GUINEA-BISSAU

June 24, 2015

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

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

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

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

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

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

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

BACKGROUND

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

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

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

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

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

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

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

UNDERLYING ASSUMPTIONS

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

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

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

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

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

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

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

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

Box 1. Baseline Macroeconomic Assumptions

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

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

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

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

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

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

External Debt Sustainability Analysis

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

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

Public Debt Sustainability Analysis

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

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

CONCLUSION

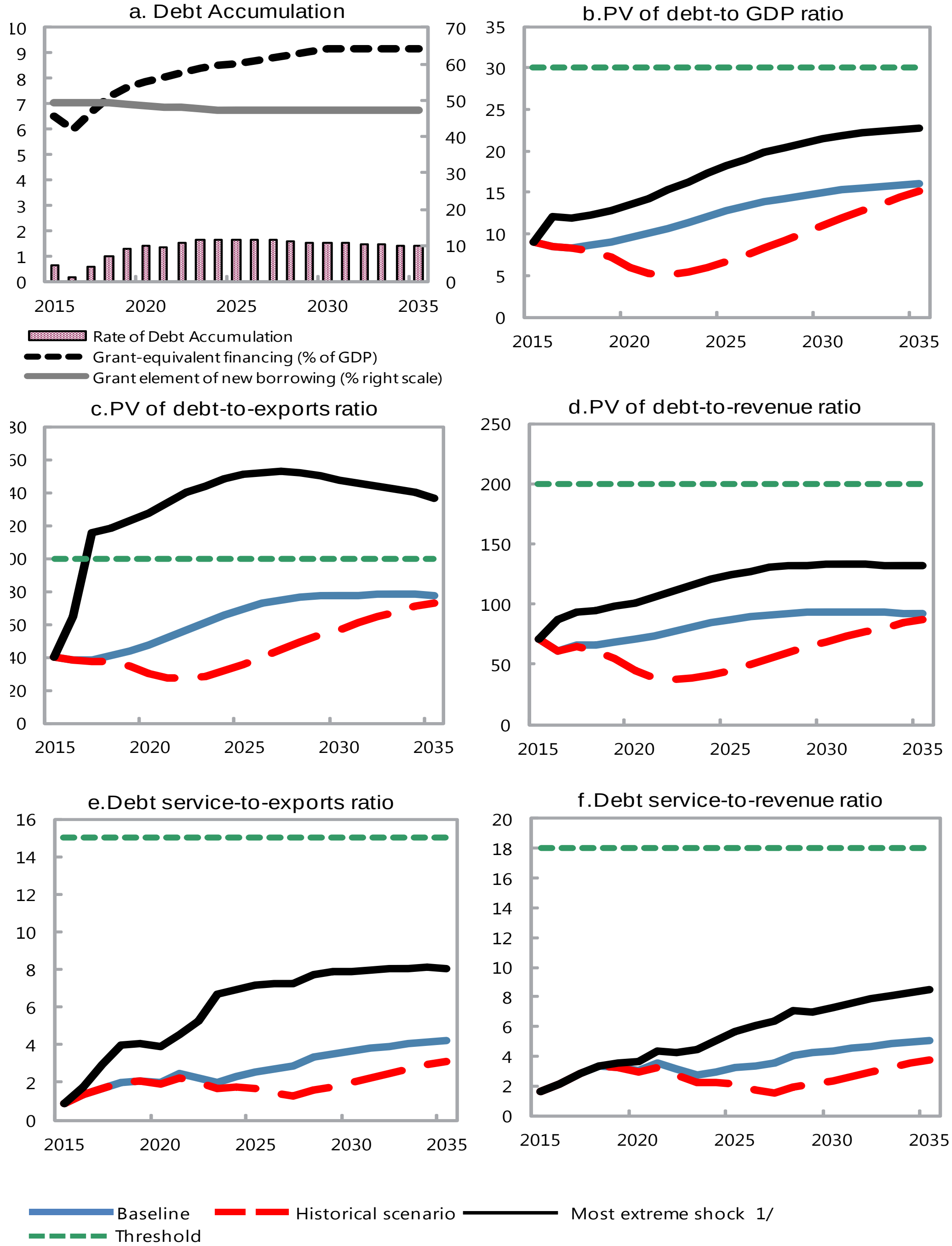
8. In the staff's view, Guinea-Bissau faces a moderate risk of debt distress. The standardized exercise shows that all indicators of external public debt vulnerability would remain below their policy-dependent thresholds under the baseline assumptions, and total public debt vulnerabilities are expected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

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

AUTHORITIES' VIEWS

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

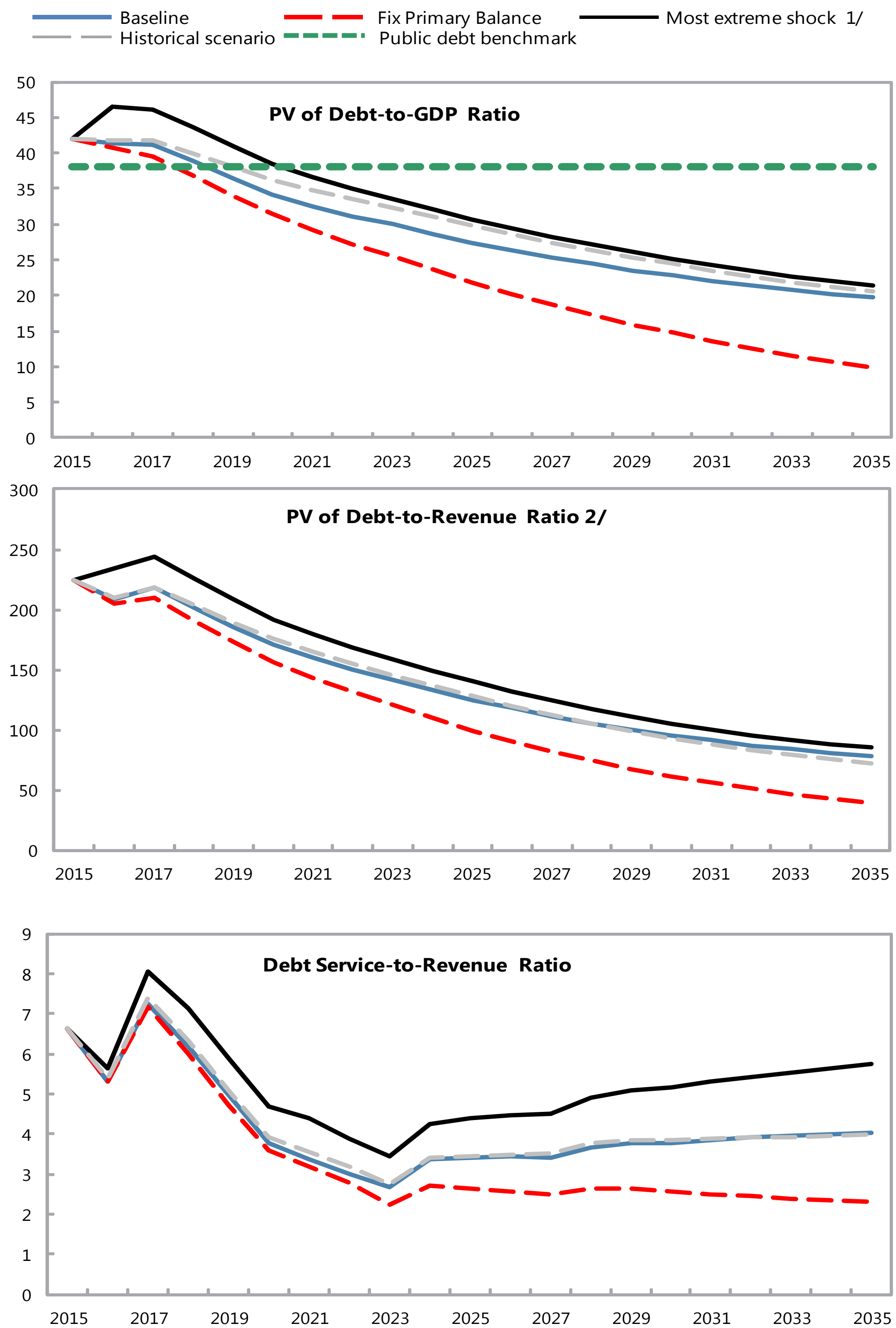
Figure 1. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–35 1/



Sources: Country authorities; and staff estimates and projections.

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

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



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

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

(In percent of GDP, unless otherwise indicated)

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

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

(In percent of GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

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

(in percent)

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

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

(in percent)

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

Sources: Country authorities; and staff estimates and projections.

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

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

(In percent of GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

1/ Central government and central government guaranteed debt only.

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

3/ Revenues excluding grants.

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

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

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

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

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

June 24, 2015

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

Prepared By | The African Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of April 30, 2015)

Membership Status
Joined: March 24, 1977; Article VIII

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

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

Latest Financial Arrangements:

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

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

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

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

Implementation of HIPC Initiative:

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

Debt Relief by Facility (SDR Million)

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

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

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

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

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

Safeguards Assessments:

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

Exchange System and Exchange Rate Arrangement

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

Article IV Consultation

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

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

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

Resident Representative

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

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

WORLD BANK GROUP RELATIONS

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

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

Budget Support Operations

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

Lending Program

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

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

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

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

AFRICAN DEVELOPMENT BANK GROUP RELATIONS

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

Lending Program

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

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

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

Non-lending Program

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

STATISTICAL ISSUES

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

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

Guinea-Bissau: Table of Common Indicators Required for Surveillance

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

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

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

I. Introduction

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

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

II. Recent Economic Developments

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

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

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

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

III. Medium-Term Program and Policies for 2015

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

1. Fiscal Policy and Debt Sustainability

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

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

2. Financial Policy

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

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

3. Structural Reforms and Fostering Growth

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

IV. Conclusion

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