May 2010
IMF Country Report No. 10/117

Guinea-Bissau—2010 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility and for Additional Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative

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

- The staff report for the 2010 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility and for Additional Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative, following discussions that ended on January 27, 2010 (last day of mission) with Guinea-Bissau's officials on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 24, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- Joint IMF/IDA Debt Sustainability Analysis
- Information Annex
- A statement by the IMF Staff Representative
- A Public Information Notice
- A Press Release summarizing the views of the Executive Board as expressed during its May 7, 2010, discussion of the staff report that completed the request.
- 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 Guinea-Bissau's authorities*
Memorandum of Economic and Financial Policies for 2010–2012*
Technical Memorandum of Understanding*
*Also included in the Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to Publicationpolicy@imf.org.

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Washington, D.C.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

Staff Report for the 2010 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility and for Additional Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative

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

Approved by Roger Nord and Thomas Dorsey

March 24, 2010

Discussions: Held in Bissau January 12-26, 2010. The team comprised Mr. Drummond (head), Mr. Daal, Mr. Peña (all AFR), Mr. Jenkins (SPR), and Mr. Fonseca (local economist). Mr. Nord joined the mission at the end. Mr. Sembene (OED) participated in the policy discussions. The team met with President Malam Bacai Sanhá, Prime Minister Carlos Gomes Jr., Minister of Finance José Mario Vaz, Minister of Economy Helena Embaló, BCEAO National Director João Fadia, other ministers and senior government officials, and representatives of trade unions, civil society, development partners, and the private sector. The staff worked closely with teams from the European Commission, the African Development Bank, and the World Bank.

Article IV consultation: The discussions had three themes: (i) strengthening public finances and addressing the domestic arrears problem; (ii) addressing structural issues to encourage private sector growth and combat poverty; and (iii) achieving external sector sustainability. The medium-term ECF program will be an essential first step in addressing these challenges.

ECF arrangement: The authorities are requesting a three-year ECF-supported arrangement (2010–12) of 157.5 percent of quota (SDR 22.365 million), including 37.5 percent of quota for early 2008–09 EPCA repurchase. The authorities are also requesting the second tranche of interim HIPC assistance of SDR 1.016 million.

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

Fund Relations: The previous Article IV consultation was concluded on August 28, 2007. The staff report and PIN are available at: www.imf.org/external/country/gnb/index.htm.

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ACRONYMS

AfDB	African Development Bank
BCEAO	Central Bank of West African States
ECF	Extended Credit Facility
EPCA	Emergency Post-Conflict Assistance
EU	European Union
HIPC	Highly Indebted Poor Countries
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
PC	Performance criterion
PEMFAR	Public Expenditure Management and Financial Accountability Review
PFM	Public financial management
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty reduction strategy
PRSP	Poverty Reduction Strategy Paper
REER	Real effective exchange rate
SIGFIP	Integrated Public Finance Management System
TMU	Technical Memorandum of Understandings
VAT	Value-added tax
WAEMU	West African Economic and Monetary Union

Executive Summary

Political conditions: After an extended period of political instability following the 1999 domestic conflict, the presidential election last year and a representative civilian government are significant markers of much-needed political stability. This has allowed the government to move away from day-to-day business and take a medium-term view of necessary reforms, especially to alleviate poverty.

Economic developments: Despite the difficult external environment and its political challenges, in 2009 Guinea-Bissau made progress in stabilizing its economy through the EPCA-supported program. Real GDP growth reached 3 percent, driven by a favorable cashew harvest and a pick-up in construction activity; inflation slowed, and the budget was stabilized. Performance in the EPCA-supported program was broadly satisfactory. All but two EPCA quantitative performance indicators were met, and progress on structural reforms accelerated towards the end of last year.

The authorities' medium-term economic program, for which they are requesting ECF support, centers on reinforcing public finances, modernizing public administration, and raising the quality of public services. It also seeks to promote job creation by removing impediments to private sector development and to enhance the provision of financial services. Satisfactory performance could pave the way for Guinea-Bissau to benefit by year-end from debt relief through the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI). The authorities expect broad-based donor support in line with annual commitments of recent years, with residual financing gaps that could be filled by an ECF arrangement.

The main risks relate to political instability, vulnerability to external shocks, and the possibility of inadequate donor support. The country is highly dependent on the agricultural sector. It has only a small domestic market and a narrow export base that is vulnerable to shocks.

I. Introduction: What Is Different Now?

1. **For over a decade, the economic and political situation in Guinea-Bissau was difficult (Figure 1), because of:**

- Years of political instability since the 1999 civil conflict, with frequent changes of government and weak institutions.
- Unsustainable fiscal deficits, because of a low tax base, a high ratio of expenditures to domestic revenues, and overreliance on external budget support.
- Unfavorable external conditions, with weak terms of trade in circumstances where the economy is more vulnerable to external shocks than its peers because it is dependent on a single export product and market.
- Debt distress.

2. **Throughout, the Fund provided assistance in a variety of ways (Box 1).** Immediately after the civil conflict ended in 2000, a PRGF supported program was put in place and Guinea-Bissau reached the decision point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. However, divisive and erratic policies led to further political tension and, combined with fragile institutions and little technical capacity, to increasing fiscal problems. The program expired at end-2003 without a review being concluded. Since then, the Fund has been helping to build capacity, with staff monitored programs, and Emergency Post-Conflict Assistance (EPCA; 2008, 2009). In the latest EPCA Guinea-Bissau has met most quantitative targets and most structural reform measures.

3. **A confluence of favorable developments is now helping create an opportunity for Guinea-Bissau to directly confront the challenges of the last decade:**

- Political stability, resulting from the peaceful presidential election last year and a representative civilian government.
- Institutions and technical capacity that have improved in recent years, with the help of extensive technical assistance from development partners.
- Favorable performance in the 2009 EPCA-supported program that has created the conditions for Guinea-Bissau to make a transition to a medium-term program of growth and economic reforms.
- Determined political will to overcome the difficult fiscal and debt distress situation, so that the country can reach the HIPC and MDRI completion point.

Box 1. Fund Involvement in Guinea-Bissau, 1999–2009

After nearly a decade of conflict and political instability, Guinea-Bissau remains fragile. Economic and social conditions worsened in the last decade, with per capita incomes declining in most years. Guinea-Bissau is still one of the world's poorest countries, with more than two-thirds of the population living below the poverty line. This poor outcome is inexorably linked to the political and social tensions that culminated in the armed conflict of 1998–99, which left several thousands dead, displaced most of the capital's population, and caused wide-spread damage to infrastructure.

Early attempts at economic stabilization were not successful. The Fund provided early support to Guinea-Bissau's post-conflict reconstruction efforts, first through the emergency post-conflict assistance (EPCA; 1999–2000), followed shortly thereafter by a Poverty Reduction and Growth Facility arrangement (PRGF; 2000–2003). Simultaneously, Guinea-Bissau reached the decision point for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The ex-post assessment of performance concluded that divisive and erratic policies led to further political tension and, combined with fragile institutions and little technical capacity, to increased fiscal problems.[1] The program went off track and after two unsuccessful short-term staff-monitored programs (SMPs), the arrangement expired at end-2003 without a review. Since then, the Fund has been involved in building capacity, two SMPs in 2006 and 2007, and Emergency Post Conflict Assistance (EPCA; 2008, 2009). Performance in the latest EPCA-supported program has met most quantitative targets and most structural reform measures.

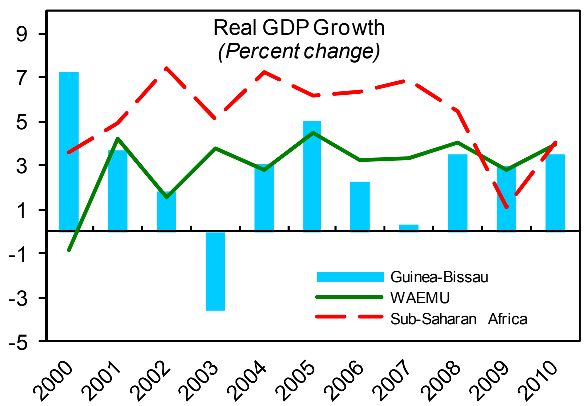
The main reasons for Guinea-Bissau's performance shortcomings earlier in the decade were: (i) constant changes in government and senior staff; (ii) lack of ownership and commitment on economic policies at the highest levels of government; (iii) political interference in expenditure management; and (iv) fragilities in technical capacity for fiscal and macroeconomic management.

Guinea-Bissau's recent success in stabilizing the fiscal situation and rebuilding technical and administrative capacity with the help of the Fund and other development partners has created conditions for renewed donor involvement. This in turn will require the firm commitment and determination of the authorities to implement credible reforms. The peaceful elections last year, completion of the annual progress report on the PRSP in 2009 with the participation of civil society, solid economic performance in the EPCA-supported program despite difficult circumstances, and the government's demonstrated commitment to stabilizing the macroeconomic situation have been important tests of the country's readiness to move to an ECF.

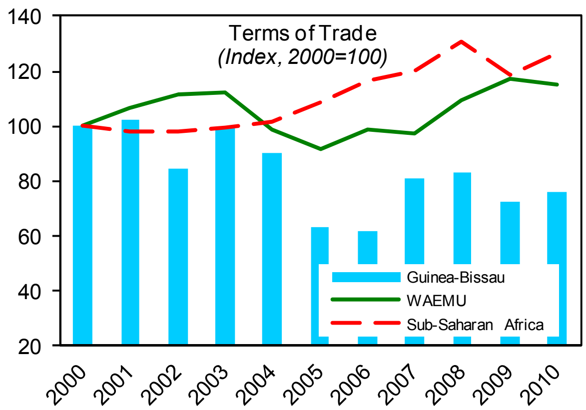
[1] "Guinea-Bissau–Ex Post Assessment of Performance Under IMF-Supported Programs, 1993–2003" SM/04/360.

Figure 1. Guinea-Bissau: Regional Perspective, 2000–10

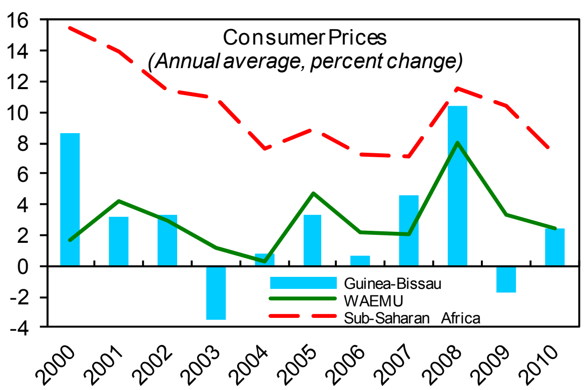
Historically, growth has been low...



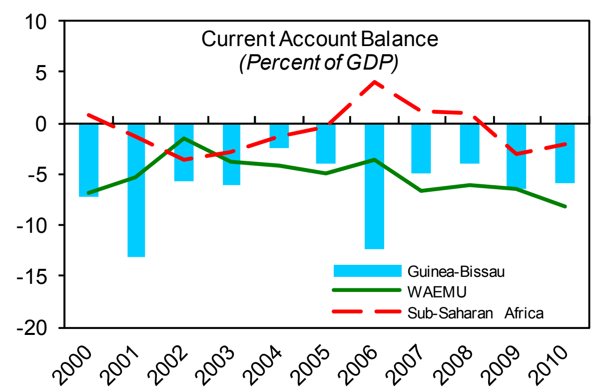
… reflecting, among other things, an unfavorable external environment.



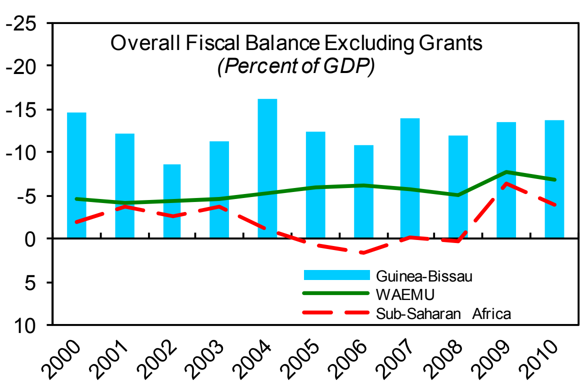
Inflation has been volatile, but lower than the SSA average and in line with WAEMU countries.



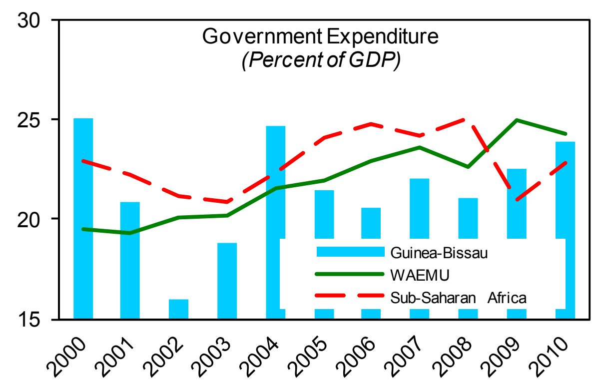
But the balance of payments is still under pressure.



The relatively large overall fiscal deficit reflects a thin tax base, ...



...while expenditures are broadly in line with the region.



Source: African Department database, BCEAO, Guinea-Bissauan authorities and IMF staff estimates.

II. Recent Economic Developments and Performance Under the EPCA

4. **In 2009 Guinea-Bissau stabilized its economy.** Economic growth was resilient; inflation slowed; and budgetary stability was regained:

- Lower prices for cashews, the predominant export, and falling remittances depressed incomes and exacerbated fiscal and balance of payments pressures. Still, with a favorable cashew harvest and a pick-up in construction, real GDP growth is estimated to have reached 3 percent (Table 1, Figure 2).
- Lower food and fuel prices slowed inflation, and domestic inflationary pressures remained subdued due to the CFAF peg to the euro. Private sector credit decelerated as banks became more cautious about new lending (Table 2).
- The external current account deficit (excluding grants) widened to 6½ percent of GDP, but was largely financed by an increase in grants, so the overall external balance deteriorated only moderately (Table 3). The higher deficit reflects a combination of lower cashew prices, a surge in imports of oil and construction material, and a decline in remittances.
- Fiscal performance has been satisfactory (Figure 3). Tax revenues overperformed by about 2 percentage points of GDP, reflecting the good cashew harvest and stepped-up collection efforts. While through September Guinea-Bissau had received only 50 percent of the budget support pledged, by year-end donor support exceeded programmed levels, with disbursements from the WAEMU, the EU, and France. Meanwhile, the government contained spending and kept domestic arrears within target.

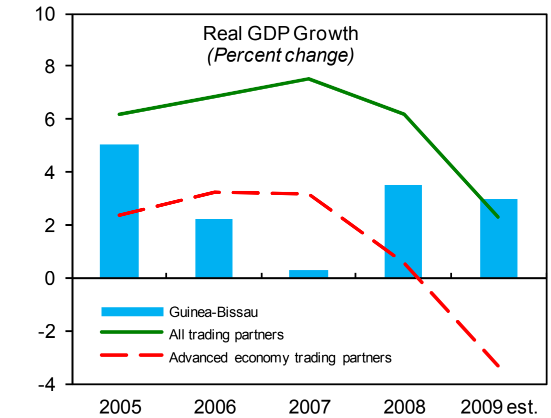
5. **Despite the external and political challenges, program performance has been satisfactory.** All but two EPCA quantitative targets were met through December (Table 4). The ceiling on repayment of previous years' arrears was breached when the government decided to pay 2008 wage arrears. Nonregularized expenditures grew temporarily because of the mid-year elections, but have since been classified into the budget and the authorities are working to tighten norms with a view to curbing them.

MEFP ¶8

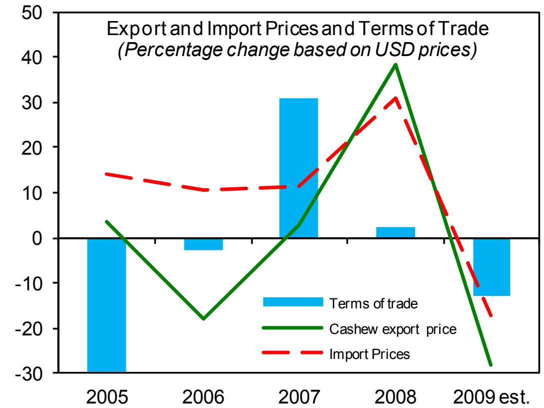
6. **Progress on structural reforms accelerated towards the end of last year, but some targets were missed** (Table 5). The government completed the biometric survey of civil servants; approved the annual progress report on the PRSP; drew up the action plan for public financial management (PFM); and enacted the new investment code. Of the other measures, the government decided not to sign a contract with a pre-shipment customs inspection company but to reinforce capacity locally, and there were delays on two other measures: the automated system for customs administration will go into operation in three customs posts (Bissau, the airport, and Safim) by July 2010; and the unified payroll and payment system will be operational in two pilot ministries, the Ministry of Finance and the Ministry of Labor and Public Services, by January 2011, after the required preparatory work on unifying the public payroll is completed.

Figure 2. Guinea-Bissau: Recent Economic Developments, 2005–09

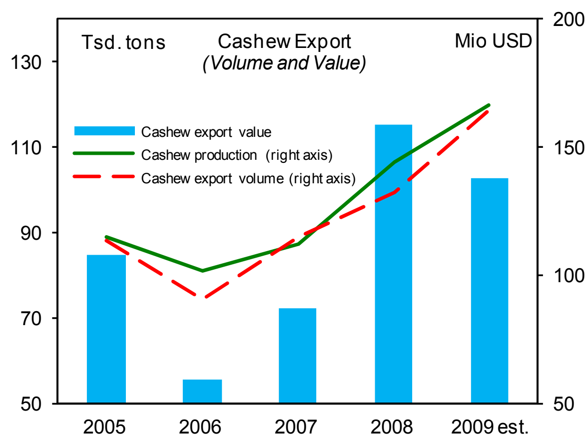
GDP growth slowed only modestly despite the global downturn.



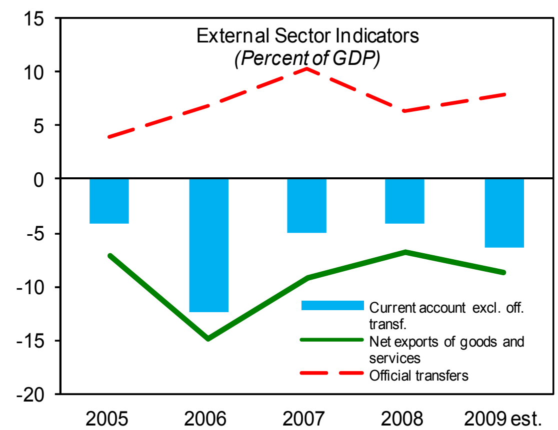
Lower cashew prices …



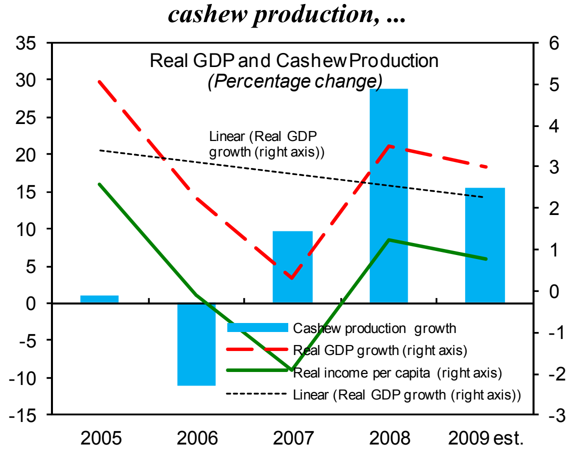
… resulted in a drop in cashew export receipts, ...



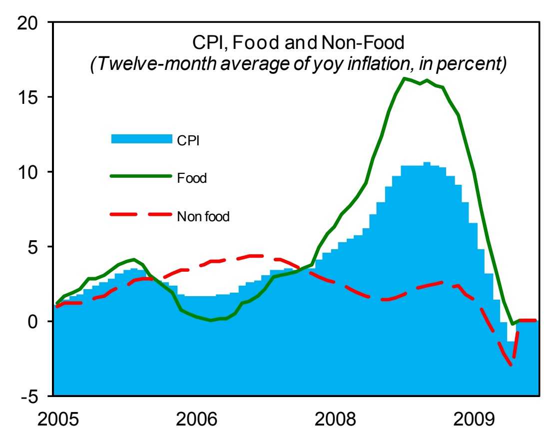
... and the current account deficit widened.



However, growth was resilient thanks to sustained cashew production, ...



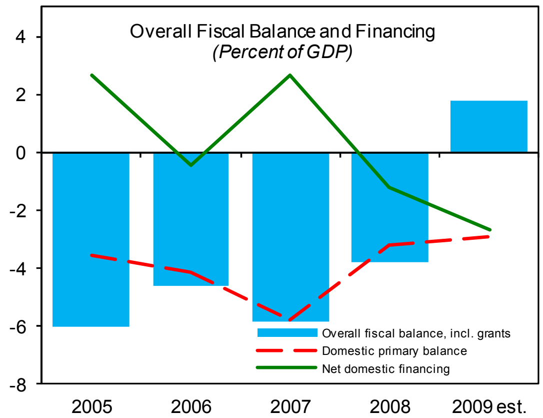
... while lower import prices helped contain inflation.



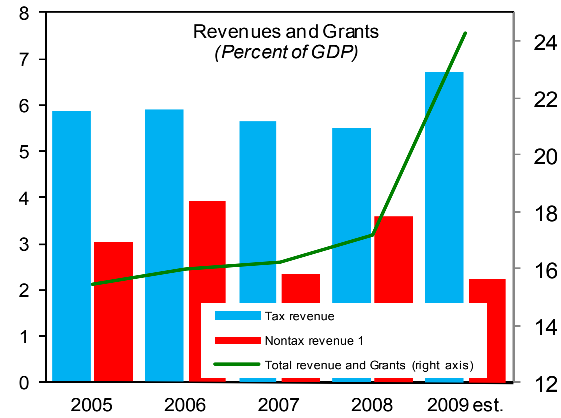
Sources: Guinea-Bissauan authorities and IMF estimates.

Figure 3. Guinea-Bissau: Macroeconomic Policies, 2005–09

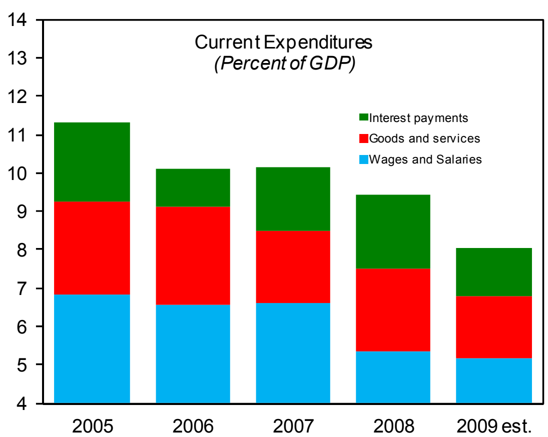
Budget stability was regained ...



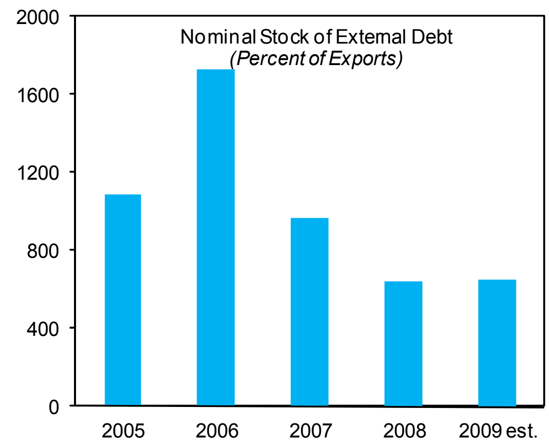
...with higher tax revenue and greater budget support, ...



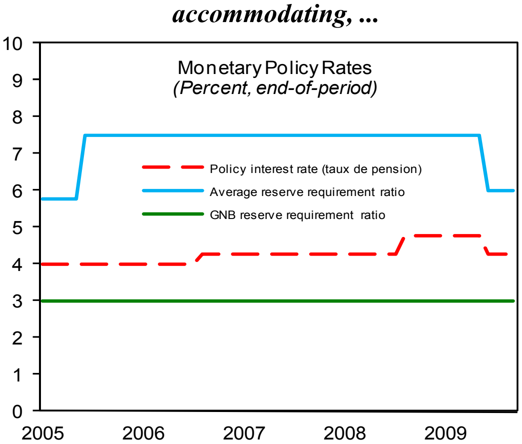
... while the government contained current spending.



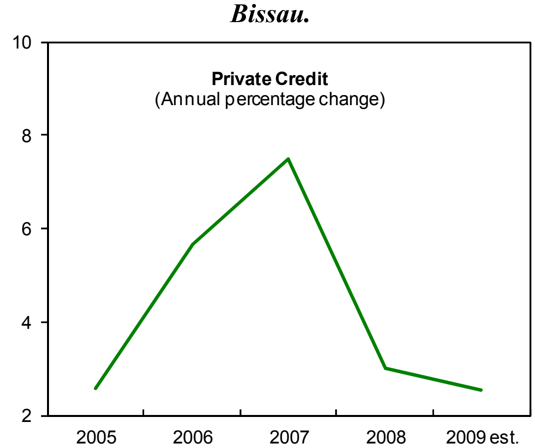
However, Guinea-Bissau is still in debt distress.



The WAEMU monetary policy stance was accommodating, ...



… but private sector credit growth slowed in Guinea-Bissau.



Sources: Guinea-Bissauan authorities and IMF staff estimates.

[1] Reflects lower EU fishing compensation in 2009.

III. Policy Discussions and Medium-Term Program

A. Overview

7. **Policy discussions focused on the authorities' medium-term program and fiscal and other structural reforms, consistent with the PRSP, that are critical for growth and poverty reduction.** Policy priorities are to:

- Strengthen public finances, in PFM and other areas, with a view to containing the fiscal deficit and supporting macro stability;
- Normalize the government's relations with domestic banks and the private sector by addressing the large stock of domestic arrears;
- Modernize the public administration to create space for priority spending and raise the quality of public services;
- Promote job creation by removing impediments to private sector development and strengthening the provision of financial services;
- Improve access to social services and step up efforts to alleviate poverty; and
- Move toward debt sustainability, particularly by helping the country achieve the HIPC/MDRI completion point.

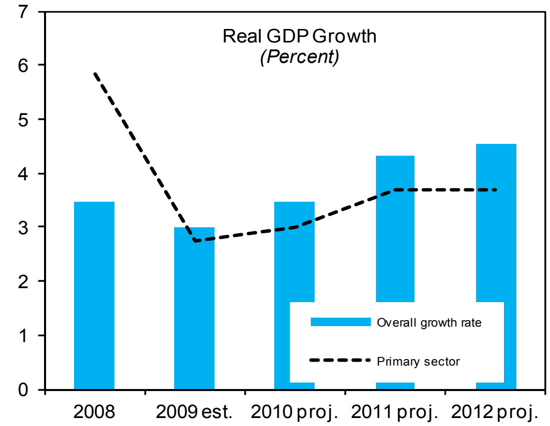
B. Macroeconomic Framework for 2010–12

8. **The main macroeconomic objectives of the government program** are to (i) raise real GDP growth to 4½ percent by program end; (ii) contain annual inflation below 3 percent, the WAEMU convergence norm; and (iii) gradually narrow the external current account deficit (excluding official transfers). The program is designed to keep the domestic primary budget deficit below 4 percent of GDP annually through 2012.

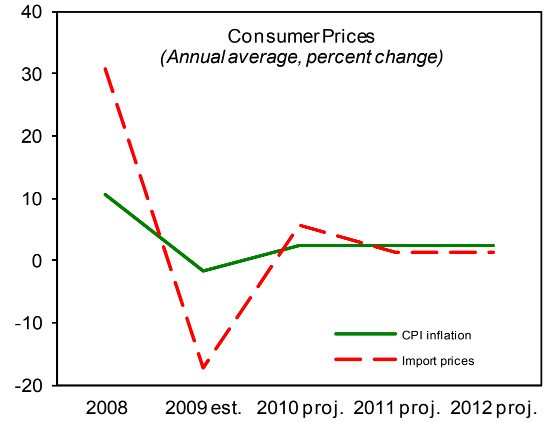
- Real GDP growth is projected to accelerate to 3½ percent in 2010 (Figure 4). The modest recovery is expected to be driven by the projected rebound in the global economy and its positive impact on the terms of trade and cashew prices; spillovers from the global recovery through higher remittances; the positive impact of a stabilizing political and security environment on the business climate; and continued large donor-funded public investment projects. Over the medium term, a broad range of structural reforms is needed to raise growth to 4−5 percent. The pick-up would be driven by sustained cashew production; expanded and diversified agriculture, increased activity in cashew nut processing and industrial fishing; and a steady rebuilding of infrastructure, especially roads, electricity, and water.

Figure 4. Guinea-Bissau: Medium-Term Outlook, 2008–12

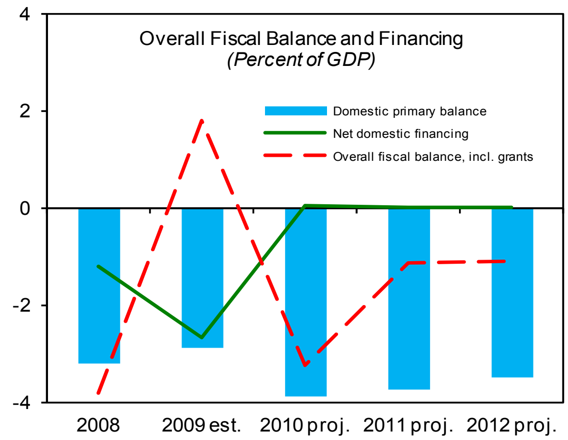
A modest pick-up in growth is expected.



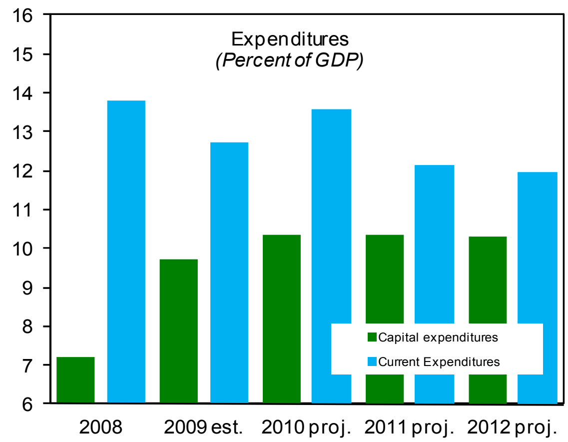
Inflation should return to WAEMU target levels, as the effects of import prices wane.



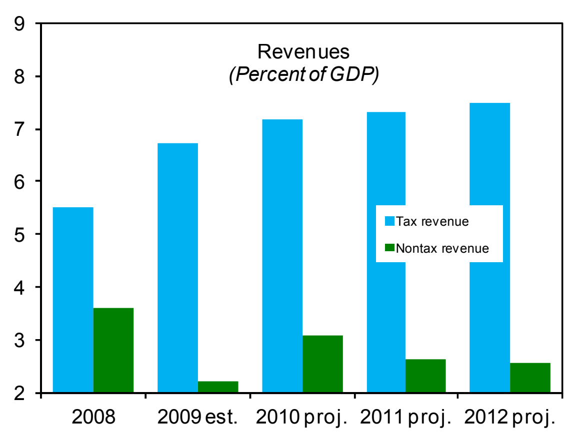
The domestic primary deficit will be contained below 4 percent of GDP...



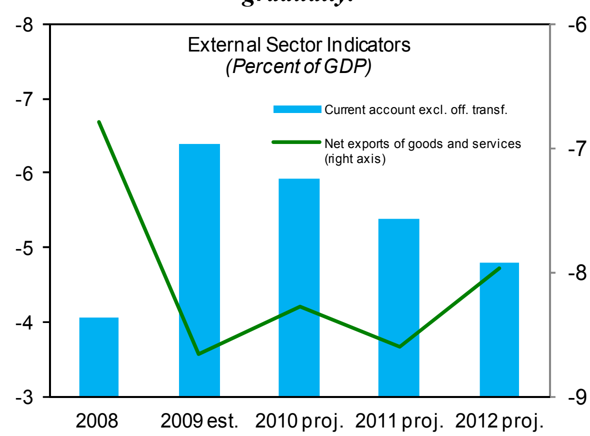
… through expenditure controls, debt relief, and...



... increased revenue collection.



The current account deficit is expected to narrow gradually.



Sources: Guinea-Bissauan authorities and IMF estimates and projections.

- Beginning in 2010 and into the medium term, **inflation** is expected to be in line with the WAEMU convergence norm, below 3 percent, as the effects of commodity price changes wane and the CFA peg to the euro has a stabilizing effect. Monetary and exchange rate policy will continue to be pursued within the framework of the WAEMU. This arrangement has enabled Guinea-Bissau to contain inflation and keep the exchange rate stable.

- The **external current account deficit** (excluding grants) is projected to narrow gradually over the medium term to about 5 percent of GDP, as cashew prices and export volumes trend upward and remittances rise. The overall balance of payments (excluding grants) is projected to be in deficit throughout, with small financing gaps over the medium term expected to be covered by donor support and the ECF arrangement.

9. **The medium-term economic outlook is subject to substantial uncertainty.** Downside risks could arise from weaker-than-expected export prices, lower-than-expected fiscal spending due to financing constraints, and unexpected political disruptions. Upside risks stem from an unexpected impact of government settling outstanding arrears (see below)—generating additional liquidity in the economy—and a surge in business confidence based on a more stable political climate and firmer commitment to policy implementation.

C. Strengthening Public Finances

Medium-term fiscal program

MEFP ¶12

10. **The authorities' medium-term fiscal program is directed to firming up the fiscal position and achieving debt sustainability**. The strategy seeks to heighten revenue collection—low by regional standards; make space for priority spending; keep current-year spending within available resources; and start to address domestic arrears. The fiscal program reduces the domestic primary deficit gradually to 3½ percent of GDP by 2012 (Table 6). Combined with HIPC/MDRI debt relief (see below, ¶ 35), this should improve fiscal and debt sustainability while limiting reliance on external budget support.

11. **The 2010 budget is an important move forward.** The budget introduces strong revenue measures, especially by restoring custom duties on certain products, keeps current year spending within available resources, and protects priority spending. It targets a domestic primary budget deficit of just under 4 percent of GDP (text table), consistent with expected donor support and without adding to Guinea-Bissau's debt. Total revenues are expected to increase by 1¼ percentage points of GDP as customs duties on certain products are restored and there are one-off increases in EU fishing compensation.[1] Domestic primary spending is

[1] EU fishing compensation rises by 0.7 percentage point of GDP in 2010.

projected to rise by about 2¼ percentage points of GDP, reflecting higher capital outlays on infrastructure (about 1½ percent of GDP) and targeted increases in education, health, and agriculture.[2] The higher current spending is modest compared to the need to improve basic services after years of post-conflict neglect.[3] Budget support of CFAF 13 billion is expected mostly from the EU, the African Development Bank (AfDB), the World Bank, and bilaterals. For contingencies, the government has a general budget reserve allocation of CFAF 0.5 billion, and it is committed to further efforts to reduce spending, or recover more revenues, to make up for financing shortfalls. The financing gap of CFAF 13.4 billion is expected to be filled by a European Commission Vulnerability-Flex grant under the 2010 exercise (up to CFAF 9.8 billion) and the ECF (CFAF 3.6 billion).

Text Table 1. Guinea-Bissau: Fiscal Developments 2009—10

	2009		2010
	Prog.	Est.	Proj.
	Percent of GDP		
Revenues	7.6	9.0	10.3
Tax revenue	4.8	6.7	7.2
Non-tax revenue	2.8	2.2	3.1
Of which: EU fishing compensation	1.2	0.8	1.5
Total primary expenditure	12.2	11.8	14.2
Of which: current primary	11.6	11.5	12.3
Of which: domestically financed capital	0.5	0.3	1.9
Domestic primary balance	-4.5	-2.9	-3.9
Memorandum items:			
Gross financing gap	0.7	0.0	3.2
Overall fiscal balance (incl. grants)	-1.7	1.8	-3.2
GDP (CFAF billions)	391.1	395.1	418.8

Sources: GNB authorities and IMF staff estimates and projections.

Structural reforms to strengthen public finances

12. **The government reform program to strengthen public finances centers on mobilizing revenue and improving spending controls and other areas of public financial management**.

Mobilizing revenue

13. **Staff and authorities agreed that collecting more revenue is a priority.** A major element of the persistent fiscal imbalances in Guinea-Bissau is how little revenue it brings in compared with other sub-Saharan African countries, including its WAEMU peers. Tax revenue in Guinea-Bissau has averaged about 6 percent of GDP for the last five years while the WAEMU average is about 15 percent. Revenues depend heavily on tax collection at customs, with export and import duties and sales tax on imports accounting for about 60 percent of total domestically generated revenues. In the short term, government efforts to mobilize revenues focus on restoring

MEFP ¶19-20

[2] The higher domestically financed capital spending reflects cofinancing of investment projects.

[3] The higher current spending in 2010 takes into account costs of local elections later in the year.

customs duties for certain products, improving customs and tax administration (structural benchmark, July 2010), and broadening the tax base. In the medium term, government plans include shifting to a value-added tax (VAT) in line with other WAEMU countries, and revisiting revenue-sharing agreements ("restitutions") to eliminate de facto earmarking of resources.

Deepening public financial management reforms

14. **The government's public financial management reforms initially focus on reinforcing budget monitoring and execution and the spending control apparatus, with the specific short-term goal of achieving and maintaining fiscal discipline.** Government plans reflect extensive technical assistance and support received from the IMF and development partners in recent years, including the World Bank in the context of a Public Expenditure Management and Financial Accountability Review (PEMFAR); the AfDB; the EU; and bilateral donors. Beginning in 2010 the government will start implementing the PFM action plan, approved by the council of ministers last year, which specifies measures to strengthen budget preparation and execution and cash flow management, and make payroll controls more effective. Three short-term goals are to:

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- Reinforce standard budget execution procedures, avoiding "simplified" ones for significant portions of the budget (structural benchmark, May 2010). Supporting documentation will need to be systematically provided to Treasury officers charged with making payments, so that a crucial control link between budget and treasury functions is routinely observed.
- Improve cash management, moving away from daily allocation of funds which does not ensure that adequate cash is available to pay for expenditures when they are due (structural benchmark, June 2010). This, combined with strict implementation of the single Treasury account, should help reduce the risk of arrears accumulation.
- Better integrate budget preparation and execution, and improve monitoring of budget execution and Treasury operations (structural benchmark, July 2010).

15. **Staff welcomed other goals of PFM reforms, including greater efficiency in public spending and more effective accountability.** Efforts in these areas include ex-ante control of all government budget expenditures; strengthening accounting and reporting procedures and better disseminating financial statements; and reinforcing procurement by harmonizing current legislation with WAEMU standards.

D. Medium-term Plan to Address Domestic Arrears

16. **The authorities have prepared and begun implementing a medium-term plan to address the large stock of domestic arrears** (see Table 7 and Box 2 for a breakdown). The plan should help restore economic confidence, improve liquidity in the banking system, and alleviate social tensions. The plan has two steps. In the

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first step, it addressed verified arrears. These include arrears to commercial banks and the BCEAO that entail high financial costs to the government, as well as wage arrears of 2008. By January 2010, these arrears were settled with cash payments using available financing consisting of donor support, domestic currency loans from the BCEAO representing a local currency counterpart to the SDR allocation, and rescheduling. In the second step, the government intends to start addressing verified arrears to the private sector up to 1999 and complete the audit of 2000–07 arrears. This strategy is similar to the arrears clearance strategy of peers within the region (see Box 2).

Box 2. Guinea-Bissau's Arrears Problem

At end-2009, domestic arrears were about 23 percent of GDP (about CFAF 93 billion), composed of:

- Wage arrears: unpaid civil servant wages for 2008.
- Commercial bank arrears: Treasury bills that have matured since 2006, unpaid interest on them, and other commercial bank loans—including capitalized interest payments. These are the most expensive arrears, carrying interest rates of 6 to 13 percent.
- Arrears to the BCEAO: unpaid amounts from previous reschedulings with the BCEAO in 2009, payments to the IMF by the BCEAO on behalf of the Guinea-Bissau government in 2008 and 2009, and commissions to the WAEMU.
- Arrears to the private sector based on the results of the 1974–99 and 2000–07 audits. The government has already paid some of the arrears identified in the 1974–99 audit, leaving some CFAF 17 billion outstanding. The 2000–07 audit is still preliminary, and the government plans to complete it.

In January 2010, the government settled about CFAF 20 billion arrears to commercial banks, the BCEAO, and the remaining wage arrears of 2008 using donor support, domestic currency loans from the BCEAO representing a local currency counterpart to the SDR allocation, and rescheduling.

The origin of the arrears problem in Guinea-Bissau—weak public finances, in particular a low revenue base, weak public financial management, and deterioration in public institutions, in the context of an unstable political environment, combined with a suspension of external assistance—bears some similarities with other countries in sub-Saharan Africa. However, the economic dimension of the arrears problem in Guinea-Bissau is much larger than that of its peers in the region, especially relative to Guinea-Bissau's lower per capita income and more challenging economic situation.

The arrears clearance strategy Guinea-Bissau is pursuing presents similarities and differences from that of its peers:

Similarities: The strategy follows varying approaches depending on the class of creditors; arrears have to be audited and fully verified before settlement; the government plans to offset arrears against tax arrears owed to the government; payment to small private suppliers is envisaged; and rescheduling over a long time horizon will be required, consistent with available financing.

Differences: The strategy does not anticipate the use of financial market instruments to settle arrears because of the country's difficult fiscal position and unsustainable debt. In addition, the strategy requires addressing costly arrears to domestic banks, a feature not prominent in its peers.

E. Modernizing the Public Administration: Civil Service and Security Sector Reforms

17. **The authorities and staff agreed that their plan to pursue civil service and security sector reforms would help create fiscal space for priority spending.** At present, the wage bill accounts for close to 60 percent of fiscal revenues compared to 20 percent pre-civil conflict, well above the WAEMU convergence criteria. The wage bill grew rapidly early in the decade due to expansion of the payroll and to wage increases designed to decompress the salary structure and integrate special allowances into wages, but in recent years a salary freeze has been bringing it down gradually. At about 20,000 employees (including civil servants, paramilitary, and military), Guinea-Bissau has the highest proportion of public servants to population (about 13: 1,000) in the WAEMU (an average of 6-7: 1,000). Civil service and security sector reforms are crucial to ensure medium-term fiscal sustainability, contain the wage bill, and create space for priority spending.

Civil service reform

18. **The authorities expressed their commitment to launch a targeted medium-term civil service reform program aimed at achieving a more modern and efficient civil service**. It will reduce the size of the civil service and upgrade the qualifications and working conditions for civil servants, which should increase the efficiency and quality of public administration. Specifically, the government plans to:

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- Prepare a medium-term schedule, removing from the payroll into retirement all employees who exceed the mandatory retirement age; address the group of civil servants who are in an excess pool of workers ("redundant workers") for reinsertion into the private sector, in the context of the EU Program to support Public Administration Reform (PARAP); and dismiss workers who account for overstaffing. The government will seek donor support for the reform, and use the savings in the wage bill to help cover the cost of severance payments.

- Implement stricter payroll controls and establish a more comprehensive payroll database that will allow for regular updating, and verification of civil service employment. Initial efforts in 2010 will focus on verifying data from the biometric census of civil servants with a view to identifying "ghost" workers (structural benchmark, June 2010), and cross check and update the database of the Ministry of Finance with data from the census.

- Introduce effective management and increase productivity by providing performance incentives, restructuring the job grading system, and enhancing training, including through a new school of public administration, with the help of donors.

Security sector reform

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19. **The government is also committed to modernizing and restructuring the defense and security sectors, including by demobilizing excess troops.** The objective is to reduce military forces gradually from 4,500 soldiers to 3,500, of which only 1,500 (about 30 percent) will be permanent once mandatory national service is introduced. To reach the ultimate goal, about 2,200 soldiers will be retired and about 800 will be demobilized by being formally discharged from the armed forces, without the possibility of re-enlisting. The government also plans to rationalize the security forces, with the National Guard incorporating several existing police forces. To enable the reform, the authorities plan to create a pension fund, for which they are seeking donor support equivalent to the additional pension outlays for the period 2011–2015 (about € 30 million).

Potential Fiscal Impact

20. **The potential medium-term impact of the envisaged civil service and security sector reforms are illustrated by an alternative scenario with both reforms** (Text Table 2). Since some parameters of these reforms have yet to be defined by the authorities, these scenarios are illustrative only. The aim is to quantify the potential fiscal impact of the reforms, the time pattern of costs and savings, and the donor financing that may be required. The baseline assumes civil service reform consisting of mandatory retirement and removal of already identified redundant workers, that aims primarily to achieve a leaner, more efficient civil service. The addition of security sector reform, as envisaged by the government, and assuming interim financing by donors, could generate significant savings of about 1.1 percent of GDP, annually, between 2011 and 2015. These savings would increase space for priority spending. The authorities are committed to partly use these savings to cover the costs of funding pensions in the future.

Text Table 2. Fiscal Impact of Reforms: Illustrative Scenarios[1]
Change from Baseline Scenario (Civil Service Reform)[2]

	Civil Service and Security Sector Reforms[3]	
	Annual average in percent of GDP	
	2011—15	2016—20
Current expenditure	-0.3	-0.4
Additional financing[4]	0.8	0.1
Fiscal space	1.1	0.6
Capital expenditure	0.5	0.6
Capitalization of Pension Fund	0.5	0.0

[1] Assumes unchanged revenues, budget support, and financing gap for all scenarios.
[2] Civil service reform assumes about 600 civil servants to retire in 2010—15 and 2,200 excess employees move to the private sector over a four year period.
[3] Security sector reform assumes about 3,000 security forces (military and paramilitary) to retire in 2011—15 and about 800 to be demobilized over a four year period.
[4] Assumes interim financing of about €30 million from donors for the Pension Fund during 2011—15 for the security sector.

F. Removing Impediments to Private Sector Development

21. **Staff and the authorities shared a common view that faster economic growth will require government action on several fronts** to (i) improve the business environment; (ii) reform the judicial system; and (iii) restore and develop basic infrastructure in the areas of power, transportation, and communication.

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22. **To improve the business and investment environment, the government will need to speed up efforts of the National Commission on the Simplification of Administrative Procedures.** As an important first step, the government has made progress toward establishing a one-stop shop for business, with World Bank support, with a view to simplifying and facilitating the licensing and registration of new businesses (structural benchmark, June 2010). The government is also preparing regulations to implement the new Investment Code, providing for a level playing field for private investors.

23. **The government is committed to promoting good governance and increasing transparency**. In addition to procurement reforms, the government is working to enhance the quality of the judicial system as part of an EU-supported program. Establishing a dedicated tribunal will facilitate the settling of commercial disputes. There has been progress in preparing telecommunications regulations and the government plans to draft a law to govern the expanding telecommunications sector. Good governance and increased transparency would also benefit from effective implementation of an anti-money-laundering and combating the financing of terrorism framework consistent with international standards. Consequently, staff encouraged authorities in their plans to make the financial intelligence unit (CENTIF) operational and to enact legislation to combat the financing of terrorism.

24. **Planned government investments center on infrastructure for power, roads, and the port**. Presently, the installed power capacity in Guinea-Bissau is about half of what it was a decade ago and is low by regional standards. Roads, railways, and the ports are inadequate for the country to tap into its unexploited mineral resources (bauxite and phosphate). To improve the infrastructure needed for private sector development, the government will (i) improve capacity building and coordination with donors for more and faster funding of infrastructure; (ii) increase fiscal space so that it can cofinance investment projects; and (iii) review public-private partnership opportunities to reduce the infrastructure deficit.

25. **Access to credit is still minimal**. Insufficient access to financial services is reflected in the limited supply of banking services and the low financial intermediation (ratio of M2 to GDP). There are several structural reasons for this, including low population density, limited purchasing power, and lack of financial data on potential borrowers, especially rural and urban small and medium-sized enterprises (SMEs). The microfinance sector is also underdeveloped. The result is a financial sector that does not satisfy the financing needs of the economy. On the positive side, the recent settlement of government arrears to domestic

banks improves their liquidity and increases the funds available for domestic credit operations. The government is seeking donor assistance for making more credit available for SMEs. With the banking system small, and international integration limited, the impact of the global crisis has been modest, although there has been some increase in non-performing loans associated with the financing of cashew exports (Table 8).

G. Improving Access to Social Services, Agriculture Policy, and Poverty Reduction

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26. **A core objective of the authorities' program is to make further progress toward addressing the high rates of poverty prevalent in Guinea-Bissau** in a manner consistent with the approach established in the country's Poverty Reduction Strategy. Increasing per capita income and reducing the incidence of poverty will require efforts on several fronts, such as improving access to basic services (health and education) and developing agriculture. This will require not only a deliberate effort in the budget but also close cooperation with donors. In 2010–2012, the government is committed to using at least 50 percent of tax revenues for current and domestically financed capital spending in health, education, agriculture, and infrastructure (quantitative indicator). The government has assessed its experience in implementing its 2007 PRS, and the lessons learned will inform the successor three-year PRS which is currently being prepared for completion in 2010.

27. **In the fight against poverty, agricultural development will be critical**. Cashews are the main source of income in rural areas, and cashew operations are labor intensive, which distributes income widely. The contribution of agriculture to income generation could be greatly amplified if Guinea-Bissau were to diversify its agriculture, reduce the need for rice-for-cashew operation; and increase cashew sector value-added by processing more cashew nuts and derivative products locally. In cooperation with donors the government will pursue investment projects in support of land recovery and equipment, and the government agricultural plan envisages the country gradually becoming self-sufficient in rice production.

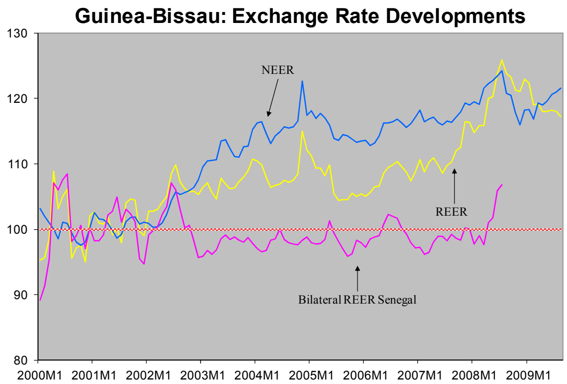
H. Achieving External Sector Sustainability

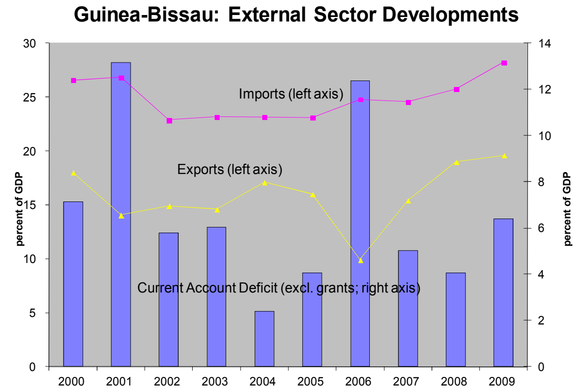
28. **An analysis of Guinea-Bissau's competitiveness and external sector sustainability suggests some preliminary findings** (See Box 3):

- Guinea-Bissau's current account deficit has been generally stable, despite some gradual deterioration of the real effective exchange rate over the last decade.
- Analysis using the standard CGER methodology produces estimates of the equilibrium exchange rate around its current level.
- Structural weaknesses are probably more important than the exchange rate in explaining Guinea-Bissau's lackluster productivity and economic growth, especially the weakness of non-traditional exports.

Box 3. Guinea-Bissau: Assessment of External Stability and Competitiveness

Assessment of trends in competitiveness and external stability is complicated by several aspects of Guinea-Bissau's economy. These include aid dependence, high levels of external debt, and dependence on a single export, prices for which are largely determined by weather conditions and prices on international cashew markets.





Standard methodologies to assess competitiveness do not suggest that the exchange rate is overvalued. Like other members of the WAEMU, Guinea-Bissau's real effective exchange rate has shown a gradual deterioration over the last decade. However, unlike other WAEMU members, Guinea-Bissau's current account deficit has been broadly stable after taking account of special factors, most notably transitory shocks to cashew exports. Standard CGER methodologies—based on the external sustainability (ES) and macroeconomic balance (MB) approaches—indicate estimates of the equilibrium exchange rate broadly in line with its current level.

Guinea-Bissau: Exchange Rate Assessment

	Macroeconomic Balance[1]		External Sustainability[2]	
	CGER Coefficients	Average of Alternative Coefficient Estimates[5]	Current External Debt	Post-MDRI External Debt
Current account norm	-0.5	-0.5	-26.0	-7.9
Current account projection[3]	-5.3	-5.3	-5.3	-5.3
Current account gap	4.7	4.7	-20.7	-2.6
Real exchange rate gap[4]	-2.7	-4.6	-21.4	-2.7

[1] Applying coefficients drawn from Chinn and Ito (2006) to Less Developed Countries
[2] Under the External Sustainability approach the current account norm is the current account needed to stabilize NFA.
[3] The current account projection is based on 5-year average up to 2012.
[4] Appreciation (depreciation) needed in the real exchange rate to close the gap between norm and projection.
[5] Average of Chinn & Prasad (2003) and Chinn & Ito (2007) estimates.

Structural factors are important to Guinea-Bissau's competitiveness. Within the WAEMU region, which itself has one of the lowest rankings in the World Bank's Doing Business Indicators, Guinea-Bissau ranks at the bottom. There is a need for reforms that boost productivity, diversify the base of production, and create conditions to attract higher domestic and foreign private investment in all sectors of economic activity.

Doing Business in the WAEMU region

	Ease of Doing Business Rank				Ranking Improvement (+)/Deterioration (-)			
	2010	2009	2008	2007	2009-10	2008-09	2007-08	2007-10
Benin	172	169	157	151	-3	-12	-6	21
Burkina Faso	147	148	164	161	1	16	-3	-14
Côte d'Ivoire	168	161	155	155	-7	-6	0	13
Guinea-Bissau	181	179	179	176	-2	0	-3	5
Mali	156	166	160	158	10	-6	-2	-2
Niger	174	172	171	169	-2	-1	-2	5
Senegal	157	149	168	162	-8	19	-6	-5
Togo	165	163	159	156	-2	-4	-3	9
WAEMU	165	163	164	161	-2	1	-3	4

29. **The authorities' objective is to achieve the HIPC and MDRI debt relief, which is critical for improving medium-term external sustainability**. Guinea-Bissau is in debt distress; its debt ratios are well in excess of all sustainability thresholds. Although the country reached the HIPC decision point in December 2000, macroeconomic instability thereafter prevented it from proceeding to the completion point. At the decision point, creditors pledged to provide debt relief equivalent to 85 percent cancellation in NPV terms, but interim debt relief from the Fund and Paris Club creditors stopped after 2001, when the PRGF-supported program went off-track. AfDB interim debt relief expires at the end of 2010 and IDA interim relief expires in early 2011. Since 2001, Guinea-Bissau has not repaid any creditor that did not provide interim relief, except the IMF. A Bank-Fund Debt Sustainability Analysis indicates that delivery of debt relief at the completion point, together with "beyond HIPC" debt relief from Paris Club bilateral creditors, would significantly alleviate the debt burden, bringing some debt indicators below policy–dependent thresholds after the completion point. However, substantial debt vulnerabilities would remain (see the attached DSA).

30. **To reach the completion point, Guinea-Bissau is required to observe the triggers established by the IMF and World Bank Executive Boards when the decision point was reached in 2000.** Staff has initiated preliminary discussions with World Bank staff and the authorities to review the status of implementation (Table 9).

31. **Guinea-Bissau has taken steps to regularize its relations with those external creditors to which it has incurred arrears** (Box 4). Financing assurances have been obtained from Paris Club creditors. The authorities haves also been in contact with multilateral and non-Paris Club bilateral creditors with a view to normalizing those financial relationships.

Box 4. Guinea-Bissau: Normalization of Arrears to External Creditors

Guinea-Bissau is taking steps to regularize its arrears to external multilateral and bilateral creditors, which at end-2008 stood at $388.6 million (see Table 2 of the Joint Bank-Fund Debt Sustainability Analysis)—almost 40 percent of the country's official external debt. The arrears stem from the fact that, since 2001, the country has not repaid any creditor that did not provide interim relief, except the IMF. Guinea-Bissau has no arrears to IDA and the AfDB, or the IMF. The program assumes the continuation of interim relief from the World Bank and AfDB until its expiry in early 2011, and the resumption of interim relief from the IMF, as requested by the authorities.

Almost 90 percent of Guinea-Bissau's arrears are owed to bilateral official creditors, and are in the process of being rescheduled through the Paris Club. The program assumes that these arrears are treated on Cologne terms and that comparable treatment is applied to non-Paris Club creditors.

Remaining arrears (about 10 percent of the total) are to multilateral institutions, other than the IMF, World Bank, and AfDB. The authorities are committed to clearing their arrears to these other external multilateral creditors during the period of the ECF program in a realistic manner consistent with their payment capacity, and have been in communication with creditors to this end. Given that Guinea-Bissau's debt burden will remain high even after full delivery of HIPC and MDRI debt relief, it is likely that a feasible arrears clearance agreement will need to take longer-term rescheduling. The program thus assumes that minimal debt service will be paid over the duration of the program.

IV. PROGRAM DESIGN AND IMPLEMENTATION

A. Program Financing for 2010–12

32. **The ECF arrangement would be part of a broad-based donor effort for Guinea-Bissau** (text table 3). Total financing requirements for 2010–12 are projected at about CFAF 548 billion (US$ 1.2 billion), about two-thirds of which reflects HIPC/MDRI completion point debt relief. About 9 percent is projected for program support to fill projected budget gaps, with annual levels expected to be kept in line with the medium-term fiscal path. A large part of the program financing is expected to be filled from Guinea-Bissau's traditional donors (E.U., the World Bank, the AfDB, and the region), in line with annual commitments of recent years, and the remainder from several bilateral donors (e.g., France and Spain). For 2010, the authorities have identified budget support of CFAF 13 billion, leaving a residual financing gap of CFAF 13.4 billion that is expected to be filled by European Commission Vulnerability-Flex grant resources under the 2010 exercise (up to CFAF 9.8 billion) and the ECF (CFAF 3.6 billion). The authorities are committed to raising more revenues or reducing spending to make up for financing shortfalls.

Text Table 3. Guinea Bissau: External Budget Financing, 2010—12

	2010	2011	2012	*2010—12*
	(CFAF billions)			
Total budget financing needs	427.2	59.2	61.9	*548.3*
Budget financing needs	427.2	59.2	61.9	*548.3*
Domestic primary deficit	16.3	16.6	16.6	*49.6*
Donor-financed projects	35.4	37.7	40.2	*113.2*
Scheduled external interest debt service	5.4	1.5	1.5	*8.4*
Amortization (scheduled)	362.4	1.9	2.2	*366.5*
Bank domestic financing	-0.2	0.0	0.0	*-0.2*
Payment of previous years arrears	7.9	1.5	1.5	*10.9*
Total external financing sources	*427.2*	*59.2*	*61.9*	*548.3*
Project grants and loans	35.4	37.7	40.2	*113.2*
Program support	13.0	18.0	18.2	*49.2*
HIPC completion point debt relief	358.5	0.0	0.0	*358.5*
Change in external arrears	2.6	0.0	0.0	*2.6*
External interest arrears	4.3	0.0	0.0	*4.3*
Gross Financing Gap	13.4	3.5	3.5	*20.5*
IMF (120 percent of quota)	3.6	3.5	3.5	*10.6*
Additional Financing[1]	9.8	0.0	0.0	*9.8*

Sources: Guinea-Bissau authorities and IMF staff estimates and projections.
[1] Assumed to be covered with EU V-Flex.

B. Program Access

33. **In proposing ECF access, consideration has been given to Guinea-Bissau's substantial financing needs, the strength of the proposed program, the authorities' efforts to put public finances on a sustainable path, and their commitment to its success.** Taking these factors into account, total ECF access of 157.5 percent of quota is proposed. In accordance with common practice, access would include resources of 37.5 percent of quota to allow disbursements for the 2008–2009 EPCA-supported programs to be re-financed on

more concessional terms.[4] Net access is thus 120 percent of quota. The ECF is expected to play a catalytic role, triggering significant donor support; at the proposed level of access, the Fund would account for about 15 percent of envisaged donor support. Access will be phased in equal installments across all the reviews of the three-year arrangement, matching expected financing needs. A net amount equivalent to 18 percent of quota will be available to Guinea-Bissau after Board approval; the balance would be made available in equal tranches of 17 percent of quota after each of the six ECF reviews (Table 10).

C. Program Conditionality

34. **The program includes quantitative indicators and structural measures relate to core areas of Fund expertise.** The authorities and staff agreed on quantitative indicators and performance criteria (Table 11) and on structural benchmarks that focus on fiscal management (Table 12).

D. Program Risks

35. **Guinea-Bissau itself faces significant risks, but risks to the Fund's resources are moderate.** The main concerns are political instability, vulnerability to external shocks, and the possibility of inadequate donor support, including delays in donor disbursements. Continued technical assistance will be vital to reinforce the authorities' implementation capacity. The country's capacity to repay the Fund seems reasonably sound (Table 13). Risks to Fund resources are mitigated to a significant degree by the BCEAO role as fiscal agent, and its solid track record in making payments to the Fund, even without reimbursement by Guinea-Bissau.

V. Statistical Issues and Capacity Development

36. **Guinea-Bissau has made great progress on national account statistics**. In the second quarter of 2010, the government will publish revised national account data for 2003–08, based on the System of National Accounts (SNA93). The new data have broader coverage of all sectors of the economy, and the result has been a doubling of GDP. The government plans soon to start producing national account statistics based on SNA08, with technical assistance from international and regional institutions.

37. **Capacity building is needed to complement fiscal reforms and ensure their effectiveness and sustainability**. Several partners, including the IMF, are providing technical assistance in PFM and macroeconomic statistics. The highest priorities are assistance to the Customs, Treasury, Budget, and Tax departments.

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[4] In the absence of early repayment of outstanding EPCA credit, the repurchase obligations of the outstanding EPCA disbursements would begin in April 2011.

VI. Staff Appraisal

38. **Guinea Bissau is at a critical juncture**. Relative political stability and government determination to pursue a medium-term program of economic reforms in order to accelerate growth and reduce poverty are welcome developments that should serve the country well.

39. **Despite the difficult external environment and a challenging political context,** economic performance under the EPCA has been quite satisfactory. Faced with delays in donor support during 2009, the authorities restricted spending and exercised fiscal discipline, while continuing to pursue their structural reform agenda.

40. **Moving forward with the government's program of economic reforms and adhering to the fiscal targets will improve medium-term fiscal and debt sustainability.** The program appropriately emphasizes strengthening public finances, modernizing public administration, and removing impediments to private sector development. The well-placed emphasis in the first year of the program on collecting more revenue, better controlling budget execution, and improving PFM will lay the ground work for spending reforms.

41. **The government commitment to civil service reform and modernizing the defense and security sector will be important to improve the public administration and create fiscal space for priority spending.** These reforms will support fiscal sustainability by helping curb the wage bill. However, sustained donor support and sufficient concessional financing will still be required, especially in support of progress toward the MDGs.

42. **The government's initial steps in its medium term plan to address domestic arrears helped inject needed liquidity into the economy and restore the credibility of government policies**. As planned, however, the government should carefully verify claims and monitor budget execution as part of its strategy to address arrears.

43. **Satisfactory performance on the new ECF should help pave the way to the HIPC/MDRI completion point in late 2010, which is central to securing debt sustainability.** It is important that Guinea-Bissau reach the completion point before World Bank and AfDB interim debt relief expires. The authorities will need to satisfy the remaining requirements to reach the HIPC completion point by regularizing relations with all external creditors and meeting the completion point triggers. Their commitment to fill financial needs exclusively with grant support and concessional financing will also be essential to help Guinea-Bissau move toward a sustainable debt path.

44. **The support of donors and creditors for debt relief and program and project financing is critical for implementing reforms and financing the government program for 2010–12.** The authorities have identified donor support for the 2010 program and expect donor assistance to continue in line with commitments in recent years. Donor assistance should be highly concessional, preferably in the form of grants. The authorities are committed to pursuing fiscal adjustment to make up for financing shortfalls.

45. **The WAEMU exchange rate peg has given Guinea-Bissau a solid anchor for macroeconomic stability**. The objectives of raising its growth potential and securing a competitive economy will require firm implementation of structural reforms to enhance the business environment and diversify the economic base. Efforts to deepen financial markets and improve access to credit, especially for SMEs, would help support these objectives.

46. **Staff supports the authorities request for a three-year ECF arrangement**, based on Guinea-Bissau's performance on the EPCA, the strength of the authorities' medium-term macroeconomic program, and the government's commitment to successful implementation of the program.

47. **The next Article IV consultation will take place on a 24 month consultation cycle.**

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2008–12

	2008	2009	2010	2011	2012
		Est.		Proj.	
	(Annual percentage change, unless otherwise indicated)				
National accounts and prices [1]					
Real GDP at market prices	3.5	3.0	3.5	4.3	4.5
Real GDP per capita	1.3	0.8	0.5	1.3	1.5
GDP deflator	10.6	1.1	2.4	2.1	2.0
Consumer price index (annual average)	10.4	-1.7	2.5	2.5	2.5
External sector					
Exports, f.o.b. (based on US$ values)	61.7	-9.6	13.6	7.5	10.6
Imports, f.o.b. (based on US$ values)	38.1	-2.7	9.2	9.2	6.3
Export volume	17.0	25.9	4.3	5.0	5.1
Import volume	5.6	17.4	3.3	7.7	5.0
Terms of trade (deterioration = -)	2.3	-12.7	5.6	1.1	-1.0
Real effective exchange rate (depreciation = -)	7.1	-1.8	1.4	1.2	0.9
Nominal exchange rate (CFAF per US$; average)	478.6	445.7	…	…	…
Government finances					
Domestic revenue (excluding grants)	30.0	2.3	21.5	3.3	7.4
Total expenditure	9.2	11.4	12.8	0.1	5.7
Current primary expenditure	3.7	0.8	13.2	2.3	5.3
Capital expenditure [2]	13.8	40.7	12.5	6.5	6.5
Money and credit [3]					
Credit to government (net)	44.9	-54.4	2.6	…	…
Credit to the economy	71.5	-54.4	3.6	…	…
Broad money	28.6	12.2	6.0	…	…
Velocity (GDP/broad money)	4.1	3.8	3.8	…	…
	(Percent of GDP, unless otherwise indicated) [1]				
Investments and savings					
Gross investment	12.6	16.1	16.3	16.3	16.4
Of which: government investment	6.5	9.7	10.0	10.0	10.0
Gross domestic savings	-0.3	-0.2	3.7	5.7	4.7
Of which: government savings	-11.8	-11.8	-8.3	-7.6	-7.0
Gross national savings	8.9	10.0	10.7	13.5	13.2
Government finances					
Budgetary revenue	9.1	9.0	10.3	10.0	10.0
Total domestic primary expenditure	12.3	11.8	14.2	13.7	13.5
Domestic primary balance	-3.2	-2.9	-3.9	-3.7	-3.5
Overall balance (commitment basis)					
Including grants	-3.8	1.8	-3.2	-1.2	-1.1
Excluding grants	-11.9	-13.5	-13.6	-12.5	-12.2
External current account (including official current transfers)	2.3	1.6	-1.3	-0.2	0.1
Excluding official transfers	-4.1	-6.4	-5.9	-5.4	-4.8
Net present value of external debt/exports of goods and nonfactor services (percent) [4]	515.0	528.2	111.1	104.9	95.8
Nominal stock of public debt, including arrears [5,6]	172.8	161.0	54.1	45.0	40.2
Of which: external debt, including arrears	134.8	126.4	28.4	21.6	20.7
Of which: arrears [5]	49.3	47.0	10.3	9.8	9.2
Memorandum items (US$ millions, unless otherwise indicated)					
Current account balance (including official current transfers)	20.0	13.0	-11.4	-2.3	0.6
Overall balance of payments	-16.9	-25.3	-806.6	0.6	1.2
Nominal GDP at market prices (CFAF billions)	379.4	395.1	418.8	446.1	475.5
Nominal stock of external arrears, end of period [5]	388.6	399.8	92.8	92.8	92.8

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

[1] Based on new GDP figures which doubled the previous GDP level due to broader coverage of the economy, consistent with System of National Accounts 1993.

[2] Project grants in 2009 include externally financed large public investments.

[3] Change in percent of beginning-of-period stock of broad money.

[4] NPV as in the March 2010 Debt Sustainability Analysis.

[5] Values in 2010 and thereafter reflect assumed impact of HIPC and MDRI debt relief.

[6] Exclude domestic arrears estimated at 23 percent of GDP at end-2009.

Table 2. Guinea-Bissau: Monetary Survey, 2008–10

	2008	2009	2010
	Dec	Dec	Dec.
		Prel.	Proj.
	(CFA billions)		
Net foreign assets	66.6	68.5	72.6
Central Bank of West African States (BCEAO)	53.0	55.0	58.3
Commercial banks	13.6	13.5	14.3
Net domestic assets	33.7	34.8	36.9
Credit to the government (net)	19.3	8.8	9.0
Credit to the economy	17.4	23.9	24.7
Other items (net)	-3.0	2.1	3.1
Money supply (M2)	92.1	103.3	109.5
Currency outside banks	56.2	60.6	64.2
Bank deposits	35.8	42.7	45.3
Base money (M0)	64.7	72.6	76.9
Contribution to the growth of broad money			
Money supply (M2)	28.6	12.2	6.0
Net foreign assets	20.4	2.1	4.0
BCEAO	12.0	2.1	3.2
Commercial banks	8.4	-0.1	0.8
Net domestic assets	19.7	1.2	2.0
Credit to the central government	8.4	-11.4	0.2
Credit to the economy	10.1	7.0	0.8
Other items net	1.2	5.6	1.0
Memorandum items:			
Money supply (M2, / dec t-1)	28.6	12.2	6.0
Base money (M0, / dec t-1)	21.6	36.4	6.0
Credit to the economy (/ dec t-1)	71.5	37.1	3.6
Velocity (GDP/M2)	4.1	3.8	3.8
Money Multiplier (M2/M0)	1.4	1.4	1.4
Currency outside banks / M2 (in percent)	61.1	58.7	58.7

Sources: BCEAO; and IMF staff estimates and projections.

Table 3. Guinea-Bissau: Balance of Payments, 2008–12

	2008	2009	2010	2011	2012
				Projections	
		(CFAF billions)			
Goods and services	-25.7	-34.2	-34.6	-38.3	-37.9
Goods	-9.8	-14.1	-12.9	-15.0	-13.5
Exports, f.o.b	52.9	51.2	56.7	61.3	68.3
Of which: cashew nuts	51.3	49.1	54.5	58.6	65.0
Imports, f.o.b.	-62.7	-65.3	-69.6	-76.3	-81.8
Of which: food products	-21.0	-25.9	-25.4	-27.6	-28.9
petroleum products	-15.8	-15.6	-18.4	-20.9	-22.7
other	-25.9	-23.9	-25.8	-28.7	-30.2
Services (net)	-15.9	-20.1	-21.8	-23.3	-24.4
Credit	19.1	26.1	24.8	27.1	28.9
Debit	-35.0	-46.2	-46.5	-50.3	-53.3
Income (interest scheduled)	-6.0	-4.9	-4.8	-0.8	-0.8
Current transfers (net)	40.7	45.3	34.1	38.1	39.0
Official [1]	24.3	31.5	19.5	22.9	23.1
Of which: balance of payments support grants	16.4	28.5	13.0	18.0	18.2
EU fishing compensation	7.9	3.0	6.5	4.9	4.9
Private	16.4	13.8	14.6	15.2	15.8
Of which: remittances	14.8	11.0	11.4	11.8	12.2
license fees	1.4	2.6	3.0	3.2	3.4
Current account					
Including official transfers	8.9	6.2	-5.3	-1.1	0.3
Excluding official transfers	-15.4	-25.3	-24.8	-24.0	-22.9
Excluding official transfers and interest payments	-9.3	-20.4	-20.0	-23.2	-22.0
Capital and financial balance	-26.2	-15.9	-383.7	-2.4	-3.6
Capital account [2]	16.6	35.0	33.5	35.8	38.1
Financial account	-42.8	-51.0	-417.2	-38.2	-41.7
Official medium- and long-term disbursements	11.4	12.6	4.7	5.0	5.4
SDR allocation	0.0	9.1	0.0	0.0	0.0
Project loans	11.4	5.1	4.7	5.0	5.4
Scheduled amortization	-12.8	-10.8	-362.4	-1.9	-2.2
Treasury bills and regional financing	0.0	0.0	-6.7	0.0	0.0
Commercial bank net foreign assets	-5.6	0.1	-0.8	-0.9	-1.0
Private net foreign assets and errors and omissions	-26.1	-47.6	-35.3	-36.6	-40.0
Overall balance	-7.5	-12.1	-375.6	0.3	0.6
Financing	7.5	12.1	375.6	-0.3	-0.6
Net foreign assets (increase = -)	-8.6	-2.0	-3.3	-3.8	-4.1
Of which: net IMF credits	1.6	0.6	3.6	3.5	3.5
purchases and loans	2.5	1.3	7.5	3.5	3.5
repurchases and repayments	0.9	0.7	3.9	0.0	0.0
Debt relief	4.9	5.8	358.5	0.0	0.0
Change in debt-service arrears (decrease = -)	11.2	8.2	6.9	0.0	0.0
Gross financing gap [3]	0.0	0.0	13.4	3.5	3.5
Additional financing	0.0	0.0	9.8	0.0	0.0
Residual financing gap	0.0	0.0	3.6	3.5	3.5
Memorandum items:					
Export volume of goods (annual percentage change)	17.0	25.9	4.3	5.0	5.1
Import volume of goods (annual percentage change)	5.6	17.4	3.3	7.7	5.0
Imputed international reserves					
US$ millions[4]	149.4	127.5	139.3	152.1	161.7
As percent of broad money	64.5	55.6	55.6	57.2	57.4
WAEMU gross official reserves (billions US$)	11.3	11.1	…	…	…
Percent of broad money	56.0	53.1	…	…	…
Months of WAEMU imports of goods and non-factor service:	5.7	6.4	…	…	…
Scheduled debt service					
Percent of exports and service credits	19.4	12.8	10.6	3.1	3.1
Percent of total government revenue	40.3	28.1	20.1	6.2	6.3
Current account balance (percent of GDP)					
Including official transfers	2.3	1.6	-1.3	-0.2	0.1
Excluding official transfers	-4.1	-6.4	-5.9	-5.4	-4.8
Overall balance (percent of GDP)	-2.0	-3.1	-4.1	0.1	0.1
Gross financing gap (percent of GDP)	0.0	0.0	3.2	0.8	0.7

Sources: BCEAO; and IMF staff estimates and projections.

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

[2] Excludes the financing gap, which BCEAO includes in the capital account.

[3] Assumed to be filled with IMF resources and addittional donor support.

[4] At program exchange rates.

Table 4. Guinea-Bissau: Quantitative Indicators for the EPCA program for 2009

Quarterly Targets[1]

(Cumulative, CFAF millions)

	End-June			End-Sept.			End-Dec.		
	Prog.[1]	Actual	Status	Prog.[1]	Actual	Status	Prog.[1]	Est.	Status
1. Government revenues[2]	15,708	19,053	Met	22,442	27,804	Met	28,281	35,380	Met
Tax revenues	9,341	12,755	…	14,683	20,386	…	18,966	26,578	…
Nontax revenues	6,367	6,297	…	7,759	7,419	…	9,315	8,802	…
2. Domestic primary balance (commitment basis)[3]	-8,341	2,016	Met	-13,425	-3,526	Met	-19,289	-11,399	Met
3. Domestic financing of the budget[4]	6,273	-1,746	Met	8,391	-102	Met	-7,834	-10,509	Met
4. New domestic arrears[5]	10,636	905	Met	6,091	0	Met	0	0	Met
5. Payment of previous years arrears[6]	2,031	2,985	Not met	2,031	2,985	Not met	1,895	4,880	Not met
6. External nonconcessional public borrowing, maturity > 1 year	0	0	Met	0	0	Met	0	0	Met
7. Nonregularized expenditures	200	0	Not met	200	0	Not met	200	704	Not met

[1] Adjusted target under the program. Cumulative from January 1. The definition of the aggregates is provided in the Technical Memorandum of Understanding (TMU).

[2] Floor. If the disbursed amounts of EU fishing compensation are lower (higher) than programmed, the floor will be lowered (increased). For the programmed quarterly amounts of EU fishing compensation for 2009 see the TMU for EPCA 2009 (IMF Country Report No. 09/236), ¶ 12.

[3] Ceiling. If the disbursed amounts of EU fishing compensation are lower (higher) than programmed, the ceiling will be increased (lowered). For the programmed quarterly amounts of EU fishing compensation for 2009 see the TMU for EPCA 2009 (IMF Country Report No. 09/236), ¶ 12.

[4] Ceiling. If the actual amount of external budgetary assistance (including EU fishing compensation) falls short of program forecasts, the ceiling will be increased for the full amount of the shortfall. For the programmed quarterly amounts of external assistance (including EU fishing compensation) in 2009 see the TMU for EPCA 2009 (IMF Country Report No. 09/236), ¶ 12. If external financing specifically targeted to clear arrears is available, the ceiling will be increased for the full amount of the funds available.

[5] Ceiling. At end-June and end-September, stock of accounts payable; at end-December, accounts payable accumulated during the current year (2009) and still outstanding one month after the end of the year in the case of wages and other personnel expenditures (including pensions) and three months after the end of the year, in the case of nonpersonnel expenditures. The ceiling on the accumulation of new domestic arrears will be adjusted in line with available domestic financing of the budget. In particular, if the government is not able to increase (decrease) the domestic financing of the budget by the full amount of the shortfall (excess) in external budget support, the ceiling in the accumulation of new domestic arrears will be adjusted upward (downward) by that difference.

[6] Ceiling. Includes arrears in wages, transfers, and goods and services previous to 2009 and outstanding as of January 1, 2009. If external financing specifically targeted to clear arrears is available, the ceiling will be increased by the full amount of the funds available.

Table 5. Guinea-Bissau: Structural Indicators on the EPCA

Measures	Macro Rationale	Timetable	Status of Implementation
Launch of the biometric census of civil servants.	Develop a reform strategy for the civil service and the elimination of ghost workers.	End-May 2009	Met
Enactment of the new Investment Code.	Use credits instead of tax exemptions, in accordance with best practices.	End-September 2009	Met
Start operations of pre-shipment inspection with a reputable international firm.	Improve customs collection.	End-September 2009	[1]
Approval by the Council of Minister of the Poverty Reduction Strategy Paper (PRSP) progress report.	Required for consistency between the government's objectives and an ECF arrangement.	End-September 2009	Met
Full implementation of the ASYCUDA++ software (Automated System for Customs Administration) with the financial support of the African Development Bank and Portugal.	Control the value of imports at customs.	End-October 2009	In progress
Approval by the Council of Ministers of an action plan for public financial management (PFM) coordinated with the World Bank, EU and African Development Bank.	Improve tax policy efficiency and computerization.	End-September 2009	Met
Full implementation of a unified payment system with technical support and software provided by the Portuguese government.	Control, unify, and computerize the main expenditure items to avoid multiple payments.	End-October 2009	In progress

Source: Guinea-Bissau authorities.

[1] The government has decided to increase local capacity instead.

Table 6. Guinea–Bissau: Central Government Operations, 2008–12

(CFAF billions)

	2008	2009		2010	2011	2012
		Prog.	Prel.	Proj.	Proj.	Proj.
Revenue and grants	65.3	113.5	95.9	86.6	95.1	100.7
Revenue	34.6	29.9	35.4	43.0	44.4	47.7
Tax revenue	20.9	19.0	26.6	30.1	32.7	35.6
Nontax revenue	13.7	10.9	8.8	12.9	11.7	12.1
Grants	30.7	83.6	60.5	43.6	50.7	53.0
Budget support [1]	16.4	22.0	28.5	13.0	18.0	18.2
Project grants [2]	14.4	61.6	32.0	30.6	32.6	34.8
Total expenditure	79.7	120.3	88.8	100.1	100.2	105.9
Current expenditure	52.4	51.6	50.4	56.9	54.1	56.9
Wages and salaries	20.3	22.0	20.5	20.7	21.9	23.2
Goods and services	8.2	7.8	6.4	10.2	10.3	10.5
Transfers	10.9	11.4	11.0	12.7	13.5	14.4
of which: Pensions	5.7	5.3	6.1	6.3	6.7	7.1
Other current expenditures	5.7	4.3	7.5	7.8	6.9	7.3
of which: Severance Payment	0.0	0.0	0.0	0.0	0.3	0.3
Scheduled interest	7.3	6.1	4.9	5.4	1.5	1.5
Domestic interest	1.3	1.1	0.0	0.6	0.6	0.6
External interest	6.0	5.0	4.9	4.8	0.8	0.8
Capital expenditure and net lending	27.3	68.7	38.4	43.3	46.1	49.1
Public investment program	24.7	67.7	38.1	42.0	44.7	47.7
Domestically financed	1.2	1.0	1.0	6.6	7.1	7.5
Foreign financed	23.5	66.7	37.1	35.4	37.7	40.2
Other capital expenditure	2.6	1.1	0.3	1.2	1.3	1.4
Domestically financed	0.4	1.1	0.3	1.2	1.3	1.4
Foreign financed	2.2	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (commitment)	-14.4	-6.8	7.1	-13.5	-5.1	-5.2
Overall balance, excluding grants (commitment)	-45.1	-90.4	-53.4	-57.1	-55.8	-58.2
Net domestic arrears	4.8	-2.0	-4.9	-7.9	-1.5	-1.5
Accumulation current year	10.7	0.0	0.0	0.0	0.0	0.0
Payment previous years	-5.9	-2.0	-4.9	-7.9	-1.5	-1.5
External interest arrears current year	5.2	4.3	4.4	4.3	0.0	0.0
Float and statistical discrepancies	-0.4	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-4.9	-4.6	6.6	-17.2	-6.6	-6.7
Financing	4.9	4.6	-6.6	17.2	6.6	6.7
Domestic financing	-4.6	-2.4	-10.5	0.2	0.0	0.0
Bank financing	-4.6	-2.4	-10.5	0.2	0.0	0.0
Of which: Domestic banks	-5.3	-2.0	-2.5	-4.2	0.0	0.0
Regional (including T-bills)	0.0	0.0	0.0	-6.7	0.0	0.0
BCEAO	0.7	-0.4	-8.0	11.2	0.0	0.0
Foreign financing (net)	9.5	4.1	3.8	3.5	3.1	3.2
Disbursements	11.4	5.1	5.1	4.7	5.0	5.4
Projects	11.4	5.1	5.1	4.7	5.0	5.4
Amortization (scheduled and arrears)	-12.8	-11.0	-10.8	-362.4	-1.9	-2.2
External arrears	6.0	2.1	3.8	2.6	0.0	0.0
Debt relief	4.9	8.0	5.8	358.5	0.0	0.0
Gross financing gap (+ = financing need)	0.0	2.8	0.0	13.4	3.5	3.5
Additional financing [3]	0.0	0.0	0.0	9.8	0.0	0.0
Residual financing gap [4]	0.0	2.8	0.0	3.6	3.5	3.5
Domestic primary balance	-12.1	-17.7	-11.4	-16.3	-16.6	-16.6

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

[1] In 2009 includes CFAF 5.2 billion (€ 8 million) of V-Flex 2009 from the EU for payment of 2008 arrears.

[2] Project grants in 2009 include new public investments externally financed.

[3] Assumed to be covered with EU V-Flex.

[4] Assumed to be covered with IMF resources.

Table 6. Guinea–Bissau: Central Government Operations, 2008–12 (concluded)

(Percent of GDP)

	2008	2009		2010	2011	2012
		Prog.	Prel.	Proj.	Proj.	Proj.
Revenue and grants	17.2	29.0	24.3	20.7	21.3	21.2
Revenue	9.1	7.6	9.0	10.3	10.0	10.0
Tax revenue	5.5	4.8	6.7	7.2	7.3	7.5
Nontax revenue	3.6	2.8	2.2	3.1	2.6	2.6
Grants	8.1	21.4	15.3	10.4	11.4	11.1
Budget support	4.3	5.6	7.2	3.1	4.0	3.8
Project grants [1]	3.8	15.7	8.1	7.3	7.3	7.3
Expenditure	21.0	30.8	22.5	23.9	22.5	22.3
Current expenditure	13.8	13.2	12.7	13.6	12.1	12.0
Of which: wages and salaries	5.3	5.6	5.2	5.0	4.9	4.9
goods and services	2.2	2.0	1.6	2.4	2.3	2.2
transfers	2.9	2.9	2.8	3.0	3.0	3.0
of which: pensions	1.5	1.3	1.5	1.5	1.5	1.5
severance payments	0.0	0.0	0.0	0.0	0.1	0.1
other current expenditures [2]	1.5	1.1	1.9	1.9	1.5	1.5
interest	1.9	1.5	1.2	1.3	0.3	0.3
Capital expenditure and net lending	7.2	17.6	9.7	10.3	10.3	10.3
Public investment program	6.5	17.3	9.7	10.0	10.0	10.0
Other capital expenditure	0.7	0.3	0.1	0.3	0.3	0.3
Overall balance, including grants (commitment)	-3.8	-1.7	1.8	-3.2	-1.2	-1.1
Overall balance, excluding grants (commitment)	-11.9	-23.1	-13.5	-13.6	-12.5	-12.2
Overall balance, including grants (cash)	-1.3	-1.2	1.7	-4.1	-1.5	-1.4
Financing	1.3	1.2	-1.7	4.1	1.5	1.4
Domestic financing	-1.2	-0.6	-2.7	0.1	0.0	0.0
Foreign financing (net)	2.5	1.0	1.0	0.8	0.7	0.7
Of which: external arrears	1.6	0.5	1.0	0.6	0.0	0.0
debt relief	1.3	2.0	1.5	85.6	0.0	0.0
project and program loans	3.0	1.3	1.3	1.1	1.1	1.1
Gross financing gap (+ = financing needs)	0.0	0.7	0.0	3.2	0.8	0.7
Additional financing [3]	0.0	0.0	0.0	2.3	0.0	0.0
Residual financing gap	0.0	0.7	0.0	0.9	0.8	0.7
Domestic primary balance	-3.2	-4.5	-2.9	-3.9	-3.7	-3.5

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

[1] Project grants in 2009 include new public investments externally financed, such as the new government office complex and two hospitals.

[2] Other current expenditures declines in 2011 as a percentage of GDP because of lower EU fishing compensation.

[3] Assumed to be covered with EU V-Flex.

Table 7. Guinea-Bissau: Medium-Term Action Plan to Address Domestic Arrears

	Arrears as of end-2009	Arrears clearance in 2010
	(CFAF million)	
Total arrears (A+B+C+D+E)	**92,744**	**24,397**
Of which:		
A. Wages [1]	**3,300**	**3,300**
B. Banks	**11,786**	**11,786**
B.1 Treasury bills	**7,561**	**7,561**
B.1.1 Treasury bills, principal	**6,740**	6,740
B.1.2 Arrears of interest payment	**821**	821
B.2. Other commercial [2]	**4,225**	**4,225**
BAO	3,044	3,044
BDU	858	858
CBAO-Senegal	323	323
ECOBANK	0	0
C. BCEAO	**5,811**	**5,811**
Of which:		
Consolidations	587	587
Payments on behalf of the government [3]	5,224	5,224
D. Private sector [4]	**71,847**	**3,500**
D.1. 1974 - 1999	**17,000**	3,500
D.2. 2000 - 2007 [5]	**54,847**	
Not registered at Treasury	34,154	
Registered at Treasury	20,693	
Memo item:		
Audited debt	132,709	

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

[1] Part of the 2008 wage arrears were paid in December 2009 (CFAF 1,900 million).
[2] Part of the arrears to comercial banks (CFAF 2,900 million) were paid in 2009.
[3] Rescheduled over a period of 5 years starting in 2011.
[4] Indicative only. The amounts do not include netting out of tax arrears.
[5] Preliminary estimates of the uncompleted 2000-07 audit financed by the EU.

Table 8. Guinea-Bissau - Financial Soundness Indicators for the Banking Sector, 2008-09 [1/]

(In percent, unless otherwise indicated)

	2008	2009
Capital Adequacy		
Capital (net worth) in percent of assets (capital des banques/total actif)	11.5	20.2
Asset composition and quality		
Nonperforming loans in percent of total loans	7.0	9.4
Nonperforming loans net of provisions in percent of total credits net of provisions	-0.8	2.5
Provisions as percent of nonperforming loans	116.9	72.2
Earnings and profitability		
Net profit (before tax) in percent of net income	…	…
Return on equity	…	…
Global margin (yield on loans minus cost of capital)	…	…
Liquidity		
Liquid assets/short term liabilities [2/]	73.3	69.2

Sources: BCEAO.

1/ Ratios calculated on the basis of average annual stocks.

2/ Number of banks complying with a ratio above 75 percent.

Table 9. Progress with HIPC Completion Point Triggers

HIPC Completion Point Triggers	**Status of Implementation**
Poverty Reduction Strategy Paper	
"A full PRSP has been prepared through a participatory process and satisfactorily implemented for one year, as evidenced by the joint staff assessment of the country's annual progress report."	The DENARP (Guinea-Bissau's PRSP) finalized in 2006, covering the period 2006-2008, was prepared in a participatory process and builds on grassroots consultations at the national level that involved all segments of society (government, private sector, civil society, local communities, and development partners). The PRSP was issued to the Fund and Bank Executive Boards in April 2007 and discussed by the Bank Board on May 10, 2007. The PRSP is currently being implemented. The first annual progress report of the PRSP was approved by the government in late 2009. A successor PRSP is now being prepared for finalization in 2010.
Macroeconomic stability	
"Continued maintenance of macroeconomic stability as evidenced by satisfactory implementation of the ECF-supported program."	A PRGF–supported program was adopted in early 2000 but went off track by the end of that same year. Since then the government has had two staff-monitored programs, in 2005 and 2006, with mixed results. The Fund agreed on EPCA supported programs for 2008 and 2009. Satisfactory performance under the EPCA last year paved the way for the government to prepare a medium-term program that could be supported by an ECF arrangement in 2010-2012.
Governance	
"Satisfactory progress in strengthening public expenditure management assessed by the release to the Parliament and the public, twice a year starting in 2001, of comprehensive budget execution reports. These reports also will allow monitoring of basic education, primary health care and military expenditures."	The government produced comprehensive budget execution reports in 2002; however, this effort was abandoned in 2003 due to continued political and institutional instability. As part of an effort to strengthen public expenditure management, the government has begun implementing its action plan to deepen PFM reforms. Quarterly budget execution reports will be produced during the 2010 budget calendar.
"The action plan to reform the public procurement system has been implemented and the new system has been installed in all ministries."	The action plan to reform public procurement has been implemented in five Ministries (Education, Health, Finance, Agriculture, and Infrastructure), and extended to the ministry of Defense through the World Bank LICUS grant. Efforts are underway to extend it to the ministries of Commerce and Industry; Economy; Fisheries; Transports and Telecommunication.
"The findings of the external audit to the 1997-99 budgets outturns have been submitted to Parliament and an action plan of corrective measures has been adopted	The external audit of the 1997-99 budgets out-turns financed by the Netherlands was completed in 2003; however, its findings and recommendations are yet to be approved by Parliament, and implemented by the executive.

Education Sector	
“Elimination of fees for school books for all primary education students (grades 1–4) implemented in public schools.”	In 2002, free primary education was introduced in public schools as part of the government’s broader Education For All (EFA) program: tuition and book fees have been eliminated.
“Satisfactory implementation of the basic education action plan, measured by an increase in the gross primary school enrollment ratio to 61 percent”.	The gross enrollment ratio increased from 53 percent in 1995, to 60 percent in 1999 and 102 percent in 2005. However, the net enrollment rate in primary education is only 45 percent. Gross and net enrollment rates are highly divergent because of widespread delayed enrollment.
Health Sector	
“Satisfactory implementation of the National Health Development Program, measured by an increase to at least 40 percent the proportion of children under one year fully vaccinated.“Adoption of an action plan for malaria and its satisfactory implementation measured by an increase to 15 percent in the use of insecticide impregnated bed-nets by pregnant women.”	62 percent of children under one year were fully vaccinated by end-2007. Guinea-Bissau is considered as a regional benchmark on malaria prevention. Malaria action plan adopted in 2002 allowed increasing the use of insecticide impregnated bed-nets by vulnerable groups such as children under five years and pregnant woman. 81 percent of children under 5 and 72 percent of pregnant women were sleeping under insecticide treated bed net by end-2007.
HIV/AIDS	
“Adoption of a strategic framework to fight against HIV/AIDS. At least 50 percent of the population at increased risk (age 14–29) made aware of transmission and prevention methods.”	Eighty-seven percent of 15- to 24-year-olds indicated that they knew how HIV is transmitted (2006 survey).
Demobilization Program	
“Demobilization has been successfully completed and discharged combatants are being reinserted into civilian life as established in the DRRP.”	The government’s Demobilization, Reinsertion and Reintegration Program (DRRP) was successfully completed in 2006. The program demobilized about 4,000 ex-combatants by September 2003. The final phase of reintegration was completed in 2006 and involved about 7,500 ex-combatants.

Source: World Bank, IMF staff and authorities.

Table 10. Guinea-Bissau: Reviews and Disbursements under the Prospective Three-Year ECF Arrangement, 2010–13

Board Date	Test Date	Action	Disbursement	
			% of quota	SDR millions
Late March 2010		Board approval	55.5[1]	7.881[1]
Late November 2010	End-June 2010	First review	17	2.414
Late May 2011	End-December 2010	Second review	17	2.414
Late November 2011	End-June 2011	Third review	17	2.414
Late May 2012	End-December 2011	Fourth review	17	2.414
Late November 2012	End-June 2012	Fifth review	17	2.414
Late March 2013	End-December 2012	Sixth review	17	2.414
Total			157.5	22.365

Source: IMF estimates.

[1] For the amount approved for disbursement at the time of Board approval of the arrangement, 37.5 percent of quota, or SDR 5.325 million, would be approved for the purpose of immediately repurchasing previously provided EPCA credit.

Table 11. Guinea-Bissau: Quantitative Indicators for the ECF program for 2010

Quarterly Targets [1]

(Cumulative, CFAF millions)

	End-March	End-June	End-Sept.	End-Dec.
	Prog.	Prog.	Prog.	Prog.
Performance Criteria[2]				
1. Domestic financing of the budget	7,165	-1,411	3,430	231
2. New domestic arrears	0	0	0	0
3. External nonconcessional public borrowing, maturity > 1 year	0	0	0	0
4. External short term public borrowing	0	0	0	0
Indicative Targets				
5. Government tax revenues	5,420	15,148	24,218	30,101
6. Domestic primary balance (commitment basis)	-7,789	-6,779	-11,030	-16,333
7. Nonregularized expenditures (DNTs)	200	200	200	200
8. Social and priority spending	4,062	8,123	12,185	16,246

[1] Cumulative from January 1. The definition of the aggregates and adjustors is provided in the Technical Memorandum of Understanding (TMU).

[2] All Performance Criteria (PC) are ceillings and PC 3 and 4 apply continously.

Table 12. Guinea-Bissau: Structural Benchmarks
Under the Extended Credit Facility
January 1, 2010–December, 31, 2010

Category		Structural Benchmarks	Macro Rationale	Delivery Date	Ministry
		First Review			
Fiscal Management	1	Prepare quarterly and monthly Treasury plans and make operational the Treasury committee within the Ministry of Finance. (¶21)	To improve budget planning	June 2010	MoF[1]
	2	Implement norms tightening the recourse to simplified spending procedures. (¶21)	Greater control in budget execution	May 2010	MoF
	3	Make operational the accounting system at the Treasury under the SIGFIP. (¶21)	Greater control in budget execution	July 2010	MoF
Tax Reform & Strengthening Revenue Collection	4	Put into operation the Automated System for Customs Data (ASYCUDA ++) in three customs posts (Bissau, airport, and Safim). (¶19)	To strengthen revenue collection	July 2010	MoF
Expenditure Reforms	5	Publish the verified data of the biometric census of the public administration employees (civil servants and paramilitary). (¶24)	To improve civil servant management	June 2010	MinLaPS[2]
Business Environment	6	The Council of Ministers will approve a legal framework for the "one-stop" shop streamlining procedures and reducing cost for licensing and registration of new businesses. (¶28)	Improve the ease of doing business	June 2010	MinEcon[3]
		Second Review			
Fiscal Management	7	Establish an operational link from budget/Treasury under the SIGFIP to the customs and tax administration. (¶21)	Greater control in budget execution	Dec 2010	MoF
Expenditure Reforms	8	Submit to the Council of Ministers an action plan for the public administration reform, with a medium-term schedule to downsize the civil service through retirement and removing redundant workers beginning in 2011. (¶23)	To improve the efficiency of civil service	Jan 2011	MoF/ MinLaPS
	9	Start using the unified payroll and personnel management system, and pilot it into the Ministry of Finance and the Ministry of Labor and Public Services. (¶24)	To modernize public administration	Jan 2011	MoF

[1] Ministry of Finance
[2] Ministry of Labor and Public Services
[3] Ministry of Economy

Table 13. Guinea-Bissau: Indicators of Capacity to Repay the Fund, 2008–18

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
			Projections								
Fund obligations based on existing credit (SDR millions)											
Principal	1.3	1.0	1.0	0.9	2.2	1.8	0.4	0.0	0.0	0.0	0.0
Charges and interest [1]	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit [2] (SDR millions)											
Principal	1.3	1.0	6.3	0.0	0.0	0.0	0.0	0.8	2.3	3.3	4.2
Charges and interest	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations based on existing and prospective credit [2]											
SDR millions	1.4	1.1	6.4	0.1	0.1	0.1	0.1	0.9	2.4	3.4	4.3
CFAF billions	1.0	0.8	4.6	0.1	0.1	0.1	0.1	0.4	1.2	1.6	2.1
Percent government revenue	2.8	2.3	10.8	0.1	0.1	0.2	0.1	0.7	1.8	2.3	2.7
Percent exports of goods and services	1.8	1.6	8.2	0.1	0.1	0.1	0.1	0.5	1.3	1.7	2.0
Percent debt service [3]	4.9	5.0	1.2	1.8	1.9	3.1	2.0	12.4	26.4	33.9	37.5
Percent GDP	0.3	0.2	1.1	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.3
Percent quota	9.7	7.7	45.0	0.5	0.6	0.8	0.8	6.3	17.0	23.7	30.4
Percent reserves	1.5	1.3	7.1	0.1	0.1	0.1	0.1	0.5	1.2	1.6	1.9
Outstanding Fund credit [2]											
SDR millions	5.6	6.3	10.3	15.1	20.0	22.4	22.4	21.6	19.3	16.0	11.8
CFAF billions	3.9	4.6	7.5	11.0	14.6	16.5	10.8	10.4	9.3	7.7	5.7
Percent government revenue	11.4	13.1	17.3	24.7	30.6	31.9	19.2	17.1	14.1	10.8	7.4
Percent exports of goods and services	7.4	9.1	13.1	17.9	21.4	22.8	14.0	13.0	10.6	8.2	5.6
Percent debt service [3]	19.9	28.8	2.0	396.7	483.3	629.8	378.9	298.5	211.4	161.7	102.4
Percent GDP	1.0	1.2	1.8	2.5	3.1	3.2	2.0	1.8	1.5	1.2	0.8
Percent quota	39.3	44.6	72.5	106.5	140.5	157.5	157.5	152.0	135.8	112.7	83.0
Percent reserves	5.9	7.6	11.5	15.4	19.2	20.4	12.5	11.5	9.6	7.6	5.3
Net use of Fund credit (SDR millions)	2.3	0.8	5.0	4.8	4.8	2.4	0.0	-0.8	-2.3	-3.3	-4.2
Disbursements	3.6	1.8	10.3	4.8	4.8	2.4	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	1.3	1.0	5.3	0.0	0.0	0.0	0.0	0.8	2.3	3.3	4.2
Memorandum items (CFAF billions)											
Charges and interest, after assumed subsidies	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Nominal GDP	379.4	395.1	418.8	446.1	475.5	507.9	542.2	578.7	616.8	657.5	700.8
Exports of goods and services	52.9	51.2	56.7	61.3	68.3	72.5	76.6	79.9	87.4	94.0	101.2
Government revenue	34.6	35.4	43.0	44.4	47.7	51.7	56.0	60.7	65.7	71.1	76.9
Debt service [1, 3]	19.8	16.1	371.0	2.8	3.0	2.6	2.8	3.5	4.4	4.8	5.5
Net Foreign Assets Central Bank	66.6	60.9	64.8	71.1	76.2	80.8	86.0	90.2	96.63	102	107
Quota (SDR)	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2

Sources: IMF staff estimates and projections.

1/ No subsidization of EPCA credit is assumed.

2/ Assumes a new ECF arrangement of 157.5 percent of quota (SDR 22.365 million) would be approved in March 2010, of which 37.5 percent of quota (SDR 5.325 million) will be used for early repurchase of outstanding EPCA credit.

3/ Total debt service includes IMF repurchases and repayments.

APPENDIX I

LETTER OF INTENT

Bissau, March 11, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn,

1. Guinea-Bissau made progress in stabilizing its economy in 2008–09 under the Fund's Emergency Post-Conflict Assistance (EPCA) program. The government is committed to building on this effort and pursuing a medium-term economic program aimed at achieving fiscal and external sustainability, reviving economic growth, and making progress toward poverty alleviation and the Millennium Development Goals (MDGs). We hope this will help catalyze stronger donor support and allow the country to move to the HIPC/MDRI completion point.

2. As envisaged in the attached Memorandum of Economic and Financial Policies (MEFP), the government medium-term economic program aims to strengthen public finances and implement structural reforms in the fiscal and other areas critical for growth and poverty reduction. To support our policies described in the MEFP, including assistance with our related balance of payment needs, the government of Guinea-Bissau requests assistance from the IMF under an Extended Credit Facility (ECF) arrangement in the amount of SDR 22.365 million (157.5 percent of quota), to be disbursed in three years. The government requests the disbursement of SDR 7.881 million upon approval of the arrangement, part of which will allow the early repurchase of Guinea-Bissau's outstanding EPCA credits of SDR 5.325 million. The government also requests the second tranche of interim HIPC assistance in the amount of SDR 1.016 million to cover PRGF repayment obligations falling due in 2010.

3. The government firmly believes that the policies elaborated in the attached MEFP are adequate to achieve the objectives of the ECF-supported program. However, if necessary it will swiftly adopt additional measures to meet these objectives. The government will consult with the Fund before adopting such measures or if there are changes in the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

The government authorizes the Fund to publish this letter of intent, the attached MEFP and Technical Memorandum of Understanding, and the staff report and DSA relating to this request.

Sincerely yours,

/s/

José Mario Vaz
Minister of Finance

APPENDIX II

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2010-2012

I. INTRODUCTION

1. Guinea Bissau is at a turning point. Following an extended period of political instability in the aftermath of the 1999 civil war, the Presidential election of September last year, and the civilian government of Prime Minister Carlos Gomes are significant markers toward much-needed political stability. This has allowed the government to move away from day-to-day business and to start focusing on developing and implementing a medium-term strategy of economic development and poverty alleviation. The country remains largely dependent on the agricultural sector, with a small domestic market and a narrow export base vulnerable to shocks. Poverty is widespread, with about two-thirds of households living below the poverty line.

2. The government is committed to pursue a medium-term economic program for 2010–12 that can help the country move towards fiscal and debt sustainability, as well as achieve stronger economic growth and poverty alleviation. The program focus on strengthening public finances; modernizing the public administration and rebuilding technical and policy implementation capacity; increasing access to social services and basic infrastructure; and developing the private sector. The program, which we are requesting be supported by Fund resources under the Extended Credit Facility (ECF), is consistent with the country's Poverty Reduction Strategy Paper (PRSP). Satisfactory performance under the program could pave the way for Guinea-Bissau to benefit from debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI).

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE EPCA SUPPORTED PROGRAM

A. Recent Economic Developments

3. In 2009, growth slowed due to a less favorable external environment and an unstable political environment. Lower prices for the predominant export (cashews) and falling remittances led to a significant slowdown in incomes and exacerbated fiscal and balance of payment pressures. Still, with a favorable cashew harvest and a pick-up in construction activity, real GDP growth is estimated at about 3 percent last year, slightly higher than expected.

4. On the external front, a drop of cashew export receipts driven by lower cashew nut prices led the current account deficit (excluding grants) to deteriorate to 6½ percent of GDP (preliminary data). Export prices were down nearly 30 percent, offsetting a strong growth in export volumes amid the good cashew harvest (up 22 percent over 2008). Imports rose,

reflecting higher oil import volumes—despite lower average oil prices. Strong growth in the volume of construction materials was an additional source of pressure on the import bill, reflecting a pick-up in infrastructure projects. In addition to the deterioration in merchandise trade, the evolution of the current account was also affected by the decline in remittances (which represented about 4 percent of GDP in 2008). The increase in the current account deficit was largely financed by an increase in grants, both project and budget assistance. The result was a relatively modest deterioration in the overall balance.

5. The general price level came down in 2009 in light of a decline in the import price of food and the CFAF peg to the euro. Domestic inflation has remained subdued, despite a looser monetary policy stance in the WAEMU region. Private sector credit decelerated sharply reflecting a cautious approach by banks to new lending and a tight liquidity situation in the banking system, overburdened by a large stock of public sector arrears.

6. Guinea-Bissau continues to face a difficult fiscal situation. The low tax base and the high expenditures as a percent of domestic revenues, by regional standards, make public financial management rigid and leave almost no space to accommodate much needed social expenditures. Despite recent improvements in revenue and expenditure management, the financing of the budget continues to rely heavily on external budget support.

7. Fiscal performance, however, has been satisfactory despite the difficult external environment and unfavorable political situation. Better-than-expected revenue collection throughout the year partly compensated for delays in donor financing. Tax revenues overperformed by about 2 percentage points of GDP, reflecting the good cashew harvest and stepped up collection efforts. While through September Guinea-Bissau had received only 50 percent of the budget support pledged, by year-end donor support exceeded program levels with disbursements from the WAEMU, the EU, and France. Meanwhile, the government contained spending and kept domestic arrears within target.

B. Performance under the EPCA Program

8. All but two EPCA quantitative assessment criteria were met through December. The ceiling on repayment of previous years' arrears was breached when the government decided to pay off 2008 wage arrears; non-regularized expenditures temporarily grew because of the mid-year elections, but have since been classified into the budget and the government is working to tighten norms with a view to curb them.

9. Progress on structural reforms accelerated toward the end of last year, but some targets were missed**.** The government has completed the biometric survey for civil servants; approved the annual progress report on the PRSP; drawn up the action plan for public financial management, and enacted the new investment code. Of the other measures, the government decided not to sign a contract with a pre-shipment customs inspection company and there were delays on two other measures. The automated system for customs administration will now be put into operation in three customs posts (Bissau, the airport, and

Safim) by July 2010. The unified payroll and payment system will be operational in two pilot ministries, the Ministry of Finance and the Ministry of Labor and Public Services, by January 2011.

III. Policy Priorities and Main Objectives of Medium-Term Macroeconomic Program

10. The government's medium-term program aims at providing the basis for Guinea-Bissau to achieve fiscal and debt sustainability, as well as stronger economic growth and poverty alleviation.

11. Key macroeconomic objectives of the government program are to (i) raise real GDP growth to 4.5 percent by program end; (ii) contain annual inflation below 3 percent, in line with the WAEMU norm; and (iii) achieve a gradual narrowing of the external current account deficit (excluding official transfers). Over the medium-term, the pick-up in growth is to be driven by sustained cashew production; expanded and diversified agriculture (including rice); increased activity in cashew nut processing and industrial fishing, and steady rebuilding of public infrastructure, especially roads, electricity, and water. Supported by the exchange rate peg, inflation is expected to remain subdued, in line with global food and fuel prices.

12. The medium-term fiscal program will aim at strengthening fiscal policy and achieving debt sustainability. The strategy seeks to strengthen revenues— Guinea-Bissau's revenue collection is low by regional standards— and make space for priority spending, while keeping current year spending within available resources and starting to address domestic arrears. The fiscal program reduces the domestic primary deficit gradually to 3½ percent of GDP by 2012. This, combined with HIPC/MDRI debt relief, will improve fiscal and debt sustainability while limiting reliance on external budget support.

13. The 2010 budget is an important first step of the medium-term framework. The budget introduces strong revenue measures (through the elimination of custom duty suspensions on certain products), keeps current year spending within available resources, and protects priority spending. The budget targets a domestic primary budget deficit of 4 percent of GDP. Total revenues are expected to increase by 1¼ percent of GDP, due to elimination of custom duty suspensions on certain products and one-off increases in fishing compensation from the EU.[1] Domestic primary spending is projected to rise by 2¼ percent of GDP, reflecting higher capital outlays on infrastructure projects (about 1½ percent of GDP) and targeted increases in education, health, and agriculture. The higher current spending is modest compared to the needs to improve basic services.[2] Budget support of CFAF 13 billion

[1] EU fishing compensation will rise by 0.7 percent of GDP in 2010 to compensate for lower disbursements in 2009.

[2] The higher current spending in 2010 also takes into account the costs of local elections later in the year,

is expected mostly from the EU, the AfDB, the World Bank, and bilateral donors. The residual financing gap of CFAF 13.4 billion is expected to be filled by European Commission Vulnerability-Flex grant resources under the 2010 exercise (up to CFAF 9.8 billion) and the ECF (CFAF 3.6 billion). For contingencies, the government has a general budget reserve allocation of CFAF 0.5 billion, and the government is committed to further efforts to reduce spending, or recover additional revenues, to make up for any financing shortfalls.

14. The government has prepared a medium-term plan to address domestic arrears. Domestic arrears are sizable, and while estimates vary, the stock that has been identified accounts for about 23 percent of GDP at end-2009. These include wage arrears, arrears to domestic banks, the BCEAO, and commercial arrears to the private sector. Starting to address those arrears in the context of a credible medium-term strategy will go a long way in terms of restoring economic confidence, improving liquidity in the banking system, and alleviating social tensions. The government's plan has two steps. In the first step, it addresses well-identified and verified arrears, and the most costly to the budget. These include arrears to commercial banks and the BCEAO which entail high financial costs to the government, as well as wage arrears of 2008. These arrears have been settled with cash payments using available financing consisting of donor support, domestic currency loans from the BCEAO representing a local currency counterpart to the SDR allocation, and rescheduling. In the second step, the government intends to start addressing arrears to the private sector incurred up to 1999 and to complete the audit of 2000–07 arrears. In 2010, the government will carefully monitor budget execution and available resources before carrying out its plan of paying individual claims of up to about CFAF 30 million, for a total of CFAF 3.5 billion, and reschedule the remainder.

15. The government hopes that satisfactory performance under a Fund-supported program could pave the way for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Guinea-Bissau reached the decision point under the HIPC Initiative in 2000, remains in debt distress, and has been in arrears to external creditors that have not provided interim debt relief. The authorities are committed to satisfying the remaining requirements to reach the HIPC completion point, including regularizing relations with all external creditors and meeting the HIPC completion point triggers. It would be important for Guinea-Bissau to reach the completion point before World Bank and African Development Bank interim debt relief expire.

IV. Economic Reforms

16. The government's program of economic reforms centers on strengthening public finances; modernizing the public administration, creating space for priority spending, and raising the quality of public services; and removing impediments for private sector development.

Strengthening public finances

17. The reform agenda to strengthen public finances aims to raise revenue collection and improve public financial management.

A. Strengthening Revenue Collection

18. A major element of the persistent fiscal imbalances in Guinea-Bissau is the low level of revenue compared with other sub-Saharan African countries, including countries in the WAEMU area. Revenues depend heavily on tax collection at customs (export and import duties, as well as sales tax on imports). Customs is therefore a major force in the process of tax collection, and measures to mobilize revenue will partly focus on improving customs administration, especially import processing and customs clearance. But efforts will also be required to broaden the tax base, including by shifting to a VAT in line with other WAEMU countries; and reinforcing tax administration.

19. To achieve its revenue collection targets, the government intends to work towards modernizing and improving the customs and tax administrations.

- On customs, the government plans to: (i) improve customs control and valuation by upgrading and putting into operation the Automated System for Customs Data (ASYCUDA ++) in all the main customs posts until June; (ii) introduce seals on alcoholic beverages and tobacco to combat smuggling; (iii) strengthen controls on warehouses and movements out of the port; and (iv) obtain better equipment for custom enforcement.

- On tax revenue, the government plans to: (i) strengthen controls of the sales tax by better monitoring of customs points of entry; (ii) reinforce the large taxpayer unit in the Ministry of Finance to ensure compliance with tax declarations; (iii) enforce the requirement that enterprises have a proper accounting system (SYSCOA); and (iv) better monitor small business tax payers, among others, through rigorous cross checks with import data.

20. The government aims to modify customs and tax policy with a view to enhancing revenue collection and broadening the tax base. In addition to the elimination of custom duty suspension on certain products (rice, wheat, sugar, cement, and other construction materials) effective since January 2010, the government plans to (i) conduct a comprehensive review of all custom exemptions with the goal to further broaden the customs revenue base; (ii) raise the reference price for cashew exports to US$ 750 per ton; (iii) increase the tax rate on the advance payment of the profit tax collected at customs (anticipation of industrial contribution) from 3 to 5 percent; and (iv) start preparing for a transition from the general sales tax to the VAT in line with other WAEMU countries. The move to the VAT will eventually contribute to broadening the tax base, as it would be levied on all imported goods

and services, helping spread out the payment of tax through a large number of businesses instead of being concentrated on particular groups. The government will request technical assistance from the IMF on tax policy, possibly through a resident advisor, to support its revenue mobilization efforts.

B. Improving Public Expenditure and Financial Management

21. The government is committed to pursue public financial management reforms, revamping the monitoring, execution, and control apparatus seeking to achieve and maintain fiscal discipline; greater efficiency in public spending; more effective accountability; and better ability to mobilize and absorb resources. Reforms will be pursued in light of technical assistance and support received from the IMF and development partners in recent years, including the World Bank in the context of a Public Expenditure Management and Financial Accountability Review (PEMFAR), the AfDB, the EU and bilateral donors. The government will implement its PFM action plan approved by the Council of Ministers at the end of 2009, with measures focusing on better collection of tax payments, greater predictability in the availability of funds, more effective payroll controls and management, stronger controls in procurement, better dissemination of annual financial statements, and moving toward a multi-year perspective in fiscal planning.

Better budget planning

- All administrative revenues are now collected by the Treasury, but revenue sharing agreements ("restitutions") between the collecting ministries (including allocated revenue from fishing, mining, and forestry; and administrative revenue such as revenue from passport) and the Treasury have resulted in de facto earmarking of resources. The government will review the legal framework that regulates restitutions by March 2011 with a view to increase the share of nonearmarked revenues in the budget.

- The government will prepare in 2010 a medium-term expenditure plan in line with the poverty reduction strategy.

Greater predictability and control in budget execution

- Standard budget execution procedures have often given way to non-standard or "simplified" ones to execute significant portions of the budget. Supporting documentation is not systematically provided to Treasury officers charged with making payments so that a crucial link between budget and treasury functions and the associated controls is routinely severed. The government will implement norms tightening the recourse to simplified spending procedures, with the goal that emergency spending is regularized within five days.

- Cash management has been done through a daily allocation of funds which does not ensure that adequate cash is available to pay for expenditures when they are due. This involves a risk of arrears accumulation, which could be exacerbated if the Treasury single account is not implemented rigorously. The government will strengthen the Treasury committee in the Ministry of Finance, tasked to prepare and control a quarterly and monthly Treasury plan with accurate and timely short term estimates of cash inflows and outflows, to improve cash flow management. The Treasury plan for the 2010 budget will be finalized by June 2010. The government will also ensure the proper functioning of the single Treasury account.

- The government will make its financial management system (SIGFIP) fully operational, integrating budget preparation and execution and using it for monitoring budget execution and Treasury operations. The budget preparation module (administrative account) is already operational; the accounting system at the Treasury will become operational by July; and connections to the customs and tax administration, with full accounting of commitments and payment orders, will be operational by December 2010.

Strengthening accounting, recording, and reporting procedures

- The government will strengthen the unit of public debt management, with a view to improving debt monitoring, including through the full use of the public debt management system (SYGADE).

- A new public finance law was approved by the Council of Ministers and it is expected to be approved by Parliament in June 2010.

- The government will continue to produce quarterly budget execution reports and strengthen their preparation using SIGFIP, and will publish and send them to the National Assembly.

Reinforcing internal and external controls

- The financial control unit (FCU), which conducts an ex-ante control of all government budget expenditure (i.e., before commitment, and before authorization) has been put directly under the Minister of Finance. This eliminates the conflict of interest with the budget directorate, allowing the FCU to better control and supervise the financial directorates in line ministries. By June, the government will approve a new organizational chart for the FCU, and will assign a number of delegates to line ministries.

- The government will modify the organic law for the Audit Court to harmonize it with the WAEMU directives. It will also work to submit on a timely basis to the Court of Accounts the budgetary execution accounts to be approved annually, which will thereafter be submitted to the National Assembly.

- Following the review of public procurement procedures, in the context of the World Bank PEMFAR, the government identified the need to update the existing procurement code with a view to harmonize it with WAEMU standards; and to establish a procurement regulatory body, with representatives from public and private sectors and the civil society, to supervise public procurement.

C. Modernizing the Public Administration and Raising the Quality of Public Services

22. Civil service and public administration reform will be key to ensure medium-term fiscal sustainability and improve the quality of public administration. At present, the wage bill accounts for close to 60 percent of fiscal revenues, compared to 20 percent a decade ago, and well above the WAEMU convergence criteria. The wage bill grew rapidly earlier in the decade due to expansion of payroll and wage increases designed to decompress the salary structure and to integrate special allowances in wages, but it has declined gradually in recent years driven by a salary freeze. At about 20,000 public sector employees (including civil servants, paramilitary, and military, preliminary figures), the proportion of public servants in the population is the highest in the WAEMU region (about 13 public employees/thousand inhabitants, compared to 6-7 for the region).

23. The government will launch a broad civil service reform program aimed at achieving a more modern, efficient civil service. The reform will (i) significantly reduce the size of the civil service; and (ii) increase the efficiency of public administration by upgrading the qualifications and working conditions for civil servants. The Minister of Public Service and Labor is preparing a plan of action to be submitted to the Council of Ministers by end-2010. The plan will include a medium-term schedule with annual targets to downsize the civil service through mandatory retirement and removing redundant workers beginning in 2011. Key objectives will be to remove from the payroll into retirement all employees who exceed the mandatory retirement age; address the group of civil servants included in the excess pool of workers for reinsertion into the private sector, in the context of the EU Program to support Public Administration Reform (PARAP); and dismiss workers who account for overstaffing. The government will seek donor support for the civil service reform, and will use the savings in the wage bill to help cover the cost of severance payments.

24. To allow for adequate control, regular updating, and verification of civil service employment, the government is working to implement stricter payroll controls and establish a more comprehensive payroll database. By end-June, the government will (i) publish the verified data of the biometric census of civil servants and (ii) start paying the highest salaries through the banking system. By end-2010, the government will cross check and update the database of the Ministry of Finance with data from the census. By January 2011, the government will start using the computerized and unified payroll and personnel management system, and pilot it in the ministries of Finance and Public Service. The system will be extended to most ministries by March 2011.

25. Beyond reducing and enhancing control of the public sector wage bill, the public administration reform, to be supported by donors, is aimed also at improving the quality of public services. The government plan will focus on introducing effective management and control of public personnel expenditures; and increasing productivity by providing performance incentives, restructuring the job grading system, and enhancing training and management, in coordination with donors. A new school of public administration will be established with the help of the AfDB.

26. The government is also committed to modernizing the defense and security sector and restructuring it, including by demobilizing excess troops. The cost of defense and security forces is about 1/3 of the wage bill and the government is committed to reducing the burden on the budget of these large forces. The government effort comes after the demobilization, reinsertion, and reintegration program (DRRP) pursued at the end of the civil conflict in 1998-99; and follows the census of the armed forces conducted in 2008. A key specific objective is to reduce military forces gradually from 4500 soldiers to 3500 soldiers, of which, only 1500 (about 30 percent) will be permanent with the introduction of mandatory national service. This will be accomplished through retirement (about 2200) and demobilization for reinsertion into the private sector (about 800), with participants formally discharged from the armed forces, without the possibility of enlisting again. In addition, the government plans to rationalize the security forces, including the police, with the National Guard incorporating the several existing police forces. The government will create a pension fund, with the help of donors. The government is committed to partly using annual savings to the budget from retirement and demobilization to strengthen the pension fund. A broad donor coordination effort is underway to facilitate the mobilization of financing.

D. Improving the Environment for Private Sector Development

27. The government program to remove impediments to private sector development has four main objectives: (i) improving the business environment; (ii) reforming the judicial system; (iii) restoring and developing basic infrastructures, in the areas of, power, transportation, and communication; and (iv) improving access to credit.

28. To improve the business and investment environment, the government will:

- Adopt the implementing regulations of the new Investment Code, which removes the multiplicity of investment regimes, eliminates the discretion of granting incentives under the old law, and provides for a level playing field for private investors.

- Speed up the work of the National Commission on the Simplification of Administrative Procedures, led by the Minister of Economy. The commission will present to the Council of Ministers a set of measures by June 2010 identifying and removing impediments to private sector development and improving the ease of doing business in Guinea-Bissau. As an important first step, the government has made progress towards establishing a one-stop shop for business, with World Bank support, and plans to have it approved by the Council of Ministers by June 2010. The one-stop-shop will be operational by the end of the year, with a view to simplifying and facilitating licensing and registration procedures for new businesses.

29. The government is committed to promoting good governance and increased transparency. In addition to procurement reforms (discussed above), the government will pursue reforms aimed at improving the quality of the judicial system in the context of an EU program of support in this area. The establishment of the commercial tribunal will facilitate the settling of commercial disputes. There has been progress on preparing the regulatory framework for telecommunications, and the government plans to put in place a telecommunications law that provides the legal framework for a rapidly expanding sector.

30. The government program of investments will focus on infrastructure for power, roads, and the port. The government will (i) improve capacity building and coordination with donors for broader and faster funding of infrastructure rehabilitation and expansion; (ii) increase fiscal space to cofinance investment projects; and (iii) review opportunities under the public-private partnership legal framework.

- The focus on infrastructure is on areas needed for private sector development. This includes projects that would allow the country to reduce the cost of existing operations (e.g., poor capacity of the port of Bissau), as well as projects that would allow the country to tap into its unexploited mineral resources (bauxite and phosphate), including possibly the need for a deep water port and railways. The Ministry of Economy will conduct studies in this area, including to inform and help better prepare its public investment program.

- To sustain spending on infrastructure it will be important to create fiscal space by containing non-priority discretionary spending, for much needed domestically financed capital spending and co-financing operations. The government will also reinforce the coordination of information across ministries to allow for better monitoring of execution of its Public Investment Program.

- The government will avail itself of the legal framework for public-private partnerships (PPP), put in place last year with support from the World Bank, with a view to reducing the infrastructure deficit in sectors such as ports, railway transportation, and energy. Effective use of public-private partnership legal frameworks will require not only improving the investment climate for potential investors, but also making sure that rebuilding and new infrastructure are in line with the capacity to pay for maintenance and operations; and do not create undue fiscal risks for the government.

E. Improving Access to Social Services, Agriculture Policy, and Poverty Reduction

31. The government aims to make further progress towards addressing the high rates of poverty prevalent in Guinea-Bissau, in a manner consistent with the approach established in the country's Poverty Reduction Strategy. Increasing per capita income and reducing the incidence of poverty will require efforts in several fronts, including improving access to basic services (health and education) and agricultural development as most of the poor living in rural areas and practicing subsistence agriculture. The government has assessed its experience in implementing its 2007 PRS, and the lessons learned will inform the successor three-year PRS that is currently being prepared for completion in 2010.

32. Subject to further elaboration in the PRS, investments in the health and education of the population and the delivery of basic services will be government priorities. The low quality of basic social services in Guinea-Bissau reflects a lack of, and weak management of, resources. The government is committed to gradually increasing and sustaining spending on social sectors, health and education, with a view to not only providing the basis for economic development by enhancing the capacities of the poor but also to contributing to poverty reduction and lowering the vulnerability of the poor. This will require a deliberate effort in the budget, but also close cooperation with donors, including the World Bank, with a view to expanding the available resources in these areas. In 2010–2012, the government is committed to using at least 50 percent of tax revenues for current and domestically financed capital spending in health, education, agriculture, and infrastructure.

33. In the fight against poverty, agricultural development will also be critical. As Amilcar Cabral once said, in Guinea-Bissau agriculture is not only the basis of the economy, agriculture is the economy itself. Cashew nuts are the main source of income in rural areas, and operations in the cashew sector are labor-intensive, with income widely distributed among the population. The agricultural sector contribution to income generation could be greatly amplified if Guinea-Bissau were to diversify its agriculture, reduce the need for rice-for-cashew operations; and add value to the cashew sector by greater processing of cashew nuts and derivative products locally. In cooperation with donors the government will pursue investment projects in support of land recovery and equipment, and the government agricultural plan envisages the country gradually becoming self-sufficient in rice production.

F. Financial Sector and Monetary Policies

34. Monetary policy will continue to be pursued within the framework of Guinea-Bissau's participation in the WAEMU, an arrangement that has enabled the country to contain inflation and maintain a stable exchange rate.

35. Access to credit is still low. The settlement of government arrears to domestic banks improves their liquidity position and available funds for domestic credit operations. The government is seeking donor assistance for improving availability of credit for small and medium size enterprises. To help combat money laundering, the government will present a

law to combat the financing of terrorism to the Council of Ministers in June 2010, and it will better equip the National Center for the Treatment of Financial Information (CENTIF).

G. External Debt Management

36. Guinea-Bissau has been in debt distress for many years, and has accumulated sizable arrears to external creditors. The government will act in good faith to regularize its relations with its external creditors. It intends to improve its debt management capacity and organization. The government will maintain communication with those creditors to which it has arrears, aimed at reaching agreements that would allow it to normalize relations in a manner consistent with the country's debt service capacity.

37. The government will pursue a prudent debt management strategy. For the full duration of the three year program, the government will not contract or guarantee any nonconcessional or short-term external debt, as defined in the Technical Memorandum of Understanding (TMU). Moreover, the government will refrain from all external borrowing on non-concessional terms, and any government or government-guaranteed borrowing (external or domestic) will be subject to prior approval by the Finance Minister.

38. Achieving HIPC and MDRI debt relief will be critical for improving medium-term external sustainability. Guinea-Bissau reached the HIPC decision point in 2000. At that time, creditors pledged to provide debt relief equivalent to 85 percent cancellation in NPV terms. However, interim debt relief by the Fund and Paris Club creditors stopped after 2001, when the PRGF-supported program went off-track. The African Development Bank (AfDB) and IDA continue to provide interim debt relief, which expire at end-2010 and early 2011, respectively. Since 2001, Guinea-Bissau has not repaid any creditor that did not provide interim relief, with the exception of the IMF. Reaching the HIPC completion point and receiving MDRI debt relief would significantly reduce the burden of debt. It is crucial however, that Guinea-Bissau reaches the completion point by the end of 2010, before World Bank and African Development Bank interim debt relief expire. In the months ahead, the government will assist the efforts by the IMF and the World Bank to update the existing HIPC completion point triggers.

H. Statistics

39. The government will publish revised national account data for 2003–08, based on the SNA93, in the second quarter of 2010. The new data have a broader coverage of all the sectors in the economy, and have led to a doubling of the GDP level. The government plans to start producing national account statistics based on SNA08, with technical assistance from international and regional institutions.

I. Capacity Building and Technical Assistance

40. Capacity building is a key complement to fiscal reforms in order to ensure their effectiveness and sustainability. Several partners are providing technical assistance in areas of public financial management as well as macroeconomic statistics. The highest priorities are assistance to the Customs, Treasury, Budget, and Tax departments. The IMF is providing technical support, including technical assistance from West AFRITAC and AFRISTAT, in the areas of public financial management and national accounts statistics.

J. Program Monitoring

41. The first year of the program covers the 12 months from January 1, 2010, to December 31, 2010. It will be monitored using quarterly quantitative indicators and structural benchmarks, as well as the semi-annual reviews and quantitative performance criteria presented in Tables 1, and 2. Table 3 contains a list of main structural measures identified by the government. The definitions of quantitative performance criteria and benchmarks are provided in the attached TMU. We expect the first review to be completed by November 2010 and the second review to be completed by May 2011.

Table 1. Guinea-Bissau: Quantitative Indicators for the ECF program for 2010

Quarterly Targets [1]

(Cumulative, CFAF millions)

	End-March	End-June	End-Sept.	End-Dec.
	Prog.	Prog.	Prog.	Prog.
Performance Criteria[2]				
1. Domestic financing of the budget	7,165	-1,411	3,430	231
2. New domestic arrears	0	0	0	0
3. External nonconcessional public borrowing, maturity > 1 year	0	0	0	0
4. External short term public borrowing	0	0	0	0
Indicative Targets				
5. Government tax revenues	5,420	15,148	24,218	30,101
6. Domestic primary balance (commitment basis)	-7,789	-6,779	-11,030	-16,333
7. Nonregularized expenditures (DNTs)	200	200	200	200
8. Social and priority spending	4,062	8,123	12,185	16,246

[1] Cumulative from January 1. The definition of the aggregates and adjustors is provided in the Technical Memorandum of Understanding (TMU).

[2] All Performance Criteria (PC) are ceillings and PC 3 and 4 apply continously.

Table 2. Guinea-Bissau: Structural Benchmarks
Under the Extended Credit Facility
January 1, 2010–December, 31, 2010

Category		Structural Benchmarks	Macro Rationale	Delivery Date	Ministry
		First Review			
Fiscal Management	1	Prepare quarterly and monthly Treasury plans and make operational the Treasury committee within the Ministry of Finance. (¶21)	To improve budget planning	June 2010	MoF[1]
	2	Implement norms tightening the recourse to simplified spending procedures. (¶21)	Greater control in budget execution	May 2010	MoF
	3	Make operational the accounting system at the Treasury under the SIGFIP. (¶21)	Greater control in budget execution	July 2010	MoF
Tax Reform & Strengthening Revenue Collection	4	Put into operation the Automated System for Customs Data (ASYCUDA ++) in three customs posts (Bissau, airport, and Safim). (¶19)	To strengthen revenue collection	July 2010	MoF
Expenditure Reforms	5	Publish the verified data of the biometric census of the public administration employees (civil servants and paramilitary). (¶24)	To improve civil servant management	June 2010	MinLaPS[2]
Business Environment	6	The Council of Minister will approve a legal framework for the "one-stop" shop streamlining procedures and reducing cost for licensing and registration of new businesses. (¶28)	Improve the ease of doing business	June 2010	MinEcon[3]
		Second Review			
Fiscal Management	7	Establish an operational link from budget/Treasury under the SIGFIP to the customs and tax administration. (¶21)	Greater control in budget execution	Dec 2010	MoF
Expenditure Reforms	8	Submit to the Council of Ministers an action plan for the public administration reform, with a medium-term schedule to downsize the civil service through retirement and removing redundant workers beginning in 2011. (¶23)	To improve the efficiency of civil service	Jan 2011	MoF/ MinLaPS
	9	Start using the unified payroll and personnel management system, and pilot it into the Ministry of Finance and the Ministry of Labor and Public Services. (¶24)	To modernize public administration	Jan 2011	MoF

[1] Ministry of Finance
[2] Ministry of Labor and Public Services
[3] Ministry of Economy

Table 3. Guinea-Bissau: Structural Measures
Under the Extended Credit Facility

Category		Measures	Delivery Date
Tax Reform & Strengthening Revenue Collection	1	Put into operation the Automated System for Customs Data (ASYCUDA ++) in three customs posts (Bissau, airport, and Safim). (¶19)	Jul 2010
	2	Introduce seals on alcoholic beverages and tobacco. (¶19)	2010
	3	Strengthen controls on warehouses and movements out of the port. (¶19)	2010
	4	Obtain better equipment for custom enforcement. (¶19)	2010
	5	Strengthen controls of sales tax by better monitoring of customs points of entry. (¶19)	2010
	6	Reinforce the large taxpayer unit in the Ministry of Finance. (¶19)	2010
	7	Enforce that enterprises have a proper accounting system (SYSCOA). (¶19)	2010
	8	Improve monitoring of small business tax payers through rigorous cross check with import data. (¶19)	2010
	9	Conduct comprehensive review of all customs exemptions. (¶20)	2010
	10	Raise reference price for cashew exports to US$ 750 per ton. (¶20)	2010
	11	Increase the tax rate on advance payment of the profit tax collected at customs (anticipation of industrial contribution) from 3 to 5 percent. (¶20)	2010
	12	Start preparing for transition from the general sales tax to the VAT. (¶20)	2010
	13	Review the legal framework that regulates revenue sharing agreements ("restitutions"), with a view to increasing the share of non-earmarked revenues in the budget. (¶21)	Mar 2011
Fiscal Management	14	Prepare a medium-term expenditure plan in line with the PRS. (¶21)	2010
	15	Implement norms tightening recourse to simplified spending procedures. (¶21)	May 2010
	16	Prepare quarterly and monthly Treasury plans and make operational the Treasury committee within the Ministry of Finance. (¶21)	Jun 2010
	17	Make operational the accounting system at the Treasury under the SIGFIP. (¶21)	Jul 2010
	18	Ensure the proper functioning of the single Treasury account. (¶21)	2010
	19	Establish an operational link from budge/Treasury under the SIGFIP to the customs and tax administration. (¶21)	Dec 2010
	20	Strengthen the unit of public debt management, including through the full use of the public debt management system (SYGADE). (¶21)	2010
	21	Continue to produce quarterly budget execution reports, and strengthen its preparation using SIGFIP. (¶21)	2010
	22	Approve a new organizational chart for the FCU, and assign a number of delegates to the line ministries. (¶21)	Jun 2010
	23	Modify the organic laws for the Audit Court. (¶21)	2011
	24	Update existing procurement code and to establish a procurement regulatory body. (¶21)	2010

Civil service reform	25	Publish the verified data of the biometric census of public administration employees (civil servants and paramilitary). (¶24)	Jun 2010
	26	Start paying the highest salaries through the banking system. (¶24)	2010
	27	Cross–check and update the database of the Ministry of Finance with data from the census. (¶24)	End-2010
	28	Start using the computerized and unified payroll and personnel management system, and pilot it into the ministries of Finance and Public Service. (¶24)	Jan 2011
	29	Extend the computerized and unified payroll and personnel management system to other ministries. (¶24)	Mar 2011
Defense and security sector reform	30	Create a pension fund, with the help of donors. (¶26)	2010
	31	Prepare a plan to rationalize the security forces, including the police, with the National Guard incorporating the several existing police forces. (¶26)	2010
Arrears Clearance	32	Complete the audit of 2000–07 private sector arrears. (¶14)	2010
Business Environment	33	Adopt regulations implementing the new Investment Code. (¶28)	2010
	34	The Council of Ministers will approve a legal framework for the “one-stop” shop streamlining procedures and reducing cost for licensing and registration of new businesses. (¶28)	Jun 2010
	35	Improve capacity building and coordination with donors for broader and faster funding of infrastructure rehabilitation and expansion. (¶30)	2010
	36	Increase fiscal space to cofinance investment projects. (¶30)	2010
	37	Review opportunities under the public-private partnership legal framework. (¶30)	2010
Social Services, Agriculture Policy, and Poverty Reduction	38	Prepare a new PRS. (¶31)	2010
	39	Keep at least 50 percent of tax revenues for health, education, agriculture, and domestically financed capital spending. (¶32)	2010-12
	40	Pursue investment projects in support of land recovery and equipment. (¶33)	2010

APPENDIX III

TECHNICAL MEMORANDUM OF UNDERSTANDING

Bissau
March 11, 2010

1. **This memorandum describes the definitions of the quantitative and structural performance criteria, indicative targets, and structural benchmarks to monitor the program supported by an arrangement under the Extended Credit Facility (ECF).** It also specifies the agreed periodicity and deadlines for transmission of data to IMF staff for program monitoring purposes.

I. Quantitative Indicators and Adjustors

I. Quantitative Indicators

2. **The quantitative indicators are the following:**

a. Cumulative floors on government tax revenue
b. Cumulative ceilings on the domestic primary fiscal deficit (on a commitment basis)
c. Cumulative ceiling on the amount of nonregularized expenditures (DNTs).
d. Cumulative floor on social and other priority spending
e. Cumulative ceilings on the change in net domestic financing of the budget
f. Cumulative ceiling on new domestic arrears of the government, including wage arrears
g. Cumulative ceilings on new nonconcessional external debt contracted or guaranteed by the government
h. Cumulative ceiling on new external short term debt.

Quantitative indicators are set for end-March, end-June, end-September, and end-December. Quantitative performance criteria are proposed for end-June and end-December 2010 for indicators (e) through (h). Indicators for new nonconcessional external debt, and new external short term debt are continuous.

Definitions and computation

3. **For program purposes the government is defined as the central government of Guinea-Bissau.** This definition excludes public entities whose budget is not included in the central government budget.

4. **The targeted floor on government tax revenues** includes direct and indirect taxes, as well as recovery of tax arrears and additional revenue efforts (Table 1).

Table 1. Quarterly Floors for Government Tax Revenues, 2010
(Cumulative, CFAF millions)

	March Prog.	June Prog.	Sept. Prog.	Dec. Prog.
Tax revenues	5,420	15,148	24,218	30,101

5. **The domestic primary fiscal deficit on a commitment basis** is calculated as the difference between government revenue and domestic primary expenditure on a commitment basis (Table 2). Government revenue includes all tax and nontax receipts and excludes external grants. Domestic primary expenditure consists of current expenditure plus domestically financed capital expenditure, excluding all interest payments. Government commitments include all expenditure for which commitment vouchers have been approved by the Ministry of Finance; automatic expenditure (such as wages and salaries, pensions, utilities, and other expenditure for which payment is centralized); and expenditure by means of offsetting operations.

Table 2. Quarterly Domestic Primary Balance, New Domestic Arrears,
and Nonregularized Expenditures, 2010
(Cumulative, CFAF millions)

	March Prog.	June Prog.	Sept. Prog.	Dec. Prog.
Total domestic primary deficit	-7,789	-6,779	-11,030	-16,333
Revenue	6,972	22,890	33,526	42,993
Domestic primary expenditure	14,761	29,670	44,556	59,327
New domestic arrears	0	0	0	0
Nonregularized expenditures (DNTs)	200	200	200	200

6. **New domestic arrears of the government** are defined as accounts payable (rest-a-payer) accumulated during the year, still outstanding one month after the quarter for wages and salaries (including pensions), and three months after for goods and services and transfers, at end-March, end-June, end-September, and end-December 2010.

7. **Nonregularized expenditures** are defined as any Treasury outlay not classified in the expenditure tables presented by the National Budget Directorate.

8. **Net domestic financing consists of bank and nonbank financing** (Table 3). Bank financing consists of net changes in the balances of the Treasury accounts at the BCEAO (excluding net disbursement from the IMF) and commercial banks (excluding balances in those accounts that are not available for budget financing, such as accounts held under

double signature arrangements with donors) and in the outstanding amounts of loans, including T-bills, from the BCEAO and commercial banks, local and regional. Nonbank financing encompasses privatization receipts and any other financial debt held outside the banking system other than new domestic arrears.

Table 3. Domestic Financing by Quarter, 2010

(Cumulative, CFAF millions)

	March	June	Sept.	Dec.
	Prog.	Prog.	Prog.	Prog.
Domestic financing	7,165	-1,411	3,430	231
Bank financing	7,165	-1,411	3,430	231
BCEAO	18,130	9,554	14,395	11,196
Commercial banks (including regional)	-4,225	-4,225	-4,225	-4,225
Regional commercial banks and Treasury bills	-6,740	-6,740	-6,740	-6,740
Nonbank financing	0	0	0	0

9. **The indicators for external debt are cumulative ceilings on new nonconcessional external debt contracted or guaranteed by the government**. External debt is defined as debt held by creditors outside the WAEMU region. For ECF purposes, the definitions of "debt" and "concessional borrowing" are as follows:

a. **The indicator for external borrowing** applies to debt including commitments contracted or guaranteed for which value has not been received. The term "debt" is understood to mean a current liability, not contingent, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services that requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being (i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified periods of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. The debt is the present value at the inception of the lease of all lease payments expected to be made during the period of the agreement, excluding those that cover the operation, repair, or maintenance of the property. Under this definition of debt, arrears, penalties, and judicially awarded damages arising from failure to make payment on a contractual obligation that constitutes debt are also debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt. For the purposes of monitoring the ECF, arrangements to pay over time obligations arising from judicial awards to external creditors do not constitute nonconcessional external borrowing.

b. **Loan concessionality,** for program purposes, is assessed based on its calculated grant elements. A debt is concessional if it includes a grant element of at least 50 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

10. **Ceiling on short-term external debt newly contracted or guaranteed by the government**. Short-term external debt is debt with the contractual term of less than one year. Debt-relief operations and treasury bills issued in CFA francs on the WAEMU regional market are excluded from this performance criterion. In the context of the program, the government and public enterprises will not contract, or guarantee, short-term external debt. This performance criterion is monitored on a continuous basis.

11. **The concept of government for the purposes of the indicators on external debt is broader than the one used for the budget aggregates**; it includes all debt that may ultimately be deemed to be a liability of the state. In addition to the central government, the definition includes administrative public institutions; public enterprises authorized to contract, guarantee, or accommodate nonconcessional borrowing; scientific and technical public institutions; professional public institutions; industrial and/or commercial public institutions; and local governments.

12. **Social and other priority spending** is defined as total current expenditures in the education, health, and agricultural sector, and domestically financed capital spending (Table 4).

Table 4. Social and Priority Spending[1] by Quarter, 2010
(Cumulative, CFAF millions)

	March	June	Sept.	Dec.
	Prog.	Prog.	Prog.	Prog.
Social and other priority spending	4,062	8,123	12,185	16,246
Education	1,788	3,575	5,363	7,151
Health	1,012	2,023	3,035	4,047
Agriculture	555	1,111	1,666	2,221
Infrastructure	707	1,414	2,121	2,828

[1] Current and domestically financed capital spending.

J. Adjustors

13. **The following adjustors will be in effect**:

a. The ceiling on the domestic primary deficit (on a commitment basis) will be increased in case of lower than programmed disbursement of EU fishing compensation, by the amount of the shortfall up to a maximum of CFAF 3 billion. The program assumes the following amounts of EU fishing compensation (cumulative from January 1, 2010): zero by end-March; by end-June CFAF 4.59 billion; by end-September CFAF 4.59 billion; and by end-December CFAF 6.2 billion.[1]

b. The ceiling on domestic financing will be increased for any shortfall in external budget support, and EU V-Flex and fishing compensation, by the amount of the shortfall up to a maximum of CFAF 12 billion. The program assumes the following amounts of external budget support, and EU V-Flex and fishing compensation (cumulative from January 1, 2010): by end-March CFAF 5.3 billion; by end-June CFAF 16.2 billion; by end-September CFAF 16.2 billion; and by end-December CFAF 28.9 billion.

c. The ceiling on domestic financing for March, June, and September will be increased for payment of previous years arrears in excess of programmed amounts up to a maximum of CFAF 3.5 billion. The program assumes the following arrears payments from previous years (cumulative from January 1, 2010): by end-March CFAF 4.1 billion; by end-June CFAF 4.1 billion; by end-September CFAF 4.1 billion; and by end-December CFAF 7.9 billion.

[1] For the purposes of the TMU, the CFAF/Euro exchange rate is 655.956 and the CFAF/US$ exchange rate was updated to 450.

II. Program Monitoring

14. **To allow monitoring of the program, the Ministry of Finance will regularly report the following information to the staff of the IMF**:

a. Detailed reports on revenue and expenditure by budget line and a completed summary table on central government operations (TOFE) (monthly, two weeks after the end of the month)

b. Data on any extra budgetary expenditure, including (i) incentives to tax collectors; (ii) restitutions to collecting agencies; and (iii) any other retentions operated by collecting agencies (DGA, DGCI, Fishing Ministry, etc.) (monthly, two weeks after the end of the month

c. Tables on nonregularized expenditures (monthly, two weeks after the end of the month)

d. Table on accounts payable broken down by budget category (wages, goods and services, transfers, other) (monthly, two weeks after the end of the month)

e. Previous years' domestic arrears (including 2009): stock and clearance, broken down by budget category (wages, goods and services, transfers, other) (monthly, two weeks after the end of the month)

f. The monetary survey, the balance sheet of the central bank, and the balance sheet of commercial banks (monthly, within six weeks after the end of the month)

g. A table with data on Treasury/central government outstanding loans (including short-term advances) from and deposits in local and regional commercial banks and T-bills (monthly, two weeks after the end of the month)

h. The amount and terms of new external debt (concessional or not) contracted or guaranteed by the government (within four weeks after the end of the month)

i. A monthly table on disbursements of budget support (grants and loans) by donors (two weeks after the end of the month)

j. Indicators to assess overall economic trends, such as the household consumer price index and exports of cashew nuts (immediately when such information becomes available)

k. A table with a description of the status of implementation of the structural indicators in Table 2 of the MEFP (within two weeks after the end of the month)

l. Information on any type of financial assistance received and not programmed. This should be reported on a continuous basis.

m. The Ministry of Finance will provide the staff of the IMF with any other information that the Ministry or the staff of the IMF deem necessary for program-monitoring purposes.

INTERNATIONAL MONETARY FUND

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

GUINEA-BISSAU

Joint IMF/IDA Debt Sustainability Analysis

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

Approved by Roger Nord and Tom Dorsey (IMF)
and Sudhir Shetty and Sudarshan Gooptu (World Bank)

March 24, 2010

The 2010 debt sustainability analysis for low-income countries (LIC DSA) indicates that in the absence of HIPC and MDRI debt relief, Guinea-Bissau is expected to remain in debt distress, even though debt ratios would improve modestly in the medium-term. The latter reflects the government's medium-term macroeconomic program of reforms and fiscal adjustment. HIPC and MDRI debt relief, which would flow if the HIPC completion point were reached in 2010, together with additional debt relief by the Paris Club and other bilateral donors, could help significantly alleviate the debt burden. Under such circumstances, some debt indicators are expected to remain below policy dependent thresholds after the completion point. Over the longer run, stronger export growth associated with economic reforms and continued reliance on highly concessional financing is expected to lead to a gradual decline in debt ratios to levels below the indicative thresholds. The inclusion of domestic public debt in the analysis reinforces the conclusions of the external DSA. The government's economic program should focus on strengthening its fiscal stance; on avoiding nonconcessional debt, securing foreign aid on highly concessional terms; and on improving the political and business environment.

I. Background

1. **At end-2008, Guinea-Bissau's total public debt amounted to US$1,361 million or 173 percent of GDP in nominal terms (144 percent of GDP in PV terms).** Its largest component is still public and publicly guaranteed external debt (78 percent of total public debt) despite of public domestic debt having substantially risen over the last years (currently 22 percent of total public debt up from 19.7 percent in 2006 and 13.7 percent in 2000). Public domestic debt declined in late 2009, however, as the government paid arrears to

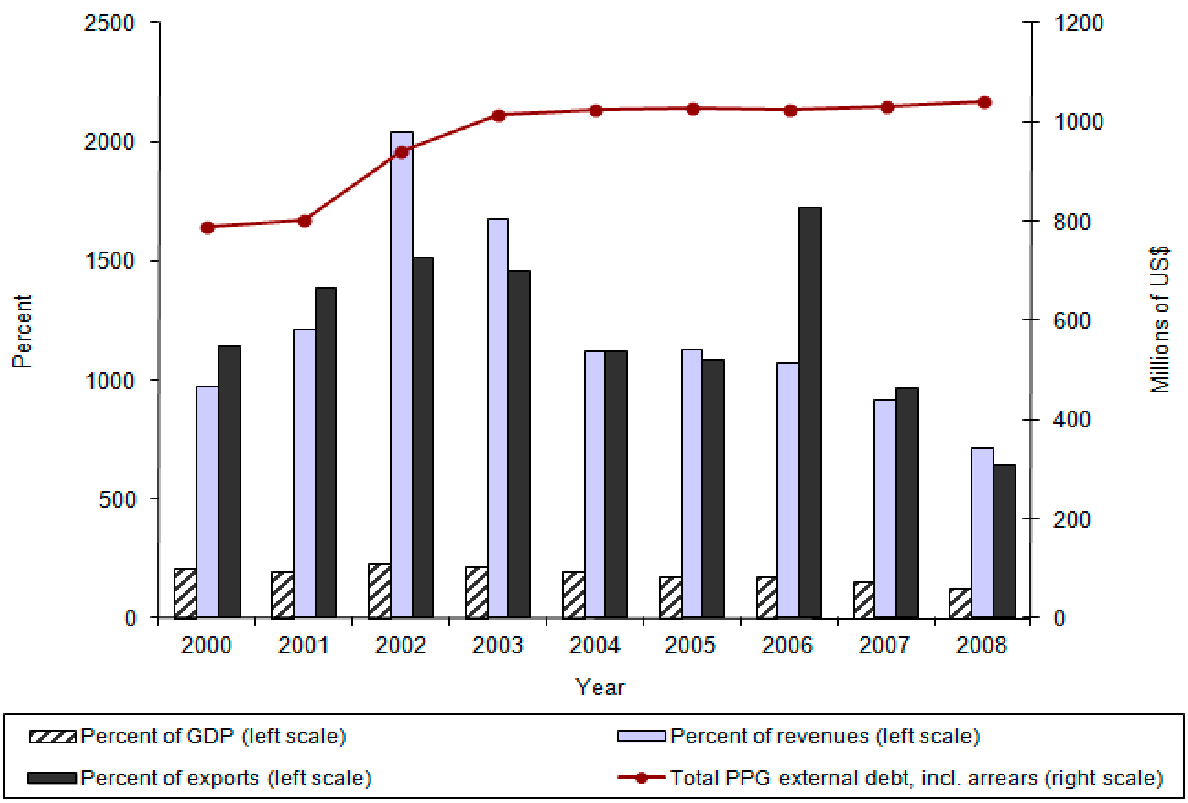
commercial banks and the BCEAO using externally provided grants. Private external debt is negligible.

Box 1. Impact of Revisions to Guinea-Bissau's National Accounts

This DSA incorporates recently revised National Accounts data. The government will publish the revised national account data for 2003-08, based on the SNA93, in the second quarter of 2010. The new data has a broader coverage of all the sectors in the economy, including in particular the non-cashew agricultural sector which had been significantly underestimated in previous data. The result is an approximate doubling of the level of GDP. Accordingly, GDP ratios cannot be directly compared to those in previous DSA exercises. As an approximation, the isolated impact of the revision will be to reduce GDP ratios by approximately half. Export ratios are less affected, as the revisions to export data were much smaller than for domestic sectors of the economy.

2. **The stock of public and publicly guaranteed (PPG) external debt amounts to US$1,061.8 million (135 percent of GDP), of which US$388.6 million are in arrears (Figures 1 and 2).** In terms of composition, multilateral debt accounts for 47.5 percent of total PPG external debt, whereof 27.6 percent is owed to IDA, 13.7 percent to AfDB/AfDF and 0.8 percent to IMF. Bilateral creditors account for 52.4 percent (whereof 38.4 percent of total PPG are Paris Club creditors).

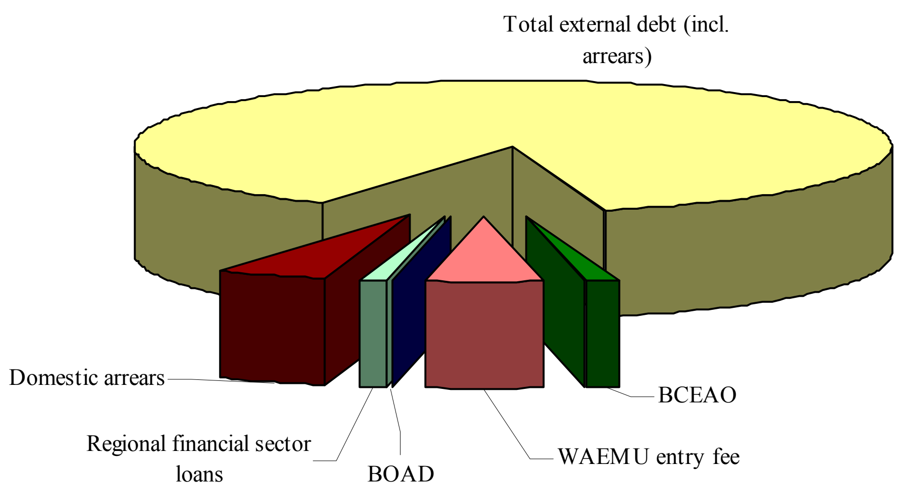
Figure 1. Stock of External Debt, 2000-2008



Source: IMF staff estimates.

3. **Public domestic debt stood at CFAF 144.1 billion at end-2008 (or 38 percent of 2008 GDP) from CFAF 125.1 billion in 2006** (and CFAF 91.1 billion in 2000), mainly as a result of new domestic arrears and new regional borrowing. By end-2008, the PV of public sector debt had risen to 144 percent of GDP (up from 40 in 2006) and its ratio to revenue and grants to 842 percent (up from 251 in 2006). Almost half of the domestic debt stock represents a required capital contribution of CFAF 70 billion (21 percent of 2008 GDP) to join WAEMU in 1998,[1] which was agreed to be paid over 25 years starting in 2005 and of which CFAF 58.8 billion were left to be paid off. However, as the government has regularly only made around 10 percent of the annual payments using distributed dividends, it had accumulated CFAF 9.5 billion in obligations to the central bank (BCEAO). Another CFAF 6.2 billion in arrears was outstanding to the BCEAO because of unsettled budgetary payments. The second largest component of domestic debt is domestic arrears to the non-bank private sector, that by end-2009 amounted to CFAF 71.8 billion.[2] In addition, a commercial debt of CFAF 11.8 billion was outstanding to WAEMU banks, whereof CFAF 7.6 billion were Treasury bills (issued in August 2006 at a face value of CFAF 6.7 billion). The obligation to the regional development bank (BOAD) stood at CFAF 1.7 billion.

Figure 2. Composition of Public Debt (Debt Stock at end-2008; millions of CFAF)



Source: IMF staff estimates.

[1] Under the terms of its accession to the WAEMU in 1998, Guinea-Bissau agreed to contribute an equal share as all other members in the capital contribution of the central bank (BCEAO) and the regional development bank (BOAD).

[2] In gross terms, audited arrears account for CFAF 17 billion accumulated before 2000 and partially audited arrears accounted for CFAF 54.8 billion accumulated during 2000–07.

4. **Although Guinea-Bissau already reached the decision point under the HIPC Initiative in 2000, it has failed to reach the completion point since.** In 2000, the government engaged in a Poverty Reduction and Growth Facility (PRGF) program from the Fund that could have paved the way to the completion point.[3] Failure to maintain macroeconomic stability caused the PRGF-supported program to go off track at a very early stage. In 2005, the government agreed to a new timeline to re-engage in programs supported by the IMF and the World Bank. Two Fund Staff-Monitored Programs (SMPs) followed in 2005 and 2006 as well as three disbursements under the IMF's Emergency Post-Conflict Assistance (EPCA) policy in 2008–09. Progress under both SMPs and the initial EPCAs was mixed, although performance in 2009 improved significantly, allowing staff to recommend IMF Executive Board approval of an arrangement under the IMF's Extended Credit Facility (ECF). Satisfactory performance under the ECF-supported program in the first half of 2010 would provide the necessary track record for reaching the HIPC completion point in the fourth quarter of 2010. A full Poverty Reduction Strategy Paper (PRSP) was finalized in 2006 after many delays owing to political instability and capacity constraints. An Annual Progress Report on PRS implementation was prepared in December 2009, and a new PRSP is under preparation.

5. **With the completion point not having been reached since 2000, Guinea-Bissau has not benefited from most of the debt relief committed at decision point.** At the decision point in 2000, creditors representing 80 percent of Guinea-Bissau's external debt pledged to provide HIPC relief amounting to US$415 million in PV terms (currently estimated at about US$579.9 million in nominal terms).[4] But as Guinea-Bissau has failed to reach the completion point since then, it has had to service a large share of external debt in full since 2001. Many agreements signed with other multilateral and bilateral creditors have not been implemented because the country failed to remain current on debt service obligations.[5] The Paris Club declared null and void any debt rescheduling agreements beyond end-2001 and the IMF suspended interim debt relief after the 2000 PRGF had gone off track. The African

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[3] A number of conditions must be met before a country can reach the completion point under the HIPC Initiative, including satisfactory performance under an ECF or SCF arrangement. In particular, this requires satisfying the Fund's nontoleration of arrears policy (i.e. agreement must be reached on a repayment schedule of all remaining arrears, among others the post-cut-off-date arrears with Paris Club creditors).

[4] Additional US$71 million in PV terms (currently estimated at about US$133.3 million in nominal terms) should come from an agreement with other bilateral creditors.

[5] See *Guinea-Bissau, Selected Issues and Statistical Appendix,* November 2004, (IMF Country Report No. 05/93) Box 10, for a comprehensive list of debt.

Development Bank (AfDB)[6] and IDA[7] have committed to provide interim relief up to early 2011. Since 2000, only China and Cuba have cancelled all outstanding claims.

6. **After the decision point in 2000, Guinea-Bissau could not service its external debt and accumulated arrears to most of its external creditors.** Since 2001, the country has not repaid any creditor that did not provide interim relief, with the exception of the IMF. The stock of external arrears has increased from US$141.7 million before decision point in December 2000 to US$382.8 million at end-2008.

II. Underlying Assumptions

7. **The macroeconomic framework underlying the DSA is based on the implementation of sound macroeconomic and structural policies, and external financing (mainly through grants and highly concessional loans).** Box 2 summarizes the corresponding key macroeconomic assumptions. Growth projections average about 4.5 percent over 2009 to 2029. This reflects a stabilization of the political environment and the government's intention to raise the growth potential of the economy, mainly through investments in agriculture, infrastructure and energy provision as well as efforts to improve the business environment and to attract FDI related to investments in the mining sector. Over the medium and long term, these efforts are expected to lead to fiscal consolidation and to stimulate significant export growth that also outpaces any FDI-related import growth. Besides inflation, grants and loans from donors as a percentage of GDP are projected to remain at historical levels.

8. **The DSA assumptions underlying the baseline scenario differ slightly from the previous DSA undertaken in June 2009.** They stem from updating key macroeconomic variables in the short and medium term based on recent evidence, a newer global economic outlook, stronger donor support, and indications of the authorities' policy intentions in the context of a prospective medium-term IMF program. The improvement in the fiscal balance projected in the previous DSA for the medium-term is now expected to begin sooner, reflecting the success of recent efforts to raise revenues and contain spending. The most noteworthy medium-term difference is a more positive outlook for the external sector, with

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[6] The statutory ceiling for the delivery of interim relief was reached by AfDB in January 2007, so that only a fraction of the scheduled debt service payments was covered through January 2007, and stopped thereafter. In July 2008, the AfDB extended 100 percent debt service relief to January 2011 after having raised the interim relief ceiling from 40 percent to 50 percent.

[7] Interim relief from IDA amounted to 100 percent of debt service falling due between December 2000 and October 2003 on debt disbursed before end-1999 (October 2003 was the originally assumed completion point date). From November 2003, annual nominal reduction on debt service to IDA was 90 percent. In order to further assist the country in reaching its completion point, IDA increased its limit on interim relief from 1/3 to 1/2 of the PV of debt relief to be provided. This interim limit of 50 percent of the PV of debt relief is expected to be reached by March 2011.

the current account balance significantly stronger over the medium-term than was previously assumed. In particular, long-term growth assumptions for the period beyond 2015 assume a somewhat stronger growth rate of the dominant export–cashews.

9. **The simulations also assume that Guinea-Bissau receives financial assistance in the form of a medium-term IMF arrangement.** Assistance provided under the arrangement is expected to equal 157.5 percent of quota (SDR 22.4 million) of which 37.5 percent of quota is used to immediately repay previous credit provided under the Fund's Emergency Post-Conflict Assistance Program. Disbursements under the arrangement are approximately equally phased over the period from early 2010 to early 2013.

Box 2. Macroeconomic Assumptions Underlying the DSA Baseline Scenario

The macroeconomic assumptions over the period 2008 to 2029 are as follows:

Real GDP growth is expected to first drop from 3.5 percent in 2008 to about 3.0 percent in 2009 and then to gradually recover until it reaches 4.5 percent over the long term. This exceeds the historical average by roughly one percentage point, reflecting a past marked by great political instability and inappropriate macroeconomic policies which are expected to improve in the period ahead. Growth is also expected to be supported by average growth over the 2015–2029 period of about 4.5 percent in cashew production.

Inflation, as measured by the GDP deflator, is assumed to grow at a rate slightly below CPI inflation, reflecting a continuous worsening in the terms of trade. Over the long term, both GDP deflator and CPI are projected to return to their historical level of 2½ percent.

The noninterest **current account surplus** (including grants) is expected to decline gradually from about 1½ percent in 2009 to about ½ percent in 2015—an improvement relative to the deficit of 2 percent of GDP observed over the 2000-2008 period. Over the longer term to 2030, real export volumes are projected to grow at around 6 percent per year, contributing to a widening of the surplus to about 4 percent of GDP before the end of the projection period in 2030.

The **domestic primary fiscal deficit** (i.e. revenue, excluding grants, minus interest expenditure, excluding foreign-financed investment projects) is assumed to gradually decrease from 3 percent of GDP in 2009 to about 2.5 percent from 2019 on, due to stronger revenues as a percentage of GDP and improved public expenditure management.

Net aid flows (grants and concessional loans) are expected to moderate from the high levels seen in 2009. Budget support grants are projected to decline from the 7 percent of GDP received in 2009 to about 4 percent over the medium term. Nonconcessional borrowing is expected to remain negligible on the grounds that the country will not have continued access to commercial debt. Fiscal financing gaps will thus have to be filled through grants or highly concessional loans, especially since running further domestic arrears over the medium and long term is an unsustainable alternative. The grant element in new disbursements is assumed to remain above 50 percent. Concessional loans are assumed to be on standard terms. It is assumed that most of the current arrears to the regional central bank and to domestic commercial banks will be repaid using externally-provided grants in the course of 2010.

10. **Assumptions governing the use of Guinea-Bissau's SDR allocation (SDR 12.4 million or 4.3 percent of GDP) in the DSA reflect institutional arrangements prevailing in the WAEMU area.** In September 2009, pursuant to a decision by the WAEMU Council of Ministers, it was agreed that the regional central bank would lend an amount in domestic currency equivalent to the general portion of their SDR allocation to WAEMU members to be used to clear domestic arrears. While such financing is loosely associated with the SDR allocation—domestic financing by the BCEAO is linked to the CFA franc counterpart of members' SDR allocations—BCEAO loans to member countries do not automatically trigger a drawdown of their holdings held at the SDR Department. The SDR allocation held by the BCEAO has thus not been drawn down. The BCEAO domestic financing has a grace period of 3 years, an interest rate of 3 percent and a repayment period of 10 years. Accordingly, the DSA treats the funds provided by the BCEAO as domestic borrowing, on the terms specified above. As the BCEAO continues to hold the SDRs provided as part of the August and September 2009 general and special allocation, the DSA does not assume any change in external debt service obligations resulting from the allocation.

A. Baseline: Interim Relief

11. **Under the baseline scenario, all PPG external debt indicator ratios fall relative to their historical levels, but remain well above the policy-dependent debt burden thresholds (Tables 1a, 1b and Figure 1a).**[8] The baseline presumes full delivery of traditional debt relief as well as interim HIPC assistance, but that real GDP growth averages almost 5 percent per annum in the long term.[9][10] Despite the concessional nature of most of the external debt, the debt burden indicators far exceed the relevant policy dependent debt thresholds (Text Table 1).[11] In terms of PV, external debt stands at US$855.5 million or 103 percent of GDP and 528 percent of exports. The downward trend in debt ratios through the projection period is mainly driven by the assumption that Guinea-Bissau only takes out highly concessional loans to finance fiscal gaps.[12]

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[8] Compared to the previous DSA, completed in June 2009, key debt ratios have improved significantly, owing to the upward revision in GDP. That ratios still remain above policy-dependent thresholds based on the revised data is testament to the level of debt vulnerabilities.

[9] Traditional debt relief is assumed to take the form of a Naples flow rescheduling over the 2010–2012 period.

[10] The underlying growth rates are approximately 2 percent higher than the historical average, with the historical average calculated to exclude the sharp drop in GDP associated with the 1999 internal conflict. The reason is that the past was marked by great political instability and inappropriate macroeconomic policies which are expected to improve in the period ahead.

[11] According to the World Bank Country Policy and Institutional Assessment (CPIA), Guinea-Bissau is classified as a country with poor quality of policies and institutions. Its average CPIA rating for 2003–08 is 2.58 on a scale from 1 to 6 and below the operational cutoff of 3.25 for poor performers.

[12] The grant element of new external borrowing is projected to decline in 2010–14, owing to the lower concessionality of the proposed borrowing under the IMF's ECF.

Text Table 1. Summary of Baseline External Debt Sustainability Indicators 1/					
	Indicative Threshold 2/	2009	2019	2029	Average
PV of debt-to-GDP	30	103	56	19	61
PV of debt-to-exports	100	528	281	93	308
PV of debt-to-revenues	200	1155	530	175	601
Debt service-to-exports	15	14	14	6	12
Debt service-to-revenue	25	31	27	11	22

Source: IMF staff estimates.
1/ Debt indicators refer to Guinea-Bissau's public and publicly guaranteed external debt.
2/ Threshold over which countries considered as poor performers according to their CPIA would have at least a 25 percent chance of having a prolonged debt distress episode in the coming year. Guinea-Bissau lies within the bottom quintile of countries ranked by CPIA.

B. Alternative Scenarios and Stress Tests

12. **Assuming that Guinea-Bissau reaches the HIPC completion point in 2010 helps to significantly alleviate the debt burden, but some debt burden indicators remain at or above thresholds consistent with a high risk of debt distress.** (Table 1b, Scenario A3). This alternative scenario assumes full delivery of HIPC, MDRI, and Paris Club "beyond HIPC" assistance after the completion point. Over the longer run, stronger export growth associated with economic reforms and continued reliance on highly concessional financing is expected to lead to a gradual decline in debt ratios to below sustainability thresholds by the end of the projection.

13. **Standard stress tests to the baseline scenario confirm the external debt position's vulnerability to unexpected shocks.**[13] Given current debt levels, the first stress test exhibits the enormous impact of a one-time 30 percent devaluation in the nominal exchange rate in 2010 (Table 1b, Scenario B6): the PV of debt would increase by 39 percentage points of GDP in that year. That makes the devaluation by far the most extreme shock in terms of PV/GDP, debt/revenue, and debt service/revenue (Figure 1a). The prospect that such an adverse shock would be realized, however, is limited by Guinea-Bissau's membership in the CFA franc zone, whose currency is pegged to the euro. The stability of the CFA franc versus the euro is buttressed by high levels of reserves. At the same time, movements in the euro versus other currencies in which Guinea-Bissau's debt may be denominated (such as the US dollar) could have a significant impact on debt burdens.

[13] The 10-year historical averages used in the stress tests exclude the steep drop in GDP and disruptions to other economic variables associated with the 1999 internal conflict.

III. PUBLIC DSA

A. Baseline: Interim Relief

14. **The baseline scenario, adapted from the same assumptions and consistent with the external DSA, shows domestic debt indicators remaining elevated (Table 2a, 2b and Figure 2a)**. Total public debt (domestic and external) as a percent of GDP declines steadily through the projection period. The PV of total public debt to GDP ratio exhibits a similar pattern. The debt service to revenue ratio rises in the second half of the next decade, reflecting in part the repayment of the domestic credit provided by the regional central bank in connection with the SDR allocation.

B. Alternative Scenarios and Stress Tests

15. **Under the assumption of the HIPC/MDRI completion point being attained in 2010 and the corresponding external debt relief being fully delivered (including MDRI), debt vulnerabilities significantly decline (Table 2b, Scenario A4)[14].** The PV of debt would fall to 50 percent of GDP in 2010, which amounts to a debt reduction of 77 percentage points of GDP in PV terms with respect to the baseline scenario. Despite this reduction, the PV of public debt to GDP would still remain high.

16. **Assuming that GDP growth and the primary balance move to their historical averages (Table 2b, Scenario A1) has a modest adverse impact on debt ratios.** By the end of the projection period, the PV of debt to GDP ratio is elevated by about 43 percent of GDP.

17. **Standard stress tests to the baseline scenario confirm that also the public debt position remains vulnerable to economic shocks.** As with the scenario assuming only interim relief, the largest impact results from imposing a one-time 30 percent depreciation in the exchange rate (Table 2b, Scenario B4), which severely impacts all debt burden indicators. Perhaps the largest impact is with respect to the debt-to-revenues ratio, which rises by 42 percentage points (relative to the baseline) in the first year of the shock.

IV. CONCLUSION

18. **In sum, based on staffs' analysis, in the absence of HIPC and MDRI debt relief, Guinea-Bissau is expected to remain in debt distress, even though debt ratios would improve modestly in the medium-term reflecting the government medium-term macroeconomic program of reforms and fiscal adjustment**. HIPC and MDRI debt relief, which would flow if the HIPC completion point were reached in 2010, and comprehensive

[14] The assumptions for debt relief from multilateral and bilateral creditors are the same as those described in paragraph 12 above.

debt relief by the Paris Club and other bilateral donors, would help significantly alleviate the debt burden, with most debt indicators below policy dependent thresholds after the completion point. Over the longer run, stronger export growth associated with economic reforms and continued reliance on highly concessional financing is expected to lead to a gradual decline in debt ratios to below indicative thresholds by the end of the projection period. The inclusion of domestic public debt in the analysis reinforces the conclusions of the external DSA.

19. **Prudent macro policies are highly crucial for reining in debt ratios and for performing under a potential new ECF, which is necessary to reach the HIPC/MDRI completion point.** The government's economic program, for which it is requesting Bank and Fund support, should focus on strengthening its fiscal stance; on avoiding nonconcessional debt, securing foreign aid on highly concessional terms; and on improving the political and business environment. The latter would not only be conducive for additional investment, but also for a more stable inflow of external aid than in the past. Containing the wage bill and avoiding off-budget expenditures will be key to reduce the current fiscal imbalance in a sustainable fashion.

Table 1. Guinea-Bissau: External Debt Outstanding, 2000–08[1]

(In millions of U.S. dollars, including arrears)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total external debt outstanding (end of year; including arrears)	**717.2**	**728.3**	**851.0**	**908.2**	**1,043.1**	**1,049.2**	**1,046.4**	**1,053.7**	**1,061.8**
Multilateral	**435.3**	**440.5**	**447.8**	**488.8**	**514.9**	**513.7**	**507.4**	**505.8**	**504.0**
African Development Bank Group	121.9	123.4	128.3	143.2	141.4	140.7	142.2	143.6	145.3
Arab Bank for Economic Development in Africa (BADEA)	8.7	8.8	9.7	12.8	9.2	9.5	9.9	9.7	9.7
Economic Community of West African States (ECOWAS)	3.1	3.1	3.8	5.1	3.9	3.9	4.0	4.0	4.0
European Investment Bank (EIB)	7.6	7.6	11.2	12.7	9.4	9.4	9.4	9.4	9.4
International Fund for Agricultural Development (FIDA)	9.2	9.3	11.4	12.5	11.1	11.2	11.3	11.0	11.0
International Development Agency (IDA)	238.0	243.2	231.1	257.5	301.3	303.4	298.9	299.8	292.7
Islamic Development Bank (IsDB)	13.7	13.5	15.3	17.6	15.6	15.6	15.6	15.6	15.6
OPEC Fund	8.0	8.0	14.8	8.2	8.1	8.1	8.2	8.2	8.2
International Monetary Fund (IMF)	25.0	23.5	22.3	19.3	15.1	11.9	8.0	4.6	8.1
Bilateral creditors	**281.3**	**287.2**	**402.6**	**418.7**	**527.4**	**534.7**	**538.1**	**547.0**	**556.9**
Paris Club (cutoff date: December 1986)	169.3	173.8	255.0	270.3	386.1	391.3	394.7	400.7	407.5
Pre-cutoff date (rescheduled Paris Club III-1995)	120.3	123.7	174.5	185.9	304.6	309.5	312.9	318.7	325.4
Belgium	7.8	8.1	9.1	11.2	15.5	15.8	15.9	16.1	18.4
Brazil	23.1	24.0	26.3	28.7	17.4	18.0	18.4	18.7	18.9
France	8.9	9.3	14.4	15.4	14.4	14.5	15.4	16.7	17.5
Germany	4.3	4.4	1.1	1.3	1.3	1.4	1.4	1.6	1.7
Italy	76.2	78.0	123.5	129.2	128.7	129.0	129.2	129.5	129.9
Portugal	...	...	...	...	107.0	109.3	109.3	111.7	114.4
Russia	...	...	...	...	20.3	21.5	23.1	24.3	24.7
Post-cutoff date	49.0	50.1	80.5	84.5	81.5	81.8	81.8	82.0	82.1
Italy	41.6	42.5	67.4	70.5	70.2	70.4	70.4	70.4	70.4
Spain	7.5	7.6	13.2	14.0	11.3	11.4	11.4	11.6	11.7
Other bilateral creditors	112.0	113.4	147.6	148.4	141.3	143.4	143.4	146.3	149.4
Abu Dhabi Fund for Arab Economic Development	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Algeria	6.5	6.6	10.9	11.5	9.5	9.6	9.6	9.7	9.8
Angola	18.8	18.8	18.8	18.8	17.0	17.0	17.0	17.0	17.0
Kuwait	27.8	27.9	45.0	40.0	49.5	50.1	50.1	51.2	52.4
Libya	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Pakistan	2.6	2.6	3.8	4.0	2.6	2.6	2.6	2.6	2.6
Saudi Arabia	15.1	15.2	22.1	22.9	15.5	15.7	15.7	16.0	16.4
Taiwan Province of China	36.9	38.0	42.8	46.8	43.0	44.1	44.1	45.5	46.9
Commercial	**0.6**	**0.6**	**0.6**	**0.7**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**
Banque Franco-Portugaise	0.6	0.6	0.6	0.7	0.8	0.8	0.8	0.8	0.8

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

1/ Estimates are based on incomplete and unreconciled data provided by the Guinea-Bissau authorities and on IMF and WB staff estimates and projections. Debt estimates for particular creditor countries may be subject to significant revisions in the light of information to be gained in the future from the authorities and through the Paris Club.

Table 2. Guinea-Bissau: External Arrears Outstanding, 2000–08[1]

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total stock of arrears outstanding (end of year)	**132.6**	**126.4**	**182.1**	**206.0**	**298.4**	**326.7**	**336.8**	**360.1**	**388.6**
Multilateral	**29.3**	**17.5**	**22.1**	**28.3**	**31.6**	**34.2**	**36.8**	**37.8**	**39.4**
African Development Bank Group	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arab Bank for Economic Development in Africa (BADEA)	5.5	5.6	4.6	8.3	8.1	8.8	9.7	9.6	9.6
Economic Community of West African States (ECOWAS)	1.9	2.0	2.0	3.1	3.3	3.4	3.5	3.5	3.6
European Investment Bank (EIB)	0.9	1.0	4.6	4.8	6.5	6.5	6.5	6.5	6.5
International Fund for Agricultural Development (FIDA)	0.9	1.0	2.0	2.2	3.1	3.4	3.8	3.7	4.1
International Development Agency (IDA)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Islamic Development Bank (IsDB)	12.5	0.3	0.8	1.7	2.6	4.0	5.1	6.3	7.5
OPEC Fund	7.6	7.6	8.2	8.2	8.1	8.1	8.2	8.2	8.2
International Monetary Fund (IMF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	**102.9**	**108.5**	**159.4**	**176.9**	**266.0**	**291.7**	**299.2**	**321.4**	**348.3**
Paris Club	49.7	54.1	103.4	113.3	197.8	216.9	224.4	237.0	254.3
Pre-cutoff date 1986 (rescheduled Paris Club III-1995)	22.9	24.5	57.3	59.2	105.9	115.2	122.7	134.2	150.4
Belgium	1.8	2.1	0.6	1.0	3.6	4.3	4.8	5.1	9.1
Brazil	8.9	9.8	11.1	13.6	7.7	10.2	12.9	15.8	18.9
France	2.5	2.9	6.4	6.9	8.8	9.3	10.8	13.0	16.7
Germany	2.6	2.6	0.2	0.3	0.5	0.5	0.6	0.8	0.9
Italy	7.1	7.1	39.0	37.5	64.5	65.7	66.8	68.0	69.2
Portugal	...	...	...	...	16.2	19.1	19.1	22.4	26.2
Russia	...	...	...	...	4.7	6.1	7.7	9.1	9.4
Post-cutoff date	26.8	29.6	46.0	54.1	91.9	101.7	101.7	102.8	103.9
Italy	23.8	26.5	44.6	51.8	88.1	96.5	96.5	96.5	96.5
Spain	3.0	3.1	1.5	2.3	3.9	5.2	5.2	6.3	7.4
Non-Paris Club	53.2	54.4	56.0	63.5	68.2	74.8	74.8	84.5	94.1
Abu Dhabi Fund for Arab Economic Development	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Algeria	1.5	1.5	5.9	6.5	5.9	6.5	6.5	7.1	7.7
Angola	18.8	18.8	18.8	18.8	17.0	17.0	17.0	17.0	17.0
Kuwait	17.9	17.9	1.6	3.4	7.3	8.5	8.5	10.9	13.1
Libya	0.7	0.7	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Pakistan	1.3	1.3	1.6	1.8	2.0	2.2	2.2	2.2	2.2
Saudi Arabia	4.7	4.8	9.9	10.7	9.7	10.2	10.2	11.4	12.6
Taiwan Province of China	8.1	9.2	13.9	18.0	22.0	26.0	26.0	31.5	37.1
Commercial	**0.4**	**0.4**	**0.6**	**0.7**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**
Banque Franco-Portugaise	0.4	0.4	0.6	0.7	0.8	0.8	0.8	0.8	0.8

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

1/ Estimates are based on incomplete and unreconciled data provided by the Guinea-Bissau authorities and on IMF and WB staff estimates and projections. Debt estimates for particular creditor countries may be subject to significant revisions in the light of information to be gained in the future from the authorities and through the Paris Club.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual											Historical Average 6/	Standard Deviation 6/	Projections								
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2029
External debt (nominal) 1/	...	...	192.8	177.7	189.3	175.5	180.5	186.4	166.4	143.0	134.8			126.4	119.9	114.3	109.1	103.2	97.2		66.1	18.0
o/w public and publicly guaranteed (PPG)	...	...	192.8	177.7	189.3	175.5	180.5	186.4	166.4	143.0	134.8			126.4	119.9	114.3	109.1	103.2	97.2		66.1	18.0
Change in external debt	...	...	...	-15.2	11.6	-13.8	5.0	5.9	-19.9	-23.4	-8.2			-8.3	-6.5	-5.6	-5.2	-6.0	-5.9		-5.8	-4.2
Identified net debt-creating flows	...	...	...	-6.7	-0.2	-21.8	-25.0	-18.3	0.6	-31.0	-30.3			-6.9	-6.1	-6.4	-6.7	-6.9	-6.9		-5.9	-4.1
Non-interest current account deficit	4.4	-4.2	-5.8	3.8	0.2	0.3	-5.5	-1.9	3.9	-7.6	-4.4	-1.9	4.2	-1.6	-0.1	-1.0	-1.2	-1.8	-2.0		-2.3	-2.1
Deficit in balance of goods and services	8.1	8.1	8.6	12.8	8.0	8.6	6.0	7.1	14.9	9.1	6.8			8.7	8.3	8.6	8.0	7.7	7.6		6.7	5.0
Exports	5.4	14.1	18.0	14.1	14.9	14.6	17.1	16.0	9.9	15.4	19.0			19.6	19.5	19.8	20.4	20.3	20.2		19.8	19.8
Imports	13.5	22.2	26.6	26.8	22.9	23.2	23.1	23.1	24.8	24.6	25.8			28.2	27.7	28.4	28.4	28.0	27.8		26.5	24.9
Net current transfers (negative = inflow)	-6.2	-15.9	-14.0	-9.8	-7.4	-8.3	-11.5	-8.9	-10.3	-15.9	-10.7	-11.3	3.0	-11.5	-10.6	-9.3	-8.9	-8.9	-9.0		-8.7	-7.0
o/w official	-2.5	-10.8	-9.3	-6.3	-3.0	-3.4	-5.9	-3.9	-6.9	-10.3	-6.4			-8.0	-7.1	-5.9	-5.6	-5.6	-5.6		-5.4	-4.5
Other current account flows (negative = net inflow)	2.6	3.6	-0.4	0.8	-0.4	-0.1	0.0	-0.1	-0.6	-0.9	-0.4			1.2	2.2	-0.3	-0.3	-0.6	-0.6		-0.4	-0.1
Net FDI (negative = inflow)	0.0	0.0	-0.2	-0.4	-0.5	-0.7	-1.8	-1.3	-3.0	-2.6	-1.2	-1.2	1.0	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0		-1.0	-1.1
Endogenous debt dynamics 2/	...	...	...	-10.1	0.1	-21.3	-17.8	-15.1	-0.2	-20.8	-24.7			-4.3	-5.0	-4.4	-4.5	-4.1	-3.9		-2.5	-0.8
Contribution from nominal interest rate	...	...	...	3.2	2.5	2.2	1.8	1.9	1.6	2.1	1.9			-0.1	-1.0	0.5	0.4	0.8	0.7		0.5	0.1
Contribution from real GDP growth	...	...	...	-6.6	-3.1	5.9	-4.8	-8.2	-4.1	-0.5	-4.1			-4.2	-4.0	-4.9	-4.9	-4.9	-4.6		-3.0	-0.9
Contribution from price and exchange rate changes	...	...	...	-6.7	0.7	-29.4	-14.8	-8.7	2.3	-22.4	-22.6			...	...	...	...	...	...		...	...
Residual (3-4) 3/	...	...	...	-8.4	11.8	8.0	30.0	24.2	-20.6	7.5	22.0			-1.4	-0.4	0.8	1.4	0.9	0.9		0.1	-0.2
o/w exceptional financing	...	...	...	-1.9	-5.1	-7.2	-5.5	-6.2	-3.2	-4.7	-3.0			-1.2	0.2	0.0	0.0	0.0	0.0		0.0	0.0
PV of external debt 4/	...	...	...	...	...	...	...	...	...	...	97.7			103.4	98.1	94.0	90.2	85.5	80.9		55.6	18.5
In percent of exports	...	...	...	...	...	...	...	...	...	...	515.0			528.2	504.0	474.7	441.7	420.1	400.2		281.0	93.1
PV of PPG external debt	...	...	...	...	...	...	...	...	...	...	97.7			103.4	98.1	94.0	90.2	85.5	80.9		55.6	18.5
In percent of exports	...	...	...	...	...	...	...	...	...	...	515.0			528.2	504.0	474.7	441.7	420.1	400.2		281.0	93.1
In percent of government revenues	...	...	...	...	...	...	...	...	...	...	1072.0			1154.9	955.4	951.0	912.7	844.5	792.0		530.1	175.0
Debt service-to-exports ratio (in percent)	0.0	0.0	59.4	68.6	47.5	57.7	38.9	45.1	48.2	40.7	29.9			14.0	8.7	10.6	10.1	13.2	12.9		14.3	5.8
PPG debt service-to-exports ratio (in percent)	...	...	59.4	68.6	47.5	57.7	38.9	45.1	48.2	40.7	29.9			14.0	8.7	10.6	10.1	13.2	12.9		14.3	5.8
PPG debt service-to-revenue ratio (in percent)	...	...	102.2	112.1	94.4	111.7	79.2	80.8	48.6	78.1	62.3			30.6	16.5	21.2	20.8	26.6	25.5		26.9	10.8
Total gross financing need (Millions of U.S. dollars)	...	...	...	...	28.4	37.9	-3.2	23.5	33.8	-27.1	1.1			0.6	5.4	9.5	7.3	7.3	4.0		0.2	-52.2
Non-interest current account deficit that stabilizes debt ratio	...	...	...	18.9	-11.3	14.0	-10.5	-7.8	23.8	15.8	3.9			6.8	6.4	4.6	4.0	4.2	3.9		3.4	2.1
Key macroeconomic assumptions																						
Real GDP growth (in percent)	4.4	-28.0	7.2	3.7	1.8	-3.5	3.1	5.0	2.2	0.3	3.5	2.6	3.0	3.0	3.5	4.3	4.5	4.7	4.7	4.1	4.5	4.5
GDP deflator in US dollar terms (change in percent)	11.3	-0.8	-9.4	3.6	-0.4	18.4	9.2	5.1	-1.2	15.6	18.7	6.6	9.4	-5.6	5.1	1.6	1.2	1.1	0.8	0.7	2.0	2.0
Effective interest rate (percent) 5/	...	...	...	1.8	1.4	1.3	1.2	1.2	0.9	1.5	1.6	1.4	0.3	-0.1	-0.9	0.4	0.4	0.8	0.8	0.2	0.7	0.4
Growth of exports of G&S (US dollar terms, in percent)	-47.2	87.0	23.6	-16.0	7.4	11.8	31.8	3.3	-37.3	80.0	51.2	17.3	34.9	0.3	8.0	7.9	9.2	5.4	4.9	6.0	6.5	6.8
Growth of imports of G&S (US dollar terms, in percent)	-31.0	17.8	16.2	8.4	-13.5	15.6	12.4	10.2	8.4	14.9	28.9	11.3	11.2	6.5	6.8	8.6	5.8	4.6	4.6	6.1	5.8	6.0
Grant element of new public sector borrowing (in percent)		...	...	...	...	...	...	...	...	...	...	...	...	46.9	44.4	42.8	43.0	45.7	50.9	45.6	50.9	50.9
Government revenues (excluding grants, in percent of GDP)	1.8	9.4	10.5	8.6	7.5	7.5	8.4	8.9	9.8	8.0	9.1			9.0	10.3	9.9	9.9	10.1	10.2		10.5	10.6
Aid flows (in Millions of US dollars) 7/	13.3	12.2	44.2	34.8	21.9	34.5	58.3	50.2	53.4	81.1	94.4			137.3	125.6	126.5	130.8	134.3	135.5		167.5	283.9
o/w Grants	6.7	9.8	41.1	30.8	14.8	24.6	46.5	38.4	36.7	56.8	68.9			126.7	115.5	115.7	119.4	122.2	122.8		150.0	283.9
o/w Concessional loans	6.7	2.4	3.2	4.0	7.1	9.9	11.8	11.8	16.8	24.3	25.5			10.7	10.2	10.8	11.4	12.1	12.7		17.6	0.0
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	...	...	...	...	...	...	...	...			16.4	14.1	13.3	13.0	12.3	11.6		10.2	8.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	...	...	...	...	...	...	...	...			93.1	89.8	89.6	89.7	92.4	94.5		95.3	111.1
Memorandum items:																						
Nominal GDP (Millions of US dollars)	551.9	394.3	383.0	411.4	417.1	476.1	535.9	591.5	597.4	692.7	851.1			827.2	899.4	953.6	1009.0	1068.1	1127.5		1553.3	2940.6
Nominal dollar GDP growth	...	-28.6	-2.9	7.4	1.4	14.2	12.5	10.4	1.0	15.9	22.9			-2.8	8.7	6.0	5.8	5.9	5.6	4.9	6.6	6.6
PV of PPG external debt (in Millions of US dollars)											831.9			855.5	882.1	896.3	910.5	913.1	912.2		864.3	543.5
(PVt-PVt-1)/GDPt-1 (in percent)														2.8	3.2	1.6	1.5	0.3	-0.1	1.5	-1.1	-1.9

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = 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 1b.Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	**2019**	2029
PV of debt-to GDP ratio								
Baseline	103	98	94	90	85	81	**56**	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	103	96	89	82	75	68	**40**	7
A2. New public sector loans on less favorable terms in 2009-2029 2	103	99	95	92	88	84	**60**	20
A3. HIPC completion point attained in 2010	103	22	21	20	18	17	**8**	-5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	103	102	102	98	93	88	**61**	20
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	103	100	101	97	92	87	**61**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	103	106	107	103	97	92	**63**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	103	100	97	93	88	83	**58**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	103	106	106	102	97	92	**64**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	103	137	132	126	120	113	**78**	26
PV of debt-to-exports ratio								
Baseline	528	504	475	442	420	400	**281**	93
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	528	495	449	402	368	337	**204**	33
A2. New public sector loans on less favorable terms in 2009-2029 2	528	508	482	452	433	415	**303**	100
A3. HIPC completion point attained in 2010	528	111	105	96	89	83	**40**	-26
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	528	504	475	442	420	400	**281**	93
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	528	677	873	813	775	740	**528**	180
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	528	504	475	442	420	400	**281**	93
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	528	513	488	454	433	412	**292**	98
B5. Combination of B1-B4 using one-half standard deviation shocks	528	555	577	537	511	488	**346**	117
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	528	504	475	442	420	400	**281**	93
PV of debt-to-revenue ratio								
Baseline	1155	955	951	913	845	792	**530**	175
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	1155	939	900	830	740	668	**385**	62
A2. New public sector loans on less favorable terms in 2009-2029 2	1155	963	966	934	870	821	**573**	187
A3. HIPC completion point attained in 2010	1155	211	210	198	179	165	**76**	-49
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	1155	993	1036	994	920	862	**577**	190
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	1155	979	1018	979	907	853	**581**	198
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	1155	1036	1081	1037	960	900	**602**	199
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	1155	972	978	939	870	816	**550**	184
B5. Combination of B1-B4 using one-half standard deviation shocks	1155	1028	1077	1034	958	900	**608**	204
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	1155	1337	1331	1277	1182	1108	**742**	245

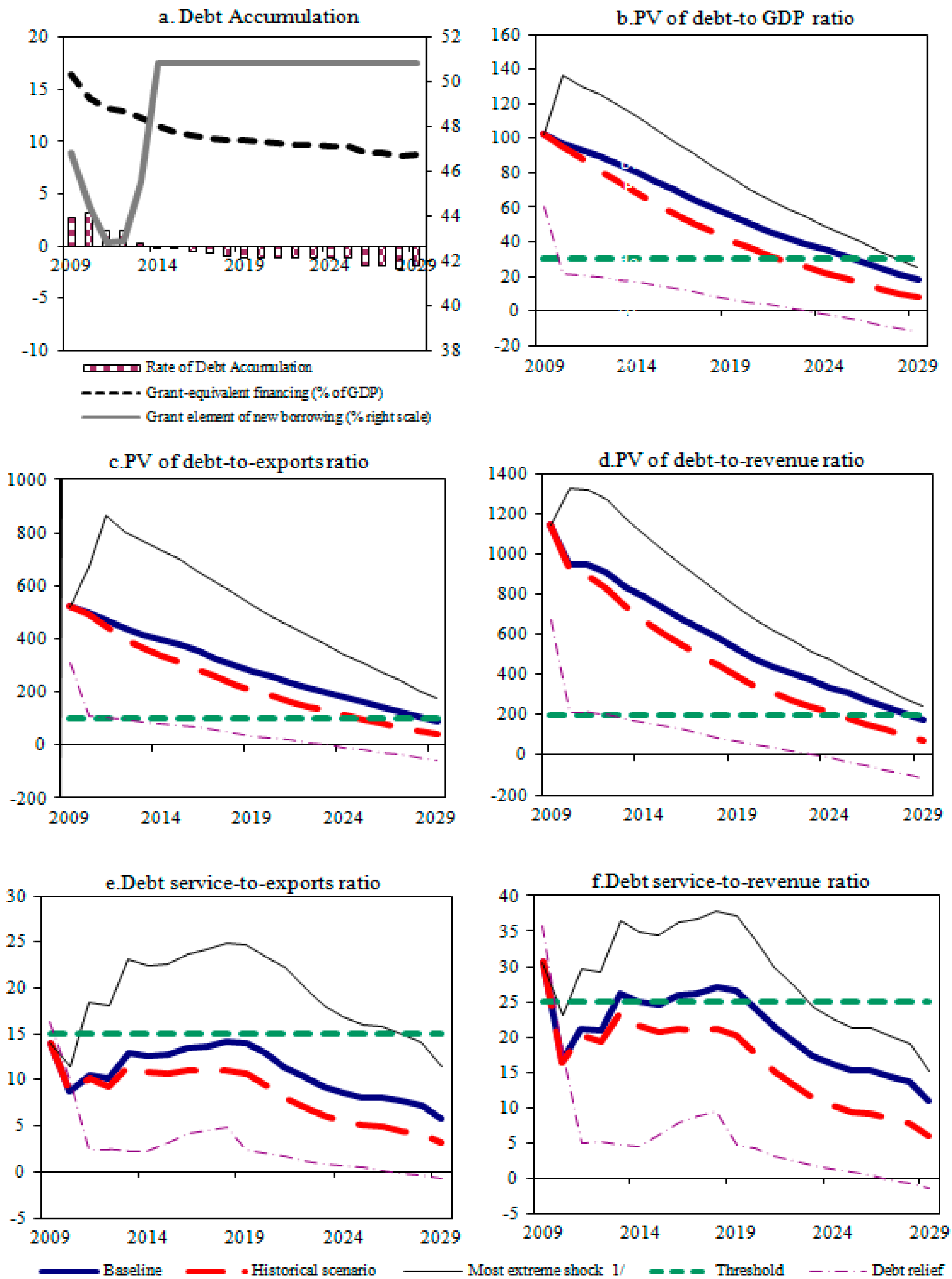
Table 1b.Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)
(In percent)

	2009	2010	2011	2012	2013	2014	2019	2029
Debt service-to-exports ratio								
Baseline	14	9	11	10	13	13	**14**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	14	9	10	9	12	11	**11**	3
A2. New public sector loans on less favorable terms in 2009-2029 2	14	9	11	11	14	14	**14**	6
A3. HIPC completion point attained in 2010	16	16	2	2	2	2	**3**	0
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	14	9	11	10	13	13	**14**	6
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	14	11	18	18	23	23	**25**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	14	9	11	10	13	13	**14**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	14	9	11	10	13	13	**14**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	14	9	12	12	16	15	**17**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	14	9	11	10	13	13	**14**	6
Debt service-to-revenue ratio								
Baseline	31	17	21	21	27	25	**27**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	31	16	20	19	24	22	**20**	5
A2. New public sector loans on less favorable terms in 2009-2029 2	31	17	22	22	28	27	**27**	12
A3. HIPC completion point attained in 2010	36	31	5	5	5	4	**5**	0
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	31	17	23	23	29	28	**29**	12
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	31	17	22	22	27	26	**28**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	31	18	24	24	30	29	**31**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	31	17	21	21	27	26	**27**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	31	17	23	23	30	28	**30**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	31	23	30	29	37	36	**38**	15
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	48	48	48	48	48	48	**48**	48

Source: Staff projections and simulations.

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

Figure 1a. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2009-2029 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in picture f. to a One-time depreciation shock

Table 2a.Guinea-Bissau: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Projections									
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
Public sector debt 1/	206.5	182.7	172.8			161.0	149.0	140.9	133.4	123.5	115.6		88.7	44.0	
o/w foreign-currency denominated	166.4	143.0	134.8			126.4	119.9	114.3	109.1	103.2	97.2		66.1	18.0	
Change in public sector debt	-15.6	-23.9	-9.9			-11.8	-12.0	-8.0	-7.5	-10.0	-7.8		-5.1	-3.9	
Identified debt-creating flows	-16.4	-22.9	-11.6			-14.8	-10.9	-7.9	-7.0	-6.5	-5.4		-3.7	-1.1	
Primary deficit	3.1	3.4	1.6	2.8	1.5	-1.8	1.8	0.8	0.9	0.1	0.5	0.4	1.2	1.6	1.3
Revenue and grants	16.0	16.2	17.2			24.3	23.1	22.0	21.7	21.6	21.1		20.2	20.2	
of which: grants	6.1	8.2	8.1			15.3	12.8	12.1	11.8	11.4	10.9		9.7	9.7	
Primary (noninterest) expenditure	19.0	19.6	18.8			22.5	24.9	22.8	22.6	21.6	21.6		21.4	21.8	
Automatic debt dynamics	-18.1	-24.6	-11.9			-11.6	-9.6	-7.9	-7.3	-6.6	-5.9		-5.0	-2.6	
Contribution from interest rate/growth differential	-8.3	-5.0	-10.4			-7.5	-9.0	-7.8	-8.0	-7.6	-7.0		-5.0	-2.6	
of which: contribution from average real interest rate	-3.5	-4.4	-4.2			-2.5	-3.6	-1.7	-1.9	-1.6	-1.4		-0.9	-0.6	
of which: contribution from real GDP growth	-4.8	-0.7	-6.2			-5.0	-5.4	-6.2	-6.1	-6.0	-5.5		-4.0	-2.1	
Contribution from real exchange rate depreciation	-9.7	-19.6	-1.6			-4.0	-0.6	-0.1	0.7	1.0	1.1		...	...	
Other identified debt-creating flows	-1.4	-1.7	-1.3			-1.5	-3.1	-0.8	-0.5	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.5	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-1.8	-1.6	-1.3			-1.5	-3.1	-0.8	-0.5	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	0.7	-1.0	1.7			3.0	-1.1	-0.1	-0.5	-3.4	-2.5		-1.3	-2.8	
Other Sustainability Indicators															
PV of public sector debt	40.1	39.6	143.6			135.1	127.3	120.9	114.9	106.2	99.7		78.5	44.5	
o/w foreign-currency denominated	0.0	0.0	105.6			100.6	98.3	94.3	90.6	85.9	81.3		55.9	18.6	
o/w external	...	...	105.6			100.6	98.3	94.3	90.6	85.9	81.3		55.9	18.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	19.8	27.1	24.4			23.5	24.8	18.6	17.6	17.4	14.3		18.1	20.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	250.9	244.4	834.0			556.7	550.9	549.0	528.9	492.6	472.5		389.5	220.3	
PV of public sector debt-to-revenue ratio (in percent)	407.4	494.0	1574.9			1508.7	1239.9	1223.0	1162.1	1049.4	976.2		747.8	421.8	
o/w external 3/	...	...	1158.2			1123.1	957.2	954.2	916.4	848.8	796.1		532.8	175.9	
Debt service-to-revenue and grants ratio (in percent) 4/	15.8	33.7	25.2			15.1	16.8	11.3	11.2	18.3	14.1		16.7	7.6	
Debt service-to-revenue ratio (in percent) 4/	25.6	68.1	47.5			41.0	37.8	25.1	24.5	39.0	29.2		32.1	14.6	
Primary deficit that stabilizes the debt-to-GDP ratio	18.7	27.2	11.5			10.0	13.8	8.8	8.3	10.0	8.4		6.3	5.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.2	0.3	3.5	2.6	3.0	3.0	3.5	4.3	4.5	4.7	4.7	4.1	4.5	4.5	4.5
Average nominal interest rate on forex debt (in percent)	0.9	1.5	1.6	1.4	0.3	-0.1	-0.9	0.4	0.4	0.8	0.8	0.2	0.7	0.4	0.7
Average real interest rate on domestic debt (in percent)	2.1	-5.3	-9.2	-1.6	5.3	-1.1	-2.2	-1.8	-1.7	-1.6	-1.5	-1.6	-0.3	-0.9	-0.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.5	-12.0	-1.2	-4.5	7.8	-3.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-2.0	5.9	10.6	2.8	4.9	1.1	2.4	2.1	2.0	2.0	2.0	1.9	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.0	0.0	0.0	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	46.9	44.4	42.8	43.0	45.7	50.9	45.6	50.9	50.9	...

Sources: Country authorities; and Fund staff estimates and projections.
1/ General government gross debt.
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 2b.Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public Debt 2009-2029

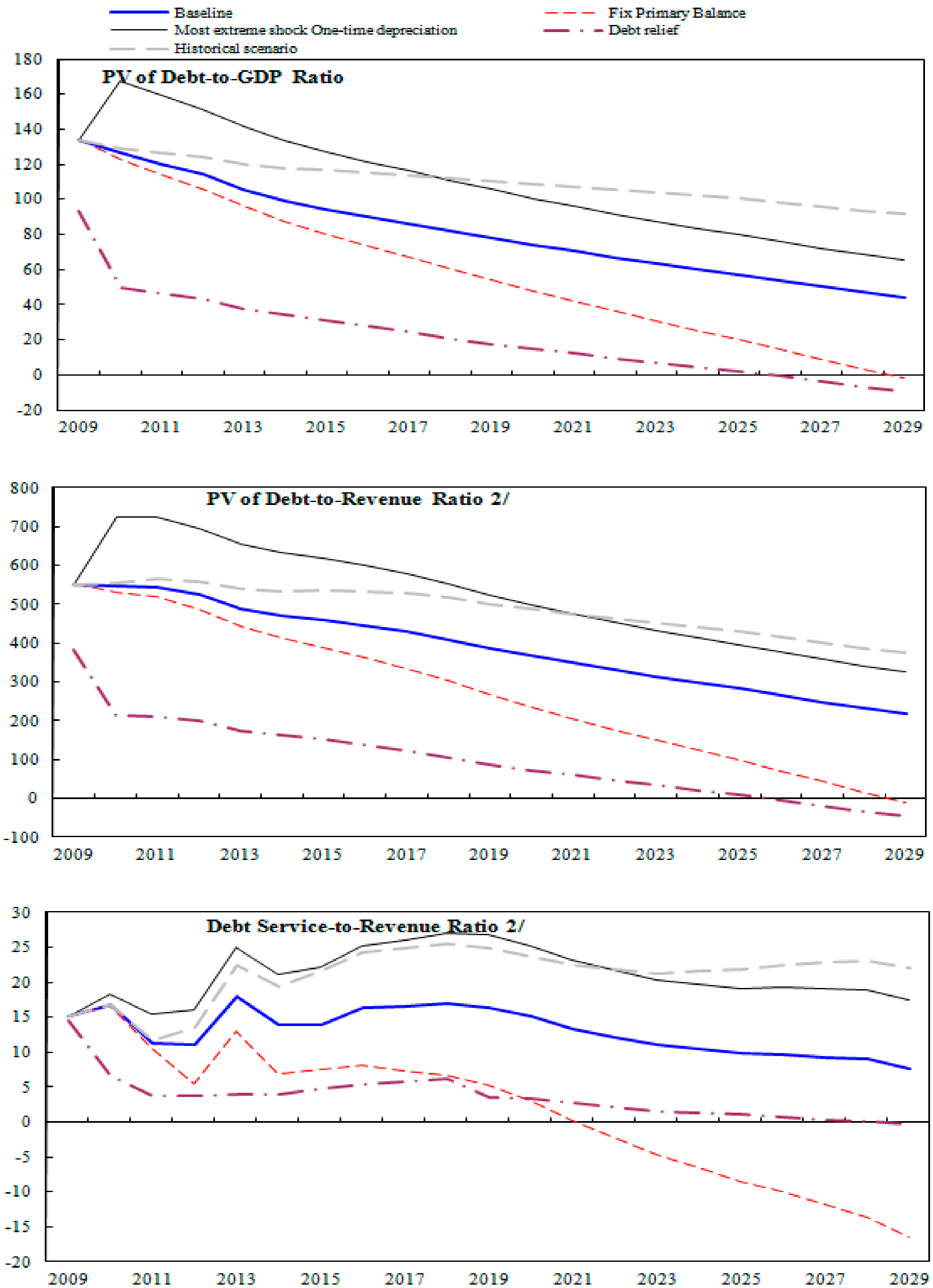
		Projections						
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	135	127	121	115	106	100	78	45
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	135	129	127	125	120	118	109	88
A2. Primary balance is unchanged from 2009	135	124	115	107	97	88	55	-2
A3. Permanently lower GDP growth 1/	135	128	123	117	110	104	87	63
A4. HIPC completion point attained in 2010	135	50	46	43	38	35	19	-2
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	135	133	133	127	118	112	93	62
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	135	130	126	120	112	105	83	48
B3. Combination of B1-B2 using one half standard deviation shocks	135	132	132	126	117	111	90	58
B4. One-time 30 percent real depreciation in 2010	135	169	160	153	142	135	106	66
B5. 10 percent of GDP increase in other debt-creating flows in 2010	135	137	130	124	115	108	86	51
PV of Debt-to-Revenue Ratio 2/								
Baseline	557	551	549	529	493	473	390	220
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	557	557	567	560	539	533	495	358
A2. Primary balance is unchanged from 2009	557	537	523	492	448	417	271	-8
A3. Permanently lower GDP growth 1/	557	553	553	535	501	484	418	292
A4. HIPC completion point attained in 2010	576	215	211	198	175	164	92	-12
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	557	562	575	558	525	508	442	296
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	557	561	574	554	517	497	413	239
B3. Combination of B1-B2 using one half standard deviation shocks	557	563	581	562	528	510	437	280
B4. One-time 30 percent real depreciation in 2010	557	731	729	703	661	638	527	326
B5. 10 percent of GDP increase in other debt-creating flows in 2010	557	591	591	570	534	514	429	251
Debt Service-to-Revenue Ratio 2/								
Baseline	15	17	11	11	18	14	17	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	15	17	12	13	22	19	24	20
A2. Primary balance is unchanged from 2009	15	17	11	6	13	7	5	-16
A3. Permanently lower GDP growth 1/	15	17	11	11	19	15	19	14
A4. HIPC completion point attained in 2010	15	15	4	4	4	4	4	0
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	15	17	12	12	20	17	21	15
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	15	17	12	15	24	16	18	10
B3. Combination of B1-B2 using one half standard deviation shocks	15	17	12	14	23	17	20	14
B4. One-time 30 percent real depreciation in 2010	15	18	15	16	25	21	27	17
B5. 10 percent of GDP increase in other debt-creating flows in 2010	15	17	13	25	21	20	19	12

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

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

2/ Revenues are defined inclusive of grants.

Figure 2a. Indicators of Public Debt Under Alternative Scenarios, 2009-2029 1/



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

1/ The most extreme stress test is the test that yields the highest ratio in 2019.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

Staff Report for the 2010 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility and for Additional Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative—Informational Annex

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

March 24, 2010

Contents Page

Guinea-Bissau: Relations with the Fund
(As of January 31, 2010)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	14.20	100.00
Fund holdings of currency	19.43	136.86
Reserve Tranche Position	0.09	0.66
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	13.60	100.00
Holdings	12.40	91.15

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
Post-Conflict Emergency Assistance	5.33	37.50
ECF Arrangements	1.02	7.15

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF[1/]	Dec 15, 2000	Dec 14, 2003	14.20	5.08
ECF[1/]	Jan 18, 1995	Jul 24, 1998	10.50	10.50
SAF	Oct 14, 1987	Oct 13, 1990	5.25	3.75

[1/] Formerly PRGF

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

	2010	2011	2012	2013	2014
Principal	1.02	0.89	2.22	1.78	0.44
Charges/Interest	0.07	0.07	0.05	0.02	0.01
Total	1.09	0.96	2.27	1.80	0.45

[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.

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Dec 2000

Assistance committed by all creditors ($ million) [1/]	416.00
Of which: IMF assistance ($ million)	11.91
(SDR equivalent in millions)	9.20
Completion point date	Floating
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	0.54
Interim assistance	0.54
Completion point balance	--
Additional disbursement of interest income[2/]	--
Total disbursements	0.54

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point; assistance under the enhanced framework is expressed in NPV terms at the decision point. Hence the two amounts can not be added.
[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim.

VIII. Implementation of MDRI Assistance: Not Applicable

IX. Safeguards Assessments:

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

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

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

X. Exchange System and Exchange Rate Arrangement

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

XI. Article IV Consultation

Guinea-Bissau is on the standard 12-month consultation cycle. The last Article IV consultation discussions with Guinea-Bissau were held in Bissau March 16–30, 2006. The staff report was discussed by the Executive Board on July 31, 2006. Selected Issues and Statistical Appendix (IMF Country report No. 06/313) was also circulated to the Board.

XII. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
MAE	Expert	March 20–July 23, 1994	Assisting in banking supervision
MAE	Expert	June 6, 1994–January 26, 1997	Assisting in monetary policy
MAE	Expert	June–December 1995	Advising on bank accounting
STA	Staff	March 4–15, 1996	Assessing the quality of monetary, balance of payments, and government statistics
FAD	Staff	September 8–24, 1996	Advising on tax administration and tax policy
FAD	Staff	March 9–25, 1997	Advising on import tariff reform and the design of a general sales tax (GST)

MAE	Expert	June–September 1997 (three short-term missions)	Assisting in the transformation of the central bank into a branch of the Central Bank of West African States (BCEAO)
FAD	Expert	September 8–24, 1997	Assisting in the design and implementation of GST and in strengthening fiscal control
FAD	Expert	October 19, 1997–April 10, 1998	Assisting in GST implementation
FAD	Expert	June 3–15, 1998	Assisting in GST implementation
FAD	Expert	January 1, 1999–March 2, 1999	Tax administration advisor
FAD	Expert	April 15, 1999–June 14, 1999	Tax administration advisor
FAD	Staff	July 13–27, 1999	Assessing budget management and the tax system
FAD	Expert	January 24, 2000-March 5, 2000	Tax administration advisor
FAD	Expert	January 2001	Tax administration advisor
FAD	Expert	February 2001	Peripatetic public expenditure management advisor
FAD	Expert	July 2001	Peripatetic public expenditure management advisor
FAD	Staff	April 2003	Expenditure management
FAD	Staff	April 2003	Revenue administration
STA	Expert	March 2003	GDDS—Real sector statistics
STA	Expert	May 2003	GDDS—Fiscal statistics
WEST AFRITAC	Resident Advisor	November 2003	Public expenditure management
WEST AFRITAC	Resident Advisor; Expert	February 2004	Tax administration
WEST AFRITAC	Resident Advisor; Expert	March 2004	Customs administration
WEST AFRITAC	Expert	May 2004	Tax administration
WEST AFRITAC	Resident Advisor	May 2004	Public debt management
WEST AFRITAC	Resident Advisor	June 2004	Budget preparation and execution
WEST AFRITAC	Resident Advisor	August 2004	Assessing the priority needs for technical assistance and assisting the authorities with the preparation of a work plan for improving compilation of balance of

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

WEST AFRITAC	Short-Term Expert	March 2006	Public expenditure management/accounting
WEST AFRITAC	Resident Advisor	March 2006	Real sector statistics
WEST AFRITAC	Short-term expert	July 2006	Government finance statistics
WEST AFRITAC	Resident Advisor	July 2006	Tax administration
WEST AFRITAC	Short-term expert	July-August 2006	Customs administration
WEST AFRITAC	Resident Advisor	December 2006	Public debt management
WEST AFRITAC	Short-term expert	January 2007	Government finance statistics
WEST AFRITAC	Resident Advisor	January 2007	Customs administration
WEST AFRITAC	Resident Advisor	February 2007	Tax administration
WEST AFRITAC	Resident Advisor	March 2007	Public finance management
WEST AFRITAC	Short-term expert	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	June 2009	Public Finance management
WEST AFRITAC	Short-term expert	September 2009	Tax administration
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

XIII. Resident Representative

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

Table 1: Guinea-Bissau—Arrangements with the IMF, 1984–2009			
Arrangement	**Period**	**Amount Approved**	**Remarks**
First credit tranche purchase	August 27, 1984	SDR1.875 million	
Structural Adjustment Facility	October 14, 1987–October 13, 1990	SDR 5.25 million	2nd annual arrangement delayed; no 3rd annual arrangement.
Enhanced Structural Adjustment Facility	January 18, 1995–July 24, 1998	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–December 14, 2003	SDR 14.2 million	PRGF expired 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	

Source: International Monetary Fund.

Guinea-Bissau: Relations with the World Bank Group

As of February 28, 2010

1. As of February 28, 2010, IDA had approved altogether 29 credits and grants for Guinea-Bissau for a total value of commitments of US$347.9 million equivalent. The most important sectors were the following: Transport/Infrastructure/ Energy (seven operations, total commitments: US$ 108.8million), Structural Adjustment/Development Policy Operations (budget support, three operations approved in 1987-2000, and two since 2008, of which one exclusively for the payment of primary teachers' salaries; total commitments: US$81.4 million) and Social Sectors, including Health and Education (eight operations and US$ 67.2 million of total commitments). Two operations were implemented to support private sector development (overall commitment: US$ 41million), and three to provide technical assistance for economic management (overall commitment: US$ 22.9 million). Projects supporting extractive industries and agriculture/natural resources management benefited from 2 operations, each, with over commitments of US$ 19.9 million and US$ 6.7 million, respectively.

Budget Support Operations

2. IDA discontinued budget support operations in the early 2000s, in the context of political instability. Starting in 2008, however, the Bank initiated new budget support operations to Guinea-Bissau, first with an emergency economic rehabilitation operation approved in 2008 that provided funds exclusively for the payment of primary teachers' salaries, and then with the first of a series of two programmatic Development Policy Grants (US$8 million) approved in June 2009 and disbursed in early September. The second grant in this series (US$6 million) is under preparation for approval in mid-2010.

Lending program

3. In June 2009, the Bank approved an Interim Strategy Note for Guinea-Bissau for 2009-2011, based on two pillars: (i) Strengthening Economic Management and Laying the Foundations for Improvement in the Productive Sectors; and (ii) Increased Access to Basic Services. Capacity Development for efficient governance and project implementation is a cross-cutting topic.

4. The currently active IDA Portfolio is composed of three operations with a total commitment of US$23 million, including a Coastal and Biodiversity Management Project (CBMP, US$3 million), a Multi-Sector Infrastructure Rehabilitation Project (US$15 million), and a Rural Community-Driven Development Project. As of February 28, 2010, the IDA undisbursed balance was US$13.7 million.

5. In addition to the available country IDA allocation, the Bank has mobilized, in FY09-10, about US$10 million from both the Bank and EU under the Food Price Crisis Response Trust

Fund to support the agricultural sector and for school feeding/food-for-work programs in collaboration with WFP. Further, the IDA Community-Driven Development operation is complemented by a similar Participatory Rural Development operation of US$5 million, funded from the State and Peace Building (SPF) Trust Fund window for fragile states. The SPF also provides funding for Technical Assistance on Economic Management to the Ministry of Finance, complementing the IDA budget support, and an operation to support the implementation of the National Health Development Plan. Further complementary (co-) funding is provided by the Global Environment Facility (GEF) to the CBMP. An important multi-donor Education sector operation is currently under preparation for delivery in 2010 to be submitted to the Education for All-Fast-Track Initiative (EFA-FTI) for funding.

6. IDA continues to provide interim assistance to the country as part of the Initiative for the Heavily Indebted Poor Countries (HIPC). On January 29, 2008, the IDA Board approved the extension of HIPC interim debt relief up to 50 percent (in NPV terms) of total IDA debt relief expected to be granted to Guinea-Bissau under the HIPC initiative. The extended interim debt relief is expected to have freed up about $7 million in government resources annually.

Non-lending Program

7. In FY09, the Bank completed an Education Country Status Report (in preparation of the EFA/FTI funding proposal), and an Investment Climate Assessment. A Diagnostic Trade Integration Study was disseminated in FY10; further a Dept Management Performance Assessment carried out in September 2009; and finally, a Public Expenditure Management and Financial Accountability Review (PEMFAR), drawing in part on a EU-funded PEFA diagnostic and covering public financial management and procurement performance as well as a review of public expenditure in education, was finalized in December 2009 (a dissemination workshop was held on February 22-25).

8. **The World Bank Institute (WBI)** recently started activities in Guinea-Bissau with a workshop on sustaining natural capital. It is envisaged that WBI will launch more activities in the coming fiscal year, through inputs and capacity development activities in areas such as leadership and governance (demand-side governance), and possibly by contributing to the establishment of a Global Development Learning Center in Bissau.

IFC and MIGA:

9. **IFC:** As of February 28, 2010, IFC has no committed portfolio in Guinea-Bissau.

10. **MIGA'**s portfolio in Guinea-Bissau consists of two projects, sponsored by Senegalese and Malian investors. The investments, in support of the country's infrastructure (telecommunications) and tourism sectors, have a combined gross exposure of $24.1 million. MIGA is currently working with British and French investors to provide coverage of three projects in the infrastructure (water) and tourism sectors.

Guinea-Bissau: Relations with the African Development Bank Group

As of March 1, 2010

1. As of March 1st, 2010, AfDB had approved 35 operations for Guinea-Bissau, excluding multinational projects. This includes twenty six projects, four studies and 5 institutional supports representing a net commitment of 197.3 Unit of Account (UA). 32% of these operations have been in the social sector, 21% in the transport and infrastructure sectors and 15% in multisector. A total of UA 145.6 million representing 77.7% have been disbursed. As of March 2010, the active portfolio comprises six ongoing projects representing a total net amount of UA 44.48 million and a disbursed amount of UA 15.6 million.

Structural adjustment credits

2. AfDB has approved a total of UA 13 million for structural adjustment operations. These include two structural adjustment credits (SACs), one supplementary SAC, and one economic rehabilitation and recovery credit (ERRC). The SACs supported the government's program in the areas of economic liberalization and reform of the public administration and public enterprise sectors and the ERRC supports peace building following the political unrest, promotes the revival of the economy and encourages the pursuit of reforms.

Lending Program

3. During January2008-March 2010, AfDB approved an interim HIPC debt release (US dollar 17.48 million, a Fragile State Facility grant (UA2 million), a fish sector support grant (UA2 million), a health sector grant (UA6 million), an emergency support grant to cholera (UA0.33 million), a capacity building grant to public administration (UA7.86 million) and an emergency budget support to budgetary reforms (UA5.7 scheduled for March 24, 2010.

Nonlending Program

4. The Bank prepared a portfolio review in 2008 and a mid-term review of the Country Strategy Paper in 2009. The Bank also participated in a Public Expenditure Management and Financial Accountability Review (PEMFAR) in 2009 in collaboration with the World Bank and the European Commission.

Guinea Bissau—Statistical Issues

As of March 1, 2010

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. Data compilation has been impaired during the 1998–99 civil conflict. The authorities have improved their data compilation in the recent years, with technical assistance from international and regional institutions. The country participates in the General Data Dissemination System (GDDS) since November 2001. However, metadata for all data categories and plans for improvement need to be updated.
National Accounts: Guinea-Bissau made progress on national account statistics in 2009. INEC will publish in the second quarter of 2010 revised national account data for 2003–08, based on the SNA93. The new data have a broader coverage of all sectors of the economy, and as a result the GDP level has doubled. The new data covers GDP in both constant and current prices, and GDP deflators. The government plans soon to start producing national account statistics based on SNA08, with technical assistance from international and regional institutions.
Price statistics: Since July 2002, a harmonized CPI has been compiled, based on the same structure as in other WAEMU countries. Price data are collected only for the capital Bissau.
Government finance statistics: Government finance statistics missions contributed to: (1) training on the methodology for Guinean officials, (2) implementation of a budgetary data collection program, and (3) setting up a source database and a worksheet Table of State Financial Operations (TOFE). Since 2007, the monthly TOFE is compiled on a regular basis and used as a basic tool in monitoring the program with the IMF. A GFS expert from West AFRITAC is scheduled to visit Bissau during the 2nd quarter of 2010 to provide technical assistance to the authorities in compiling and disseminating GFS and implement an action plan designed to improve GFS data dissemination to users.
Monetary statistics: Guinea-Bissau has adopted the BCEAO's accounting and reporting procedures for monetary and financial statistics. The BCEAO has responsibility for compiling and reporting monetary data for Guinea-Bissau to STA. The accuracy of monetary statistics is affected by large cross-border movements of currency among BCEAO member countries and delays of up to two years in the recording of such movements can occur.

Balance of Payments Statistics: Guinea-Bissau reports trade data to AFR for operational purposes, using information from customs. It reports balance of payments (BOP) and international investment position statistics to STA on an annual basis, albeit with considerable delays. BOP data are weak, mostly due to substantial unregistered trade and inconsistencies between data on net foreign assets as reported by the BCEAO and other economic indicators. In April 2008, an STA TA mission assessed the methodology and compilation procedures for the production of BOP statistics and provided training to BCEAO staff. The mission found that the large number of small-scale operators, a large informal sector, and institutional weaknesses (only some 20 percent of businesses file tax returns) hamper the data collection. While no external debt data are published by the Ministry of Finance, stock and flow data are regularly produced and transmitted to the BCEAO. The outstanding stock of debt comprises only about 200 active loans.

II. Data Standards and Quality	
The country participates in the GDDS since November 2001.	No data ROSC is available.

III. Reporting to STA
There is currently no monthly, quarterly or annual government finance data submitted for reporting in the International Financial Statistics (IFS) or the Government Finance Statistics Yearbook. Monthly data on monetary statistics for Guinea Bissau are reported on a regular basis for publication in IFS, albeit with some delays.

Guinea-Bissau: Table of Common Indicators Required for Surveillance

(As of March 1, 2010)

	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[6]	Frequency of publication[6]
Exchange rates	Current	Current	D	D	D
International reserve assets and reserve liabilities of the monetary authorities	Nov. 2009	Jan 2010	M	M	M
Reserve/base money	Nov. 2009	Jan 2010	M	M	M
Broad money	Nov. 2009	Jan 2010	M	M	M
Central bank balance sheet	Nov. 2009	Jan 2010	M	M	M
Consolidated balance sheet of the banking system	Nov. 2009	Jan 2010	M	M	M
Interest rates[1]	Nov. 2009	Jan 2010	M	M	M
Consumer price index	Nov. 2009	Jan 2010	M	M	M
Revenue, expenditure, balance and composition of financing[2] – general government[3]					
Revenue, expenditure, balance and composition of financing[2] – central government					
Stocks of central government and central government-guaranteed debt[4]					
External current account balance	2008	January 2010	A	I	I
Exports and imports of goods and services	2008	January 2010	A	I	I
GDP/GNP	2008	Forthcoming	A	I	I
Gross external debt					
International Investment Position[5]					

[1] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[2] Foreign, domestic bank, and domestic nonbank financing.
[3] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[4] Including currency and maturity composition.
[5] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

Statement by the IMF Staff Representative on Guinea-Bissau

May 4, 2010

This statement provides an update of recent developments in Guinea-Bissau.

1. On April 1, soldiers briefly detained the Prime Minister and arrested the Chief of the Armed Forces. In light of these events and the uncertainties they created, Management decided to postpone consideration of the authorities' request for an ECF-supported program, which the Executive Board was to discuss on April 2, 2010, pending clarification of the situation.

2. A staff team visited Bissau during April 15-18, 2010, to review the status of the economic reform program and consult with representatives of the international community, including key donors. In its meetings with the President, the Prime Minister, and the Minister of Finance, the authorities emphasized that the military incident was being resolved and had not affected the civilian government. They also reported that all government ministries and institutions as well as the Parliament were operating normally. The authorities reiterated their commitment to the reform program and renewed their request for support from the IMF under the ECF. The Prime Minister also sent a letter to the Managing Director stressing political stability and the importance of the ECF program for Guinea-Bissau.

3. Economic performance was satisfactory under the EPCA in 2009 and continued to be good in the first quarter of 2010. Except for the indicative target on social spending, for which data are not yet available, all quantitative targets for end-March were met. Fiscal revenues were 6 percent higher than programmed, and with expenditures well-contained, the target for domestic budget financing was met with a margin. Despite the delay in program approval, the authorities are moving ahead with structural reforms and have already made good progress against benchmarks established for mid-2010: the treasury committee became operational on March 22; norms to tighten the simplified spending procedure were approved by the Minister of Finance on April 22; and the Council of Ministers approved the legal framework for the one-stop shop to streamline the licensing of new businesses.

4. The staff's discussions with key donors in mid-April indicated that their commitments for both budget support and project financing remained in line with program assumptions. The AfDB approved on March 24 an operation of US$8.7 million, as envisaged under the program, with plans to disburse shortly after the ECF request is presented to the IMF Board. The World Bank fielded an overlapping mission to Bissau in April to finalize a budget support operation which is expected to be considered for approval by the end of May. We received indications in late April that the EU considered Guinea-Bissau eligible for support under the V-Flex in 2010. The authorities reiterated their commitment to take all necessary steps should a shortfall in financing materialize. Staff will discuss contingency measures in more detail during the next staff visit to Bissau in June.

Press Release No. 10/185
FOR IMMEDIATE RELEASE
May 7, 2010

International Monetary Fund
Washington, D.C. 20431, USA

IMF Executive Board Approves US$33.3 Million Arrangement Under the Extended Credit Facility and Additional US$1.5 Million in Interim HIPC Assistance for Guinea-Bissau

The Executive Board of the International Monetary Fund (IMF) today approved a three-year Extended Credit Facility (ECF) arrangement in an amount equivalent SDR 22.365 million (US$33.3 million) to support Guinea Bissau's medium-term economic program. The Executive Board also approved the second tranche of interim assistance under the Heavily Indebted Poor Countries (HIPC) Initiative of SDR 1.016 million (US$1.5 million).

The authorities' economic program aims at helping the country move towards fiscal and debt sustainability, as well as achieving stronger economic growth and poverty alleviation. The program focuses on reinforcing public finances, modernizing public administration, and raising the quality of public services. It also seeks to promote job creation by removing impediments to private sector development and enhancing the provision of financial services. Satisfactory performance could pave the way for Guinea-Bissau to benefit from debt relief by the end of the year through the enhanced HIPC and Multilateral Debt Relief Initiatives (MDRI).

Following the Executive Board's discussion on Guinea Bissau, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, issued the following statement:

"Despite difficult external and domestic circumstances, economic growth has been resilient in Guinea-Bissau and macroeconomic performance has improved in recent years. The authorities achieved most targets of their 2009 economic program, and implemented important structural reforms. The Fund supported these efforts through a disbursement under the Emergency Post-Conflict Assistance.

"To build on these achievements and provide the basis for stronger economic growth and poverty alleviation, the government has defined a medium-term macroeconomic and structural reform program for 2010–2012. This program aims at raising economic growth, keeping low inflation, reducing the fiscal deficit, and gradually narrowing the external current account imbalance. Political stability, effective governance, and strong commitment to reform are essential to the success of the program and the full engagement of donors.

“The 2010 budget is an important first step in the medium-term macroeconomic program that would help move Guinea-Bissau toward sustainable fiscal and external positions. In order to achieve that objective, the budget introduces strong revenue measures, reallocates expenditure in favor of priority areas, including social spending, and addresses more decisively the accumulation of domestic arrears.

“The government’s program of economic reforms appropriately emphasizes enhancing public financial management, strengthening fiscal controls, broadening the tax base, modernizing tax administration, and raising the quality of public services. It also seeks to remove impediments to private sector development, improve the provision of financial services, step up access to social services, and alleviate poverty.

“Satisfactory performance on the medium-term economic program will help pave the way for Guinea-Bissau to reach the Highly Indebted Poor Countries (HIPC) Initiative completion point in late 2010. Debt relief under the Highly Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative (MDRI), together with additional debt relief from bilateral creditors, will significantly alleviate the debt burden and help Guinea-Bissau advance toward external and fiscal sustainability,” added Mr. Portugal.

ANNEX

Recent Economic Developments

In 2009 Guinea-Bissau made progress stabilizing its economy. Economic growth was resilient; inflation slowed; and budgetary stability was regained:

- Guinea Bissau was affected by the impact of the global financial crisis in 2009. Lower prices for cashews—the predominant export—and falling remittances exacerbated fiscal and balance of payments pressures. Still, thanks to a favorable cashew harvest and a pick-up in construction, real GDP growth is estimated to have reached 3 percent.
- Fiscal performance was satisfactory. Tax revenues exceeded previsions by about 2 percentage points of GDP, reflecting the good cashew harvest and stepped-up collection efforts. At year-end donor support exceeded programmed levels. Meanwhile, the government contained spending and kept domestic arrears within target.
- The external current account deficit (excluding grants) widened to 6½ percent of GDP. The higher deficit reflects a combination of lower cashew prices, a surge in imports of oil and construction material, and a decline in remittances. It was largely financed by an increase in grants, so the overall external balance deteriorated only moderately.
- Lower food and fuel prices slowed inflation, and domestic inflationary pressures remained subdued due to the CFAF peg to the euro.

Program Summary

The government's medium-term macroeconomic program supported by the ECF aims to raise economic growth and reduce poverty. The program is designed to reinforce public finances, modernize public administration, and raise the quality of public services. The program also focuses on removing impediments to private sector development; improving access to social services, agriculture policy, and poverty reduction and achieving external sector sustainability.

The macroeconomic objectives of the government program are to:

- Raise real GDP growth to 4½ percent by program end;
- Contain inflation below 3 percent per year, in line with WAEMU targets;
- Keep the primary budget deficit below 4 percent of GDP annually through 2012;
- Gradually narrow the external current account deficit (excluding official transfers).

To achieve these objectives, the government program sets out the following policy priorities:

- Strengthen public finances, in PFM and other areas, with a view to containing the fiscal deficit and supporting macro stability;
- Normalize the government's relations with domestic banks and the private sector by addressing the large stock of domestic arrears;

- Modernize the public administration to create space for priority spending and raise the quality of public services through a medium-term civil service reform and security sector reform program;
- Promote good governance and increasing and transparency.
- Promote job creation by removing impediments to private sector development and strengthen the provision of financial services;
- Improve access to social services and step up efforts to alleviate poverty via government investments in infrastructure for power, roads, and the port;

Move toward debt sustainability, particularly by helping the country achieve the HIPC/MDRI completion point.

Guinea-Bissau: Selected Economic and Financial Indicators, 2008–12

	2008	2009	2010	2011	2012
		Est.		Proj.	
	(Annual percentage change, unless otherwise indicated)				
National accounts and prices [1]					
Real GDP at market prices	3.5	3.0	3.5	4.3	4.5
Real GDP per capita	1.3	0.8	0.5	1.3	1.5
GDP deflator	10.6	1.1	2.4	2.1	2.0
Consumer price index (annual average)	10.4	-1.7	2.5	2.5	2.5
Consumer price index (end of period)	8.7	-6.0	2.5	2.5	2.5
External sector					
Exports, f.o.b. (based on US$ values)	61.7	-9.6	13.6	7.5	10.6
Imports, f.o.b. (based on US$ values)	38.1	-2.7	9.2	9.2	6.3
Export volume	17.0	25.9	4.3	5.0	5.1
Import volume	5.6	17.4	3.3	7.7	5.0
Terms of trade (deterioration = -)	2.3	-12.7	5.6	1.1	-1.0
Real effective exchange rate (depreciation = -)	7.1	-1.8	1.4	1.2	0.9
Nominal exchange rate (CFAF per US$; average)	478.6	445.7	…	…	…
Government finances					
Domestic revenue (excluding grants)	30.0	2.3	21.5	3.3	7.4
Total expenditure	9.2	11.4	12.8	0.1	5.7
Current primary expenditure	3.7	0.8	13.2	2.3	5.3
Capital expenditure [2]	13.8	40.7	12.5	6.5	6.5
Money and credit [3]					
Credit to government (net)	44.9	-54.4	2.6	…	…
Credit to the economy	71.5	-54.4	3.6	…	…
Broad money	28.6	12.2	6.0	…	…
Velocity (GDP/broad money)	4.1	3.8	3.8	…	…
	(Percent of GDP, unless otherwise indicated) [1]				
Investments and savings					
Gross investment	12.6	16.1	16.3	16.3	16.4
Of which: government investment	6.5	9.7	10.0	10.0	10.0
Gross domestic savings	-0.3	-0.2	3.7	5.7	4.7
Of which: government savings	-11.8	-11.8	-8.3	-7.6	-7.0
Gross national savings	8.9	10.0	10.7	13.5	13.2
Government finances					
Budgetary revenue	9.1	9.0	10.3	10.0	10.0
Total domestic primary expenditure	12.3	11.8	14.2	13.7	13.5
Domestic primary balance	-3.2	-2.9	-3.9	-3.7	-3.5
Overall balance (commitment basis)					
Including grants	-3.8	1.8	-3.2	-1.2	-1.1
Excluding grants	-11.9	-13.5	-13.6	-12.5	-12.2
External current account (including official current transfers)	2.3	1.6	-1.3	-0.2	0.1
Excluding official transfers	-4.1	-6.4	-5.9	-5.4	-4.8
Excluding official transfers (other than fishing licenses)	-2.0	-5.6	-4.4	-4.3	-3.8
Net present value of external debt/exports of goods and nonfactor services (percent) [4]	515.0	528.2	111.1	104.9	95.8
Nominal stock of public debt, including arrears [5 6]	172.8	161.0	54.1	45.0	40.2
Of which: external debt, including arrears	134.8	126.4	28.4	21.6	20.7
Of which: arrears [5]	49.3	47.0	10.3	9.8	9.2
Memorandum items (US$ millions, unless otherwise indicated)					
Current account balance (including official current transfers)	20.0	13.0	-11.4	-2.3	0.6
Overall balance of payments	-16.9	-25.3	-806.6	0.6	1.2
Nominal GDP at market prices (CFAF billions)	379.4	395.1	418.8	446.1	475.5
Nominal stock of external arrears, end of period [5]	388.6	399.8	92.8	92.8	92.8

Sources: Guinea-Bissau authorities; and IMF staff estimates and projections.
[1] Based on new GDP figures which doubled the previous GDP level due to broader coverage of the economy, consistent with System of National Accounts 1993.
[2] Project grants in 2009 include externally financed large public investments.
[3] Change in percent of beginning-of-period stock of broad money.
[4] NPV as in the March 2010 Debt Sustainability Analysis.
[5] Values in 2010 and thereafter reflect assumed impact of HIPC and MDRI debt relief.
[6] Exclude domestic arrears estimated at 23 percent of GDP at end-2009.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/56
FOR IMMEDIATE RELEASE
May 11, 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with Guinea-Bissau

On May 7, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guinea-Bissau.[1]

Background

Recent favorable developments are creating an opportunity for Guinea-Bissau to confront the challenges of the last decade. There are signs of political stability as reflected by a representative civilian government and the peaceful presidential election that took place last year. Public institutions and technical capacity improved, thanks to extensive assistance from development partners. In 2009, performance under the program supported by the IMF Emergency Post-Conflict Assistance (EPCA) was favorable, creating the conditions for Guinea-Bissau to move toward a medium-term program of economic reforms that promotes growth and alleviates poverty.

In 2009, Guinea-Bissau made progress stabilizing its economy. Economic growth was resilient despite lower prices for cashews--Guinea-Bissau's main export, and falling remittances. A favorable cashew harvest and a pick-up in construction helped sustain real GDP growth at about 3 percent. Lower food and fuel prices slowed inflation, and domestic inflationary pressures were subdued supported by the CFA peg to the euro.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Fiscal performance has been satisfactory despite last year's external and political challenges. Tax revenues overperformed by about 2 percentage points of GDP, reflecting the good cashew harvest and stepped-up collection efforts. The government contained spending to compensate for delays in donor support, which came at the end of the year, and held domestic arrears within target.

The external current account deficit (excluding grants) widened to 6½ percent of GDP but was largely financed by an increase in grants, so the overall external balance deteriorated only modestly. The higher deficit reflects a combination of lower cashew prices, a surge in imports of oil and construction material, and a decline in remittances.

Growth is projected to accelerate to 3½ percent in 2010 and to 4−5 percent over the medium term. The modest recovery is expected to be driven by the projected rebound in the global economy and its positive impact on the terms of trade and cashew prices; spillovers from the global recovery through higher remittances; the positive impact of a more settled political and security environment on the business climate; sustained cashew production; expanded and diversified agriculture; and continued large donor-funded public investment projects. The external current account deficit (excluding grants) is projected to narrow gradually over the medium term to about 5 percent of GDP, as cashew prices and export volumes trend upward and remittances rise. Inflation is expected to be held to the West African Economic and Monetary Union (WAEMU) convergence norm, below 3 percent of GDP, as the effects of commodity price changes wane and the CFA peg to the euro has a stabilizing effect.

Executive Board Assessment

Despite difficult external and domestic circumstances, economic growth has been resilient in Guinea-Bissau and macroeconomic performance has improved in recent years. Directors commended the authorities for the implementation of their 2009 economic program, supported by the Emergency Post-Conflict Assistance provided by the Fund, and welcomed the medium-term program of economic reforms aimed at accelerating growth and reducing poverty. To help ensure the successful implementation of the program and the full engagement of donors, Directors stressed the importance of political stability, effective governance, and strong commitment to reform.

Directors observed that prudent fiscal policy will be essential to achieve the overall objectives of the program. An important step will be the rigorous implementation of the government's 2010 budget, which introduces strong revenue measures and keeps expenditure within available resources, while protecting priority spending.

Directors considered appropriate the authorities' focus on structural reforms aimed at strengthening public finances. Improvements in public financial management are top priority to strengthen fiscal controls and ensure proper budget implementation. Tax administration reform will broaden the tax base and increase revenue collection, while civil service reform will help modernize public administration and raise the quality of public services. Directors were also encouraged by the authorities' plans to improve access to social services and step up efforts to alleviate poverty.

Directors agreed that preventing the accumulation of domestic government arrears is critical to improve liquidity conditions and help foster private sector development. They welcomed the authorities' plans to clear arrears in the medium term, and encouraged them to adopt liquidity management practices that take into account the evolution of revenue and external financial assistance. Directors also noted the authorities' efforts to remove barriers to investment, overcome the impediments to adequate credit access, and strengthen the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework.

Directors noted that the exchange rate peg has served Guinea-Bissau well, providing a solid anchor for macroeconomic stability and that standard methods do not indicate any significant misalignment of the exchange rate. They stressed, however, that structural reforms are necessary to improve competitiveness and spur stronger growth.

Directors observed that the delivery of debt relief under the enhanced Highly Indebted Poor Countries' (HIPC) and the Multilateral Debt Relief (MDRI) initiatives, together with additional relief from bilateral creditors, will significantly alleviate the debt burden and help Guinea-Bissau move toward external and fiscal sustainability. Directors noted that the successful implementation of the authorities' economic program would help pave the way for Guinea-Bissau to reach the HIPC completion point in late 2010.

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

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		Est.	Proj.		
	(Annual percentage change, unless otherwise indicated)				
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External sector					
Exports, f.o.b. (based on US$ values)	61.7	-9.6	13.6	7.5	10.6
Imports, f.o.b. (based on US$ values)	38.1	-2.7	9.2	9.2	6.3
Export volume	17.0	25.9	4.3	5.0	5.1
Import volume	5.6	17.4	3.3	7.7	5.0
Terms of trade (deterioration = -)	2.3	-12.7	5.6	1.1	-1.0
Real effective exchange rate (depreciation = -)	7.1	-1.8	1.4	1.2	0.9
Nominal exchange rate (CFAF per US$; average)	478.6	445.7	…	…	…
Government finances					
Domestic revenue (excluding grants)	30.0	2.3	21.5	3.3	7.4
Total expenditure	9.2	11.4	12.8	0.1	5.7
Current primary expenditure	3.7	0.8	13.2	2.3	5.3
Capital expenditure [2]	13.8	40.7	12.5	6.5	6.5
Money and credit [3]					
Credit to government (net)	44.9	-54.4	2.6	…	…
Credit to the economy	71.5	-54.4	3.6	…	…
Broad money	28.6	12.2	6.0	…	…
Velocity (GDP/broad money)	4.1	3.8	3.8	…	…
	(Percent of GDP, unless otherwise indicated)[1]				
Investments and savings					
Gross investment	12.6	16.1	16.3	16.3	16.4
Of which: government investment	6.5	9.7	10.0	10.0	10.0
Gross domestic savings	-0.3	-0.2	3.7	5.7	4.7
Of which: government savings	-11.8	-11.8	-8.3	-7.6	-7.0
Gross national savings	8.9	10.0	10.7	13.5	13.2
Government finances					
Budgetary revenue	9.1	9.0	10.3	10.0	10.0
Total domestic primary expenditure	12.3	11.8	14.2	13.7	13.5
Domestic primary balance	-3.2	-2.9	-3.9	-3.7	-3.5
Overall balance (commitment basis)					
Including grants	-3.8	1.8	-3.2	-1.2	-1.1
Excluding grants	-11.9	-13.5	-13.6	-12.5	-12.2
External current account (incl. official current transfers)	2.3	1.6	-1.3	-0.2	0.1
Excluding official transfers	-4.1	-6.4	-5.9	-5.4	-4.8
Net present value of external debt/exports of goods and nonfactor services (percent) [4]	515.0	528.2	111.1	104.9	95.8
Nominal stock of public debt, including arrears [5,6]	172.8	161.0	54.1	45.0	40.2
Of which: external debt, including arrears	134.8	126.4	28.4	21.6	20.7
Of which: arrears [5]	49.3	47.0	10.3	9.8	9.2
Memorandum items (US$ millions, unless otherwise indicated)					
Current account balance (incl. official current transfers)	20.0	13.0	-11.4	-2.3	0.6
Overall balance of payments	-16.9	-25.3	-806.6	0.6	1.2
Nominal GDP at market prices (CFAF billions)	379.4	395.1	418.8	446.1	475.5
Nominal stock of external arrears, end of period [5]	388.6	399.8	92.8	92.8	92.8

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

[1] Based on new GDP figures which doubled the previous GDP level due to broader coverage of the economy, consistent with System of National Accounts 1993.

[2] Project grants in 2009 include externally financed large public investments.

[3] Change in percent of beginning-of-period stock of broad money.

[4] NPV as in the March 2010 Debt Sustainability Analysis.

[5] Values in 2010 and thereafter reflect assumed impact of HIPC and MDRI debt relief.

[6] Exclude domestic arrears estimated at 23 percent of GDP at end-2009.

Statement by Laurean W. Rutayisire, Executive Director for Guinea-Bissau

March 30, 2010

1. Today's Article IV Consultation with Guinea-Bissau and Board consideration of the authorities' request for an arrangement under the Extended Credit Facility (ECF) provide us with the opportunity to convey to the Board, Management and the staff our authorities' appreciation of the productive relations they continue to maintain with the Fund. The authorities value the advice and technical assistance provided by the institution in support of their continued efforts to maintain macroeconomic stability and make headway towards poverty reduction.

2. After years of a fragile political and economic situation, Guinea-Bissau is now enjoying a new era of political and macroeconomic stability, thereby allowing its authorities to embed their ambitious policy and reform agenda into a medium-term framework. Critical for the successful implementation of this agenda will be not only the authorities' unfailing commitment to the program objectives, but also sustained technical and financial assistance from the country's partners in general and the Fund in particular. Reinvigorated by political backing of highest level country officials, the authorities are on their part strongly determined to implement sound macroeconomic and structural policies with the view to achieving HIPC and MDRI completion during the course of this year and securing fiscal and debt sustainability afterwards.

Program Performance under the 2009 EPCA-supported Program

3. Staff rightly notes that performance under the 2009 EPCA-supported program was broadly satisfactory. On the quantitative front, most targets were met. In particular, the steps taken by the authorities to strengthen tax administration contributed to pushing revenues significantly above targeted program levels. At the same time, the authorities continued to abide by their firmly-held principle of keeping public expenditures within available resources, thus exerting a strict control over public spending. In addition, prudent debt management helped them avoid contracting nonconcessional external debt or accumulating new domestic arrears at end-December 2009. However, the ceiling on repayment of previous years' arrears was breached, as the authorities took steps to significantly reduce the stock of domestic arrears, namely the 2008 wage arrears. Nonregularized expenditures exceeded the program ceiling in the run-up to the mid-year elections but were since accounted for in the budget. Going forward, the authorities are determined to take necessary steps to limit recourse to simplified spending procedures.

4. On the structural front, a number of measures have been implemented consistent with the authorities' commitments to reform civil service, enhance business environment, and strengthen public financial management. In particular, these include the biometric census of civil servants, the enactment of a new Investment Code, and the Cabinet approval of an action plan for public financial management

Policy and Reform Agenda for 2010 Onwards

5. While reflecting the authorities' strong commitment to program objectives, the satisfactory performance under the 2009 EPCA also augurs a strong performance under the requested ECF-supported program. This bodes well for Guinea-Bissau economy in view of the authorities' ambitious policy and reform agenda.

Fiscal and Public Financial Management Reforms

6. The authorities will pursue the fiscal reform efforts that have served the country well by helping overshoot substantially revenue targets in 2009. On top of the improved revenue collection procedures which have been instrumental in explaining this overperformance, revenue-enhancing measures will include a comprehensive review of existing customs exemptions, and improved customs administration, notably through the introduction of the ASYCUDA automated system in main customs posts (Bissau, airport and Safim). Revenue mobilization will also benefit from the recent elimination of suspensions of customs duty on certain products such as rice, wheat, sugar, cement, and other construction materials.

7. In view of the strong reliance of revenue performance on customs operations, the heavy focus of fiscal reform measures on improving customs administration is appropriate. However, stronger revenue performance is also expected to stem from the strengthening of tax administration, notably through the broadening of the tax base and capacity building at the large taxpayer unit. In support of the authorities' efforts to strengthen tax and customs administration, we are hopeful that the Fund will continue to play a key role through the provision of technical assistance. It is thus our expectation that the recent authorities' request for technical assistance in this area will be promptly and favorably considered.

8. On the expenditure side, public spending will continue to be constrained by available resources. At the same time, increasing room will be made for social spending in line with the country's poverty reduction strategy. In this connection, it is the authorities' intention to allocate at least 50 percent of tax revenues to current and domestically financed capital expenditures in education, health, agriculture, and infrastructure.

9. Building on the action plan that was recently approved by the Cabinet, PFM reforms will be pursued with the aim at improving budget planning, execution and monitoring. More specifically, a medium-term expenditure plan consistent with the poverty reduction strategy will be in the making during the course of this year. Moreover, steps will be taken to finalize the installation of the financial management system notably by making operational the Treasury accounting system and facilitating information-sharing between the tax and customs administrations. With World Bank assistance, an action plan for the reform of public procurement was put in place in a number of key ministries while work is underway to implement it in some other ministries.

Civil Service, Defense and Security Sector Reforms

10. Reforms of the civil service, defense and security sectors constitute a cornerstone of the authorities' reform agenda. Satisfactory implementation of these reforms will help the country make decisive steps towards securing fiscal sustainability and social and political stability. It hinges however on the availability of necessary financing which the authorities are currently working to mobilize in close coordination with the country's development partners.

11. The civil service reform materializes the authorities' determination to improve the efficiency of public administration in view of the large size of the public sector relative to the population of Guinea-Bissau. If fully implemented, the reform is expected to result in a significant downsizing of the public sector notably by ensuring separation of staff above the mandatory retirement age, addressing overstaffing, and facilitating the mobility of "redundant" civil servants to the private sector. In parallel, steps are being taken by the authorities to exercise stricter controls over the civil service payroll and to ensure that "ghost" workers are eliminated from the payroll database. The outcome of this ongoing exercise will be reflected by the planned publication of the verified data of the biometric census of public sector employees. It is expected that these data will help update later this year the database of the finance ministry. Other civil service reform measures envisaged by the authorities in the context of the ECF-supported program include the gradual use of a computerized and unified payroll and personnel management system in the Ministry of Finance and the Ministry of Labor and Public Services and then in most other ministries.

12. The authorities attach a high premium on the reform of the defense and security sector. This reform would entail a significant reduction in the military personnel and rationalization of security forces. Given the significant fraction of the wage bill claimed by the sector, progress on this front will have a welcome positive impact on the prospects for fiscal sustainability. However, as previously noted, such progress will be contingent on the success of ongoing efforts to mobilize necessary financing with the assistance of the country's partners. It is noteworthy that steps already taken to improve expenditure management include the implementation of the action plan for public procurement reform in a number of ministries, of which the Ministry of Defense.

13. Other aspects of the authorities' reform agenda encompass the development of the private and financial sectors. In this connection, measures to improve business environment, such as the planned Cabinet approval of a legal framework for the "one-stop" shop which will help streamline licensing and registration costs and procedures faced by new businesses. With regard to the financial sector, a key focus will be placed on overcoming impediments to adequate credit access and strengthening the AML/CFT framework.

Debt Sustainability

14. Prospects for achieving debt sustainability will be facilitated by the implementation of the authorities' medium-term plan for domestic arrears clearance. Execution of the plan has already begun with the clearance of costly and verified arrears to the BCEAO and commercial banks

which was made possible by the SDR allocation and donor assistance. As part of the plan, the authorities plan to settle pre-1999 arrears to the private sector and to finalize the audit of 2000-07 arrears to the private sector. Resource permitting settlement of these arrears will begin this year. Going forward, public debt management will be improved notably through capacity building at the debt management unit and systematic use of the debt management system (SYGADE).

15. The authorities have demonstrated a strong commitment to meet the requirements for achieving the HIPC completion point. In particular, their efforts to make progress toward HIPC completion triggers have translated into a satisfactory implementation of the 2009 EPCA-supported program, improved public expenditure management and procurement system, notable achievements in social sectors, and steps to regularize Guinea-Bissau's relations with external multilateral and bilateral creditors. In this light, the authorities request the second tranche of interim HIPC assistance to cover PRGF repayment obligations falling due in 2010.

Conclusion

16. Amid difficult domestic and external circumstances, our authorities made significant strides in advancing their policy and reform agenda set in the context of the 2009 EPCA-supported program. This positive outcome reflects the authorities' strong ownership of program objectives and attachment to sound program implementation. However, the authorities are fully aware that more efforts still need to be made on a sustained basis to overcome the significant obstacles facing the country in its quest for fiscal and debt sustainability, strong growth, and poverty reduction. While their determination to make such efforts is unquestionable, Fund involvement in the context of the ECF will be critical to securing steady progress toward these objectives.

17. In light of Guinea-Bissau's strong program performance, we call on Directors to consider favorably the authorities' request for a three-year arrangement under the ECF.