreed with the direction of Fund TA and the emphasis on revenue mobilization and PFM.** However, the authorities noted that additional support would be desirable in some key areas, namely: improving the expenditure chain, budget preparation and control, treasury practices, public investment program, and improving financial intermediation. Regarding mode of delivery, the authorities prefer a mix of TA and training that is tilted more towards field presence of long-term resident advisors and with more Portuguese speaking experts.

Appendix I. Letter of Intent

Bissau, Guinea-Bissau
May 16, 2018

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

Dear Ms. Lagarde,

1. The Government of Guinea-Bissau remains strongly committed to the economic program supported by the three-year Extended Credit Facility (ECF) Arrangement that was approved by the IMF Executive Board on July 10, 2015. The arrangement, the fourth review of which was completed by the Executive Board on December 11, 2017, supports our economic program and aims to consolidate macroeconomic stability, accelerate growth, and reduce poverty.

2. The attached Memorandum of Economic and Financial Policies (MEFP) updates that of November 17, 2017. It describes recent economic developments and summarizes our progress in implementing policies and structural reforms under the ECF-supported program. The MEFP also outlines our macroeconomic policies and structural measures for the period ahead.

3. As explained in the MEFP, we observed all performance criteria and indicative targets for end-December 2017, and our performance relative to structural benchmarks was satisfactory. We met six out of eight structural benchmarks for this review, as we missed the installation and use of upgraded debt management software, and the preparation of a draft legislation for a small taxpayer regime. The first of these measures was subsequently completed. The second will be addressed as part of a broader tax policy reform in line with recommendations from IMF technical assistance, for which we will present a strategy to the Council of Ministers by July 2018.

4. Economic activity remained robust in 2017, supported by favorable developments in our terms of trade and prudent macroeconomic management. Fiscal balances improved sharply due to enhanced revenue mobilization and careful management of expenditures. The continued growth and improved investor confidence is supporting credit expansion and financial inclusion, despite lingering challenges from non-performing loans.

5. For the medium term, we expect real GDP growth to average around 5 percent a year, as we improve critical infrastructure and strengthen the business environment to support private activity. While the country remains vulnerable to adverse movements in cashew and oil prices, continued prudent economic policies will help ensure healthy external and fiscal positions. Moreover, we will work closely with development partners to ensure that investment projects are well coordinated.

6. To underpin macroeconomic stability and debt sustainability, we will vigorously pursue domestic revenue mobilization and control expenditure to keep the overall fiscal deficit within 3 percent of GDP. We will limit non-concessional domestic borrowing and maintain our policies of zero non-regularized

expenditures, zero new arrears, and zero short-term or non-concessional external borrowing. We will further continue to strengthen our debt management capacity and work to quickly resolve all outstanding domestic and external arrears.

7. To promote stability in the banking system, we remain committed to a speedy and transparent resolution of the voided bank bailouts of 2015. Any intervention in the sector will be in line best international practices, and any direct government involvement, should it be necessary, will be transient and with minimal risk to the treasury.

8. Based on our overall performance, as well as the strength of policies described in the attached MEFP, the government requests that the Executive Board of the IMF completes the fifth review under the ECF arrangement, and releases the sixth tranche in the sum of SDR 3.028 million. To support continuity in the face of the upcoming parliamentary election and to fill an emerging balance of payments gap, we request an extension of the current ECF arrangement by one year to July 9, 2019, and augmentation of the resources available under the arrangement by SDR 5.68 million.

9. The government believes that the measures and policies set out in the attached MEFP are adequate for achieving the objectives of the program, but stands ready to take any additional measures that may become necessary for this purpose. We will consult with the IMF on the adoption of these measures and in advance of revisions to policies contained in the MEFP, in accordance with IMF policies on such consultation. The government will continue to provide the IMF with all information necessary to ensure the implementation and regular monitoring of the program.

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

Yours sincerely,

/s/

Aristides Gomes

Prime Minister, and Minister of Economy and Finance, Guinea-Bissau

Attachments: I. Memorandum of Economic and Financial Policies

II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

Bissau, May 16, 2018

BACKGROUND

1. **Guinea-Bissau adopted a medium-term economic and financial program (2014–18) supported by an arrangement with the International Monetary Fund (IMF) under the Extended Credit Facility (ECF).**[1] The program aims to entrench macroeconomic stability and advance structural reforms to support efficient public service delivery, private sector development, and inclusive growth. The fourth review under the program was completed in December 2017.[2] This Memorandum of Economic and Financial Policies (MEFP) supplements the MEFP of November 17, 2017. It presents our performance relative to the performance criteria and other targets under the three-year ECF-arrangement, and outlines economic and financial policies as well as structural reforms for 2018-19.

2. **The security situation remains calm and there has been important progress on overcoming the country's political crisis.** In early 2018, Prime Minister Embaló was replaced by Mr. Artur Silva. Several political figures were then subjected to ECOWAS sanctions, as the appointment of Mr. Silva was considered a breach of the 2016 Conakry Accord. A new Prime Minister with broad support, Mr. Aristides Gomes, was appointed in mid-April, followed by the first sitting of Parliament since late 2015 and the formation of an inclusive government. Parliamentary elections have been scheduled for November 2018.

3. **While the ECF-supported program has enabled a substantial improvement in our economy, vigilance is needed to ensure continued progress.** A key objective for the year ahead is to further strengthen revenue mobilization to enable a large step up in capital spending while keeping the overall fiscal deficit within 3 percent of GDP in line with the WAEMU criterion. A recent weakening of our terms of trade has, however, contributed to balance of payments pressures, and the upcoming election period poses an additional challenge. To address these pressures and provide continuity, we are requesting a one-year extension of the ECF arrangement with a twenty percent of quota augmentation of access. We are also engaging other development partners to advance inclusive growth and poverty reduction.

RECENT ECONOMIC DEVELOPMENTS

4. **Economic activity remained buoyant and consistent with program expectations.** Real GDP growth is estimated at 5.9 percent in 2017, slightly higher than previously estimated and roughly the same level as in 2015–16. The growth performance was aided by high cashew prices that boosted exports (cashew accounted for more than 90 percent of exports) and farmers' incomes.

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

[2] IMF Country Report No. 17/380. Guinea-Bissau: 2017 Article IV Consultation and Fourth Review Under the Extended Credit Facility Arrangement—Staff Report.

This, along with public investments in roads and other critical infrastructure, enabled a resurgence in economic activity. At the same time, consumer price inflation averaged just 1.1 percent in 2017.

5. Higher exports notwithstanding, the external current account turned a deficit in 2017. Imports increased by 21 percent, reflecting higher demand for construction materials and consumer goods in the context of higher incomes and rising investment. Moreover, net factor income declined due to still inconclusive negotiations with the EU for fishing compensation. As a result, the current account swung from a surplus of 1.3 percent of GDP in 2016 to an estimated deficit of 0.5 percent in 2017. Nevertheless, the overall balance was positive at 2.9 percent of GDP in 2017, reflecting an increase in net foreign assets of the local BCEAO.

6. Government revenue mobilization in 2017 benefitted from favorable economic trends and stepped-up administrative reforms. Supported by vigilant tax and customs administration, buoyant economic activity helped boost the tax-to-GDP ratio by 1.3 percentage points of GDP to 10.4, comfortably exceeding the program target. The gains were derived mainly from corporate income tax, sales tax, and import duties. Although collection of non-tax revenue slowed in the second half of the year, due mainly to absence of EU fishing compensation resulting from still inconclusive negotiations, the dividend payment from the regional central bank (BCEAO) during the first half of the year caused this category to be in line with the full-year target (2.4 percent of GDP). Grants, which were boosted by budget support from Saudi Arabia in the first half of the year, saw a further unanticipated increase during the second half of the year from higher project grants, mainly from the World Bank, Bill & Melinda Gates Foundation, and United Nations Systems. This caused total grants to exceed the program target by 1.4 percent of GDP. Altogether, total revenue and grants were 2.4 percent of GDP above the end-December target of 15.9 percent.

7. Further gains in public financial management helped consolidate administrative improvements. The weekly Treasury Committee meetings have significantly strengthened expenditure control. During the year, we avoided non-regularized expenditures (*DNTs*) as well as domestic and external arrears. In addition, improvements in debt management helped reduce borrowing costs. While the ratio of spending to GDP was lower than in 2016, the higher than programed revenue enabled an increase in spending relative to program while still achieving the targeted fiscal balances. Total spending was higher than programmed by 2.0 percent of GDP, mainly due to wages and salaries, goods and service, and other current spending. Nevertheless, the overall cash balance exceeded the program target by 0.4 percent of GDP.

8. High non-performing loans in the banking system continue to constrain financial intermediation. Banks' earnings and profitability remain low, with return on banking system assets averaging just under 1 percent in 2016–17. At the same time, commercial bank credit to the private sector (gross of provisions and including all five banks) expanded by 8.2 percent in 2016 but fell by 2.9 percent (year-on-year) by end-2017. The overall weak evolution of credit reflects considerable heterogeneity, with some banks scaling back in the context of a large overhang of non-performing loans (NPLs) and others expanding more aggressively. At end-2017, NPLs gross of provisioning amounted to 35 percent of bank credit, still very high but slightly down from 39.4 percent at end-2014. Net NPLs declined during the same period by some 7 percentage points to 15.6 percent at end-2017. This followed significant provisions made in early 2017 by banks affected by the voided 2015 bailout in accordance with recommendations by the WAEMU Banking Commission. One bank remains significantly undercapitalized.

PROGRAM PERFORMANCE

9. All performance criteria (PCs) for end-December 2017 were met (Table 1). The floor on domestic tax revenue was exceeded by CFAF 12 billion (17.3 percent). In addition, consistent with their zero-ceilings, there was no non-concessional nor short-term external borrowing, and no external arrears were accumulated. Net domestic credit to central government (NCG) was below the program ceiling, notwithstanding two guarantees, with bank disbursements totaling CFAF 1.3 billion, issued by the government to support priority initiatives.

10. Performance relative to indicative quantitative targets was also good, with all four indicators met. The floor on the domestic primary balance was above the program target by 0.1 percent of GDP. At the same time, we continued avoiding any new domestic arrears as well any non-regularized expenditures, reflecting our gains in public financial management. In addition, the floor on social and priority spending was exceeded by 26.5 percent.

11. Progress in implementing key structural measures was generally good (Table 3). Six out of eight structural benchmarks (SBs) earmarked for the fifth ECF review were observed as envisioned. The government:

- Submitted a 2018 budget to the Council of Ministers that was subsequently approved.
- Submitted to the Council of Ministers a management improvement plan for EAGB that was subsequently approved. The statutes for EAGB were, however, not in compliance with OHADA standards and are being revised.
- Prepared on a rolling basis (i) monthly cash-flow projections consistent with the annual budget; quarterly reports on (ii) ministry-level budget execution with details along economic classification of expenses and (iii) external debt commitments, agreements, and disbursements; and (iv) monthly reports from EAGB detailing the utility's financial flows.

Two structural benchmarks were not completed on time:

- The newest version of the debt management software (DMFAS 6.0) was installed, albeit after the deadline. Its effective use for debt analysis and debt service projections will allow the authorities to produce a draft quarterly debt report covering both, domestic and external debt by end October and a fully-fledged report by January 2019. The work is being supported by UNCTAD and the World Bank.
- Following recent IMF TA on tax policy, it has become clear that completion of a new regime for small tax payers is best achieved as part of a more comprehensive tax reform. We therefore intend to purse vigorously a wide-ranging tax reform aimed at simplifying and modernizing the tax code. To this end, we aim to submit to the Council of Ministers by end-

July 2018 a plan outlining the reform, and propose this as a structural benchmark to replace the missed benchmark for the small tax payer regime.

12. More generally, the government remains fully committed to the structural reform agenda outlined in the previous MEFP. Our objectives for strengthening revenue mobilization, expenditure management, debt management, public service delivery, and the business environment all remain unchanged. Aspects of the agenda are being extended, and new measures are being proposed to advance progress in these areas (see below). We recommit to timely implementation of the envisioned structural reform agenda under the ECF-supported program over its extension period.

MEDIUM TERM ECONOMIC OUTLOOK AND POLICIES

A. Economic Outlook

13. The economic outlook remains favorable, albeit with somewhat weakened terms of trade and subject to significant risks. The updated macroeconomic framework projects real GDP growth at an average of 5.3 percent a year in 2018-19. This reflects increased public and private investment supported by prudent economic policies. Due to higher oil prices and a small projected decline in international cashew prices, however, Guinea-Bissau's terms of trade are projected to deteriorate by 7.4 percent in 2018. Along with rising imports associated with higher investment and with the negotiations on fishing compensation from the EU (previously around 0.6 percent of GDP) still ongoing, this is projected to cause a widening of the external current account deficit to an average of 2.8 percent of GDP in 2018-19. For the remainder of the medium term (2020-23), growth is projected at 5 percent per year, with strong activity in agriculture, construction, and services supported by expected improvements in electricity supply and the overall business environment. Private credit expansion is expected to recover to around 9 percent a year, in response to the continued strong GDP growth and measures to encourage financial intermediation and inclusion. Consumer price inflation would remain subdued but rise slowly to 2.8 percent by 2023 (below the WAEMU convergence criterion of 3 percent). Risks to the economic outlook emanate from the price of cashew and political instability.

14. As public investment steps up, vigilant tax administration and expenditure control would contain the fiscal deficit. Reflecting a determined push to address energy and other infrastructure gaps, government investment is projected to rise from 7 percent of GDP in 2017 to 8.5 percent in 2018 and then rise more gradually through the medium term. The fiscal deficit (cash basis) is projected to widen to 2.9 percent of GDP in 2018 and then gradually narrow, remaining below the WAEMU convergence criteria of 3 percent of GDP in all years. The projected fiscal trajectory will be supported by continued advances in domestic revenue mobilization and improvements in treasury management procedures and practices, all with a vigilant eye on the evolution of public debt. Infrastructure projects will continue to be financed mostly through concessional loans and grants. At the same time, social expenditure will be geared to support enhanced service delivery in health and education.

B. Economic Policies

15. The government's program for 2014-18 continues to guide our strategies for shared growth and prosperity. Our strategies are focused on (i) undertaking needed infrastructure and social spending while maintaining fiscal discipline; (ii) strengthening debt sustainability; (iii) ensuring financial sector stability while bolstering healthy financial intermediation and inclusion, and (iv) improving economic statistics. To underpin these objectives, the government will continue to foster private sector development and improvements in the business environment. Related reforms include steps to promote policy transparency, good governance, and the rule of law, and to improve the targeting of social support. Strengthened resource mobilization, including from our development partners, will be essential for adequate financing of the nation's development agenda.

Fiscal Policies

16. Domestic revenue mobilization remains a key priority. We will continue to build on earlier gains in domestic revenue mobilization, targeting total government revenue of 18.8 percent of GDP in 2018 (up from 18.3 percent in 2017) with further increases over the medium term. To this end, we have assigned taxpayer identification numbers (TINs) to more than 14,000 individuals and over 1,300 corporations as of end-December 2017, and the uniform sales invoices is now used by about 500 companies. We have extended SYDONIA to custom posts in three districts, done away with the practice of applying flat-rate customs fees for goods imported by land and moved to the general tariff regime, and have stepped up tax controls at the land border posts with enhanced focus on high-tax items. We have also moved forcefully to meet all required procedures as agreed with CITES for the export of the stock of seized timber. We continue to shun petroleum subsidies by regularly adjusting domestic fuel prices in line with the evolution of global fuel prices. We are also enforcing higher standards for customs clearing agents, strengthening coordination between the tax and customs administration, and vigorously pursuing irregularities and taking disciplinary actions as required.

17. Our revenue mobilization objectives will be underpinned by measures to strengthen tax and customs administration. With the support of Fund TA, we are working to (i) continue using the Statement of Contributions and Taxes Withheld at Source (DECIRF), to ensure that all taxes withheld at source are transferred to DGCI, (ii) ensure that all taxpayers with required formalization standards file returns for industrial contribution, (iii) extend the Integrated Tax Management System to all tax districts and departments, while combating non-filing of tax returns, (iv) enforce the use of standardized invoices and filing compliance, and (v) strengthen monitoring of large taxpayers. For the remainder of 2018 and beyond, the government will take steps to enhance revenue collection by:

- Fully implementing the IT master plan (Plano Diretor de Informatica – PDI) to create interfaces between DGCI and other entities' IT systems.
- Adopting a model for recording tax payments to ensure that they are expeditiously and consistently captured by the IT system.

- Requiring use of taxpayer identification numbers (TINs) for payment of taxes and all related transactions with public agencies (proposed SB for September 2018).
- Establishing a special tax collection working group to enforce tax collection from large debtors (proposed SB for September 2018). With the stepped-up enforcement, we aim to collect CFAF 1.2 billion in tax arrears in 2018.
- Preparing quarterly reports (starting September 2018 for performance as of end-June 2018, and quarterly thereafter) on progress in minimizing tax exemptions.

18. We will also work to enhance tax policies, including by launching a fundamental overhaul of the tax system. Largely unchanged for decades, the tax system in Guinea-Bissau is characterized by antiquated legislation, contradictions, a large compliance burden and pervasive administrative discretion. We aim to simplify and modernize the tax system by developing a new set of tax laws that are simple for taxpayers to understand and easier for the government to administer. We will prepare a tax reform strategy to be presented to the Council of Ministers (proposed SB for July 2018) for its endorsement. In line with the advice provided by technical assistance by the IMF, the proposed tax policy reform will include:

- A broader tax base for the goods and services tax (IGV) by putting a limited set of standard exemptions in legislation, while repealing or canceling all existing legislative and administrative exemptions from the IGV. In particular, we will: repeal the 2015 Budget Law amendments to the IGV Code and the Investment Code, and cancel all IGV exemptions already granted based on Article 12 of the Investment Code. The IGV would then impose a standard rate of 17 percent on imported goods and services and on domestic supplies of large taxpayers (such as those with turnover greater than 100 million FCFA), while exported goods and services would be zero-rated and exemptions limited to those that are legislated.
- Simplifying income taxes by repealing the current income tax legislation in its entirety and adopting a system with the following components.
    - A single tax on employment income imposed at source, applying reasonable tax rates to employment income defined as broadly as possible to encompass all forms of compensation, including: wages, employment benefits, and pension income.
    - A neutral and broad-based investment income tax.
    - A new tax on business income, including self-employment income, comprising of: (i) a zero rate on businesses and self-employed individuals with subsistence levels of turnover; (ii) a low flat tax (say, 10 percent) on turnover for micro businesses; (iii) a single tax for small and medium-sized businesses, with a moderate rate (say, 25 percent) on a simplified tax base of turnover minus the cost of inputs on which the business has already paid tax (wages and salaries on which personal income tax was paid, plus purchases of goods and services on which IGV was paid); and (iv) a standard corporate income tax for large businesses at the same moderate rate, designed to be fully compliant with UEMOA Directives.

- Rationalizing the taxation of cashew exports in line with the general income tax reform, with a view to, overtime, repealing both existing taxes and the large, complex, and overlapping sets of fees and charges. Cashew exports would then be subject to a simple, turnover-based income tax and only two fees – a phytosanitary certification fee and a customs fee – set at levels that recover the marginal cost of the inspection and verification services provided to an exporter.
- Gradually replacing the present property tax regime with a modern, comprehensive, and market-value based property tax. As a first step, technical assistance would be sought to develop a detailed multi-year roadmap and action plan concerning administrative reform and the development of a comprehensive fiscal cadaster. Property transfer taxes would be maintained, with some amendments, until a tax based on market values is implemented.

The overhaul of the tax system would be overseen and led by a new tax policy unit within the Ministry of Finance that we intend to create, with the DGCI tax reform office refocused on modernizing tax administration and readying the DGCI to implement a new tax system. In addition to embarking on these reforms, starting July 2018, we will recover stamp taxes collected by the National Aviation Agency from travel agencies, (15,000 CFAF per passenger), with a view to raising CFAF 1.5 billion in 2018.

19. Expenditures will be contained in line with the overall deficit target and the program PC on net domestic credit to central government. For 2018, we foresee total expenditure increasing to 21.4 percent of GDP mainly on the back of higher capital spending. To limit the expansion in debt and contingent liabilities, we continue to shun contingent liabilities and are vigilantly watching our non-concessional project borrowing from the regional development bank (BOAD). To this end, we are proposing expansion of the ceiling on net domestic credit to central government (NCG) to include non-concessional borrowings from BOAD, and will prioritize concessional loans and grants. The NCG ceiling for 2018 is foreseen at CFAF 19.1 billion, which is equal to net total non-concessional BOAD disbursements in the 2018 budget.

20. Our planned scaling up of public investments will be rigorously assessed, to foster efficiency and value for money. To improve the road network and electricity supply, we have contracted loans from BOAD, the Arab Bank for Economic Development (BADEA), and other development partners. These investments will help improve the business environment and boost economic growth. Ensuring their efficacy and efficiency will, however, require close coordination among the different agencies and ministries involved. For the electricity sector, we have with assistance from the World Bank drafted a management improvement plan for EAGB that lays out steps culminating with the implementation of a service contract (proposed SB for September 2018). As part of this process, new statutes for EAGB will be adopted (by July 2018) after which a new board will be appointed and a tender for the management service provider will be launched. More generally, to support the scaling up of investments, we are enhancing procedures for project selection and assessment, and we are reviewing the public investment plan to ensure its consistency with already contracted loans.

21. Gains in treasury management and broader institutional reforms will be extended to advance public financial management (PFM) and improve the quality of spending. The government, through the Treasury Committee, will continue to strengthen compliance with PFM rules at the ministerial level and to align expenditures with available resources. In 2017, the government (i) tightened annual budget management procedures considerably, and (ii) rolled out monthly cashflow projections consistent with the budget, which aided budget execution. In early 2018, the Ministry of Finance adopted a calendar for the preparation of the budget that is in line with the WAEMU regulations and best international practices. Going forward, the government will:

- Continue to equip and task the Treasury Committee to ensure timely regularization of all expenses and avoid the use of DNTs.
- Continue to avoid any accumulation of domestic or external arrears.
- Consolidate medium-term payroll management reforms by instituting a wage policy to inform annual public-sector wage increases and to contain growth in the wage bill.
- Enhance management and prioritization of capital spending by strengthening the investment database, developing a matrix of short-term expenditure priorities, improving the system for formal project appraisal and evaluation, and integrating infrastructure maintenance needs into the annual budgets.
- Continue to prepare and review rolling monthly treasury cash-flow projection tables consistent with the 2018 budget (ongoing SB), to guide and inform our Treasury operations.
- Further the preparation of timely quarterly reports on ministry-level budget execution with details along economic classification of expenses (ongoing SB).
- Adopt a procedure to validate investment projects through circularization of the information available from SIGFIP, BCEAO, and donors and other financiers.
- Progressively improve budget projections and monitoring by: (i) requesting ministries to provide forecasts of financial needs for the quarter, and (ii) providing ministries with reliable information on commitment ceilings at least a quarter in advance.

Borrowing Policies and Debt Management

22. To better monitor and enhance our debt carrying capacity, the government will continue to strengthen debt management. The Debt Directorate is now equipped with the latest version of the debt management software (DMFAS 6.0), which should help to improve debt service projections and enable production of detailed quarterly debt reports covering both domestic and external debt by January 2019. A Public Debt Management Strategy will be ready by September 2018. Moreover, we continue to strengthen information flow between the Debt Directorate and the Treasury, and we are enhancing the capacity of the staff. As we do so we will continue to provide on a rolling basis a quarterly report on external debt and a monthly report on EAGB financial flows (ongoing SBs).

23. We will also continue to work towards resolving all external legacy arrears. Progress in addressing external legacy arrears have yielded the following as of end-2017: (i) cancellation of our arrears to the erstwhile Franco-Portuguese bank, (ii) clearance of our arrears to the United Arab Emirates, and (iii) debt relief on near-Paris Club terms of our arrears to Exim Bank of Taiwan Province of China. Moreover, the terms for the restructuring of Guinea-Bissau's debt to Brazil have been negotiated and are being submitted to the Brazilian Senate for approval. Negotiations with other bilateral creditors (Angola, Libya, Pakistan, Russia) for resolving the remaining legacy arrears are continuing. The government remains current on its remaining external debt obligations.

24. Avoiding expensive domestic loans should help minimize the debt service burden. In 2017, the government shunned expensive loans from local commercial banks, following the cancellation of credit lines with these banks and a consolidation of claims into Treasury securities at lower interest rates. In addition, the government successfully rescheduled in two phases debt service arrears with BOAD. To further reduce the trajectory of expensive borrowing, we will align disbursements on already signed loans to absorptive capacity and will pursue higher grant elements (concessionality) in new loan contracts. To ensure consistency with program objectives, we have also expanded the program ceiling on net domestic credit to central government to include disbursements of non-concessional BOAD loans (see paragraph 19 above; and Table 2).

25. The government is dealing with domestic suppliers' arrears, while avoiding government guarantees. The total claims outstanding of the former exceed CFAF 100 billion, including 14 billion as the remaining balance from an audit covering claims from 1974-99 and 86 billion from a second audit for 2000-07 that has still to be validated. To provide clarity, the Government is seeking support from development partners to audit all outstanding claims as soon as possible. The Government will then draw up a reimbursement strategy with a view to settling the legitimate domestic arrears, after netting out any tax liability of the beneficiaries, by end 2018. Further, we will shun issuance of new government guarantees while vigilantly taking stock of all existing guarantees.

Financial Sector Policies

26. Recapitalizing banks as required and resolving high levels of NPLs is crucial to safeguarding financial stability and supporting healthy growth of the financial sector. With the support of the regional Banking Commission (BC), the government remains committed to promoting healthy financial intermediation. The government is focused on finding a solution to one problem bank, facilitating the injection of capital by a new proper-and-fit strategic investor to inject capital. We are also examining options to address the high level of NPLs in the banking system, including by encouraging banks to engage more actively in debt restructuring that is affordable to borrowers and by assessing the scope for accelerated collection of collateral. In any actions taken, we will adhere to best international practices, strive to avoid possible market distortions or conflicts of interest, and minimize risks to the budget.

27. The government remains committed to close monitoring of the financial system and steadfast implementation of prudential norms. In December 2017, the Banking Commission (BC) issued instructions to two undercapitalized banks, requiring them to meet the minimum capital requirement by end-June 2018. The banks were at the same time barred from distributing dividends and required to report monthly on actions taken. The government fully supports the BC in its strong supervisory enforcement of prudential regulations. To help enhance oversight, we are stepping up our monitoring and analysis of developments in the banking system.

28. Deepening financial markets remains critical for financial inclusion. With the assistance of development partners, we continue to implement initiatives to broaden access to finance (including for SMEs), while encouraging use of the banking system (including for mortgages). The authorities are updating their national plan for enhancing financial inclusion, and will continue to implement incentives for SMEs in accordance with measures adopted by the WAEMU Council of Ministers in September 2015. The latter set of measures comprise (i) re-financing of BCEAO claims on eligible SMEs, and (ii) regulatory incentives to banks for credit to eligible SMEs, including reduced weighting of claims on these enterprises in reckoning compliance with prudential ratios. The government continues to maintain a credit registry to aid financing decisions of banks and to enhance access to credit.

Other Structural Reforms

29. Improving the business environment for private sector development and job creation is a key priority. The government will continue to refrain from interventions in the cashew sector that impede competition or otherwise prevent markets from functioning freely. Indeed, the recent removal of export taxes in a trading partner country, should help strengthen demand for our cashew exports and support prices for producers as well as exporters. In this connection, the increase in this year's reference farmgate price should be understood as a guide to producers and not a price floor. To stimulate private sector activity, we are taking steps to sell state assets that have been slated for privatization, including the fruit and vegetable processing plant near Safim that was constructed with a loan from Exim Bank of India. Moreover, we will continue to provide a one-stop shop for business registration and tax assessments and settlement.

30. To enhance transparency and forestall contingent liabilities on public resources, the government will continue to audit state-owned enterprises (SOEs) and agencies. In 2017, we performed for the first time financial audits of eight state enterprises. This effort to shed light on the finances of SOEs should be considered a major accomplishment given the capacity constraints. The audits cover (i) National Institute for Social Insurance, (ii) ANAC (Civil Aviation Administration), (iii) EAGB, (iv) *GuinéTelecom*, (v) *GuinéTel,* (vi) APGB (Sea Port), (vii) ARN (National Regulatory Authority for Communications), and (viii) *Fundo Rodoviário* (Road Fund). The audits revealed widespread weaknesses but also some areas of improvement. Highlights include: (i) at EAGB, improvements in accounting and control in 2017 compared to previous years; ii) at the National Institute for Social Insurance, efforts to improve revenues but also very high levels of administrative expenditure; (iii) at the Sea Port, impairment of ability to cover costs of services provided due to inherited debts. All eight reports revealed significant weaknesses in financial management, internal control, and procurement functions, with many instances of non-conformity or non-compliance on transactions related with procurement, financial and non-financial assets management, and staff expenses. All reports recommend setting up or strengthening internal control bodies and establishing manuals of administrative and accounting procedures. These findings and recommendations will help us devise reform actions to ensure higher effectiveness, accountability, and fiscal compliance of SOEs. The *Tribunal de Contas* plans to follow-up with further investigations that might lead to sanctions and recovery of public funds. Another 15 audits of public entities, covering both financial and management aspects, are scheduled for completion by end 2018, and we are resourcing the *Tribunal de Contas* accordingly. In accordance with Decree 1/2017, all measures will be taken to ensure that all SOEs produce and publish annual accounts approved by their respective Administrative Councils from 2018 onwards.

31. The government will continue to ensure transparency in military spending. The undertaking of a first audit of military spending covering 2014 to the first half of 2017 is a significant achievement. The auditors' report confirms improvements in financial management and control, as DNTs were avoided in 2017 and almost all salary payments are now made by bank transfer directly to the beneficiaries. Military spending continues to be on budget and generally executed per normal expenditure procedures. The audit points to some irregularities in procurement and expenses associated with health and food, and it recommends further improving the internal control system in the Ministry of Defense. We intend to define follow-up actions to further increase the transparency in military spending. We will also take into consideration the recommendations of the World Banks' ongoing Public Expenditure Review in the Defense sector.

Combating Corruption and Rent Seeking

32. The government will continue to advance and strengthen its anti-corruption and anti-rent-seeking framework with assistance from development partners. We have approved the national strategic plan for Anti-Money Laundering/Combating of the Financing of Terrorism (AML/CFT), and have given the Financial Intelligence Unit (CENTIF) sufficient autonomy and financial resources to conduct its mandate. In response, CENTIF has developed a system to allow reporting entities to submit suspicious transaction reports (STRs) electronically. This new system, along with TA from the Inter-Governmental Group against Money Laundering in West Africa (GIABA), has led to an increase in the number of STRs received. Nonetheless, more needs to be done including (i) enacting the uniform WAEMU AML/CFT law, (ii) raising awareness of international AML/CFT standards among government AML/CFT agencies and reporting organizations, (iii) strengthening arrangements for interagency and international cooperation, (iv) further developing the capacity of CENTIF staff, including enhancing analytical tools, and (v) taking steps to enable supervisors in the Directorate-General for Supervision of Financial Activities and Insurance (DGSFAI) to commence supervisory operations.

33. To strengthen transparency and governance, the government will support implementation of a comprehensive asset disclosure regime for public officials. We will to this end (i) make available the resources and support that the *Inspeção Superior de Luta Contra a Corrupção* needs to effectively carry out its mandate, (ii) prepare a comprehensive template for the declaration of assets and interests by all officials concerned, (iii) prepare amendments to Law 7/99 to cover all politically exposed persons per Financial Action Task Force (FATF) standards, and (iv) strengthen the capacity of law enforcement agencies to undertake corruption-related investigations.

Improving Economic Statistics

34. The government places high emphasis on improving the compilation and timely dissemination of economic statistics. The government will reinvigorate, with the assistance of external experts and local consultants, the unit responsible for identifying technical assistance needs and helping implement data-enhancing recommendations. We are also dedicating resources to strengthen staff capacity and improve relevant infrastructure. Supported by IMF technical assistance, we plan to publish by July 2018 revised national accounts with updated base year following a mini household survey. We are continuing regular coordination meetings among the BCEAO, the Ministry of Economy and Finance, the national cashew authority, the Ministry of Agriculture, the Ministry of Commerce, and the Bureau of National Statistics, to ensure consistency of datasets, especially between the balance of payments (BOP), monetary and financial statistics, and government finance statistics. We are also seeking to improve the timeliness of data, with, among others, quarterly BOP data disseminated within four months after the end of the reference period and annual BOP data within one year after the end of the reference period.

C. Program Monitoring

35. The program will continue to be monitored semi-annually, based on quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2), covering the period to end-2018. The performance criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU) along with the relevant adjustors. The semi-annual reviews will be based on data at end-June and end-December. The sixth program review (following extension of the ECF-supported arrangement) will be based on the end-June 2018 performance criteria, and is scheduled to be completed on or after October 15, 2018. As noted above, we are proposing expansion of the quantitative NCG ceiling to include non-concessional borrowing amounts from the regional development bank, BOAD, which should help enhance oversight over expensive project loans and reduce eventually the debt service burden. In addition, we are proposing four new structural benchmarks: one (for July 2018) relating to tax reform; two (for September 2018) to improve tax compliance and collection; and one (for September 2018) for implementing the service contract for EAGB management.

36. The government believes that the policies and measures included in this memorandum are adequate to achieve the objectives of the economic program for 2018. It stands ready, however, to take any further financial and structural measures that may become necessary to ensure the success of its policies. It reaffirms its commitment to the ECF-supported program, and further undertakes:

- To refrain from accumulating any new domestic arrears other than those specified in the TMU, and from contracting non-concessional external loans; and
- Not to introduce or increase restrictions on payments and transfers related to current international transactions, to enter into any bilateral payment agreements not in conformity

56 with Article VIII of the IMF Articles of Agreement, or to impose or intensify any import restrictions for balance of payments purposes; and

- To adopt any additional financial and structural measures that may become necessary to ensure the success of its policies, only in consultation with the IMF.

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

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

	2016	2017								
		Mar.[1]		Jun.		Sept.[1]		Dec.		
		Prog.	Prel.	Prog.	Prel.	Prog.	Prel.	Prog.	Prel.	Status
Performance criteria[1]										
Total domestic tax revenue (floor)	63.5	16.3	13.0	33.4	41.4	48.9	63.0	69.3	81.3	met
Net domestic credit to the central government (ceiling)[2]	15.9	8.0	11.3	6.4	-0.4	0.0	-1.2	0.0	-0.2	met
Ceiling on new non-concessional external debt (US$ millions)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	met
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	met
External payment arrears (ceiling)[3]	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	met
Indicative targets										
New domestic arrears (ceiling)	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	met
Social and priority spending (floor)	32.2	7.7	10.8	21.7	23.2	23.2	34.4	31.0	39.2	met
Domestic primary balance (commitment basis, floor)	-14.2	-6.4	-2.2	-5.1	6.2	-1.0	6.0	3.1	3.9	met
Non regularized expenditures (DNTs, ceiling)	1.9	0.3	0.0	0.4	0.0	1.0	0.0	0.5	0.0	met
Memorandum items:										
Clearance of domestic payment arrears	6.1	0.4	0.4	0.4	1.4	0.4	1.5	2.2	2.4	
External budgetary assistance (US$ millions)[4]	0.4	0.0	0.0	0.0	4.8	0.0	4.8	4.8	4.8	
ECF disbursements (SDR millions, flow)	5.1	0.0	0.0	3.0	0.0	0.0	3.0	3.0	3.0	
Concessional loans (US$ millions)[5]	7.1	4.6	2.4	5.4	4.8	5.4	8.0	12.0	9.5	

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

[2] 2017 includes new loan guarantees (CFAF 0.4 billion for Bissau City and CFAF 0.9 billion for pilgrims to Mecca).

[3] These apply on a continuous basis.

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

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

Table 2. Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets for 2018

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

	2017	2018				
		Mar.[1]		Jun.	Sept.[1]	Dec.
		Prog.	Est.	Proposed targets		
Performance criteria[1]						
Total domestic tax revenue (floor)	81.3	12.1	14.8	40.2	68.7	89.3
Net domestic credit to the central government (ceiling)[2]	-0.2	13.7	3.9	13.3	13.6	19.1
Ceiling on new non-concessional external debt (US$ millions)[3]	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)[3]	0.0	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling)[3]	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
Social and priority spending (floor)	39.2	7.8	7.8	26.0	33.0	42.0
Domestic primary balance (commitment basis, floor)	3.9	-11.7	2.9	1.1	10.0	10.7
Non regularized expenditures (DNTs, ceiling)	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Clearance of domestic payment arrears	2.4	0.9	0.1	1.2	2.3	3.0
External budgetary assistance (US$ millions)[4]	4.8	0.0	0.0	0.0	0.0	0.0
ECF disbursements (SDR millions, flow)	6.1	0.0	0.0	3.0	0.0	3.0
Concessional loans (US$ millions)[5]	9.5	3.4	6.3	12.6	16.8	21.0

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

[2] Coverage expanded for 2018 to include all non-concessional borrowing in domestic currency, including project financing from regional lenders (projected at CFAF 19.1 billion in 2018).

[3] These apply on a continuous basis.

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

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

Table 3. Guinea-Bissau: Structural Benchmarks under the ECF Program, 2017-18

Measures	Timing	Macro Rationale	Status
Revenue Mobilization			
Extend the new uniform sales invoice to all taxpayers.	September 2017	To improve tax administration and compliance.	Met.
Complete the assignment of taxpayer identification numbers to all taxpayers.	September 2017	To improve tax administration and compliance.	Met.
Prepare a draft law, with technical assistance from the IMF, for a new small taxpayer regime that is simple and transparent, protects the revenue base, lowers compliance costs, and ensures global participation.	December 2017	To improve tax administration and compliance.	Not met. Benchmark replaced by new measure below.
Submit to Council of Ministers a strategy for comprehensive tax reform, with coverage including small tax payers and with rules that are simple and minimize discretion in assessment.	July 2018	To improve tax administration and compliance.	Proposed benchmark.
Establish Special Tax Collection Working Group to enforce tax collection from large debtors.	September 2018	To improve tax compliance and collection.	Proposed benchmark.
Require the use of TINs for payment of taxes and all related transactions with public agencies.	September 2018	To improve tax administration and compliance.	Proposed benchmark.
Expenditure Management			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2017 budget.	December 2016 for January 2017, and monthly thereafter.	Enhance expenditure management.	Met.
Prepare timely quarterly reports on ministry-level budget execution with details along economic classification of expenses.	December 2016, and quarterly thereafter.	Enhance budget execution and monitoring.	Met.
Debt Management			
Prepare a quarterly report on external debt commitments, agreements, and disbursements.	December 2016 for September 2016 Report, and quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments.	Met.

Table 3. Guinea-Bissau: Structural Benchmarks under the ECF Program, 2017-18 (concluded)			
Measures	**Timing**	**Macro Rationale**	**Status**
Install the newest version of the debt management software, DMFAS 6.0, and commence its use for effective debt analysis and debt service projections.	December 2017	Strengthen debt management and eschew payment arrears.	Not Met. The software was installed in early 2018.
Business Environment and Overall Policy			
Complete, with assistance of the WAEMU Banking Commission, an assessment of the two banks affected by the bailout, and articulate an action plan to bring these banks into compliance with prudential norms.	April 15, 2017	To strengthen the health of the banking system.	Met.
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2017	Reduce transaction costs.	Met.
EAGB will submit reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and on a monthly basis starting from October 2016.	October 2017 and monthly thereafter	To instill transparency in EAGB operations and financial position.	Met. However, the quality of data remains poor.
Submission of a 2018 budget to Council of Ministers.	December 2017	Proper fiscal management.	Met.
Submit management improvement plan for EAGB to the Council of Ministers.	March 2018	To enhance efficiency in the utility, reduce electricity supply costs, and avoid contingent liabilities.	Met.
Start implementation of service contract for EAGB management.	September 2018	To enhance efficiency in the utility, reduce electricity supply costs, and avoid contingent liabilities.	Proposed benchmark.

Attachment II. Technical Memorandum of Understanding

Bissau, Guinea-Bissau, May 16, 2018

INTRODUCTION

1. This memorandum sets out the understandings between the Bissau-Guinean authorities and the International Monetary Fund (IMF), regarding the definitions of the quantitative performance criteria (PCs) and structural benchmarks (SBs) for the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. Unless otherwise specified, all quantitative PCs and indicative targets will be evaluated in terms of cumulative flows from the beginning of the period, as specified in Table 2 of the Memorandum of Economic and Financial Policies (MEFP).

2. Program exchange rates.[1] For the purpose of the program, foreign currency denominated values for 2018 will be converted into local currency (CFA francs) using a program exchange rate of CFA 554.21/US$ and cross rates as of end-December 2017.

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. For the purposes of this adjustor, the programmed 2018 tax arrears recovery path is as follows (cumulative up to indicated month during the year): CFAF 0.64 billion (for end-March), CFAF 1.28 billion (end-June), CFAF 2.24 billion (end-September), and CFAF 3.2 billion (end-December).

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

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

a. the net position of the Government with the national BCEAO, including: treasury bills and bonds (excluding on-lent IMF credit); less 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

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

the central Government; less central Government deposits (excluding project-related deposits) in commercial banks; and

c. any other CFAF-denominated commercial credit, including net disbursement of project loans by the regional development bank, BOAD (excluding concessional loans with a grant element of at least 35 percent).

Any domestic loan guarantees issued by the government will be included in the net position of the government as defined above. The net position of government will exclude any transactions resulting from the voided bank bailout.

6. **Adjustment clauses**. The ceiling on NCG will be adjusted as follows:

a) upwards (downwards) by up to the CFA value of the shortfall (excess) in external program grants and loans (both programmed at zero in 2018), including IMF drawings—the upward adjustment will be capped at the equivalent of CFAF 10 billion; and

b) downwards (upwards) by the excess (shortfall) in the CFA value of any programmed privatization receipts (programmed at zero in 2018). In addition, central government deposits at the BCEAO and the commercial banks will be adjusted downwards by any clearance of domestic arrears (excluding any arrears accumulated during the program period, 2015-19) in excess of programmed levels. For the purposes of this adjustor, the programmed domestic arears clearance path in 2018 is as follows (cumulative up to indicated month during the year): CFAF 0.9 billion (for end-March), CFAF 1.2 billion (end-June), CFAF 2.3 billion (end-September), and CFAF 3 billion (end-December).

7. **Data source**. The data source for the above will be the monetary survey *(Position Nette du Gouvernement (PNG))* table, as amended to include net project borrowing from BOAD, submitted monthly to the IMF staff by the Ministry of Finance.

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

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

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

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

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

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

E. External Payment Arrears of the Central Government

12. Definition. For the purposes of this performance criterion, external payment arrears, based on the currency test, are debt service payments that have not been paid on due dates (taking into account the contractual grace periods, if any) and that have remained unpaid 30 days after the due dates. Arrears not to be considered arrears for the performance criteria, or "non-program" arrears, are defined as: (i) arrears accumulated on the service of an external debt for which there is a request for rescheduling or restructuring; and/or (ii) the amounts subject to litigation which are not considered as arrears for the performance criteria. They are defined as "non-program" arrears.

QUANTITATIVE INDICATIVE TARGETS

A. New Domestic Arrears of Central Government

13. Definition. The ceiling on domestic arrears are defined as accounts payable (*resto-a-pagar*) 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.

B. Social and Priority Poverty-Related Expenditures

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

C. Domestic Primary Balance (Commitment Basis)

15. The domestic primary fiscal deficit on a commitment basis is calculated as the difference between government revenue and domestic primary expenditure on commitment basis. Government revenue includes all tax and nontax receipts and excludes external grants. Domestic primary expenditure consists of current expenditure plus domestically financed capital expenditure, excluding all interest payments and all project loans. 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)

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

PROGRAM MONITORING

17. The extension and augmentation of access under the ECF Arrangement would allow two additional program reviews, the sixth and seventh reviews. The sixth review will be based on end-June 2018 performance criteria and is scheduled to be completed on or after October 15, 2018. The seventh review (the last after the extension of the Arrangement) will be based on end-December 2018 performance criteria and is scheduled to be completed on or after April 15, 2019. 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 quantitative PCs and benchmarks in electronic format as indicated in the attached summary table to IMF staff (Table 1).

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

Table 1. Guinea-Bissau: Summary of Reporting Requirements

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

[1] Directorate General for Forecasts.

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

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

May 16, 2018

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR EXTENSION AND AUGMENTATION OF ACCESS, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

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

Guinea-Bissau remains at moderate risk of external debt distress, with heightened vulnerabilities on total public debt. Compared to the last Debt Sustainability Analysis (DSA)[3], the current DSA reflects a widening of the overall fiscal cash deficit by about 0.4 percent of GDP in 2018-19, driven by an increase in government investment, and a moderately greater share of domestic financing. The medium and long-term outlook is otherwise broadly unchanged. Under the baseline scenario, all external debt indicators are below their indicative policy-dependent thresholds throughout the projection period. However, the PV of debt-to-exports ratio breaches its threshold for an extended period under the most extreme shock scenario. Overall public debt, while projected to decline, is above its indicative benchmark and is expected to remain so over the next four years. There is therefore a need to pursue prudent fiscal and debt management policies and strengthen debt management capacity. The results of the DSA are contingent on the authorities successfully implementing structural reforms, improving the business environment to boost production and exports, and relying mainly on concessional borrowing and grants for project financing.

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

[2] Debt sustainability thresholds are determined by the three-year (2014–16) average of the Country Policy and Institutional Assessment (CPIA) rating (2.5), which classifies Guinea-Bissau as having weak policy performance and institutional framework.

[3] The previous DSA was prepared in November 21, 2017. IMF Country Report No. 17/384

BACKGROUND

1. **Overall, Guinea-Bissau's public debt position has continued to improve.** Enhanced revenue mobilization and careful control of expenditure resulted in a marked reduction of the fiscal deficit to under 2 percent of GDP in 2017. Moreover, the authorities have maintained their commitment to bolstering debt management. They are increasingly benefitting from TA from development partners, including AFRITAC West, to enhance their administrative capacity. They continue to negotiate rescheduling and/or outright cancellation of remaining legacy arrears with external creditors.[4] They are borrowing in foreign currency only on concessional terms. At the same time, although the authorities are pursuing grants and concessional financing for all infrastructure projects, non-concessional financing in domestic currency has lately been rising, due mainly to increased borrowing from West African Bank for Development (BOAD).

2. **A scaling up of investment to address gaps in the country's infrastructure is underway.** Government capital spending, almost all foreign-financed, increased from 6.1 percent of GDP in 2016 to 7 percent in 2017 and is projected to reach 8.5 percent in 2018–19. The impact on debt dynamics will be checked by continued strengthening of revenues and plans to keep the overall deficit within the 3 percent of GDP WAEMU criterion. While the authorities signed in 2017 new loans for infrastructure amounting to more than 8 percent of GDP, disbursement on these loans is expected to take place over a number of years.[5] Indeed, only a small part (0.3 percent of GDP) of the new loans is reflected in the 2018 budget, consistent with likely implementation but also reflecting a need to strengthen investment planning and the associated borrowing strategy.

3. **The outlook is supported by sustained economic growth.** Real GDP growth has averaged about 6 percent in 2015–17 and is projected at about 5 percent into the medium and long term. International cashew prices, which hit a record in the 2017 cashew campaign, are expected to remain close to the recent high, adding incentives for continued strong cashew production and export. Domestic policies to improve the business environment, enhance the supply and availability of electricity and water, and address other large infrastructure gaps are also expected to support economic activity and help moderate the debt service ratios.

4. **Debt trajectories, although improved, remain subject to adverse shocks.** Guinea-Bissau's economy is vulnerable to adverse export shocks due to its limited diversification. If cashew prices dip, export earnings would decline and fiscal receipts dwindle. Absent policy adjustment, this would weaken the present value (PV) of debt-to-exports and of debt-to-revenue ratios along with related debt service ratios. Further, considering Guinea-Bissau's history of conflict, a reescalation of political tensions could frustrate prudent economic and fiscal policies, and dent debt sustainability.

[4] Guinea-Bissau has arrears, totaling USD$ 44.5 million (3.3 percent of GDP) at end-2017, to Angola, Brazil, Libya, Russia, and Pakistan for longstanding debts that were not covered in the HIPC process.

[5] In 2017, Guinea-Bissau's government contracted loans totaling some US$112 million to boost electricity supply and road construction and diversify agriculture. Lenders include BOAD, the Arab Bank for Economic Development in Africa (BADEA), the Saudi Fund for Development (SFD) and the African Development Bank (AfDB). Three loans from BOAD (76 percent of the total new loans) were all non-concessional as evaluated at the 35 percent grant element threshold. Most of the new loans are still not effective, as terms in the loan contracts (such as budget allocation of counterpart funds) have not yet been achieved and have yet to start disbursing. In addition, loans for US$39.5 million were signed by public enterprises.

BASELINE ASSUMPTIONS

5. Macroeconomic projections are slightly different from the November 2017 DSA (Box 1). Compared to the previous estimates and projections, real GDP growth for 2016-19 has edged up, the fiscal deficit is slightly smaller in 2017 but larger in 2018, and the external current account deficit is slightly larger 2017 and through most of the medium term. Moreover, beyond 2019, the upward trend in the external debt-GDP ratio has been smoothed out to reflect a somewhat slower expansion in the externally-financed part of the public investment program.

Box 1. Baseline Macroeconomic Assumptions

Real GDP growth: Real GDP growth, estimated at 5.9 percent in 2017 (up from 5.5 percent previously), is projected to moderate to 5.3 percent in 2018 and then 5 percent over the medium and long term. The better growth performance in 2017 reflects higher farmers' incomes from cashew prices and increased construction activity. The steady projected growth over the medium and long term is supported by anticipated higher public and private investments (including in electricity, water, and roads), structural reforms (in public financial management, tax administration and debt management) and enhancements in the business environment generally.

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

	2016	2017	2018	2019	Medium Term (first six years)	Long Term[1]
Real GDP growth (percent)						
Previous DSA	5.8	5.5	5.0	5.0	5.1	5.0
Current DSA	6.3	5.9	5.3	5.2	5.1	5.0
Primary fiscal balance (cash basis)						
Previous DSA	-3.6	-1.4	-1.9	-1.9	-1.8	-2.1
Current DSA	-3.5	-1.0	-2.1	-2.0	-1.9	-2.1
Non-interest current account balance						
Previous DSA	1.6	0.1	-2.2	-2.7	-1.5	-2.8
Current DSA	1.6	-0.3	-3.1	-2.2	-2.1	-2.9
External debt						
Previous DSA	14.4	12.5	13.0	13.7	14.2	18.5
Current DSA	14.7	12.4	12.0	12.2	13.8	17.9
Domestic debt						
Previous DSA	39.7	36.7	35.3	33.6	32.3	19.5
Current DSA	38.6	37.7	38.3	36.6	33.0	20.5

Source: Bissau-Guinean authorities and staff estimates.
[1] Covers the period 2024-38 for the current DSA, 2023-37 for the previous DSA.

Consumer price inflation: Inflation remained low in 2017, averaging just 1.1 percent. Reflecting increasing economic activity and rebound in global oil prices, consumer price inflation is expected to average over 2 percent in the medium-term but remain below the WAEMU convergence criterion (3 percent).

Government balances: The primary deficit is expected to widen to 2.1 percent of GDP in 2018 and then stay broadly at that level. Reforms to improve debt management are anticipated to reinforce the positive fiscal trends.

External current account balance: In 2017 higher cashew export prices were not sufficient to offset higher imports, especially of construction materials, turning the current account balance into an estimated primary deficit of 0.3 percent of GDP in 2017. In 2018, the primary current account deficit is projected at 3.1 percent of GDP, reflecting lower cashew prices, higher oil prices, absence of EU fishing compensation, and increased imports associated with higher investment activity.

Official financing flows: Official transfers are expected to increase slightly from the current 4.7 percent of GDP and average around 5 percent of GDP in the long term. Concessional loans are assumed to be at the standard terms—i.e., 0.75 percent interest rate with 38 (IDA) and 20 (AFDB) years maturity and six-year grace period. Paris Club (Non-Paris Club) loans assume average interest rates of 1.2 (2) percent with 23 (20) years of maturity and 6 (10) years grace period.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

6. **Guinea-Bissau remains at moderate risk of debt distress.** All the indicators for external debt are lower than their respective policy-dependent thresholds throughout the projection period (2018–38) under the baseline scenario. The results indicate some room for debt-financed projects. However, the uncertainty associated with new borrowing for the authorities' ambitious investment plans, and especially the large amount of new loans signed in 2017, entails new risks. To curb that upward trend, new project borrowing is expected to be at favorable/concessional terms or otherwise restrained over the coming years. To support this outcome, it would be important that new project loans are signed only when projects are selected following recognized assessment procedures, backed by a sector plan, and ready to be executed.

7. **The external debt outlook remains vulnerable to adverse export and currency depreciation shocks.** As in the previous DSA, the PV of debt-to-exports ratio breaches its threshold in the most extreme exports shock scenario. A depreciation of the Communauté Financière Africaine Franc (CFAF) relative to the currencies of main trading partners would add to this vulnerability, as debt service costs would rise in domestic currency terms. These risks underscore the need to diversify the economy and increase its resilience to shocks.

B. Public Debt Sustainability Analysis

8. **The PV of total public debt-to-GDP ratio, while projected to decline in the long term, is above its indicative benchmark and is expected to remain so over the next four years.** At end-2017, domestic debt (currency basis) amounted to 38.5 percent of GDP. This included project financing from BOAD (14.4 percent of GDP), debt to BCEAO (12.5 percent), local banks (2.9 percent), government debt guarantees (0.8 percent of GDP), T-bills held by regional commercial banks (3.8 percent of GDP), and arrears to local suppliers (estimated at 4.1 percent of GDP).[6] The current assessment shows the same general path as in the last DSA, with reductions in the baseline PV of debt-to-revenue and debt service-to-revenue ratios, reflecting projected improvements in fiscal revenues.

9. **The most extreme shock shows the effect of an increase in contingency liabilities of 10 percent of GDP in 2019 (Figure 2 and Table 4).** This shock would be consistent with the combined materialization of contingencies stemming from: (i) the possibility that legitimate domestic arrears could be larger than what is counted as part of government debt; (ii) outstanding government guarantees; (iii) debts of state-owned enterprises; and (iv) potential costs relating to the disputed bank bailout. The authorities are taking measures to contain these contingent liabilities and the associated risks to debt sustainability.

10. **Sensitivity tests indicate broadly the same vulnerability to shocks as the previous DSA.** In a scenario with growth and the fiscal primary balance at historical averages, most PV of debt ratios slightly exceed the previous levels for the period 2018-2022. The development in debt service is more mixed, with

[6] The Guinea-Bissau authorities are seeking support from development partners to audit all outstanding claims as soon as possible. The Government aims to develop by end-2018 a reimbursement strategy for settling all legitimate domestic arrears.

ratios falling above or below those of the previous DSA depending on the timeframe. This comparative performance does not change under the other two alternative scenarios—(i) primary balance unchanged from 2018, and (ii) permanently lower GDP growth (Table 4).

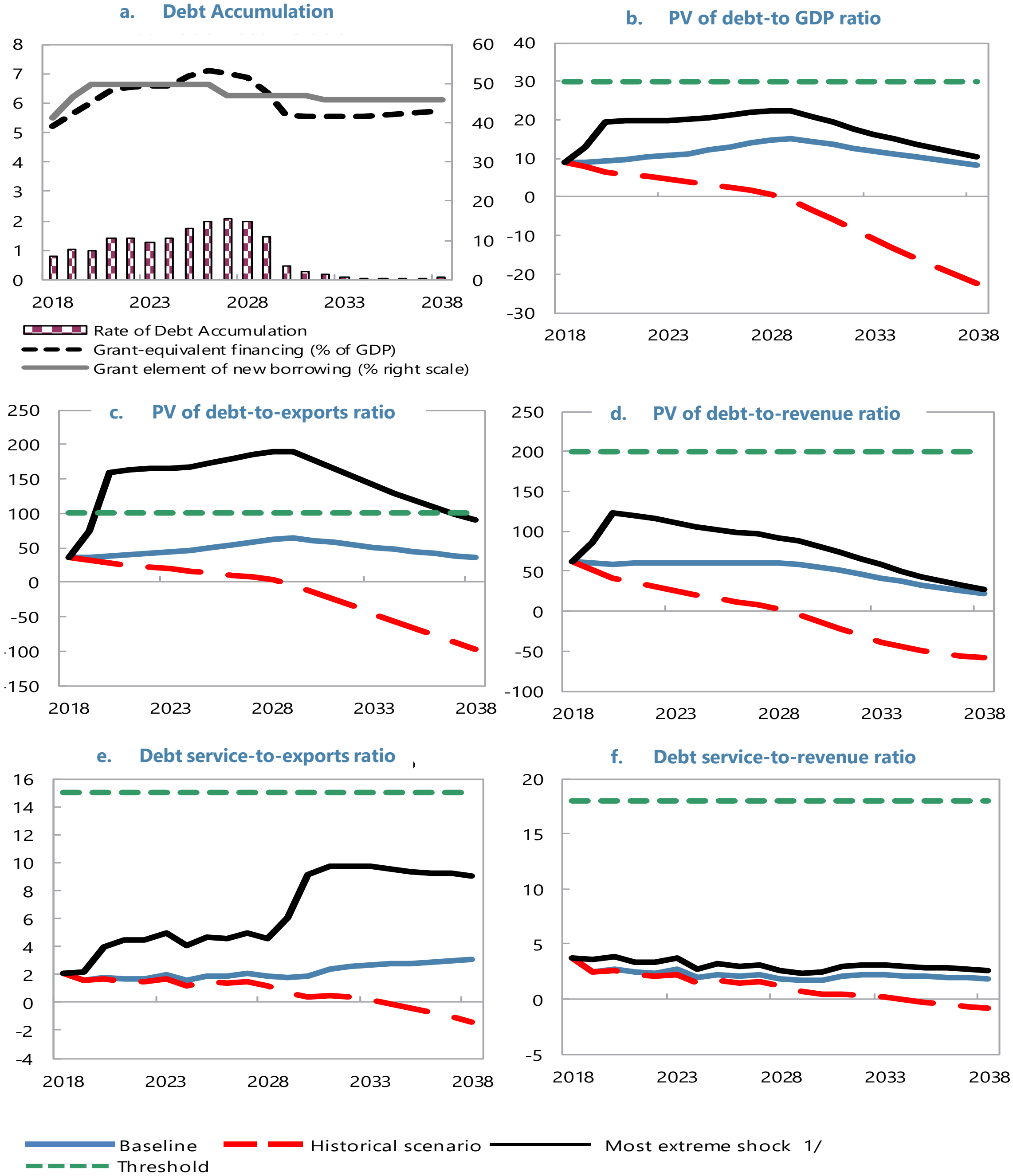
CONCLUSIONS

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

AUTHORITIES' VIEWS

12. The authorities broadly concur with staff's views on debt sustainability and the recommendations. They agree that debt sustainability depends crucially on sound macroeconomic policies. They emphasized that the pace of public investment would be determined by available external concessional resources and committed to integrate better new borrowing in planning and budgeting frameworks. 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.

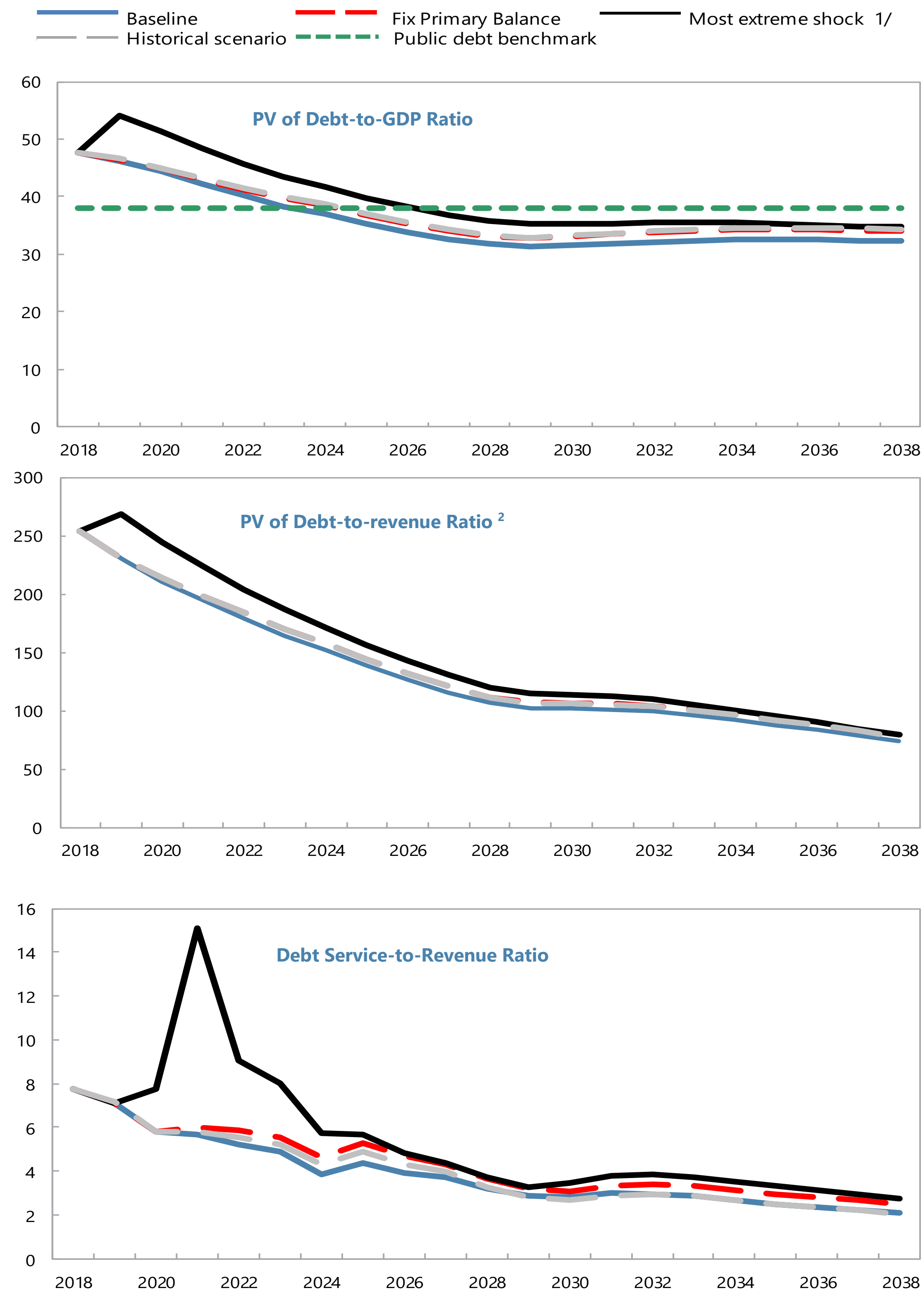
Figure 1. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2018–38 1/



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 2028. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Guinea-Bissau: Indicators of Public Debt under Alternative Scenarios, 2018–38 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 2028.
2/ Revenues are defined inclusive of grants.

Table 1. Guinea-Bissau: External Debt Sustainability Framework, Baseline Scenario, 2015–38 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
	2015	2016	2017	Average	Deviation	2018	2019	2020	2021	2022	2023	2018-2023 Average	2028	2038	2024-2038 Average
External debt (nominal) 1/	**15.1**	**14.7**	**12.4**			**12.0**	**12.2**	**12.8**	**14.1**	**15.2**	**16.1**		**23.1**	**11.5**	
of which: public and publicly guaranteed (PPG)	15.1	14.7	12.4			12.0	12.2	12.8	14.1	15.2	16.1		23.1	11.5	
Change in external debt	0.1	-0.4	-2.3			-0.4	0.2	0.6	1.3	1.2	0.9		1.2	-0.8	
Identified net debt-creating flows	-3.3	-4.9	-4.1			-0.1	-1.2	-0.9	-1.0	-1.2	-1.4		0.3	2.6	
Non-interest current account deficit	**-2.0**	**-1.6**	**0.3**	**-1.1**	**1.2**	**3.1**	**2.2**	**2.0**	**2.0**	**1.8**	**1.7**		**2.4**	**4.1**	2.9
Deficit in balance of goods and services	4.7	4.8	4.2			6.5	6.0	5.6	5.3	5.0	4.7		4.8	5.5	
Exports	27.5	26.5	27.4			24.8	24.8	24.7	24.5	24.4	24.3		23.8	23.1	
Imports	32.2	31.3	31.6			31.3	30.7	30.3	29.8	29.4	29.0		28.6	28.6	
Net current transfers (negative = inflow)	-4.1	-3.5	-3.5	-3.7	0.3	-2.3	-2.2	-2.2	-2.1	-2.0	-1.9		-1.6	-1.1	-1.4
of which: official	-0.9	0.0	-0.4			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	-2.6	-2.8	-0.4			-1.1	-1.5	-1.4	-1.2	-1.1	-1.1		-0.8	-0.4	
Net FDI (negative = inflow)	**-1.5**	**-2.0**	**-2.8**	**-2.1**	**0.6**	**-2.8**	**-2.9**	**-2.5**	**-2.5**	**-2.5**	**-2.5**		**-1.4**	**-1.1**	-1.4
Endogenous debt dynamics 2/	**0.3**	**-1.4**	**-1.7**			**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.5**	**-0.5**		**-0.8**	**-0.5**	
Contribution from nominal interest rate	0.2	0.3	0.2			0.1	0.1	0.1	0.1	0.2	0.2		0.2	0.1	
Contribution from real GDP growth	-0.9	-0.8	-0.8			-0.6	-0.6	-0.6	-0.6	-0.6	-0.7		-1.0	-0.6	
Contribution from price and exchange rate changes	1.0	-0.8	-1.1			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**3.4**	**4.6**	**1.8**			**-0.3**	**1.4**	**1.5**	**2.3**	**2.3**	**2.2**		**1.0**	**-3.4**	
of which: exceptional financing	0.1	-0.1	0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	9.1			8.8	9.1	9.3	9.8	10.4	10.8		14.7	8.3	
In percent of exports	...	...	33.1			35.6	36.5	37.6	40.1	42.6	44.4		61.9	36.1	
PV of PPG external debt	**...**	**...**	**9.1**			**8.8**	**9.1**	**9.3**	**9.8**	**10.4**	**10.8**		**14.7**	**8.3**	
In percent of exports	**...**	**...**	**33.1**			**35.6**	**36.5**	**37.6**	**40.1**	**42.6**	**44.4**		**61.9**	**36.1**	
In percent of government revenues	**...**	**...**	**70.7**			**62.8**	**59.6**	**58.1**	**59.6**	**60.6**	**60.1**		**60.4**	**21.7**	
Debt service-to-exports ratio (in percent)	**1.2**	**2.1**	**12.3**			**4.5**	**1.5**	**1.8**	**1.6**	**1.7**	**2.0**		**1.9**	**3.0**	
PPG debt service-to-exports ratio (in percent)	**1.9**	**2.1**	**12.3**			**2.3**	**1.5**	**1.8**	**1.6**	**1.7**	**2.0**		**1.9**	**3.0**	
PPG debt service-to-revenue ratio (in percent)	**3.8**	**4.6**	**26.2**			**4.0**	**2.5**	**2.7**	**2.4**	**2.4**	**2.6**		**1.8**	**1.8**	
Total gross financing need (Millions of U.S. dollars)	-33.8	-35.3	12.6			22.5	-6.1	-0.6	-2.6	-5.6	-8.0		51.4	276.5	
Non-interest current account deficit that stabilizes debt ratio	-2.1	-1.2	2.7			3.5	1.9	1.4	0.7	0.7	0.8		1.2	4.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.1	6.3	5.9	6.1	0.2	5.3	5.2	5.0	5.0	5.0	5.0	5.1	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	-6.4	5.8	8.1	2.5	7.8	9.9	3.4	3.6	3.3	3.3	3.3	4.5	2.8	2.8	2.8
Effective interest rate (percent) 5/	1.0	2.2	1.3	1.5	0.6	1.3	1.2	1.3	1.2	1.2	1.2	1.2	1.2	0.9	1.2
Growth of exports of G&S (US dollar terms, in percent)	35.4	8.2	18.2	20.6	13.8	4.9	8.7	8.2	7.8	8.0	7.9	7.6	7.6	7.7	7.6
Growth of imports of G&S (US dollar terms, in percent)	2.1	9.2	15.6	8.9	6.8	14.5	7.0	7.1	6.8	6.9	6.9	8.2	8.0	8.0	7.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	41.1	46.7	49.6	49.6	49.6	49.6	47.7	46.9	45.8	46.9
Government revenues (excluding grants, in percent of GDP)	13.7	12.1	12.8			14.1	15.2	15.9	16.5	17.2	17.9		24.4	38.5	27.3
Aid flows (in Millions of US dollars) 7/	67.9	46.6	73.8			83.9	104.8	128.4	155.1	169.8	182.3		292.5	452.1	
of which: Grants	67.9	46.6	73.8			73.7	84.2	94.3	104.3	115.4	127.6		187.2	402.9	
of which: Concessional loans	0.0	0.0	0.0			10.1	20.6	34.1	50.8	54.4	54.7		105.3	49.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.2	5.6	6.0	6.5	6.6	6.6		6.8	5.7	6.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			87.8	87.9	86.6	83.5	83.9	84.9		80.9	94.1	90.8
Memorandum items:															
Nominal GDP (Millions of US dollars)	1048.3	1178.7	1349.5			1562.1	1698.6	1847.3	2002.7	2173.0	2356.0		3456.4	7438.7	
Nominal dollar GDP growth	-0.6	12.4	14.5			15.7	8.7	8.8	8.4	8.5	8.4	9.8	8.0	8.0	8.0
PV of PPG external debt (in Millions of US dollars)			128.2			138.6	154.8	171.7	197.9	226.3	254.0		509.1	620.9	
(PVt-PVt-1)/GDPt-1 (in percent)						0.8	1.0	1.0	1.4	1.4	1.3	1.2	2.0	0.1	0.8
Gross workers' remittances (Millions of US dollars)	32.7	39.2	31.8			36.3	38.2	40.1	41.9	43.7	45.5		54.6	78.6	
PV of PPG external debt (in percent of GDP + remittances)	...	...	8.9			8.6	8.9	9.1	9.6	10.2	10.6		14.5	8.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	30.5			32.5	33.5	34.5	37.0	39.4	41.1		58.0	34.5	
Debt service of PPG external debt (in percent of exports + remittance	...	...	11.3			2.1	1.4	1.6	1.5	1.5	1.8		1.8	2.9	

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, 2018–38

(In percent)

	Projections							
	2018	2019	2020	2021	2022	2023	**2028**	2038
PV of debt-to GDP ratio								
Baseline	9	9	9	10	10	11	**15**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	9	8	7	6	5	5	**1**	-22
A2. New public sector loans on less favorable terms in 2018-2038 2	9	9	10	11	12	13	**20**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	9	9	10	10	11	11	**15**	9
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	9	13	20	20	20	20	**22**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	9	10	12	13	13	14	**19**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	9	11	12	13	13	14	**17**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	9	12	16	17	17	17	**21**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	9	13	13	14	15	15	**21**	12
PV of debt-to-exports ratio								
Baseline	36	37	38	40	43	44	**62**	36
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	36	31	27	24	22	19	**3**	-97
A2. New public sector loans on less favorable terms in 2018-2038 2	36	38	41	46	51	54	**85**	55
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	36	37	38	40	43	44	**62**	36
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	36	75	160	162	164	165	**190**	91
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	36	37	38	40	43	44	**62**	36
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	36	44	50	53	55	56	**72**	39
B5. Combination of B1-B4 using one-half standard deviation shocks	36	50	70	72	74	76	**94**	49
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	36	37	38	40	43	44	**62**	36
PV of debt-to-revenue ratio								
Baseline	63	60	58	60	61	60	**60**	22
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	63	51	42	36	31	26	**3**	-58
A2. New public sector loans on less favorable terms in 2018-2038 2	63	62	63	68	72	74	**83**	33
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	63	61	60	62	63	62	**63**	22
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	63	85	123	120	116	111	**92**	27
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	63	67	74	76	77	76	**76**	27
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	63	71	78	78	78	76	**70**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	63	78	102	101	99	96	**86**	28
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	63	84	82	84	85	85	**85**	31

Table 2. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–38 (concluded)

(In percent)

	Projections							
	2018	2019	2020	2021	2022	2023	**2028**	2038
Debt service-to-exports ratio								
Baseline	2	2	2	2	2	2	**2**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	2	2	2	1	1	2	**1**	-1
A2. New public sector loans on less favorable terms in 2018-2038 2	2	2	2	2	2	2	**3**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	2	2	2	2	2	2	**2**	3
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	2	2	4	4	4	5	**5**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	2	2	2	2	2	2	**2**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	2	2	2	2	2	2	**2**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	2	2	3	**2**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	2	2	2	2	2	2	**2**	3
Debt service-to-revenue ratio								
Baseline	4	3	3	2	2	3	**2**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	4	3	3	2	2	2	**1**	-1
A2. New public sector loans on less favorable terms in 2018-2038 2	4	3	3	3	3	3	**3**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	4	3	3	2	2	3	**2**	2
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	4	3	3	3	3	3	**2**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	4	3	3	3	3	3	**2**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	4	3	3	3	3	3	**2**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	4	3	3	3	3	3	**2**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	4	4	4	3	3	4	**3**	3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	47	47	47	47	47	47	**47**	47

Sources: Country authorities; and staff estimates and projections.

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

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

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

4/ Includes official and private transfers and FDI.

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

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

Table 3. Guinea-Bissau: Public Sector Sustainability Framework, Baseline Scenario, 2015–38

(In percent of GDP unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2038	2024-38 Average
Public sector debt 1/	52.4	53.9	50.8			50.9	49.4	47.9	46.5	45.1	43.7		40.1	35.5	
of which: foreign-currency denominated	15.1	14.7	12.4			12.0	12.2	12.8	14.1	15.3	16.1		23.1	11.5	
Net public debt	50.8	52.8	49.1			49.0	47.7	46.3	45.0	43.7	42.4		39.3	35.1	
Change in public sector debt	-2.6	1.5	-3.1			0.1	-1.5	-1.5	-1.4	-1.4	-1.4		-0.5	-0.2	
Identified debt-creating flows	-2.7	-1.2	-8.8			-0.4	-1.1	-1.3	-1.2	-1.2	-1.3		-0.5	-0.2	
Primary deficit	2.9	3.5	1.0	2.5	1.3	2.2	1.9	1.7	1.8	1.8	1.6	1.8	2.1	2.2	2.0
Revenue and grants	20.2	16.0	18.3			18.8	20.2	21.0	21.7	22.5	23.3		29.8	43.9	
of which: grants	6.5	4.0	5.5			4.7	5.0	5.1	5.2	5.3	5.4		5.4	5.4	
Primary (noninterest) expenditure	23.1	19.5	19.3			21.0	22.1	22.8	23.5	24.2	25.0		31.9	46.2	34.8
Automatic debt dynamics	-6.3	-4.8	-6.8			-2.5	-3.0	-3.0	-3.0	-3.0	-2.9		-2.6	-2.5	
Contribution from interest rate/growth differential	-6.7	-4.6	-4.9			-2.2	-2.9	-2.9	-2.9	-2.9	-2.8		-2.4	-2.4	
of which: contribution from average real interest rate	-3.5	-1.5	-1.9			0.4	-0.4	-0.5	-0.6	-0.6	-0.6		-0.5	-0.7	
of which: contribution from real GDP growth	-3.2	-3.1	-3.0			-2.6	-2.5	-2.4	-2.3	-2.2	-2.1		-1.9	-1.7	
Contribution from real exchange rate depreciation	0.3	-0.2	-1.9			-0.4	-0.1	-0.1	-0.2	-0.2	-0.2		...	...	
Other identified debt-creating flows	0.7	0.0	-3.0			-0.1	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	0.7	0.0	0.2			-0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	-3.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.1	2.7	5.7			0.5	-0.4	-0.2	-0.2	-0.2	-0.1		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	47.5			47.7	46.3	44.4	42.2	40.2	38.3		31.8	32.4	
of which: foreign-currency denominated	...	...	9.0			8.8	9.1	9.3	9.8	10.4	10.8		14.7	8.3	
of which: external	...	...	9.0			8.8	9.1	9.3	9.8	10.4	10.8		14.7	8.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	11.1	10.1	9.8			7.6	6.7	5.7	5.4	4.9	4.4		4.1	3.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	259.7			253.2	229.6	210.8	194.5	179.1	164.2		106.6	73.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	370.5			337.9	304.4	278.4	255.8	234.5	213.8		130.3	84.1	
of which: external 3/	...	...	70.4			62.5	59.6	58.1	59.6	60.6	60.1		60.4	21.7	
Debt service-to-revenue and grants ratio (in percent) 4/	6.6	8.0	24.0			7.8	7.1	5.8	5.7	5.2	4.9		3.2	2.1	
Debt service-to-revenue ratio (in percent) 4/	9.8	10.7	34.3			10.4	9.4	7.6	7.5	6.9	6.4		3.9	2.4	
Primary deficit that stabilizes the debt-to-GDP ratio	5.5	2.0	4.1			2.1	3.4	3.3	3.2	3.2	3.0		2.6	2.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.1	6.3	5.9	4.0	2.9	5.3	5.1	5.0	5.0	5.0	5.0	5.1	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	1.0	2.2	1.3	0.1	1.3	1.3	1.2	1.7	2.1	2.2	2.4	1.8	2.5	3.2	2.8
Average real interest rate on domestic debt (in percent)	-9.2	-4.5	-4.6	-2.7	5.4	...	-0.7	-1.4	-1.7	-2.2	-2.4	-1.7	-3.4	-3.7	-3.5
Real exchange rate depreciation (in percent, + indicates depreciation	2.3	-1.2	-14.0	-0.7	8.0	-3.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	12.1	6.1	5.9	4.9	6.2	0.1	2.2	2.4	2.5	2.8	2.8	2.1	2.8	2.8	2.8
Growth of real primary spending (deflated by GDP deflator, in percer	-0.7	-10.0	4.5	-0.5	3.7	14.9	10.4	8.3	8.4	8.3	8.0	9.7	10.4	11.8	9.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	41.1	46.7	49.6	49.6	49.6	49.6	47.7	46.9	45.8	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 4. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public Debt, 2018–38

	Projections							
	2018	2019	2020	2021	2022	2023	2028	2038
PV of Debt-to-GDP Ratio								
Baseline	48	46	44	42	40	38	32	32
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	48	47	45	43	41	40	33	34
A2. Primary balance is unchanged from 2018	48	46	45	43	41	40	33	34
A3. Permanently lower GDP growth 1/	48	47	45	43	42	40	37	52
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-202	48	48	48	46	45	43	40	47
B2. Primary balance is at historical average minus one standard deviations in 2019-202	48	47	47	44	42	40	33	33
B3. Combination of B1-B2 using one half standard deviation shocks	48	48	47	45	43	42	37	41
B4. One-time 30 percent real depreciation in 2019	48	50	47	45	42	40	31	33
B5. 10 percent of GDP increase in other debt-creating flows in 2019	48	54	51	48	46	43	36	35
PV of Debt-to-Revenue Ratio 2/								
Baseline	253	230	211	195	179	164	107	74
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	253	231	214	198	184	170	111	77
A2. Primary balance is unchanged from 2018	253	231	213	198	184	170	111	77
A3. Permanently lower GDP growth 1/	253	231	213	198	184	171	122	117
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-202	253	236	225	210	197	183	131	107
B2. Primary balance is at historical average minus one standard deviations in 2019-202	253	236	223	205	188	172	111	76
B3. Combination of B1-B2 using one half standard deviation shocks	253	236	222	207	192	178	122	94
B4. One-time 30 percent real depreciation in 2019	253	246	225	205	187	170	104	76
B5. 10 percent of GDP increase in other debt-creating flows in 2019	253	268	244	223	204	186	120	79
Debt Service-to-Revenue Ratio 2/								
Baseline	8	7	6	6	5	5	3	2
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	7	6	6	6	5	3	2
A2. Primary balance is unchanged from 2018	8	7	6	6	6	6	4	2
A3. Permanently lower GDP growth 1/	8	7	6	6	6	5	5	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-202	8	7	6	7	7	7	5	5
B2. Primary balance is at historical average minus one standard deviations in 2019-202	8	7	6	7	7	6	3	2
B3. Combination of B1-B2 using one half standard deviation shocks	8	7	6	7	7	6	5	4
B4. One-time 30 percent real depreciation in 2019	8	8	7	7	7	6	5	4
B5. 10 percent of GDP increase in other debt-creating flows in 2019	8	7	8	15	9	8	4	3

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

GUINEA-BISSAU

May 16, 2018

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR EXTENSION AND AUGMENTATION OF ACCESS, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

The African Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2018)

Membership Status
Joined: March 24, 1977; Article VIII

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	28.40	100.00
Fund Holdings of currency (Exchange Rate)	24.45	86.09
Reserve Tranche Position	3.98	14.01
SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	13.60	100.00
Holdings	17.86	131.25
Outstanding purchases and Loans:	**SDR Million**	**Percent Quota**
RCF Loans	3.55	12.50
ECF Arrangements	19.08	67.19

Latest Financial Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF	Jul 10, 2015	Jul 09, 2018	17.04	14.01
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				
	2018	**2019**	**2020**	**2021**	**2022**
Principal	1.45	1.45	2.16	2.00	2.30
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	1.45	1.45	2.16	2.00	2.30

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

Implementation of HIPC Initiative:

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

Debt Relief by Facility (SDR Million)

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

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

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

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

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

Safeguards Assessments:

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

Exchange System and Exchange Rate Arrangement

Guinea Bissau accepted the obligations of Article VIII, Sections 2, 3, and 4 with effect from January 1, 1997. It joined the WAEMU in 1997, and has no separate legal tender. The exchange system is free from multiple currency practices and exchange restrictions on the making of payments and transfers for current international transactions. Since January 1, 1999, the CFA franc has been pegged to the Euro at a fixed rate of € l = CFAF 655.957. On [June…], 2018, the rate of the CFA franc in terms of the SDR was CFAF [1009.95] = SDR 1. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus reflects only a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members.

Article IV Consultation

Guinea-Bissau is on the 24-month consultation cycle. The last Article IV consultation discussions with Guinea-Bissau were held in Bissau, September 10-October 3, 2017. The staff report was discussed by the Executive Board and the consultation was concluded on December 11, 2017.

Technical Assistance (2008–18)			
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 (2008–18)			
Department	**Type of Assistance**	**Time of Delivery**	**Purpose**
West AFRITAC	Short-term expert	February 2012	Real sector statistics
FAD	Short-term expert	March 2012	Tax administration
West AFRITAC	Short-term expert	March 2012	Customs administration
West AFRITAC	Short-term expert	February 2013	Public financial management
FAD	Staff	April 2013	Revenue administration
West AFRITAC	Short-term expert	April 2013	National accounts
West AFRITAC	Short-term expert	April 2013	Public financial management
West AFRITAC	Short-term expert	September 2013	Customs administration
West AFRITAC	Short-term expert	September 2013	Real sector statistics
West AFRITAC	Short-term expert	October 2013	Government finance statistics
West AFRITAC	Short-term expert	March 2014	Real sector statistics
West AFRITAC	Short-term expert	August 2014	Tax administration
FAD	Staff	September 2014	Public financial management
FAD	Staff	September 2014	Tax administration
West AFRITAC	Short-term expert	September 2014	Customs modernization
West AFRITAC	Short-term expert	September 2014	Government finance statistics
West AFRITAC	Short-term expert	September 2014	Real sector statistics
West AFRITAC	Short-term expert	February 2015	Macroeconomic analyzing and prevision
West AFRITAC	Short-term expert	February 2015	Tax administration
MCM	Staff	March 2015	Banking sector: NPLs
West AFRITAC	Short-term expert	March 2015	Public financial management
West AFRITAC	Short-term expert	March 2015	National accounts
FAD	Staff	April 2015	Revenue administration
West AFRITAC	Short-term expert	April 2015	Real sector statistics
FAD	Short-term expert	June 2015	Tax administration
FAD	Short-term expert	July 2015	Tax administration
West AFRITAC	Short-term expert	July 2015	National Accounts
FAD	Short-term expert	September 2015	Revenue administration
FAD	Short-term expert	September 2015	Tax administration
FAD	Short-term expert	October 2015	Tax administration
West AFRITAC	Short-term expert	October 2015	Government finance statistics
FAD	Staff	December 2015	Tax administration
West AFRITAC	Short-term expert	December 2015	National Accounts
FAD	Short-term expert	January 2016	Tax administration
FAD	Short-term expert	March 2016	Tax administration
West AFRITAC	Short-term expert	March 2016	Customs administration
West AFRITAC	Short-term expert	March 2016	National Accounts
FAD	Short-term expert	April 2016	Customs administration
FAD	Short-term expert	April 2016	Tax administration

Technical Assistance (2008–18)			
Department	**Type of Assistance**	**Time of Delivery**	**Purpose**
FAD	Short-term expert	June 2016	Tax administration
West AFRITAC	Short-term expert	July 2016	Tax administration
West AFRITAC	Short-term expert	July 2016	National Accounts
FAD	Staff	September 2016	Tax administration
West AFRITAC	Short-term expert	October 2016	Government finance statistics
West AFRITAC	Short-term expert	November 2016	National Accounts
FAD	Short-term expert	December 2016	Revenue administration
West AFRITAC	Short-term expert	February 2017	Government finance statistics
FAD	Short-term expert	March 2017	Tax administration
FAD	Staff	March 2017	Tax administration
FAD	Staff	April 2017	Tax administration
FAD	Short-term expert	April 2017	Revenue administration
West AFRITAC	Short-term expert	May 2017	National Accounts
West AFRITAC	Short-term expert	September 2017	National Accounts
West AFRITAC	Short-term expert	October 2017	Public debt
West AFRITAC	Short-term expert	November 2017	Government finance statistics
FAD	Short-term expert	November 2017	Revenue administration
FAD	Staff	November 2017	Risk management
West AFRITAC	Short-term expert	December 2017	National Accounts
FAD	Staff	January 2018	Risk management
FAD	Staff	January 2018	Revenue administration
FAD	Staff	February 2018	Tax administration
FAD	Staff	February 2018	Tax policy
West AFRITAC	Short-term expert	February 2018	Government finance statistics
LEG	Staff	March 2018	Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)
FAD	Staff	March 2018	Tax system
FAD	Staff	March 2018	Budget preparation, execution and control
West AFRITAC	Short-term expert	April 2018	External Sector Statistics
MCM	Staff	April 2018	Banking sector
FAD	Short-term expert	April 2018	Revenue administration

Resident Representative

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

Table 1. Guinea-Bissau: Arrangements with the IMF, 1984–2018			
Arrangement	**Date Approved**	**Amount Approved**	**Remarks**
First credit tranche purchase	August 27, 1984	SDR 1.875 million	
Structural Adjustment Facility	October 14, 1987	SDR 5.25 million	2nd annual arrangement delayed; no 3rd annual arrangement.
Enhanced Structural Adjustment Facility	January 18, 1995	SDR 10.5 million	Arrangement increased by SDR 1.05 million (10 percent of quota) with 3rd annual arrangement.
Emergency post-conflict assistance	September 14, 1999	SDR 2.13 million	
Emergency post-conflict assistance	January 7, 2000	SDR 1.42 million	
Poverty Reduction and Growth Facility	December 15, 2000	SDR 14.2 million	PRGF elapsed without completion of a review.
Emergency post-conflict assistance	January 10, 2008	SDR 1.77 million	
Emergency post-conflict assistance	May 20, 2009	SDR 1.77 million	
Extended Credit Facility	May 7, 2010	SDR 22.365 million	The arrangement elapsed on May 6, 2013.
Rapid Credit Facility	November 3, 2014	SDR 3.55 million	
Extended Credit Facility	July 10, 2015	SDR 17.04 million	

WORLD BANK GROUP RELATIONS

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

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

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

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

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

Lending Program

5. The current active World Bank portfolio totals US$234.61 million and is comprised of four national IDA operations for a net committed amount of US$90.61 million (of which US$28.43 million remain undisbursed), four regional IDA operations (US$141 million), and one trust fund operation (US$3.5 million). IDA National portfolio is relatively old with an average age of 4.8 years per project, while the Regional portfolio remains relatively young with an average age of 1.6 years. In terms of sectoral focus, the portfolio mainly encompasses Energy and Water (49 percent), Telecom Infrastructure (17 percent), Social Protection and Labor (15 percent), Trade and Competitiveness (12.5 percent) and Governance (7.62 percent). The World Bank is also supporting non-lending technical assistance activities in Guinea-Bissau, including through a Public Expenditure Review (PER) and Public Expenditure Management and Financial Accountability Review (PEMFAR) in 2018. The *Bank* released its first *Systematic Country Diagnostic* (*SCD*) report for Guinea Bissau in 2016.

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

AFRICAN DEVELOPMENT BANK GROUP RELATIONS

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

Lending Program

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

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

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

Non-Lending Program

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

STATISTICAL ISSUES

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

<table>
<tr><th colspan="2">II. Data Standards and Quality</th></tr>
<tr><td>Guinea-Bissau has participated in the Enhanced General Data Dissemination System (e-GDDS) since November 2001. Metadata for all data categories and plans for improvement need to be updated.</td><td>No data ROSC is available.</td></tr>
<tr><th colspan="2">III. Reporting to STA</th></tr>
<tr><td colspan="2">Currently no monthly, quarterly or annual government finance data are submitted for reporting in the International Financial Statistics (IFS) or the Government Finance Statistics Yearbook. Monthly data on monetary statistics are reported on a regular basis for publication in the IFS with some delays. Guinea-Bissau reports balance of payments, and IIP statistics to STA on an annual basis, but with delays. CDIS data for inward direct investment position have been reported for end-December 2011.</td></tr>
</table>

Statement by Mr. Sembene, Executive Director for Guinea-Bissau, and Mr. Romao Lopes Varela, Advisor to the Executive Director June 1, 2018

We thank the staff for the constructive program discussions held with the Bissau-Guinean authorities in the context of the fifth review of the Extended Credit Facility (ECF) arrangement. The recent political consensus reached among key political parties in Guinea-Bissau clearly demonstrates a strong will to overcome political and institutional instability and lay the basis for social cohesion and long-term growth. The newly appointed government highly valued Guinea-Bissau's partnership with the Fund and considers program engagement as critical to further strengthen macroeconomic stability in the run up to the elections.

RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

The authorities' economic management helped secure strong macroeconomic performance in 2017 amid political tensions. Real GDP growth exceeded initial program projection, standing around 6 percent of GDP. The overall fiscal deficit was significantly reduced from 4.2 percent in 2016 to 1.5 percent in 2017, reflecting the authorities' attachment to fiscal consolidation and discipline. Inflation was kept well below the WAEMU regional convergence criterion of 3 percent. Notwithstanding the small current account deficit caused by strong activity in the construction sector and reduced sales of fishing licenses, the country sustained a positive BOP position, thus contributing to reserve buildup in the WAEMU region.

On the revenue front, this was partly made possible by continuous government efforts to boost revenue mobilization, which led to a 1.3 percentage point increase in the tax-to-GDP ratio in 2017, well above the program target. At the same time, grants exceeded expectations, while non-tax revenue were in line with projections helped by the dividend payment from BCEAO. On the expenditure front, higher-than-expected spending resulted largely from an increase in demand for goods and services and grant-financed projects in the areas of energy, roads, agriculture, and social spending.

Program implementation under the ECF-supported program for end-2017 was satisfactory. On the quantitative front, all performance criteria were met, notably with tax revenue exceeding program target by 17.3 percent, no new non-concessional debt or short-term external borrowing being contracted, no external arrears being accumulated, and net domestic bank credit being contained below the program ceiling. Both indicative targets on domestic primary balance and social and priority spending largely exceeded program targets, while there was neither accumulation of arrears nor non-regularized expenditure.

On the structural front, seven out of eight benchmarks were implemented although the installation and use of upgraded debt management software was completed with some delay. These aimed notably at strengthening revenue mobilization as well as expenditure and debt management. With regard to the remaining benchmark on the preparation of a draft legislation on a small taxpayer regime, it was agreed in consultation with Fund TA experts that its intended goal of improving tax compliance and collection would be better served by a more comprehensive tax reform strategy.

ECONOMIC OUTLOOK AND POLICIES

Real GDP is expected to continue growing at a strong pace, notably on the back of increased public and private investment, strong agricultural output, and increased activity in the construction and services sectors. While inflation is projected to trend upward with global oil prices, it is projected to remain below the related WAEMU convergence criterion of 3 percent. The current account deficit is expected to increase to 2-3 percent of GDP over the medium term, reflecting less favorable terms of trade and higher imports owing to increase in investment and economic activity. The overall fiscal deficit is forecasted to increase slightly but it is expected to be kept in check in line with regional directives.

Mindful of the risks to the outlook, the authorities remain committed to the pursuit of prudent policies aimed at maintaining macroeconomic stability and debt sustainability, including by improving tax collection, sustaining fiscal discipline, and building debt management capacities.

Maintaining Prudent Fiscal Policies and Debt Sustainability

To keep the overall fiscal deficit in line with WAEMU requirements, the authorities will keep up with ongoing reforms aimed at increasing fiscal space, including through measures that enhance revenue collection and contain expenditure. As reflected in the 2018 budget, the authorities plan to sustain their efforts to improve the effectiveness of tax and customs administration, notably by requiring the use of taxpayer identification numbers for tax payments and establishing special tax collection working groups. As previously noted, work is underway to develop a comprehensive tax reform strategy that will be submitted to the Council of Ministers by July 2018, notably with a view to streamlining and modernizing the tax system and boosting tax collection. Progress is also being made in extending the coverage of the integrated tax management system, which will help improve taxpayer registration and tax compliance.

On the expenditure side, the authorities' reform efforts will build on recent achievements made by the authorities in terms of preparation of monthly cash-flow projection tables and quarterly budget execution reports. Steps will be taken to ensure that concerned agencies, notably the Treasury Committee, continue to play a key role in strengthening public expenditure management by facilitating timely regularization of expenditure and the elimination of extra-budgetary expenditures and controlling the wage bill. In parallel, care will be taken to enhance procedures for project selection and evaluation.

Preserving debt sustainability remains a key priority for the authorities. To this end, the authorities plan to develop a Public Debt Management Strategy in coming months. After having successfully cleared external legacy arrears with some creditors, the authorities have continued to conduct good-faith negotiations with other bilateral creditors to also settle the stock of outstanding arrears. Resolving arrears to domestic suppliers will necessitate an audit of existing claims. The authorities hope they will be able to secure external assistance to conduct this audit as soon as possible.

Safeguarding Financial Stability and advancing other structural reforms

Both national and regional authorities attach high value to the need to safeguard financial stability. In this connection, they are determined to take necessary actions within the confines of their respective competence to address financial sector vulnerabilities, including nonperforming loans and bank undercapitalization. As noted by staff, an end-June deadline has been set by the regional Banking Commission for two banks to meet the minimum capital requirements. While one bank has since complied with the regulations, efforts are underway to recapitalize the other one. Upon expiration of the set deadline, any regulatory actions deemed necessary will be taken by the Banking Commission in the event of noncompliance. To cover NPLs related to the voided bailout, banks increased provisions in early 2017 in line with the Banking Commission's recommendations.

The authorities are mindful of the need to deepen financial markets. To this end, with the technical assistance of development partners, they continue to implement initiatives to broaden access to finance, including for SMEs. They are also revising their national plan for promoting financial inclusion.

In light of the audit of some state-owned enterprises, the authorities have taken steps to improve the SOEs' management. These include the appointment of an oversight committee tasked with following up on the auditors' recommendations, notably those related to SOEs' financial management, internal controls, and compliance with existing rules and regulations. The committee will produce a monthly report to the Prime Minister and Minister of Economy and Finance.

CONCLUSION

The authorities reaffirm their strong commitment to the ECF-supported program. It is their view that continued Fund engagement will be key for achieving program objectives at this critical juncture. In light of the above, we call on Directors to support the authorities' request for the completion of the fifth review and the one-year extension of the ECF arrangement.