INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/228

GUINEA-BISSAU

July 2017

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE AND STAFF REPORT

In the context of the Third Review Under the Extended Credit Facility Arrangement, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on May 19, 2017, with the officials of Guinea-Bissau on economic developments and policies underpinning the IMF arrangements under the Extended Credit Facility. Based on information available at the time of these discussions, the Staff Report was completed on June 19, 2017.

The documents listed below have been or will be separately released.

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

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 17/265
FOR IMMEDIATE RELEASE
July 6, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under the ECF Arrangement with Guinea-Bissau and Approves US$ 4.1 Million Disbursement

On July 6, 2017, the Executive Board of the International Monetary Fund (IMF) completed the third review of Guinea-Bissau's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement. The completion enables the release of SDR3.03 million (about US$4.1 million), bringing total disbursements under the arrangement to SDR10.98 million (about US$15.2 million). The Executive Board's decision was taken on a lapse-of-time basis.[1]

Guinea-Bissau's three-year ECF arrangement for SDR 17.04 million (60 percent of quota) was approved by the Executive Board on July 10, 2015 (see Press Release No. 15/331). The ECF-supported program aims to restore macroeconomic stability and improve efficiency in public service delivery to foster inclusive growth while protecting social spending.

Program implementation for the third review has been satisfactory. Four of five performance criteria, three of four indicative targets, and six of eight structural benchmarks were met. Corrective measures have been taken in the remaining areas, with several steps already completed.

Economic activity has remained robust and there has been good progress in improving public financial management. Supported by favorable terms of trade developments and increased construction, real GDP grew by an estimated 5.1 percent in 2016 while consumer price inflation averaged 1.5 percent. Solid growth along with improvements in administration have helped boost tax revenue, and expenditure controls have been strengthened. The outlook is broadly favorable, with growth projected at 5 percent in 2017–18, but subject to significant risks stemming primarily from political fragility and an undiversified export base.

Maintaining the positive economic momentum will require further strengthening of public financial management to reduce the fiscal deficit and support macroeconomic stability. Firm

[1] The Executive Board takes decisions under its lapse-of-time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

action is also needed to address weaknesses in the banking system, and fundamental reform of the power sector is necessary to stem losses and improve supply. To boost investment and improve public service delivery, it will further be important to strengthen anti-corruption efforts, improve statistics and enhance transparency, and promote healthy competition in the private sector.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

June 19, 2017

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Extended Credit Facility (ECF) Arrangement: The three-year arrangement was approved on July 10, 2015. Guinea-Bissau obtained the primary disbursement (SDR 2.84 million, 10 percent of quota) upon approval of the arrangement and a disbursement (SDR 5.11 million, 18 percent of quota) following approval of the combined first and second review on December 2, 2016. The equivalent of SDR 3.03 million (11 percent of quota) will be made available upon Executive Board completion of the third review under the arrangement.

Context: The economic recovery continues, despite ongoing political tensions. The political crisis has led to four changes of government over the past two years, and ECOWAS is calling for decisive implementation of last year's Conakry Accord for inclusive government. Nonetheless, growth remains strong, and the government continues to improve tax administration and public financial management (PFM) with support of development partners. Following onsite inspections by the WAEMU Banking Commission, there has been progress towards bringing banks affected by the voided bank bailout of 2015 into compliance with prudential norms.

Program performance: Program performance has been good. Four of the five performance criteria for the third review were met, while one was narrowly missed. Six of the eight structural benchmarks were met. The authorities have taken corrective measures, based on which they are requesting a waiver of nonobservance of a performance criterion and completion of the third review. They are also requesting completion of a financing assurances review, in view of their continued good-faith efforts and progress in addressing external arrears. Staff discussions with the authorities focused on enhancing tax administration and PFM, applying effectively the prudential framework for banks, and on modalities for advancing structural reforms.

Staff supports completion of the third review under the ECF arrangement and the authorities' request for a waiver of nonobservance of a performance criterion.

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

Discussions took place in Bissau during May 10–19, 2017. The staff team comprised Messrs. Tobias Rasmussen (head), Francis Kumah, and Torsten Wezel (all AFR), and Mmes. Cristina Cheptea (AFR) and Keyra Primus (FAD), and Mr. Oscar Melhado (IMF Resident Representative in Bissau). Mr. Romão Varela (OED) participated in the discussions. Mr. Gaston Fonseca and Ms. Sofia Gomes (both IMF Res Rep office in Bissau) assisted the mission. The team met with His Excellency, the President of Guinea-Bissau, José Mário Vaz; Prime Minister, Umaro Emabaló; Finance Minister, João Fadia; National Director of the *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO), Ms. Helena Emabaló; Attorney General, António Mam; and other senior officials and representatives of the private sector, civil society, and development partners.

CONTENTS

BACKGROUND AND RECENT ECONOMIC DEVELOPMENTS **4**

PROGRAM PERFORMANCE **6**

ECONOMIC OUTLOOK, POLICIES, AND RISKS **8**

POLICY DISCUSSIONS **9**

A. Improving Fiscal Management 10

B. Bolstering Sound Financial Intermediation 12

C. Leveraging Reforms to Promote Private Sector Growth and Other Issues 13

PROGRAM MODALITIES AND FINANCING ASSURANCES **14**

STAFF APPRAISAL **15**

FIGURES

1. Recent Economic Developments, 2011–16 17
2. Fiscal and Credit Developments, 2011–16 18
3. Medium-Term Outlook, 2014–18 19

TABLES

1. Selected Economic Indicators, 2014–19 20
2. Balance of Payments, 2014–19 (Billiions of CFAF) 21

3a. Central Government Operations, 2014–18 (CFAF billions) 22

3b. Central Government Operations, 2014–18 (Percent of GDP) 23

4. Monetary Survey, 2014–18 ___ 24
5. Financial Soundness Indicators of the Banking System, 2010–16 (Percent) ___ 25
6. Indicators of Capacity to Repay the Fund, 2017–26 ___ 26
7. Quantitative Performance Criteria and Indicative Targets for 2016 ___ 27
8. Proposed Quantitative Performance Criteria and Indicative Targets for 2017 ___ 28
9. Structural Benchmarks Under the ECF Program, 2016–17 ___ 29
10. Proposed Schedule of Disbursements under the ECF Arrangement, 2015–18 ___ 31

ANNEX

I. The 2015 Bank Bailout and its Subsequent Reversal ___ 32

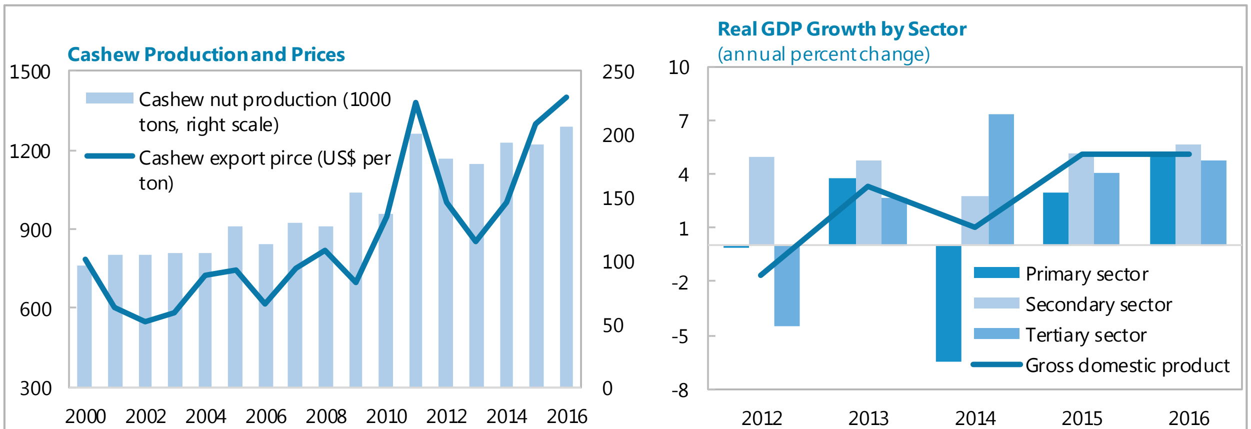
APPENDIX

I. Letter of Intent ___ 33
Attachment I. Memorandum of Economic and Financial Policies ___ 35
Attachment II. Technical Memorandum of Understanding ___ 51

BACKGROUND AND RECENT ECONOMIC DEVELOPMENTS

1. Guinea-Bissau's political crisis remains unsettled but a burgeoning economic recovery is taking root. Frequent changes of government and the absence since late 2015 of a sitting Parliament have complicated policy-making and enactment. Moreover, frictions linger over implementation of last year's Conakry Agreement (brokered by the Economic Community of West African States (ECOWAS)) for inclusive government. Nevertheless, the security situation remains calm, the authorities are showing strong commitment to consolidating macroeconomic stability and advancing structural reforms, and the economic recovery since the 2012–14 downturn has continued apace.

2. Economic activity remained robust and inflation low in 2016 (Table 1 and Figure 1). Real GDP grew by an estimated 5.1 percent, supported by generally favorable domestic and external trends. High international cashew prices and reduced market distortions following the closure of the ill-managed fund for industrialization of agricultural products (FUNPI) helped push cashew production to a record high of 206 thousand tons. The expansion in cashew production drove growth of the primary sector to 5.2 percent. In parallel, the secondary and tertiary sectors grew by an estimated 5.6 and 4.7 percent, respectively, with strong construction activity and reflecting increasing incomes. Consumer price inflation remained low at a year-average rate of 1.5 percent.



Sources: INE; MEF; and IMF staff calculations.

Sources: INE; MEF; and IMF staff calculations.

3. The external current account balance has remained in surplus (Table 2).[1] As the price of Guinea-Bissau's dominant export product, cashew nuts, increased by 8 percent and as fuel and non-fuel import prices fell, Guinea-Bissau's terms of trade improved by 14 percent in 2016. This helped raise the surplus in merchandise trade, despite a halting of wood exports and an increase in construction-related imports. At the same time, however, other current receipts declined, mainly due to a reduction in official grants. The overall current account surplus consequently narrowed to an estimated 0.9 percent of GDP from 2 percent in 2015.

[1] The authorities latest balance of payments statistics show a large improvement in the current account compared to previous estimates for 2014–15.

4. Regular tax collections benefitted from the robust economic activity but other revenue components fell below expectations under the program (Table 3). Tax revenue, boosted by strong direct tax receipts and improvements in tax administration, was in line with the program target (9.3 percent of GDP). Non-tax revenue, however, fell 0.8 percent of GDP below target, as limited political cohesion and changes of government frustrated effective realization of planned one-off receipts. Planned measures (affecting both tax and non-tax revenue) that failed to materialize included sale of seized timber,[2] a fine on a telecommunication company, collection of tax arrears from two public enterprises, and implementation of a telecommunications gateway system meant to boost revenue. Grants also fell short of expectation by 0.6 percent of GDP. Overall revenue and grants accordingly fell 1.5 percent of GDP below program.

Guinea-Bissau: Revenue Performance
(percent of GDP)

	2015	2016	
		Prog.	Prel.
Revenue and grants	20.3	17.9	16.4
Revenue	13.8	13.2	12.4
Tax revenue	10.1	9.3	9.3
Direct taxes	2.8	2.5	2.7
Indirect taxes	7.3	6.8	6.6
Import duties	1.8	1.6	1.6
Domestic sales tax	3.2	3.0	3.0
Other indirect taxes	2.3	2.1	2.1
Nontax revenue	3.7	3.9	3.1
Grants	6.5	4.6	4.0

Source: Ministry of Finance; and IMF staff estimates.

5. Tight public financial management (PFM) and expenditure control helped contain the overall deficit. While the wage bill was slightly higher than programmed, mainly due to a reclassification of embassy worker compensation, reductions elsewhere brought total expenditure 1.2 percent of GDP below program. The reduced expenditure reflected lower foreign financed (project grants and loans) capital expenditure as well as improved expenditure controls and determination by the finance ministry to align outlays with available resources. The later involved restricting all non-essential spending, including cancellation of some official travel. Altogether, the cash deficit was 0.3 percent of GDP smaller than programmed, despite slightly higher than planned net arrears clearance. Total financing amounted to 4.2 percent of GDP, with foreign project financing contributing 2 percent of GDP and commercial banks providing most of the remainder.

Guinea-Bissau: Expenditure Sources
(percent of GDP)

	2015	2016	
		Prog.	Prel.
Expenditure	23.3	22.4	21.2
Current	15.2	15.3	14.9
Wage	5.2	4.8	5.1
Non-wage	9.3	9.8	9.1
Interest	0.7	0.7	0.7
Capital	8.0	7.1	6.2
Domestic primary expenditure	15.3	14.9	14.4

Source: Ministry of Finance; and IMF staff estimates.

6. The mostly positive trends in incomes and fiscal performance continued into early 2017. In May, at the seasonal onset of shipments, the cashew export price was some 20–30 percent higher than last year, and farmers were receiving record prices. At the same time, regulatory

[2] Sales of seized illegally-cut timber, which were projected to raise almost 1 percent of GDP, started in late 2016 but were soon halted as exporters faced difficulties obtaining necessary permits from the secretariat for the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

uncertainty had created confusion in the market,[3] and initial indications were that the volume of production was less than in 2016 due primarily to less favorable weather. Overall cashew income, however, appears to have increased solidly. The robust economic activity along with continued administrative improvements were seen in a 24.7 percent nominal increase in tax revenue in the first quarter of 2017 compared to the same period in 2016. Preliminary data indicate that total expenditure grew by 6.4 percent over the same period, enabling an improvement in the overall balance.

7. **Bank credit remains sluggish amidst high non-performing loans (NPLs) and low profitability (Tables 4 and 5).** Credit to the private sector expanded by 10.6 percent in 2016, driven by the strengthening of economic activity and a regional bank that recently entered the market. Credit extension has continued to be concentrated in commerce, construction, and manufacturing, which together accounted for about two-thirds of total credit, with the economically important agriculture and fishing industries accounting for only 2 percent. The moderate credit growth reflects continued shortage of bankable projects and risk aversion by banks in the context of high NPLs, particularly in agriculture. Although lower than the 26 percent rate from immediately before the 2015 bank bailout (Annex 1), the overall NPL ratio remained high at 19.4 percent as of end-March 2017. In parallel, the ratio of net income to average assets was low at 2.8 percent at end-March 2017 (compared to an average deposit rate of 4.7 percent).

8. **The authorities have identified, with support of the Banking Commission, supervisory measures to reinstate banks' compliance with prudential requirements.** The Commission, in early 2017, ordered the two bailout banks to make high provisions on the non-collateralized part of the NPL portfolios previously transferred to the government, notwithstanding a judicial review of the contracts' legality prompted by the authorities. The additional provisions that were made caused equity capital to fall sharply, even becoming negative at one of the banks. Although that bank's shareholders voted in favor of a capital increase, so far none of the additional shares have been subscribed. While talks with a potential investor are ongoing, the bank is likely to be non-compliant with the raised minimum capital requirement coming into force regionally at end-June. The other bank is expected to meet the recapitalization requirement.

PROGRAM PERFORMANCE

9. **Program performance has been good, with mainly just a few delays (Tables 7–9).**

- **Four of the five end-2016 performance criteria (PCs) for the third review were met.** The targets for tax revenue and net domestic bank credit to central government were both met. Moreover, consistent with the respective zero-ceilings under the program, there was no new non-concessional or short-term external borrowing. The one PC that was not met was the zero-ceiling on non-accumulation of external arrears, which was missed by a small amount (CFAF 0.6 billion or 0.1 percent of GDP). This was due to a late payment of debt service to a

[3] A draft decree, approved by the Council of Ministers, would have limited cashew buying (currently dominated by foreigners) to domestic operators but was ultimately not signed by the President.

group of Arab Funds and ECOWAS arising from technical problems in debt management. All these arrears were cleared in early 2017.

- **Three of the four indicative targets for end-2016 were met.** New domestic arrears were below the ceiling (and net arrears clearance was CFAF 1.1 billion above the programmed level). Moreover, non-regularized spending was below the ceiling, and social and priority spending was above the floor. The one indicative target that was not met was that on the domestic primary balance, which was CFAF 3 billion below the floor, reflecting the weak overall revenue performance. Per available data, most indicative targets for March 2017 have been met.

- **Implementation of structural measures was satisfactory.** Six of the eight structural benchmarks for late 2016 and early 2017 were met on time. Two were not fully met due to weaknesses in capacity and coordination within a fractured political environment. The Council of Ministers did not issue on time the decree to clarify debt issuance authority and procedures—although the decree (drafted with TA from AFRITAC West) was prepared. This decree was eventually passed in early June 2017. In addition, submission of the electricity and water company (EAGB) monthly financial reports was not observed at end-December 2016, although financial reports for earlier quarters were duly submitted. Work is underway to ensure full compliance by end-July 2017 (MEFP ¶12).

Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets

(CFAF billions)

	2015	2016									
		Mar.[1]		Jun.[1]		Sept.[1]		Dec.			
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Adj. Prog.	Act.	Status
Performance criteria[1]											
Total domestic tax revenue (floor)	61.9	15.7	10.4	31.5	31.2	40.7	49.6	61.4	...	63.5	met
Net domestic bank credit to the central government (ceiling)[2]	11.5	0.0	6.4	0.0	19.3	9.1	19.8	15.4	16.1	14.6	met
Ceiling on new nonconcessional external debt (in $ million)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	0.0	met
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	0.0	met
External payment arrears (ceiling)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	0.6	not met
Indicative targets											
New domestic arrears (ceiling)	1.3	0.0	0.0	0.0	4.6	0.0	6.6	6.6	...	4.0	met
Social and priority spending (floor)	36.5	7.7	6.0	21.7	12.9	19.4	23.2	31.0	...	32.2	met
Domestic primary balance (commitment basis, floor)	-9.3	-0.7	-7.1	-1.3	-15.8	-6.0	-9.4	-11.2	...	-14.2	not met
Non regularized expenditures (DNTs, ceiling)	2.7	0.2	2.1	0.4	7.8	0.6	1.0	2.0	...	1.9	met
Memorandum items:											
Clearance of domestic payment arrears	7.4	0.8	3.3	1.8	6.4	6.0	5.7	7.0	...	6.1	
External budgetary assistance (US$ million)[4]	9.5	5.9	0.0	9.2	0.0	15.8	1.7	1.7	...	0.4	
ECF disbursements (SDR millions, flow)	2.8	0.0	0.0	2.3	0.0	0.0	0.0	5.1	...	5.1	
Concessional loans (US$ million)[5]	21.1	6.1	1.8	12.3	5.4	2.8	5.4	12.5	...	7.1	

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

[2] Starting December 2016, sourced from the monetary survey.

[3] These apply on a continuous basis.

[4] Comprises budget support grants and program loans.

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

10. More generally, steps to bolster tax intake and public financial management have helped keep the ECF program on track. Following yet another change of government in late-2016, which among others resulted in the former national director of the BCEAO becoming finance minister, the authorities have taken important measures to strengthen fiscal institutions. The introduction of twice weekly Treasury Committee meetings has resulted in a strengthening of budget execution and elimination of expenditures outside the required procedures (DNTs). Moreover, both tax and customs administration have continued to benefit from technical assistance from development partners, resulting in stronger tax mobilization. Nonetheless, as seen by the delay in some of the planned reforms and lack of progress in implementing planned one-off revenue measures from 2016, political instability has continued to impede progress on the structural reform agenda.

ECONOMIC OUTLOOK, POLICIES, AND RISKS

11. The government's latest program, covering 2016–18, reiterates the objectives of Guinea-Bissau's broader development strategy and highlights creation of employment opportunities through sustained and inclusive growth. The current program comprises three pillars: good governance; economic growth through structural transformation and revitalization of key sectors; and strengthening of human capital. In the economic area, the emphasis is on improving the effectiveness of public administration, including strengthening of payment controls and tax administration. The program also emphasizes improvements in the business environment and highlights tourism, industrialization of agricultural production, and effective natural resource management as key drivers of medium-term growth. The country's main development partners continue to support the strategy, but are yet to resume budget support.

12. The updated macroeconomic framework for 2017–18 renders a favorable baseline outlook with sustained growth, low inflation, and improving fiscal balances.

- Economic growth is projected to remain steady at about 5 percent a year, supported by high cashew prices, investments in road and other infrastructure, and improvements in electricity and water provision.
- Inflation is expected to increase slightly, given higher global oil prices, but should average no more than around 2 percent in 2017 and 2018.
- The current account is projected to turn to deficit of around 1 and 2 percent of GDP in 2017 and 2018, respectively, because of higher oil prices as well as imports associated with increased investment and expanding economic activity, moderated by continued healthy growth in cashew exports.
- Fiscal discipline, supported by improvements in PFM and tax administration, is envisioned to contain the overall fiscal deficit to around 2 percent of GDP in 2017 and 2018.

13. The baseline outlook is subject to significant risks. A reescalation of political tensions with attendant disruptive government changes could impact fiscal discipline and dent support from development partners. In addition, the fiscal outlook and public debt sustainability could deteriorate if courts rule against the voiding of the bank bailout. Further, the economy is vulnerable to adverse commodity price developments, and agricultural output is also vulnerable to adverse weather conditions. On the upside, the possible start of a FDI-financed phosphate mining project could help boost exports, there is substantial scope for greater value-addition in agriculture, and the nascent tourism industry offers potential.

Guinea-Bissau: Official Financial Assistance,[1] 2015–18

(CFAF billions, unless otherwise indicated)

	2015	2016		2017	2018	Cumul. total
	Act.	Prog.	Prel.	Projections		
Total	52.4	49.7	45.5	50.5	51.1	199.6
Grants	40.1	30.9	27.6	30.1	32.2	130.0
Budget	5.6	1.0	0.3	0.0	0.0	5.9
Project	34.5	29.9	27.4	30.1	32.2	124.1
Loans	12.3	18.8	17.9	20.4	19.0	69.6
Budget[2]	2.3	3.8	4.4	5.1	2.5	14.3
Project	10.0	15.0	13.5	15.4	16.4	55.3
		(US$ millions)				
Total	88.6	84.9	76.8	81.8	82.6	
Grants	67.8	52.4	46.6	48.7	52.0	
Loans	20.8	32.5	30.2	33.1	30.6	
		(Percent GDP)				
Total	8.5	7.3	6.7	6.9	6.5	
Grants	6.5	4.5	4.0	4.1	4.1	
Loans	2.0	2.8	2.6	2.8	2.4	
Miscellaneous items:						
Nominal GDP (US$ millions)	1,041	1,168	1,152	1,189	1,268	

Source: Bissau-Guinean authorities.

[1] Includes only aid to the government sector (about 85-90 percent of total); the remainder goes to ultimate beneficiaries and non-governmental organizations.

[2] ECF financing.

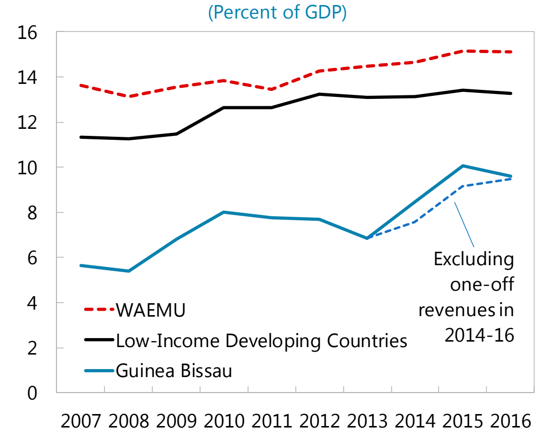
POLICY DISCUSSIONS

14. Policy discussions focused on: (i) maintaining fiscal discipline by raising revenue to enable priority spending while reducing borrowing and balancing investment needs with debt sustainability concerns; (ii) applying the regulatory and prudential framework to support healthy financial intermediation; and (iii) advancing structural reforms.

A. Improving Fiscal Management

15. The overarching fiscal policy challenge is to raise revenue and strengthen expenditure controls to enable priority spending while keeping debt in check.[4] Tax revenue has risen over the past decade but remains substantially lower than in other West African Economic and Monetary Union (WAEMU) countries. Frequent changes of leadership, inadequate budgets and infrastructure, and deficiencies in records and work procedures compromise the ability to implement reforms and even maintain day-to-day operations. With also weak budget processes and lacking expenditure controls, development spending has been compromised.

Tax Revenue
(Percent of GDP)



Source: IMF, *World Economic Outlook* database.

Strengthening Revenue Mobilization

16. Ongoing reforms towards improving tax administration are helping boost revenue mobilization. The authorities, with TA from FAD and support from other development partners, are taking steps to strengthen tax administration (MEFP ¶¶19 and 22). Among others, they aim to achieve within the coming months full rollout of a uniform sales invoice and of tax identification numbers for all tax payers. Efforts are also underway to minimize tax exemptions and strengthen the legal basis for taxing small and medium-sized businesses. These measures along with buoyant economic growth and a dividend payment from the West African Development Bank (BOAD) are expected to increase domestic revenue to 13.2 percent of GDP in 2017. Progress towards instituting the missed one-off revenue measures from 2016 (see ¶4) has, however, been limited. A new regulation relating to forestry that was passed by the Council of Ministers could facilitate discussions with CITES to allow sale of the stockpile of seized timber, but it remains unclear when this might happen. More recently, the government has been under pressure to forego revenue from fuel taxes to contain increases in prices at the pump, but did effect in May 2017 an increase in maximum prices in line with the cost-based formula and consistent with Fund advice. This was the first such increase since September 2016.

Maintaining Fiscal Discipline while Addressing Priority Needs

17. Efforts to enhance PFM and strengthen expenditure controls are being stepped up (MEFP ¶¶12, 20, and 21). The Treasury Committee is being effectively used to improve budget execution in the context of limited resources, with procedures steadily becoming more entrenched. The twice-weekly meetings are imposing previously missing controls. Further, the authorities have

[4] The Fund's capacity development strategy for Guinea-Bissau identifies tax administration, public financial management, debt management, and improving statistics as key priorities for technical assistance (TA) and training by IMF TA Departments and AFRITAC West.

identified measures to strengthen effective treasury management and budget execution, including preparation and monitoring of monthly cashflow projections. In addition, debts to BOAD have been rescheduled to reduce debt servicing costs. Total expenditure excluding foreign financed capital spending is projected at 13 percent of GDP in 2017, as previously programed, despite a previously unanticipated transfer of 1 percent of GDP to EAGB to cover government guaranteed domestic debts that the company was unable to meet. These debts, totaling CFAF 6.6 billion, dated back to 2011 and were held by three local banks. Updated spending plans consistent with the ECF-supported program were formalized in a 2017 budget approved by the Council of Ministers in early June 2017.

18. The authorities remain committed to reducing net domestic bank credit (NDC) to zero, the fiscal anchor of the program (MEFP ¶18). Loans from domestic banks have been consolidated and overdrafts eliminated, with financing shifted to Treasury securities carrying lower interest costs. NDC is projected at 0.9 percent of annual GDP in the first half of 2017 (less than the previously programmed 1 percent), given seasonal revenue patterns, and at zero for the year overall (from previously -0.5 percent of GDP). The domestic primary balance is, accordingly, projected to reach 0.6 percent of GDP in 2017, a 2.7 percentage point improvement from 2016 and 0.3 percentage points more than previously programed. This adjustment would imply an overall cash deficit of 2.2 percent of GDP in 2017, well within the WAEMU convergence criterion of 3 percent of GDP and a level that would not strain financing availability. Moreover, the improved fiscal position would allow for a significant increase in developmental spending in 2018, even as the ratio of government debt to GDP continues to decline.

Advancing Prudent Debt Management

19. To support more effective debt management, the authorities are strengthening debt contracting procedures and are taking steps to avoid accumulation of contingent liabilities (MEFP ¶24). The call on government guarantees, in relation to GuinéTelecom last year and EAGB this year, raised the debt level in 2016 and constrained other spending, highlighting the need to strengthen debt management. In view of this, the Council of Ministers approved in early-June 2017 the decree that clarifies procedures for issuance of government debt and guarantees, in line with WAEMU debt management regulations. Moreover, the authorities are compiling an inventory of possible contingent liabilities, have taken steps to improve financial reporting by EAGB, and have expanded the coverage of planned audits to include four additional SOEs (MEFP ¶30).

20. The authorities plan to continue limiting external debt contracting to concessional loans (MEFP ¶¶15 and 18). While the risk of debt distress was assessed as moderate in the most recent debt sustainability analysis, Guinea-Bissau's economy is vulnerable to shocks (see ¶13) and the poor financial state of public enterprises and generally weak debt management imply additional risks. In view of these risks, and cognizant of absorption capacity constraints, the authorities are committed to continuing to avoid non-concessional and short-term external debt.

Guinea-Bissau: External Borrowing Plan[1], 2016–17
(Public Debt Contracted or Guaranteed)

	2016	2017		
	Volume of New Debt	Volume of new debt		Present value of new debt
	(CFAF billion)	(CFAF billion)	(US$ million)	(US$ million)
Sources of debt financing	27.9	20.4	33.1	
Foreign Currency				
Concessional	10.4	11.7	19.0	11.1
of which				
Multilateral	10.4	11.7	19.0	11.1
AfDB	1.5	1.7	2.7	1.3
IDA	2.7	3.0	4.9	2.2
IMF	4.4	5.1	8.2	5.6
Other Multilaterals	1.8	2.0	3.2	1.9
Non-concessional				
Domestic Currency (CFA francs)				
Non-concessional debt	17.6	8.7	14.0	16.0
of which				
BOAD	7.6	8.7	14.0	16.0
Other Regional Institutions (Tbills)	10.0	-	-	-
Uses of debt financing	27.9	20.4	33.1	
Infrastructure	4.9	5.6	9.0	
Social sector	5.4	5.5	8.9	
Fisheris and rural development	2.0	2.2	3.6	
Budget financing [2]	14.4	5.1	8.2	
Other	1.2	2.1	3.4	

Source: Bissau-Guinean authorities.

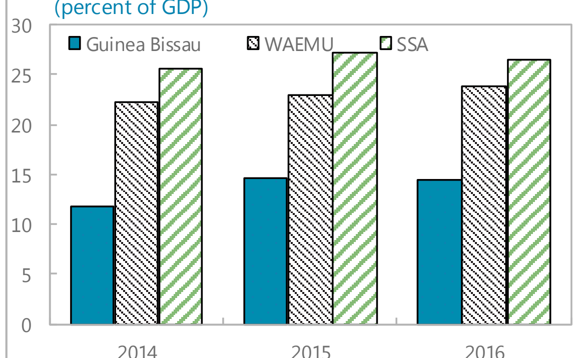
[1] Includes only aid to the government sector (about 85-90 percent of total); the remainder went to ultimate beneficiaries and non-governmental organizations.

[2] ECF and Regional Tbill financing.

B. Bolstering Sound Financial Intermediation

21. Financial intermediation remains weak. Averaging 13.6 percent of GDP in 2014–16, credit to the private sector remains low relative to the rest of WAEMU and Sub-Saharan Africa overall. The authorities are adopting a three-pronged approach—increasing minimum capital requirements (in the context of the regional requirement effective end-June, 2017), strengthening debtor information collection, and bolstering supervision—to stimulate credit extension and foster inclusion within a sound financial

Credit to the private sector
(percent of GDP)



Sources: IFS; AFR REO; and IMF staff estimates.

environment. While credit extension is gradually picking up, the continued high NPL ratios are holding back progress.

22. Sluggish credit growth and high NPLs are closely linked to the voided bank bailouts of 2015. The Banking Commission in its inspection reports (SB for mid-April 2017) requested improvements in corporate governance and a high degree of provisioning of the NPLs transferred to government in the bailout but likely returning to banks' balance sheets (see Annex). In the process of consolidating their finances, the two bailout banks have curtailed lending to the private sector. At the same time, partly due to the legal uncertainties surrounding the bailout, there has been little progress on recovery of the non-performing loans in question (only 5 percent of the stock has been recovered since 2015), and the value of underlying collateral is likely eroding.

23. A cleanup of balance sheets and substantial recapitalization are necessary for banks to resume lending to the private sector. The authorities have urged banks to take all necessary actions to ensure timely compliance with all regulatory norms and are moving to end legal uncertainties surrounding the bailout (MEFP ¶¶25–26). It is, however, likely that one bank will not meet the new minimum capital requirement at end June. The Banking Commission is scheduled to meet in September to evaluate banks' compliance with the new capital requirement and decide on remedial measures. The Guinea-Bissau authorities expressed their support for resolute action.

C. Leveraging Reforms to Promote Private Sector Growth and Other Issues

24. Sustaining high growth will require addressing constraints in the agriculture and power sectors. The authorities have stressed that they are committed to ensuring open competition in cashew trading for the benefit of farmers and poverty reduction. Moreover, a series of pilots are underway to support cashew production by, among others, improving seed quality and training farmers. In electricity, the reliability of power provision has improved over the past two years but supply remains inadequate and EAGB continues to incur losses despite high tariffs. The authorities are with World Bank support looking to improve EAGB's commercial performance, including by moving the company to a service contract.[5]

25. Reforms to improve transparency are supporting growth and diversification. Efforts to improve tax administration and PFM would not just enable improved public services and infrastructure but would also stimulate private sector activity by making the government a more reliable partner through transparent procurement and timely payment of bills. To instill transparency, the authorities are strengthening enforcement of public procurement laws and budget processes, including in relation to military spending (MEFP ¶29). Moreover, the unwinding of the bailout and measures to address non-compliance of prudential norms in banking is helping cement good governance and counter moral hazard.

[5] A World Bank project (credit and grant totaling $25 million) approved at end-May 2017 aims to enhance water and electricity supply by, among others, supporting establishment of a professional service provider operating on a performance contract.

26. Combatting corruption and rent-seeking (MEFP ¶32). To strengthen the national framework and curtail corruption and rent-seeking, the government has approved the national Anti-Money Laundering/Combating of the Financing of Terrorism (AML/CFT) strategic plan and allocated resources to the Financial Intelligence Unit (CENTIF) to conduct its mandate, including verification of asset declarations of high-ranking public officials. Following a recent IMF diagnostics TA mission, CENTIF has intensified information dissemination, which has resulted in increased declarations of suspicious financial transactions and helped mitigate risks of money laundering.

27. Improving statistics (MEFP ¶31). Data provision is generally timely but data coverage and quality need strengthening. With help from development partners, the statistics institute is enhancing coverage of economic statistics, with several projects (including enterprise and agricultural surveys) ongoing or in the developmental phase. There has also been important progress on adopting new methodologies for monetary and balance of payments statistics. More work is needed, however, to improve data consistency across and within different datasets, a statistics law is still awaiting enactment, and statistics production is generally under-resourced.

PROGRAM MODALITIES AND FINANCING ASSURANCES

28. Program performance will continue to be assessed semi-annually (MEFP ¶33, Tables 8 and 9). For 2017, program performance will be assessed relative to the end-June PCs and the proposed PCs for end-December (including three continuous PCs), indicative targets for end-September, and SBs. The PCs and indicative targets are defined in the attached Technical Memorandum of Understanding. The SB relating to the submission of financial reports by the EAGB, originally set for December 2016, has not been met and is being re-set for July 2017. Three new structural benchmarks are proposed for September 2017: one (installation and effective use of the new debt management software, DMFAS 6.0) to support debt management and two (rollout of new uniform tax invoice and of taxpayer identification numbers) to support tax administration.

29. Financing assurances are in place for the third review. The program is fully financed to its end in April 2018, with the bulk of the financing expected to be met through external support. Guinea-Bissau owes arrears to Angola, Brazil, Russia, the UAE, Libya, Pakistan, and Taiwan Province of China; all of whom have consented to Fund financing notwithstanding these arrears. The country's arrears with the erstwhile Franco-Portuguese bank have been cancelled by Portugal. Furthermore, Guinea-Bissau cleared its arrears with the European Investment Bank (EIB) (MEFP ¶23), cleared half of its arrears to the UAE with the remainder budgeted for clearance this year, and remains current on its remaining external debt service obligations while pursuing negotiations for rescheduling and/or outright cancellation of its arrears. The government is making good progress in negotiations on its arrears with Taiwan Province of China. While definitive agreement is yet to be concluded, preliminary information indicates broad agreement on debt relief and rescheduling on near-Paris Club terms. Adequate safeguards remain in place for the further use of Fund resources in

Guinea-Bissau's circumstances, and Guinea-Bissau's adjustment efforts have not been undermined by developments in debtor-creditor relations.

30. Guinea-Bissau's capacity to repay the Fund is adequate. The use of Fund resources under the ECF arrangement will have a negligible impact on debt and debt service ratios, increasing Guinea-Bissau's obligations to the Fund to 85¼ percent of quota or 2.58 percent of GDP at the end of the current ECF-supported program in 2018 (Table 6). Guinea-Bissau's risk of debt distress remains moderate.

31. Safeguards. The 2013 assessment of the WAEMU regional central bank, BCEAO, found a continuing strong control environment. All recommendations from the assessment have been implemented. These include strengthening the external audit arrangements by appointment of an international firm with ISA experience for the audits of FY 2015–17, reinforcing the capacity of the audit committee with external expertise to oversee the audit and financial reporting processes, and adoption of IFRS starting with the financial year 2015. An updated safeguards assessment is planned for 2017, in line with a four-year cycle for regional central banks.

STAFF APPRAISAL

32. Guinea-Bissau's economy has continued to register solid growth, despite a still unsettled political crisis. The continued political uncertainty is, however, impeding more fundamental economic progress and reescalation of tension is a risk to the outlook. Staff welcomes the ECOWAS-brokered roadmap for inclusive government as well as Guinea-Bissau's adherence to peaceful constitutional means in settling its political disputes. Staff encourages stakeholders to build a sustainable political consensus and emphasizes the importance of a rapid resumption of Parliamentary operations to pass key pending legislation, including the state budget as well as statistics and AML/CFT laws.

33. The economy is poised for continued growth. Supported by high cashew prices, investments in infrastructure, and improvements in water and electricity supply, growth is projected to remain at around 5 percent a year during 2017–18. At the same time, inflation is projected to remain well contained at about 2 percent, and the external position is expected to stay comfortable with current account deficits below 2 percent of GDP. Continued movement on this path offers the prospect of tangible improvements in living standards and reductions in poverty, if underpinned by sustained advances on the reform agenda.

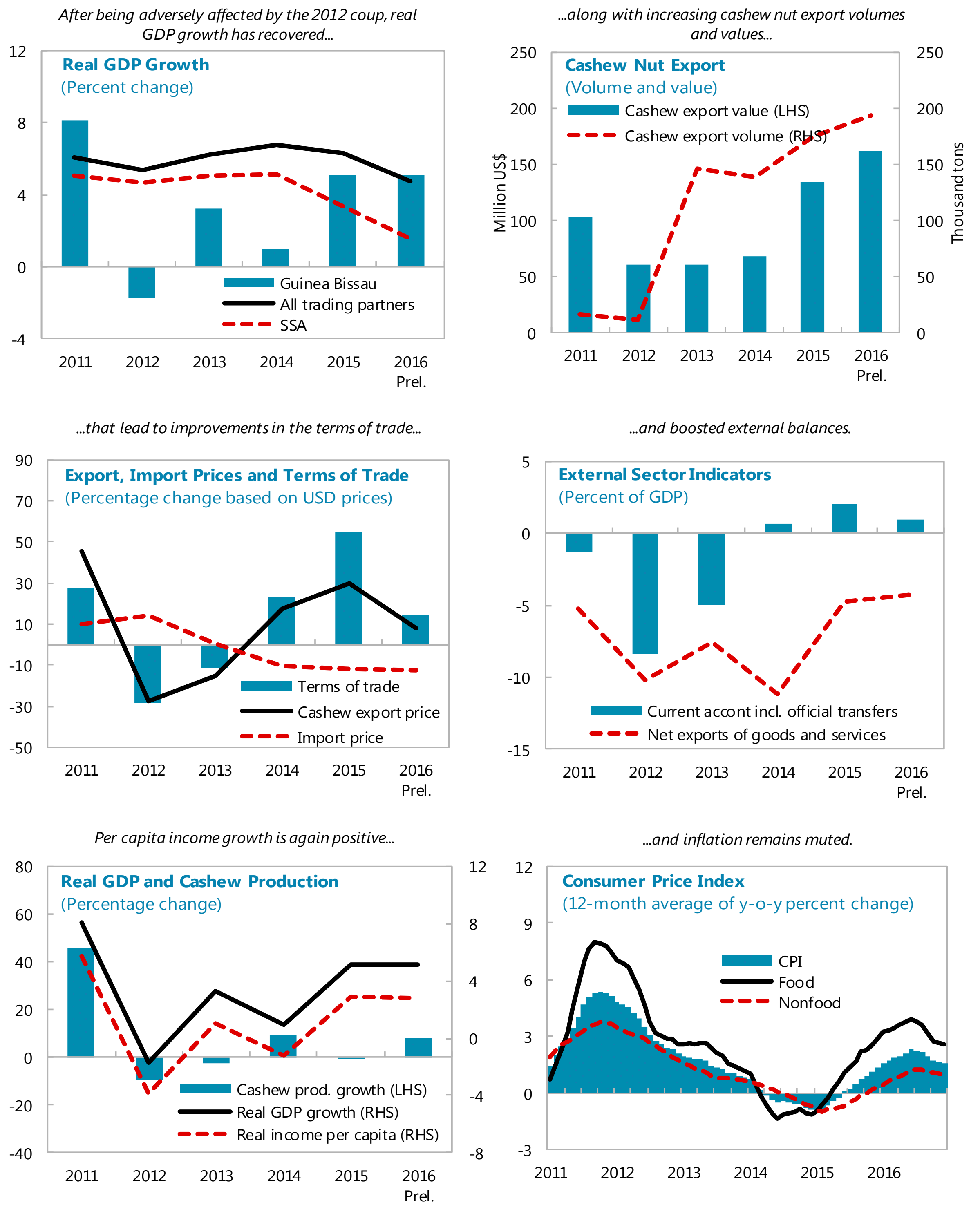
34. Continued strengthening of public financial management will be essential to supporting macroeconomic stability and growth. The Treasury Committee has been instrumental in eliminating non-regularized spending and reducing arrears, but the scope and depth of its operations can still be expanded. Reforms in tax and customs administration are also bearing fruit but there is ample room for further revenue mobilization, needed for social and investment spending. Moreover, debt management should be strengthened and steps should be taken to avoid accumulation of contingent liabilities. Fiscal reforms should be supported by the strengthening of anti-corruption and AML/CFT efforts.

35. The Banking Commission's corrective action against the bailout banks is welcome but further actions will be required. Although the loan losses have now been adequately recognized, this has resulted in a sharp fall in equity capital (becoming negative in one bank) and the high volume of NPLs remains largely unchanged. The slow rate of collection at the bailout banks suggests that developing a time-bound action plan for asset recovery would be crucial, not least to avoid loss in value of the underlying collateral. It is important that banks meet the new minimum capital requirement applicable from end-June. Should any bank fail to do so, prompt and vigorous regulatory enforcement should be pursued by the Banking Commission and WAEMU Council of Ministers.

36. The authorities' reform agenda, as articulated in their MEFP, is appropriately ambitious. The outlined fiscal, financial, and structural reforms support attainment of macroeconomic stability and inclusive growth. The authorities are encouraged to place emphasis on improving statistics and bolstering transparency and healthy competition in all areas. Reforming state-owned enterprises to improve the finances will also be important, as will be the continued automatic adjustment of fuel prices to ensure full pass-through from international to domestic prices.

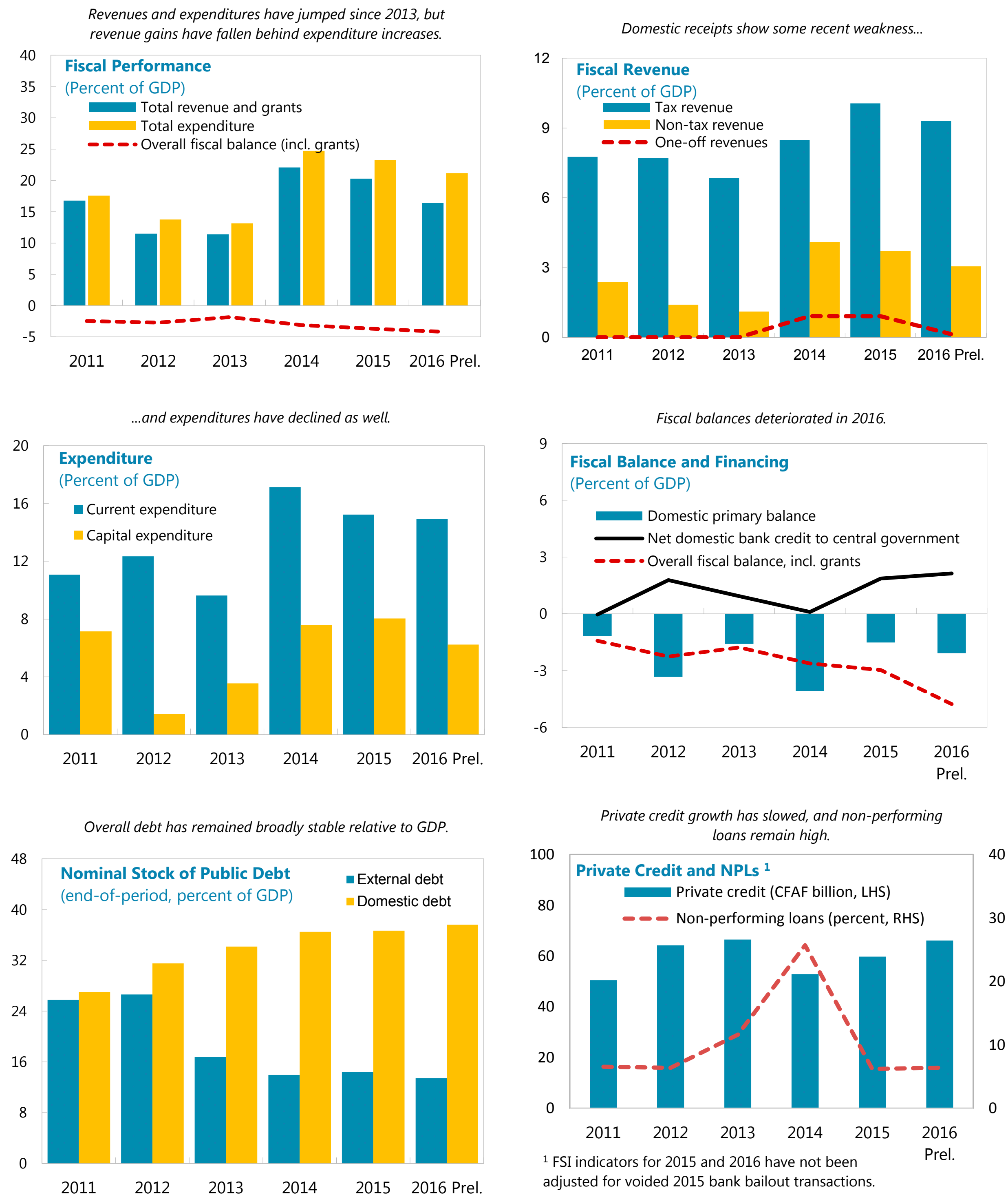
37. Staff recommends completion of the third program review and a financing assurances review. This recommendation is based on the good general progress made under the program and decisive corrective actions taken to address shortcomings. Staff also supports the authorities request for a waiver of nonobservance of the performance criterion on external payment arrears by the central government on the basis of corrective action taken.

Figure 1. Guinea-Bissau: Recent Economic Developments, 2011–16



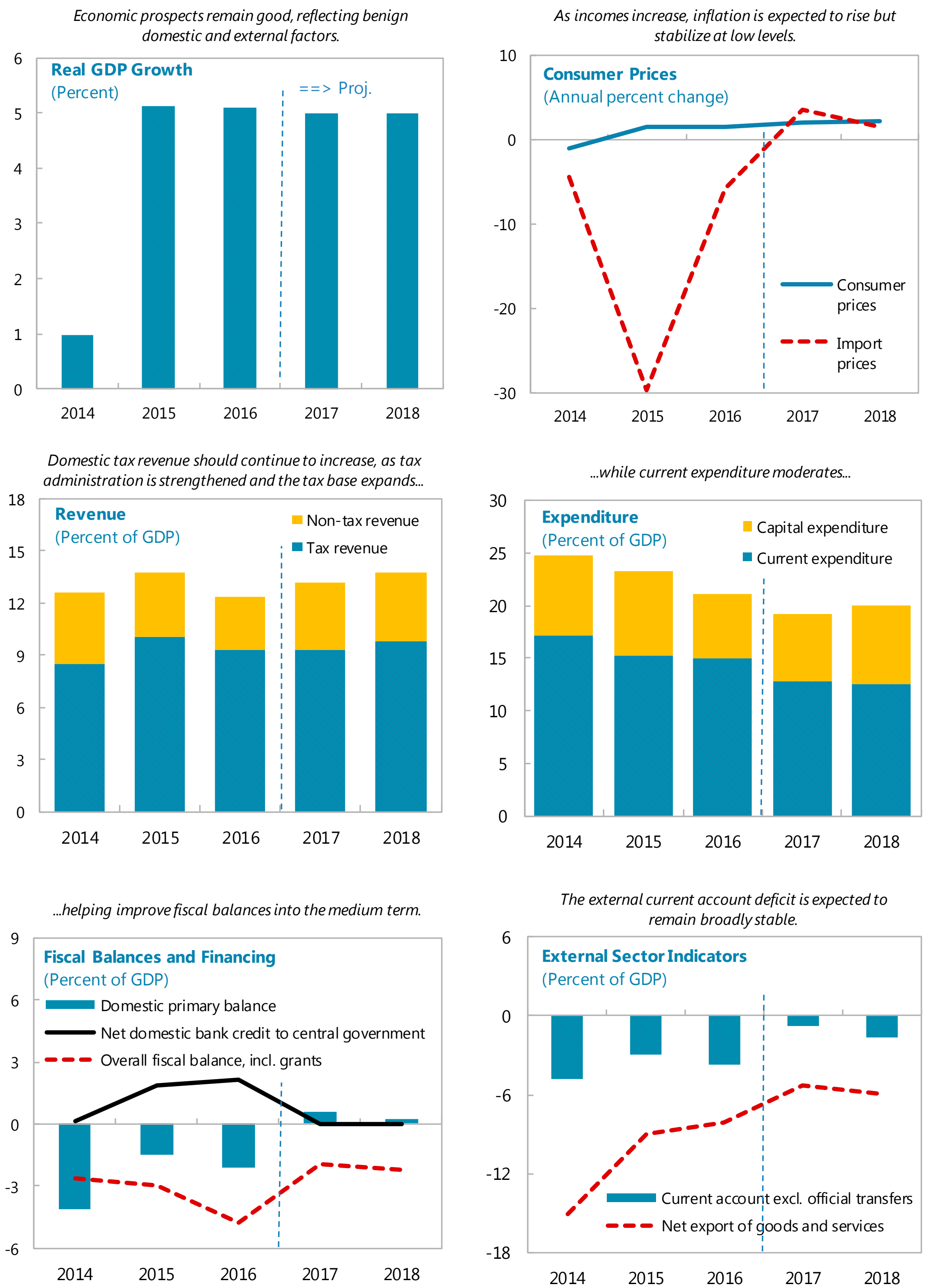
Sources: Guinea-Bissau authorities; and IMF staff estimates.

Figure 2. Guinea-Bissau: Fiscal and Credit Developments, 2011–16



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

Figure 3. Guinea-Bissau: Medium-Term Outlook, 2014–18



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

Table 1. Guinea-Bissau: Selected Economic Indicators,[1] 2014–19

	2014	2015	2016		2017		2018	2019
			EBS/16/112	Prel.	EBS/16/112	Proj.	Projections	
			(Annual percent change, unless otherwise indicated)					
National accounts and prices								
Real GDP at market prices	1.0	5.1	4.8	5.1	5.0	5.0	5.0	5.0
Real GDP per capita	-1.2	2.8	2.5	2.8	2.7	2.7	2.7	2.7
GDP deflator	-0.1	12.4	6.0	5.6	0.9	2.4	1.9	2.2
Consumer price index (annual average)	-1.0	1.5	2.4	1.5	2.6	2.0	2.2	2.3
External sector								
Exports, f.o.b. (based on US$ values)	8.4	51.9	15.2	8.8	0.4	5.7	7.9	9.6
Imports, f.o.b. (based on US$ values)	20.3	-1.9	14.8	6.9	5.4	2.2	6.6	7.0
Export volume	11.8	-6.8	12.9	6.3	2.0	-4.5	6.6	6.6
Import volume	33.5	10.7	19.3	21.8	-1.1	9.4	9.2	6.5
Terms of trade (deterioration = -)	23.2	54.6	20.3	14.1	-5.7	11.4	0.7	2.1
Real effective exchange rate (depreciation = -)	-0.8	-2.6	...	1.9	...	...	...	...
Exchange rate (CFAF per US$; average)	493.6	591.2	...	592.7	...	...	...	...
Government finances								
Domestic revenue (excluding grants)	59.4	29.4	4.3	-0.6	2.4	15.1	11.4	10.1
Domestic revenue (excluding grants and one-offs)	47.7	30.4	10.4	5.2	3.6	16.5	6.2	15.4
Total expenditure	89.1	11.3	4.2	0.9	-6.0	-2.3	11.6	9.5
Current expenditure	79.5	5.0	8.7	8.8	-12.2	-8.0	4.5	12.1
Capital expenditure	115.4	25.5	-4.2	-14.2	7.2	11.6	25.7	5.3
Money and credit								
Net domestic assets [2]	17.1	19.0	2.4	-3.7	2.0	-2.0	1.0	-1.4
Of which:								
Credit to government (net)	9.0	4.1	-4.7	0.9	-1.0	0.0	0.0	0.8
Credit to the economy	-5.9	2.9	5.8	2.1	3.0	0.7	1.1	-2.2
Velocity (GDP/broad money)	2.2	2.0	1.9	2.1	1.9	2.1	2.1	2.1
			(Percent of GDP, unless otherwise indicated)					
Investments and savings								
Gross investment	7.8	9.9	12.8	13.0	13.2	11.1	12.1	12.9
Of which: government investment	4.0	4.1	7.1	6.2	7.2	6.5	7.6	7.4
Gross domestic savings	-2.0	5.9	7.0	8.8	5.7	5.8	6.3	7.6
Of which: government savings	-8.1	-5.4	-1.7	-2.6	0.3	0.5	1.3	1.1
Gross national savings	8.4	11.9	9.9	14.0	9.1	10.5	10.6	11.6
Government finances								
Total revenue	12.6	13.8	13.2	12.4	12.8	13.2	13.8	14.1
Total domestic primary expenditure	16.7	15.3	14.9	14.4	12.5	12.6	13.5	13.6
Domestic primary balance	-4.1	-1.5	-1.7	-2.1	0.3	0.6	0.2	0.5
Overall balance (commitment basis)								
Including grants	-2.6	-3.0	-4.2	-4.8	-1.7	-1.9	-2.2	-2.3
Excluding grants	-12.1	-9.5	-8.8	-8.8	-6.9	-6.0	-6.3	-6.4
External current account (including official current transfers)	0.6	2.0	-2.2	0.9	-3.1	-0.6	-1.5	-1.2
Excluding official transfers	-3.9	1.0	-2.5	0.6	-4.4	3.5	2.6	2.9
Nominal stock of central government debt	50.4	51.0	47.5	51.1	45.8	50.2	47.7	43.8
Of which: external debt	13.9	14.4	13.7	13.4	14.0	13.3	13.0	11.6
Memorandum item:								
Nominal GDP at market prices (CFAF billions)	520.9	615.5	667.8	682.9	707.8	734.1	785.2	842.7

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

[1] The authorities have revised their balance of payments data for 2014-16. Values exclude the 2015 bank bailout of CFA 34.2 billion; the Government determined the bailout contracts to be null and void. A final determination by the courts on the legality of the bailout contracts is still pending.

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

Table 2. Guinea-Bissau: Balance of Payments, 2014–19

(Billions of CFAF)

	2014	2015	2016		2017		2018	2019
			EBS/16/112	Prel.	EBS/16/112	Proj.	Projections	
Current Account Balance[1]								
Including all official transfers	3.1	12.4	-14.7	6.3	-22.0	-4.3	-11.7	-10.5
Excluding official transfers	-20.5	5.9	-15.8	4.0	-25.3	25.7	20.5	24.1
Goods and services	-58.3	-29.0	-44.9	-29.1	-56.1	-38.6	-46.2	-44.3
Goods	-23.9	26.9	1.7	29.7	-7.1	9.8	12.9	18.9
Exports, f.o.b	82.0	149.2	179.2	162.7	179.9	179.1	193.8	212.5
Of which: cashew nuts	68.1	133.6	152.9	161.1	155.9	177.4	192.0	210.5
Imports, f.o.b.	-105.9	-122.3	-177.5	-133.0	-186.9	-169.3	-181.0	-193.6
Of which: food products	-40.7	-48.7	-50.2	-50.2	-53.2	-50.7	-54.2	-58.2
petroleum products	-27.4	-31.1	-34.2	-28.0	-42.4	-36.1	-38.5	-40.7
Services (net)	-34.4	-55.9	-46.6	-58.8	-49.1	-48.4	-59.1	-63.2
Credit	23.2	21.5	21.3	19.2	22.4	21.1	24.3	26.0
Debit	-57.6	-77.4	-67.9	-78.0	-71.5	-69.5	-83.4	-89.1
Incomes (net)	18.5	15.0	11.8	13.8	13.0	14.0	13.5	12.0
Credit	19.3	16.4	13.4	15.1	14.7	14.7	14.7	14.7
EU fishing compensation	5.7	4.1	4.1	4.1	5.9	5.9	5.9	5.9
Other license fees	6.3	8.7	9.3	8.1	8.8	8.7	8.8	8.8
Debit	-0.8	-1.4	-1.5	-1.3	-1.7	-0.7	-1.2	-2.7
Of which: external interest	-0.8	-1.4	-1.5	-1.3	-1.7	-0.7	-1.2	-2.7
Current transfers (net)	42.9	26.4	18.3	21.6	21.2	20.3	21.0	21.8
Official[2]	23.6	6.5	1.0	2.3	3.3	0.0	0.0	0.0
Private	19.3	19.9	17.3	19.3	17.9	20.3	21.0	21.8
Of which: remittances	19.2	19.9	17.3	18.3	17.9	19.2	19.9	20.6
Capital and financial balance	51.7	33.3	50.0	-9.3	37.8	27.0	40.8	43.1
Capital account	27.4	35.4	30.1	27.4	33.4	30.3	32.4	34.7
Financial account	24.3	-2.1	19.9	-36.7	4.4	-3.3	8.4	8.4
FDI	12.9	10.6	11.2	10.1	13.5	8.9	9.0	9.0
Other investment	11.4	-12.7	8.7	-46.8	-9.1	-12.2	-0.6	-0.6
Official medium- and long-term disbursements	13.1	10.0	15.0	13.5	15.0	15.4	16.4	17.6
Amortization	-2.9	-1.0	-4.4	-3.3	-2.2	-1.0	-1.6	-3.6
Treasury bills and regional financing	15.0	1.0	13.0	10.0	0.0	0.0	0.0	0.0
Commercial bank net foreign assets	-8.8	23.6	7.6	-41.0	1.6	0.0	0.0	0.0
Other net foreign assets	-5.0	-46.3	-22.5	-25.9	-23.5	-26.6	-15.4	-14.6
Errors and Omissions	6.1	-6.5	0.0	-3.5	0.0	0.0	0.0	0.0
Overall balance	60.9	39.3	35.3	-6.4	15.8	22.6	29.1	32.7
Financing	-60.9	-39.3	-35.3	6.4	-15.8	-22.6	-29.1	-32.7
Net foreign assets (increase = -)	-63.9	-39.3	-35.3	6.4	-15.8	-22.6	-29.1	-32.7
Debt relief	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Export volume of goods (annual percentage change)	11.8	-6.8	12.9	6.3	2.0	-4.5	6.6	6.6
Cashew export prices (US$ per ton)	1,000	1,300	1,400	1,400	1,400	1,680	1,722	1,765
Import volume of goods (annual percentage change)	33.5	10.7	19.4	21.8	-0.7	9.4	9.2	6.5
Scheduled debt service								
Percent of exports and service credits	-1.9	0.9	1.4	1.5	1.3	1.4	1.7	1.9
Percent of total government revenue	-3.0	1.9	3.3	3.3	2.9	2.8	3.3	3.7
Current account balance (percent of GDP)								
Including official transfers	0.6	2.0	-2.2	0.9	-3.1	-0.6	-1.5	-1.2
Excluding official transfers	-3.9	1.0	-4.1	0.6	-5.4	3.5	2.6	2.9

Sources: BCEAO; and IMF staff estimates and projections.

[1] The authorities have revised their balance of payments data for 2014-16.

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

Table 3a. Guinea-Bissau: Central Government Operations,[1] 2014–18

(CFAF billions)

	2014	2015	2016 EBS/16/112	2016 Prel.	2017 June EBS/16/112	2017 June Proj.	2017 December EBS/16/112	2017 December Proj.	2018 Proj.
Revenue and grants	115.0	125.0	119.3	112.0	54.1	54.3	127.0	127.1	140.3
Revenue	65.5	84.8	88.4	84.3	41.1	41.3	90.6	97.1	108.1
Tax revenue	44.2	61.9	62.4	63.5	33.2	33.4	68.6	68.6	77.3
Nontax revenue	21.4	22.9	26.1	20.8	7.9	7.9	22.0	28.4	30.8
Grants	49.5	40.1	30.9	27.6	13.0	13.0	36.4	30.1	32.2
Budget support	23.3	5.6	1.0	0.3	0.0	0.0	3.3	0.0	0.0
Project grants	26.2	34.5	29.9	27.4	13.0	13.0	33.2	30.1	32.2
Total expenditure	128.7	143.3	149.3	144.5	72.8	72.2	140.3	141.2	157.6
Current expenditure	89.2	93.7	101.9	102.0	47.6	47.0	89.5	93.8	98.0
Wages and salaries[2]	32.3	31.8	32.0	34.8	17.1	17.1	33.1	34.9	37.3
Goods and services	11.0	16.2	17.6	12.0	7.9	7.9	16.5	15.3	22.6
Transfers[3]	14.5	18.9	31.4	28.3	13.6	13.6	21.6	28.8	20.6
Non regularized spending[4]	1.8	2.7	2.0	1.9	1.0	0.4	1.0	1.0	0.0
Interest	2.7	4.6	4.8	5.1	2.7	2.7	3.9	3.1	2.6
Other current expenditures	26.9	19.4	14.1	20.0	5.3	5.3	13.5	10.7	14.9
Capital expenditure and net lending	39.5	49.5	47.4	42.5	25.1	25.1	50.8	47.4	59.6
Public investment program	39.5	49.5	47.4	42.5	25.1	25.1	50.8	47.4	59.6
Domestically financed	0.2	4.9	2.5	1.6	2.0	2.0	2.7	2.0	11.0
Foreign financed	39.2	44.6	44.9	40.9	23.1	23.1	48.1	45.4	48.6
Overall balance, including grants (commitment)	-13.7	-18.3	-30.0	-32.5	-18.7	-17.9	-13.3	-14.1	-17.3
Overall balance, excluding grants (commitment)	-63.1	-58.4	-60.9	-60.1	-31.7	-30.9	-49.7	-44.2	-49.5
Change in arrears	-1.8	-6.1	-0.4	-1.5	-0.4	-1.0	-2.6	-4.4	0.0
Net domestic arrears[5]	-1.8	-5.2	-0.4	-2.1	-0.4	-0.4	-2.6	-3.8	0.0
Accumulation current year	2.2	2.2	6.6	4.0	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-4.0	-7.4	-7.0	-6.1	-0.4	-0.4	-2.6	-3.8	0.0
External arrears	0.0	-0.9	0.0	0.6	0.0	-0.6	0.0	-0.6	0.0
Interest	0.0	-0.4	0.0	0.3	0.0	-0.3	0.0	-0.3	0.0
Other	0.0	-0.5	0.0	0.3	0.0	-0.3	0.0	-0.3	0.0
Float and statistical discrepancies	-0.7	1.6	0.0	5.5	0.0	0.0	2.0	2.0	0.0
Overall balance, including grants (cash)	-16.2	-22.7	-30.3	-28.5	-19.1	-18.9	-13.9	-16.5	-17.3
Financing	16.2	22.7	30.3	28.5	19.1	18.9	13.9	16.5	17.3
Domestic financing	3.4	13.8	19.2	19.0	9.7	8.9	0.1	5.1	2.5
Bank financing[6]	3.4	13.8	19.2	19.0	9.7	8.9	0.1	5.1	2.5
BCEAO credit	2.9	2.3	3.8	4.4	2.5	2.5	3.8	5.1	2.5
(o/w) IMF	2.9	2.3	3.8	4.4	2.5	2.5	3.8	5.1	2.5
Deposits at the BCEAO (- = build up)	-7.9	2.7	5.7	5.2	0.0	0.0	-3.7	0.0	0.0
Commercial banks	8.5	8.8	9.7	9.4	7.2	6.4	0.0	0.0	0.0
(o/w) foreign holdings of treasury securities	15.0	1.0	13.0	10.0	0.0	4.5	0.0	0.0	0.0
Foreign financing (net)	12.7	8.9	11.2	9.5	9.4	10.0	13.8	11.4	14.8
Disbursements	13.1	10.0	15.0	13.5	10.2	10.1	15.0	15.4	16.4
Projects	13.1	10.0	15.0	13.5	10.2	10.1	15.0	15.4	16.4
Programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-3.3	-1.1	-3.8	-4.0	-0.8	-0.2	-1.2	-3.9	-1.6
Debt relief	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
One-off revenues[7]	4.8	5.6	4.0	1.0	0.0	0.0	0.0	0.0	5.0
Net domestic bank credit to central government	0.5	11.5	15.4	14.6	7.2	6.4	-3.7	0.0	0.0
Domestic primary balance[8]	-21.2	-9.3	-11.2	-14.2	-5.8	-5.1	2.3	4.4	1.7

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

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

[2] In 2017, the projected increase in wages and salaries above the program target reflects embassy worker compensation, which was previously accounted for under spending in transfers.

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

[4] In early 2015 CFAF 3.7 billion were used to pay 2014 expenses. With effect from 2014, non regularized spending is included in current expenditure.

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

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

[7] For 2014 it refers to FUNPI's proceeds; for 2015 sale of 3G licenses, sale of seized illegal wood, and Euroatlantico receipts; for 2016 sale of 3G licenses; and for 2018 sale of seized illegal wood.

[8] Domestic primary balance, on commitment basis, excludes grants, foreign financed capital spending, and interest.

Table 3b. Guinea-Bissau: Central Government Operations,[1] 2014–18

(Percent of GDP)

			2016		2017				2018
					June		December		
	2014	2015	EBS/16/112	Prel.	EBS/16/112	Proj.	EBS/16/112	Proj.	Proj.
Revenue and grants	22.1	20.3	17.9	16.4	7.6	7.4	17.9	17.3	17.9
Revenue	12.6	13.8	13.2	12.4	5.8	5.6	12.8	13.2	13.8
Tax revenue	8.5	10.1	9.3	9.3	4.7	4.6	9.7	9.3	9.8
Nontax revenue	4.1	3.7	3.9	3.1	1.1	1.1	3.1	3.9	3.9
Grants	9.5	6.5	4.6	4.0	1.8	1.8	5.1	4.1	4.1
Budget support	4.5	0.9	0.2	0.0	0.0	0.0	0.5	0.0	0.0
Project grants	5.0	5.6	4.5	4.0	1.8	1.8	4.7	4.1	4.1
Total expenditure	24.7	23.3	22.4	21.2	10.2	9.8	19.8	19.2	20.1
Current expenditure	17.1	15.2	15.3	14.9	6.7	6.4	12.6	12.8	12.5
Wages and salaries[2]	6.2	5.2	4.8	5.1	2.4	2.3	4.7	4.7	4.7
Goods and services	2.1	2.6	2.6	1.8	1.1	1.1	2.3	2.1	2.9
Transfers[3]	2.8	3.1	4.7	4.1	1.9	1.9	3.1	3.9	2.6
Non regularized spending[4]	0.3	0.4	0.3	0.3	0.1	0.1	0.1	0.1	0.0
Interest	0.5	0.7	0.7	0.7	0.4	0.4	0.5	0.4	0.3
Other current expenditures	5.2	3.2	2.1	2.9	0.8	0.7	1.9	1.5	1.9
Capital expenditure and net lending	7.6	8.0	7.1	6.2	3.6	3.4	7.2	6.5	7.6
Public investment program	7.6	8.0	7.1	6.2	3.6	3.4	7.2	6.5	7.6
Domestically financed	0.0	0.8	0.4	0.2	0.3	0.3	0.4	0.3	1.4
Foreign financed	7.5	7.2	6.7	6.0	3.3	3.2	6.8	6.2	6.2
Overall balance, including grants (commitment)	-2.6	-3.0	-4.5	-4.8	-2.6	-2.4	-1.8	-1.9	-2.2
Overall balance, excluding grants (commitment)	-12.1	-9.5	-9.2	-8.8	-4.4	-4.2	-7.0	-6.0	-6.3
Change in arrears	-0.3	-1.0	-0.1	-0.2	-0.1	-0.1	-0.4	-0.6	0.0
Net domestic arrears[5]	-0.3	-0.8	-0.1	-0.3	-0.1	-0.1	-0.4	-0.5	0.0
Accumulation current year	0.4	0.4	1.0	0.6	0.0	0.0	0.0	0.0	0.0
Payment previous years (-)	-0.8	-1.2	-1.0	-0.9	-0.1	-0.1	-0.4	-0.5	0.0
External arrears	0.0	-0.1	0.0	0.1	0.0	-0.1	0.0	-0.1	0.0
Interest	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancies	-0.1	0.3	0.0	0.8	0.0	0.0	0.3	0.3	0.0
Overall balance, including grants (cash)	-3.1	-3.7	-4.5	-4.2	-2.7	-2.6	-2.0	-2.2	-2.2
Financing	3.1	3.7	4.5	4.2	2.7	2.6	2.0	2.2	2.2
Domestic financing	0.7	2.2	2.9	2.8	1.4	1.2	0.0	0.7	0.3
Bank financing[6]	0.7	2.2	2.9	2.8	1.4	1.2	0.0	0.7	0.3
BCEAO credit	0.6	0.4	0.6	0.6	0.4	0.3	0.5	0.7	0.3
(o/w) IMF	0.6	0.4	0.6	0.6	0.4	0.3	0.5	0.7	0.3
Deposits at the BCEAO (- = build up)	-1.5	0.4	0.9	0.8	0.0	0.0	-0.5	0.0	0.0
Commercial banks	1.6	1.4	1.4	1.4	1.0	0.9	0.0	0.0	0.0
(o/w) foreign holdings of treasury securities	2.9	0.2	1.9	1.5	0.0	0.6	0.0	0.0	0.0
Foreign financing (net)	2.4	1.4	1.7	1.4	1.3	1.4	1.9	1.6	1.9
Disbursements	2.5	1.6	2.2	2.0	1.4	1.4	2.1	2.1	2.1
Projects	2.5	1.6	2.2	2.0	1.4	1.4	2.1	2.1	2.1
Programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.6	-0.2	-0.6	-0.6	-0.1	0.0	-0.2	-0.5	-0.2
Debt relief	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
One-off revenues[7]	0.9	0.9	0.6	0.1	0.0	0.0	0.0	0.0	0.6
Net domestic bank credit to central government	0.1	1.9	2.3	2.1	1.0	0.9	-0.5	0.0	0.0
Domestic primary balance[8]	-4.1	-1.5	-1.7	-2.1	-0.8	-0.7	0.3	0.6	0.2

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

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

[2] In 2017, the projected increase in wages and salaries above the program target reflects embassy worker compensation, which was previously accounted for under spending in transfers.

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

[4] In early 2015 CFAF 3.7 billion were used to pay 2014 expenses. With effect from 2014, non regularized spending is included in current expenditure.

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

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

[7] For 2014 it refers to FUNPI's proceeds; for 2015 sale of 3G licenses, sale of seized illegal wood, and Euroatlantico receipts; for 2016 sale of 3G licenses; and for 2018 sale of seized illegal wood.

[8] Domestic primary balance, on commitment basis, excludes grants, foreign financed capital spending, and interest.

Table 4. Guinea-Bissau: Monetary Survey,[1] 2014-18

	2014	2015	2016		2017		2018
			EBS/16/112	Prel.	EBS/16/112	Proj.	Proj.
			(CFAF billions)				
Net foreign assets	151.8	167.5	224.1	202.1	238.2	224.8	253.8
Central Bank of West African States (BCEAO)	120.3	159.5	211.9	153.1	227.6	175.8	204.8
Commercial banks	31.6	7.9	12.2	49.0	10.6	49.0	49.0
Net domestic assets	89.6	135.4	128.3	124.2	135.2	117.8	121.4
Credit to the government (net)[2]	15.5	81.0	13.2	90.1	9.5	95.1	97.7
Credit to the economy	52.8	59.8	115.1	66.1	125.7	68.5	72.1
Other items (net)	0.0	-5.3	0.0	-31.9	0.0	-45.8	-48.4
Money supply (M2)	241.5	302.9	352.4	326.3	373.5	342.6	375.2
Currency outside banks	151.9	194.6	221.5	224.8	234.7	236.0	258.4
Bank deposits	89.5	108.3	130.9	101.6	138.7	106.6	116.8
Base money (M0)	176.4	219.7	195.5	236.7	207.2	248.5	272.1
			(Change in percent of beginning-of-period broad money)				
Contribution to the growth of broad money							
Money supply (M2)	42.5	25.4	11.0	7.7	6.0	5.0	9.5
Net foreign assets	25.5	6.5	8.7	11.4	4.0	6.9	8.5
BCEAO	37.7	16.3	11.1	-2.1	4.5	6.9	8.5
Commercial banks	-12.2	-9.8	-2.4	13.6	-0.5	0.0	0.0
Net domestic assets	17.1	19.0	2.4	-3.7	2.0	-2.0	1.0
Credit to the central government	9.0	4.1	-4.7	0.9	-1.0	0.0	0.0
Credit to the private sector	-5.9	2.9	5.8	2.1	3.0	0.7	1.1
Other items net	13.9	12.0	1.4	-6.7	0.0	-2.7	0.0
Memorandum items:							
Money supply (M2, annual percentage change)	42.5	25.4	11.0	7.7	6.0	5.0	9.5
Base money (M0, annual percentage change)	36.8	24.5	11.0	7.7	6.0	5.0	9.5
Credit to the private sector (annual percentage change)	-15.9	13.2	19.0	10.6	9.2	3.6	5.3
Velocity (GDP/M2)	2.2	2.0	1.9	2.1	1.9	2.1	2.1
Money multiplier (M2/M0)	1.4	1.4	1.8	1.4	1.8	1.4	1.4

Sources: BCEAO; and IMF staff estimates and projections.

[1] End of period. The authorities' revised the monetary survey, reflecting reclassification and voiding of the 2015 bank bailout.

Table 5. Guinea-Bissau: Financial Soundness Indicators of the Banking System,[1] 2010–16

(Percent)

	2010	2011	2012	2013	2014	2015	2016
Capital Adequacy							
Capital to risk-weighted assets	28.5	22.3	23.7	22.7	20.1	19.3	20.2
Capital to total assets	15.3	11.8	13.2	13.5	11.0	16.8	16.8
Sectoral distribution of credit							
Agriculture and fishing	3.1	4.1	3.4	2.6	2.6	2.6	2.3
Manufacturing	11.5	9.4	17.7	16.3	14.7	12.2	10.5
Electricity, gas, and water	2.8	11.5	9.6	11.1	10.4	10.2	9.4
Building and construction	3.4	4.0	3.3	4.1	3.9	2.5	2.8
Commerce	54.0	52.9	45.6	42.5	44.0	47.4	48.1
Transport and Communication	0.0	0.1	0.1	0.2	0.1	0.2	0.3
Services	1.3	0.6	0.3	0.4	0.4	0.4	0.5
Collectives and Social Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other activities	23.9	17.5	20.1	23.1	24.0	24.5	25.2
Asset quality							
Non-performing loans to total credit	9.8	6.5	6.4	11.6	25.7	6.2	6.4
Non-performing loans to capital	42.6	51.8	59.2	55.2	91.0	65.2	41.2
Provisions to gross non-performing loans	5.9	3.3	2.7	3.1	2.8	2.3	2.1
Provisions to gross loans	16.3	13.0	10.7	11.6	19.0	8.9	4.2
Earnings and profitability							
Net income to average assets (ROA)	1.1	2.5	2.6	2.9	2.9	2.9	2.8
Net income to average equity (ROE)	6.2	17.7	18.0	17.9	17.5	17.5	16.5
Liquidity							
Liquid assets to total assets	22.2	30.0	34.3	25.2	34.0	26.8	17.0
Liquid assets to short term assets	33.0	42.2	49.0	49.5	60.1	35.0	35.0
Ratio of deposits to assets	33.1	35.6	45.9	56.2	59.2	45.7	43.3
Ratio of loans to deposits	56.7	58.6	78.9	72.5	82.0	76.5	72.4
Excess reserves / broad money							
Memorandum items:							
Deposit rate	3.6	3.8	4.7	4.7	4.7	4.7	4.7
Lending rate	10.6	10.6	10.2	9.2	9.2	9.2	9.2

Source: BCEAO.

[1] FSI indicators for 2015 and 2016 have not been updated by the BCEAO to reflect the null-and-void declaration of the bailout.

Table 6. Guinea-Bissau: Indicators of Capacity to Repay the Fund, 2017–26

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					Projections					
					(SDR millions, unless otherwise indicated)					
Fund obligations based on existing credit										
Principal	1.45	1.45	1.45	1.45	1.29	1.59	1.59	1.59	1.59	1.02
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fund obligations based on existing and prospective credit										
Principal	1.45	1.45	1.45	2.16	2.00	2.60	3.82	4.12	3.41	2.84
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total obligations based on existing and prospective credit										
SDR millions	1.45	1.45	1.45	2.16	2.00	2.60	3.82	4.12	3.41	2.84
CFAF billions	1.21	1.21	1.21	1.81	1.68	2.19	3.22	3.47	2.87	2.39
Percent government revenue	1.25	1.12	1.02	1.36	1.12	1.30	1.70	1.62	1.18	0.86
Percent exports of goods and services	0.61	0.56	0.51	0.70	0.60	0.75	1.18	1.21	0.95	0.76
Percent debt service	46.74	35.76	29.38	45.31	48.42	61.57	84.20	124.92	105.15	87.71
Percent GDP	0.17	0.15	0.14	0.20	0.17	0.21	0.28	0.29	0.22	0.17
Percent quota	5.11	5.11	5.11	7.61	7.04	9.15	13.45	14.51	12.01	10.00
Percent reserves	0.69	0.59	0.51	0.67	0.55	0.66				
Outstanding Fund credit										
SDR millions	22.63	24.21	22.76	20.61	18.60	16.30	12.49	8.37	4.96	2.12
CFAF billions	18.91	20.27	19.05	17.24	15.59	13.73	10.52	7.05	4.18	1.79
Percent government revenue	19.48	18.75	16.01	12.94	10.43	8.17	5.55	3.28	1.71	0.64
Percent exports of goods and services	9.44	9.29	7.99	6.70	5.62	4.70	3.85	2.46	1.39	0.56
Percent debt service	729.41	597.08	461.17	432.35	450.30	386.00	275.30	253.78	152.95	65.47
Percent GDP	2.58	2.58	2.26	1.90	1.60	1.31	0.93	0.58	0.32	0.13
Percent quota	79.68	85.25	80.14	72.57	65.49	57.39	43.98	29.47	17.46	7.46
Percent reserves	10.76	9.89	8.02	6.35	5.12	4.17				
Net use of Fund credit	4.61	1.58	-1.45	-2.16	-2.00	-2.60	-3.82	-4.12	-3.41	-2.84
Disbursements	6.061	3.028	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Repayments and repurchases	1.45	1.45	1.45	2.16	2.00	2.60	3.82	4.12	3.41	2.84
					(CFAF billions)					
Memorandum items:										
Nominal GDP	734.1	785.2	842.7	905.9	975.1	1,049.7	1,130.0	1,216.5	1,309.5	1,409.7
Exports of goods and services	200.2	218.1	238.4	257.4	277.6	292.3	273.2	286.8	301.2	316.3
Government revenue	97.1	108.1	119.0	133.3	149.4	168.1	189.7	214.7	243.7	277.4
Debt service	2.6	3.4	4.1	4.0	3.5	3.6	3.8	2.8	2.7	2.7
Net Foreign Assets Central Bank	175.8	204.8	237.5	271.3	304.2	329.5	...	...	...	...
CFAF/SDR (period average)	835.4	837.1	837.0	836.5	838.0	842.5	842.5	842.5	842.5	842.5
Quota (SDR)	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4

Source: IMF staff estimates and projections.

Table 7. Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets for 2016

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

	2015	2016									
		Mar.[1]		Jun.[1]		Sept.[1]		Dec.			
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Adj. Prog.	Act.	Status
Performance criteria[1]											
Total domestic tax revenue (floor)	61.9	15.7	10.4	31.5	31.2	40.7	49.6	61.4	...	63.5	met
Net domestic bank credit to the central government (ceiling)[2]	11.5	0.0	6.4	0.0	19.3	9.1	19.8	15.4	16.1	14.6	met
Ceiling on new nonconcessional external debt (in $ million)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	0.0	met
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	0.0	met
External payment arrears (ceiling)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	0.6	not met
Indicative targets											
New domestic arrears (ceiling)	1.3	0.0	0.0	0.0	4.6	0.0	6.6	6.6	...	4.0	met
Social and priority spending (floor)	36.5	7.7	6.0	21.7	12.9	19.4	23.2	31.0	...	32.2	met
Domestic primary balance (commitment basis, floor)	-9.3	-0.7	-7.1	-1.3	-15.8	-6.0	-9.4	-11.2	...	-14.2	not met
Non regularized expenditures (DNTs, ceiling)	2.7	0.2	2.1	0.4	7.8	0.6	1.0	2.0	...	1.9	met
Memorandum items:											
Clearance of domestic payment arrears	7.4	0.8	3.3	1.8	6.4	6.0	5.7	7.0	...	6.1	
External budgetary assistance (US$ million)[4]	9.5	5.9	0.0	9.2	0.0	15.8	1.7	1.7	...	0.4	
ECF disbursements (SDR millions, flow)	2.8	0.0	0.0	2.3	0.0	0.0	0.0	5.1	...	5.1	
Concessional loans (US$ million)[5]	21.1	6.1	1.8	12.3	5.4	2.8	5.4	12.5	...	7.1	

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

[2] Starting December 2016, sourced from the monetary survey.

[3] These apply on a continuous basis.

[4] Comprises budget support grants and program loans.

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

Table 8. Guinea-Bissau: Proposed Quantitative Performance Criteria and Indicative Targets for 2017

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

	2016	2017						
		Mar.[1]		Jun.		Sept.[1]	Dec.	
		Prog.	Prel.	Prog.	Proj.	Proposed IT	EBS/16/112	Proposed PC
Performance criteria[1]								
Total domestic tax revenue (floor)	63.5	16.3	13.0	32.6	33.4	48.9	65.2	65.2
Net domestic bank credit to the central government (ceiling)[2]	14.6	8.0	…	7.2	6.4	0.0	-3.7	0.0
Ceiling on new nonconcessional external debt (in $ million)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling)[3]	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets								
New domestic arrears (ceiling)	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social and priority spending (floor)	32.2	7.7	10.8	21.7	21.7	23.2	31.0	31.0
Domestic primary balance (commitment basis, floor)	-14.2	-6.4	-2.3	-5.8	-5.1	-1.0	2.3	4.4
Non regularized expenditures (DNTs, ceiling)	1.9	0.3	0.0	0.4	0.4	1.0	1.0	1.0
Memorandum items:								
Clearance of domestic payment arrears	6.1	0.4	0.4	0.4	0.4	0.8	2.6	3.8
External budgetary assistance (US$ million)[4]	0.4	0.0	0.0	0.0	0.0	0.0	5.5	0.0
ECF disbursements (SDR millions, flow)	5.1	0.0	0.0	3.0	0.0	3.0	3.0	3.0
Concessional loans (US$ million)[5]	7.1	4.6	2.7	9.3	5.4	5.4	18.6	10.9

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

[2] Starting December 2016, sourced from the monetary survey.

[3] These apply on a continuous basis.

[4] Comprises budget support grants and program loans.

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

Table 9. Guinea-Bissau: Structural Benchmarks Under the ECF Program, 2016–17			
Measures	**Timing**	**Macro Rationale**	**Status**
Revenue Mobilization			
Prepare a draft law, with technical assistance from the IMF, for a new small taxpayer regime that is simple and transparent, protects the revenue base, lowers compliance costs, and ensures global participation.	December 2017	To improve tax administration and compliance	
Extending the new uniform sales invoice to all taxpayers.	September 2017	To improve tax administration and compliance	Proposed benchmark
Completing the assignment of taxpayer identification numbers to all taxpayers.	September 2017	To improve tax administration and compliance	Proposed benchmark
Expenditure management			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2017 budget.	December 2016 for January 2017, and monthly thereafter	Enhance expenditure management	Met
Prepare timely quarterly reports on ministry-level budget execution with details along economic classification of expenses.	December 2016, and quarterly thereafter	Enhance budget execution and monitoring	Met
As a precursor to the planned Treasury Single Account, draw up a list (including 2015 amounts) of own-source revenues collected by ministries, departments and government agencies.	December 2016	Strengthen public financial management	Met
Debt management			
Prepare a quarterly report on external debt commitments, agreements, and disbursements.	December 2016 for September 2016 Report, and quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments	Met
Council of ministers to issue a decree to clarify the debt issuance authority and the procedure for the issuance of government guarantees, on-lending operations, and large liabilities.	December 2016	Bring Guinea-Bissau's debt management policy in line with the WAEMU Regulation	Not Met. Completed in June 2017.

Table 9. Guinea-Bissau: Structural Benchmarks Under the ECF Program (concluded)			
Measures	**Timing**	**Macro Rationale**	**Status**
Install the newest version of the debt management software, DMFAS 6.0, and commence its use for effective debt analysis and debt service projections.	September 2017	Strengthen debt management and eschew payment arrears	Proposed benchmark
Business Environment			
Prepare an audit plan for all State-owned Enterprises and autonomous funds.	November 2016	To improve service delivery by, and financial sustainability of, public enterprises.	Met
EAGB will submit reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and on a monthly basis starting from October 2016.	December 2016	To instill transparency in EAGB operations and financial position	Not Met. The EAGB submitted quarterly reports for the first three quarters of 2016, but failed to submit required monthly reports for October-December 2016. The utility maintains that the monthly reports need to be audited and approved prior to submission. Proposed reset for July 2017.
Complete, with assistance of the WAEMU Banking Commission, an assessment of the two banks affected by the bailout, and articulate an action plan to bring these banks into compliance with prudential norms.	April 15, 2017	To strengthen the health of the banking system	Met. Banking Commission Report submitted to Finance Minister in February 2017.
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2017	Reduce transaction costs.	

Table 10. Guinea-Bissau: Proposed Schedule of Disbursements Under the ECF Arrangement,[1]
2015-18

Availability	Disbursements: In millions of SDR	Disbursements: In percent of Quota[2]	Condition for Disbursement	Status
July 10, 2015	2.84	10	Approval of the three-year ECF arrangement.	Disbursed
October 15, 2015	2.84	10	Board completion of the first review based on observance of performance criteria for June 30, 2015.	Disbursed
April 15, 2016	2.272	8.00	Board completion of the second review based on observance of performance criteria for December 31, 2015.	Disbursed
April 15, 2017	3.030	10.67	Board completion of the third review based on observance of performance criteria for December 31, 2016.	
October 15, 2017	3.030	10.67	Board completion of the fourth review based on observance of performance criteria for June 30, 2017.	
April 15, 2018	3.028	10.66	Board completion of the fifth review based on observance of performance criteria for December 31, 2017.	
Total Disbursements	**17.04**	**60.0**		

Source: IMF staff estimates.

1/ The first and second ECF-reviews were combined and the second and third disbursements occurred on December 2, 2016.

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

Annex I. The 2015 Bank Bailout and its Subsequent Reversal

1. In the aftermath of the military coup in 2012, non-performing loans in the banking sector rose sharply, particularly in exposures to the cashew sector. The banking system's overall NPL ratio reached around 25 percent in late 2014 and was even higher at two banks that later received bailouts. The defaulted portfolio was concentrated on large debtors, many of them politically connected.

2. In the second half of 2015, the then government entered contracts with two banks, agreeing to purchase non-performing loans at face value totaling CFAF 34 billion (about 5 percent of GDP). The transactions were financed by non-amortizing loans from the bailout banks with a 10-year maturity and interest rates of 6 and 1.5 percent, respectively. Repayments on the NPL portfolios as well as interest and tax payments were to be put into escrow accounts and then used to pay off the loans after 10 years. Amounts recovered from debtors would thus not lower the basis for calculating interest. The bailout contracts stipulated that any unrecovered exposures would return to the banks' balance sheets in 2025.

3. The government's taking out loans for the bailout meant that the performance criteria on net domestic bank credit to government would have been missed and the ECF-supported program went off track. Having initially considered cancelling the contracts with penalty payments, the subsequent administration, in mid-2016, proceeded to declare the contracts null and void because of missing signatures by high-level government officials. This case was submitted to the national court, which in September 2016 ruled that all effects from the bailout contracts were to be stayed. This meant that the banks could not accrue interest on the bailout loans, with significant implications for their operational income.

4. In view of the government's action to reverse the bailout as well as adequate performance in other policy areas, a combined first and second review of the ECF was finally approved in December 2016. Meanwhile, the Attorney General is investigating issues surrounding the bailout, with both civil and criminal cases presented to the court.

5. On-site inspections of the two banks were carried out by the WAEMU Banking Commission in late 2016 (mid-April 2017 Structural Benchmark). Beyond improvements in risk management and governance, the Commission requested that the non-collateralized part of the NPL portfolios be fully provisioned. The associated costs caused the banks' capital to drop considerably. The two banks' shareholders subsequently resolved to inject additional capital to meet the minimum capital requirement of CFAF 10 billion (previously 5 billion) at end-June 2017. However, in the case of the larger bailout bank, shareholders subsequently failed to subscribe the additional shares as planned.

Appendix I. Letter of Intent

Bissau, Guinea-Bissau
June 17, 2017

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

Dear Managing Director,

1. Our medium-term economic program remains focused on revitalizing economic activity and reducing poverty, and we are grateful to the IMF for the support under the three-year Extended Credit Facility (ECF) Arrangement. Out of the amount of SDR 17.04 million approved for Guinea-Bissau on July 10, 2015, we have so far drawn SDR 7.95 million (28 percent of quota). This support has helped shore up our budgetary resources, in the context of challenging domestic resource mobilization and declining support from our development partners. The government reaffirms its commitment to the policies and measures under the Arrangement.

2. The attached Memorandum of Economic and Financial Policies (MEFP) updates the MEFP dated November 8, 2016. It describes recent economic developments and summarizes our progress in implementing policies and structural measures under the ECF-supported program. It also outlines our macroeconomic policies and structural measures for 2017–18.

3. Albeit nascent, the pickup in economic activity following the resumption of constitutional rule in 2014 continued in 2015 and 2016. While exports benefitted from favorable terms of trade during this period, domestic policies to expand electricity and water supply supported expansion in agricultural activity, construction, and services. Buoyed by vigilant tax administration and enhanced public financial management, tax collection continues to benefit from the rebounding economic activity. In parallel, private credit grew by 13.2 percent in 2015 and 10.6 percent in 2016, after a decline in 2014 and despite lingering challenges from a high level of non-performing loans.

4. We anticipate continued strong cashew production amid benign domestic policies to underpin growth and improve government finances. For 2017, we project economic growth at 5 percent, with resultant improvements in our external and fiscal receipts. In addition, we continue to advance tax administration and to vigorously pursue nontax revenue mobilization, while public financial management and expenditure oversight are being strengthened with our weekly Treasury Committee meetings. As a result, we anticipate a significant reduction of the overall fiscal deficit in 2017 and beyond.

5. Program implementation up to now has been challenging amidst continued political tensions, several government changes, and uncertain external support. Nonetheless, we advanced the structural agenda and met or almost met all quantitative targets foreseen for end-2016. In particular, all

performance criteria were met except for the zero-ceiling on eternal arrears, which was missed by a small amount (CFAF 0.6 billion, or 0.1 percent of GDP). These arrears have since been cleared. Although aspects of the structural reform agenda were delayed, we observed as envisaged six of the eight benchmarks foreseen for late 2016 and early 2017. Moreover, preliminary data indicate that performance towards the indicative targets for the first quarter of 2017 has been positive.

6. The government took decisive actions in early 2017 to ensure the integrity of budget execution and to strengthen public financial and debt management. Among others, we have eliminated all non-regularized expenditure. In addition, the Council of Ministers approved in early-June a budget consistent with the ECF-supported program as well as the decree that clarifies the debt contracting authority and procedures. We are also proposing a new structural benchmark to strengthen debt management. These actions should enable attainment of all targets of the ECF-supported program. Therefore, the government requests the completion of the third review and the related financing assurances review and a waiver of nonobservance of the PC on external payment arrears by the central government on the basis of corrective action taken.

7. We are moving to reinforce sound financial intermediation. As was the government's wish, the WAEMU Banking Commission has carried out on-site inspection of banks affected by the 2015 bank bailout. Following the inspection, the Commission recommended remedial actions to ensure the banks' full compliance with prudential regulations, notably full provisioning of uncollateralized NPLs and thus a sufficient capital increase to absorb these loan losses. We will closely follow up and take actions at our disposal to ensure implementation of the recommended actions.

8. The government believes that the commitments outlined in the attached MEFP are adequate to achieve program objectives. It, however, stands ready to take any additional measures that may become necessary for this purpose. To ensure successful implementation of our economic program, we will keep a close policy dialogue with the IMF and seek technical assistance, as needed. We will consult with the IMF on the adoption of any additional measures and in advance of revisions to policies contained in the attached MEFP, in accordance with IMF policies on such matters. Furthermore, we will continue to provide the IMF with information and data to aid the monitoring of policies and reforms under the program.

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

Yours sincerely,

/s/
João Alage Fadia
Minister of Economy and Finance
Guinea-Bissau

Attachments: I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

Bissau, June 17, 2017

BACKGROUND

1. **The political situation has largely stabilized, although lingering political tensions continue to undermine effective governance.** While Parliament has not been sitting since end-2015, the security situation remains calm and a functional government is in place under Prime Minister Umaro Sissoco Embaló, who was appointed late last year. The government remains fully committed to the economic and financial program for 2015–18 supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF).[1] The program, with the first and second reviews already completed,[2] aims to entrench macroeconomic stability and advance structural reforms to support inclusive growth and poverty reduction.

2. **This Memorandum of Economic and Financial Policies (MEFP) supplements the MEFP of November 8, 2016.** It presents performance relative to the performance criteria and other targets under the three-year ECF-arrangement, and describes economic and financial policies as well as structural reforms plans for 2017 and 2018.

ECONOMIC DEVELOPMENTS IN 2016

3. **Economic activity was robust in 2016.** Helped by continued high international prices, for the 2016 cashew season, the government increased the domestic reference price of cashew nuts to $950 per ton, and strengthened border-control to minimize smuggling of the produce. As a result, cashew nut exports reached a record-high of 194 thousand tons, from 175 thousand tons in the previous year, and contributed significantly to domestic revenue mobilization and external balances. Buoyed by the positive developments in cashew production and export as well as improvements in the supply of water and electricity, real GDP grew by an estimated 5.1 percent. While diversification beyond cashew production has remained limited, high cashew production helped the primary sector expand by 5.2 percent. In parallel, the secondary and tertiary sectors grew by an estimated 5.6 and 4.7 percent, respectively, reflecting increasing incomes, higher construction activity, and enhanced supply of electricity and water. Consumer price inflation remained low at a year-average rate of 1.5 percent. The robust pace of the recovery was supported by measures initiated by the government to enhance electricity supply, remove bottlenecks to the production and export of cashew nuts (including suspension of the FUNPI levy), and shore up mechanization of rice production.

4. **Revenue mobilization benefitted from the robust economic activity as well as strengthened tax and customs administration, but non-tax revenue was weak.** Boosted by the

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

[2] IMF Country Report No. 16/121. Guinea-Bissau: First and Second Reviews Under the Extended Credit Facility Arrangement—Staff Report.

favorable developments in cashew production and the overall strengthening of economic activity, tax revenue amounted to 9.3 percent of GDP in line with the program target. However, non-tax revenue and grants were short of the program target and 2015 performance by 0.8 and 0.6 percentage points of GDP, respectively, primarily due to nonrealization of planned one-off measures. These included sale of seized timber, a fine on a telecommunication company, collection of tax arrears from two public enterprises, and implementation of a telecommunications gateway system that was meant to boost revenue. The failure to implement these initiatives as planned partly reflected difficulties the Ministry of Finance (MoF) faced in exerting control in the context of limited political cohesion.

5. **Improvements in public financial management helped contain the overall fiscal deficit in face of an overall revenue shortfall.** Tight control of spending helped contain current expenditure close to the program target. The containment of current expenditures was supported by continuous improvements in public financial management following the re-vitalization of weekly Treasury Committee meetings towards the end of the year. We strengthened the procedures of the Treasury Committee, including its mandate to follow up and ensure a timely regularization of DNT expenses and to report to the committee on reasons for these expenses and to confirm their regularization. We introduced a continuous limit of CFAF 1 billion on the outstanding stock and a quarterly limit of 1 percent of current expenditure, as envisaged by the Treasury Plan. At the same time, our Treasury department will continue to use the SIGFIB software application (an integrated system of public finances) that automatically registers DNT payments with the Budget department thereby facilitating the regularization of DNTs. These measures helped hasten the pace of DNT cash regularizations and their subsequent elimination early this year. We are continuously improving our accounting procedures through the double-entry system and use of the accounting module of SIGFIP. In parallel, capital spending fell below expectation by 0.9 percent of GDP due primarily to shortfalls in project grants and loans for public investment. As a result, at 2.1 percent of GDP, the domestic primary deficit was only slightly higher than programmed (1.7 percent of GDP) and the 2015 outturn (1.5 percent of GDP).

6. **The external current account balance has remained in surplus.** Guinea-Bissau's terms of trade improved by 14 percent in 2016, as global fuel and non-fuel prices declined while the price of the country's main export produce, cashew nuts, increased. This helped raise the surplus in merchandise trade, despite the halting of wood exports due to the CITES ban and an increase in construction-related imports. At the same time, however, other current receipts declined, mainly due to lower official grants. The overall current account surplus consequently narrowed to 0.9 percent of GDP from 2 percent in 2015.

7. **High non-performing loans in the banking system continue to constrain financial intermediation.** The government bailout of two banks in 2015 was aimed at removing bad loans from the banks' portfolio and thereby kick-starting lending to the private sector. The government declared this bailout null and void in 2016 but the causal high NPLs remained, which prompted the government to invite the WAEMU Banking Commission to ascertain the health of the banking system and prescribe/recommend actions to bring banks into compliance with prudential norms.

Credit to the private sector expanded by 10.6 percent in 2016 (after adjustments to reflect the voided bailout). At the same time, non-performing loans remained high at around 20 percent of total loans at end-March 2017 but were down from their peak in 2014 (26 percent).

8. Development partner support dwindled significantly, as budget support fell short of expectations. The ECF-supported program helped catalyze assistance from other development partners, following the resumption of constitutional rule in mid-2014. The main development partners—the EU, the World Bank and the African Development Bank—restored budget support totaling CFAF 5.6 billion to the country. However, this support was rolled back in 2015-16 due, among others, to concerns relating to the bank bailout. Nevertheless, financing by these and other partners for select projects has continued. Moreover, capacity development activities financed by development partners continue to help shore up tax and customs administration, public financial management, and the business environment.

PROGRAM PERFORMANCE

9. All but one of the performance criteria for end-December 2016 were met (Table 1). The floor on domestic tax revenue was exceeded by a wide margin, thanks to the strong cashew production and prices, robust economic activity, and vigilant tax and customs administration. The ceiling on net domestic bank credit was met thanks to tight expenditure control. The zero-ceilings relating to non-concessional and short-term external debt were also met. However, the zero-ceiling on non-accumulation of external arrears was missed by CFAF 0.6 billion due to technical problems that resulted in delays in making debt servicing payments to a group of Arab Funds and ECOWAS; these arrears were all cleared in early 2017.

10. Performance relative to the indicative quantitative targets was mostly good. The two indicative ceilings (on new domestic arrears and on non-regularized expenditure) were met at end-2016, reflecting the government's efforts to strengthen public financial management and adherence to the budget. In addition, the floor on social and priority spending was met. However, the floor on domestic primary balance was not observed as programmed, reflecting the tight budget constraint. Moreover, preliminary data suggest that the positive performance continued in early 2017.

11. Progress in implementing structural measures was generally good. Six of the eight SBs for late 2016 and early 2017 were observed as envisioned:

- The government prepared a rolling monthly cash-flow projection consistent with the draft 2017 budget;
- The government prepared quarterly reports on (i) ministry-level budget execution with details along economic classification of expenses, and (ii) external debt commitments, agreements, and disbursements—both at end-December 2016 as envisaged for operations during the first three quarters of the year;
- As a precursor to the planned Treasury Single Account, the government drew up a list of own-source revenues collected by ministries, departments, and government agencies;

- The government prepared an audit plan for all state-owned enterprises and autonomous funds;
- The government continued to prepare quarterly reports on external debt commitments, agreements and disbursements; and
- The government completed, with the assistance of the WAEMU Banking Commission, an assessment of the two banks affected by the bailout, and articulated an action plan to bring these banks into compliance with prudential norms.

Implementation of the remaining two SBs was regrettably delayed:

- The Council of Ministers did not issue the decree to clarify debt issuance authority and procedures due to delays resulting from the change of government in late 2016.
- Submission of the electricity and water company (EAGB) monthly financial reports starting from October 2016 was not observed at end-December 2016, but reports for the first three quarters of 2016 were duly submitted. EAGB initially maintained that the reports needed to be audited before submission due to concerns about quality of the unaudited data, but steps have since been taken to allow submission of the monthly reports, notably after auditing assistance being provided by the World Bank.

12. The government has taken decisive action to ensure attainment of program targets. To ensure budget integrity and support realization of fiscal and other reform objectives, a series of measures were undertaken in early 2017.

- Procedures for the weekly Treasury Committee meetings were reinforced, which helped eliminate non-regularized spending and pay off the external arrears from 2016.
- The Council of Ministers approved in early June 2017 the decree clarifying the contracting authority and procedures in relation to government debt and guarantees. This decree, which was drafted with TA from AFRITAC West, brings Guinea-Bissau's legislation in line with WAEMU debt management regulations.
- The Council of Ministers approved in early June 2017 the budget for 2017.
- Government created and enforced via a ministerial decree a "negative list" detailing expenses and payments which cannot be processed as DNTs.
- Government introduced a continuous limit of CFAF 1 billion on the outstanding stock and a quarterly limit of 1 percent of current expenditure, as envisaged by the Treasury Plan, on the flow of DNTs (to safeguard the budget execution chain and ensure the availability of funding for issued mandates to avoid arrears accumulation).

In addition:

- Government will by September 2017 complete installation of the updated debt management software DMFAS 6.0 (a new structural benchmark) with development partner support.
- Government will steadfastly require EAGB to submit monthly financial reports, and expects the submissions to start from end-July 2017 (i.e. after completion of the ongoing World Bank auditing assistance) and continue regularly from then.

13. More generally, the government remains fully committed to the structural reform agenda outlined in the previous MEFP. Overall, the government commits to timely implementation of the structural reform agenda under the ECF-supported program and to focusing on enhancing the efficiency of public institutions in revenue mobilization, expenditure management, and debt management. The government will adhere tenaciously to the timeline for measures to improve the business environment for private sector growth and job creation, including the design of a strategy to promote cashew production and transformation based on results of the FUNPI audit completed last year.

ECONOMIC OUTLOOK AND POLICIES FOR 2017–18

A. Economic Outlook

14. The macroeconomic outlook remains favorable, supported by benign domestic and external factors. The updated macroeconomic framework anticipates real GDP growth at 5 percent per year in 2017–18, reflecting continued strong activity in agriculture, construction, and services. This growth will be supported by improvements in energy and water supply, a strengthened business environment, and an expected increase in gross investment (foreseen to average around 11.5 percent of GDP per year during 2017–18) sustained for the most part by the public component. The recent improvements in the terms of trade are expected to weaken somewhat due to higher oil prices. However, high cashew prices (including an increase in the domestic reference price to US$1,150 per ton in 2017) should stimulate cashew exports. This should offset higher imports resulting from the growing economy and help contain the current account deficit to about 1 percent of GDP in 2017 and about 2 percent in 2018. Inflation is expected to average 2 percent per year (below the WAEMU convergence criteria of 3 percent) during the period.

15. Robust economic activity coupled with vigilant tax administration as well as strengthened PFM and budget execution will enable a narrowing of fiscal deficits. The overall fiscal deficit is projected to be well within the WAEMU convergence criteria of 3 percent of GDP. Infrastructure projects, including building high-tension power distribution lines to access power supply from neighboring countries to curtail the chronic shortage of energy, and expanding the country's road network, will continue to be financed mostly through concessional loans and grants, consistent with debt sustainability.

16. The nascent recovery of financial intermediation is expected to continue into 2017–18. The anticipated strong economic activity is expected to expand private credit on average by about 7 percent a year during the period and to enhance financial inclusion. However, for a sustainable impact on economic activity, the rebounding financial intermediation should be guarded by sound banking practices. Hence the BCEAO will continue to strengthen banking supervision by strictly enforcing prudential norms and seeking to strengthen these further in collaboration with the WAEMU Banking Commission, particularly in the context of the fallout from last year's voiding of the 2015 bank bailout operation. Required minimum capital of banks is scheduled to be increased to CFAF 10 billion effective July 1, 2017, for all banks in the WAEMU. With recent decisions by shareholders to inject capital in the banks where this was needed, we expect all Guinea-Bissau banks to meet the new capital requirements by end-June.

B. Economic Policies

17. The country's medium-term development program (2014–18) will continue to guide our policy strategies, consistent with our growth and poverty-reduction objectives. With a view to building the confidence of households, private investors, and development partners, the government will continue to focus on improving the business environment and promoting policy transparency, good governance, and respect for the rule of law.

Fiscal policies

18. The fiscal policy stance will remain consistent with macroeconomic stability and debt sustainability. The government will step up domestic revenue mobilization efforts and strengthen expenditure and treasury cash flow management. To reduce borrowing costs, annual access to domestic bank credit and the regional securities market will be limited to rollovers for obligations falling due, consistent with the program objective of zero net domestic bank credit to government (PC for 2017). Moreover, external borrowing will be limited to project financing on concessional terms. Accordingly, the 2017 budget which was approved by the cabinet is broadly consistent with expectations of the ECF-supported program and features an overall deficit of CFAF 16.5 billion (or 2.2 percent of GDP).

19. The government will enhance tax administration and re-coup missed one-time revenues and tax arrears. Domestic revenue excluding one-offs is projected at 13.2 percent of GDP in 2017, which exceeds the previous program expectation (12.8 percent of GDP) and represents a 0.8 percentage point increase over 2016. This improvement in domestic revenue mobilization is expected largely from enhanced tax administration amid robust rebound of economic activities. In addition, one-off revenues are expected from expedited sales of seized illegally-cut timber

(0.7 percent of GDP) once agreement is reached with CITES,[3] and collection of tax arrears from state-owned enterprises. The bulk of these one-off revenues were previously expected in 2016.

20. Expenditures will be tightly contained. The 2017 budget keeps total expenditure at 19.2 percent of GDP. This is down from 21.2 percent in 2016, reflecting the limited domestic resources and the loss of budget support from development partners. Within that reduced envelope are previously unforeseen costs of CFAF 6.6 billion (1 percent of GDP) relating to a realization of a debt guarantee provided to EAGB that the company was unable to honor, which necessitated a scaling back of other expenditure. The government will accordingly leverage gains in public financial management to cut out waste and expand resources for social and priority capital spending.

MEASURES TO STRENGTHEN PUBLIC FINANCIAL MANAGEMENT

21. Recent improvements in treasury management will help shore up fiscal discipline and improve public service delivery. The weekly Treasury Committee meetings have been strengthened significantly in the past half year, and remain the key instrument to bolster budget execution. The government will continuously monitor compliance with PFM rules at the ministerial level and along the expenditure chain, with a view to better align expenditures with available resources and to solidify the elimination attained early this year of non-regularized spending (DNTs) and shun accumulation of new arrears (Tables 2 and 3). The government will:

- Continue to equip and task the Treasury Committee to in as far as possible ensure timely regularization of all expenses and avoid the use of DNTs;
- Maintain a continuous limit of CFAF 1 billion on the outstanding *stock* and a quarterly limit of 1 percent of current expenditure (as envisaged by the Treasury Plan) on the *flow* of DNTs, to safeguard the budget execution chain and ensure the availability of funding for issued mandates to avoid the accumulation of arrears;
- Mandate the continued use by the Treasury Department of the software application in SIGFIP that automatically registers DNT payments with the Budget department, thereby facilitating the regularization of DNTs;
- Continue to prepare and review rolling monthly treasury cash-flow projection tables consistent with the 2017 budget (SB for December 2016 and monthly thereafter; Table 3), to guide and inform our weekly treasury operations;
- Further the preparation of timely quarterly reports on ministry-level budget execution with details along economic classification of expenses (SB for December 2016 and quarterly thereafter; Table 3); and
- Utilize the list of own-source revenues to draw up a strategy for incorporating these resources into the national budget, which should help enhance domestic revenues and

[3] Sales of a large amount of seized illegally-cut timber started in late 2016 but were soon halted as exporters faced difficulties obtaining necessary permits from the secretariat for the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

foster transparency in the use of national resources. This should also help preparations for the planned Treasury Single Account. The government has received from domestic banks a list of all government related accounts of ministries, departments, and government agencies, which could be used for this purpose.

Revenue Measures

22. Domestic revenue mobilization will be supported by measures to expand the tax base and strengthen tax administration. In 2016, we started to implement a new uniform sales invoice for large companies, and we compiled a list of 5412 taxpayers and assigned taxpayer identification numbers to about a third of these taxpayers. Our tax exemptions committee at the Ministry of Finance continued to minimize tax exemptions and to fine-tune subsidies. For 2017 and beyond, in addition to taking steps to collect one-off revenues noted above, the government will take steps to enhance revenue collection by:

- Extending the new uniform sales invoice to all taxpayers by September 2017 (new structural benchmark);
- Completing the assignment of taxpayer identification numbers to all taxpayers by September 2017 (new structural benchmark);
- Preparing quarterly reports (starting September 2017 for performance as of end-June 2017, and quarterly thereafter) on its progress in minimizing tax exemptions;
- Completing a draft law for a new small taxpayer regime with technical assistance from the IMF to improve tax administration and facilitate small taxpayer compliance (December 2017); and
- Minimizing tax exemptions and subsidies.

Borrowing Policies and Debt Management

23. Technical enhancement, capacity building, and debt renegotiation efforts are yielding dividends. We will upgrade our debt management software to the latest version (DMFAS 6.0) and restore the vendor's support, which should help better tracking of debt accumulation and debt service obligations to ensure their prompt payment. We continue to strengthen communication between the Debt Management Unit and the Treasury, and we are continuously training staff of the debt unit to eliminate capacity shortcomings. Regarding debt arrears, in 2016 we secured cancellation of our obligations to the erstwhile Franco-Portuguese bank and paid off our total indebtedness to the European Investment Bank. We have made good progress in negotiations on relief and rescheduling on Paris Club terms of our arrears with Taiwan Province of China, although the preliminary agreement is yet to be signed by both parties. Furthermore, the government is continuing negotiations with its other bilateral (Paris Club and non-Paris Club) creditors on the remainder of debt under discussion for re-structuring or outright cancellation. To this end, the government continues its efforts to formalize agreements with Brazil, Russia and Angola, and to initiate negotiations with the United Arab Emirates, Libya, and Pakistan. The government remains current on its remaining external debt obligations.

24. Further strengthening domestic debt management will help ensure accurate debt accounting and timely servicing, and avoid incurrence of contingent liabilities. In view of the recent calls on government guarantees and the high costs of domestic and regional borrowing, the government is advancing debt management along the following broad fronts:

- As noted above, cabinet has issued the decree clarifying the debt issuance authority and the procedure for the issuance of government guarantees, on-lending operations, and the assumption of large liabilities outside of the budgetary process (Table 3). This decree brings Guinea-Bissau's debt management practices in line with WAEMU debt management regulation (Regulation 09/2007/CM/UEMOA) and will also improve transparency and accountability.
- We will establish a comprehensive inventory of all debt guarantees signed by the government, if any, and include the debts and their repayment schedules in the public debt database.
- Based on the results of the audit of 2008-12 domestic arrears, we will draft a repayment strategy to clear legitimate arrears after netting out any tax liabilities of the beneficiaries.
- To reduce the financial burden of temporary borrowings, we will finance short-term liquidity needs through the issuance of Treasury bills. Should there be a need of financing from commercial banks, all such loans will, as much as possible, be undertaken through transparent auctions.
- Finally, the government continues to negotiate for a higher grant element on loans contracted from the West African Bank for Development (BOAD). The government secured in February 2017 a rescheduling without interest for its outstanding payments to BOAD as of end-2016. The outstanding liabilities totaling CFAF 16.5 billion comprised payments for entry rights, our contributions to the new loan-subsidization fund, and unpaid debt service for 2016; these are now rescheduled to be paid over 30 years, starting from March 2018.

Fostering Sound Financial Intermediation

25. To support financial deepening for inclusive financial intermediation, the government strongly supports adoption and implementation of remedial action plans. To this end, the government has urged banks to take prompt action in response to the Banking Commission's recent inspection reports, including all necessary and time-bound actions to restore compliance with regulatory norms. Government is also urging banks to ensure timely compliance with the new minimum capital requirements for end-June 2017 (involving a doubling to CFAF 10 million) and to enhance their risk assessment faculties to ensure continued sound financial intermediation and bank profitability. Moreover, the government is moving to end the legal uncertainties surrounding its voiding of the 2015 bank bailout at minimal budgetary cost.

26. The government is seeking nullification of the 2015 bailout contracts, yet more effort is needed for swift NPL resolution. The Attorney General has been investigating the issues surrounding the bailout, with both civil and criminal court cases pending. Still, given banks' right to appeal an unfavorable court ruling, legal uncertainty may prevail for an extended period and affect the recovery of collateral underlying the NPLs. Recovery efforts by the banks has stalled since the government declared the bailout contracts null and void in mid-2016. In view of slow collection, it would be important for banks to redouble efforts and through swifter recovery safeguard the value of collateral.

27. The government remains committed to improving the business climate for banks. The government has, with the assistance of development partners, undertaken initiatives for developing the financial markets (including for SMEs). Specifically, for the SMEs, the initiatives comprise, in accordance with measures adopted by the WAEMU Council of Ministers in September 2015, (i) re-financing of BCEAO claims on eligible SMEs; and (ii) regulatory incentives to banks for credit to eligible SMEs, including reduced weighting of claims on these enterprises in reckoning compliance with prudential ratios. The government will continue to transact its own business (including payments to public sector works and suppliers of services) entirely through the banking system and to encourage avoidance of cash settlements in private real estate transactions.

C. Other Structural Reforms

28. The security sector reform continues to be delayed by inadequate financing and the political crises. Nonetheless, the government remains committed to the reform, although it has not been able to move ahead with the demobilization and reintegration of soldiers. The first group of 500 soldiers was not dealt with as intended within the framework of the program due to continued political instability and lack of financing for the public awareness campaign. The government has created a special pension fund, but only about $64.2 million (from ECOWAS Commission, UN Peace Building Fund, and the government) of the estimated cost of US$82 million to cater to 2500 security personnel has so far been secured. We will continue to engage bilateral and multilateral partners to secure additional funding to facilitate the process, and to intensify the awareness campaign.

29. The government has taken steps to ensure transparent financial management in relation to military spending. All military spending is now on budget and executed per normal expenditure procedures. Almost all of salaries (96 percent) for military personnel are made by bank transfer directly to the accounts of the beneficiaries, the only exception being those few who have not yet obtained a bank account. The only other expenditures are for goods and services to cover basic needs (food and fuel), which are being provided following an open procurement process. Moreover, an audit of the armed forces is being prepared.

30. The government will move steadily to address financial deterioration in state-owned enterprises (SOEs) and autonomous funds. Based on the audit plan sketched last year, the government will commence auditing of public enterprises to strengthen accountability and enhance public service delivery. To start with, the public utility EAGB will be audited by end-2017, using the available financial information provided by the company. This audit will inform the planned restructuring (with World Bank support) of EAGB to an autonomous entity operated under a service contract, and could facilitate entrance of private firms to operate and maintain generation assets. In parallel, we will extend financial reporting to other public enterprises effective September 2017 as precursor to full audits earmarked for completion by March 2018; the companies comprise (i) *GuinéTelecom*, (ii) *GuinéTel,* and (iii) National Institute for Social Insurance, (iv) *APGB* (Sea Port), (v) *ANAC* (Civil Aviation Administration), (vi) *ARN* (National Regulatory Authority for Communications), and (vii) *Fundu Rodoviário* (Road Fund).

Improve Economic Statistics

31. The government continues to effectively utilize TA and training to improve the compilation of statistics. To this end, the government has set up a unit charged with the responsibility of identifying technical assistance needs and helping implement data-related recommendations. The unit comprises long-term foreign consultants and local experts to work in tandem with public employees in recipient government agencies. In parallel, regular meetings are continuing between the BCEAO, the national cashew authority (ANCA), the Ministry of Agriculture, Ministry of Commerce, and the Bureau of National Statistics (INE) to reconcile official statistics, particularly for cashew nuts production and export statistics for national income accounting purposes and for balance of payments statistics. As a follow-up to audit of the FUNPI and its elimination, we are designing a strategy to enhance cashew productivity and transformation (SB for June 2017, Table 3); a draft strategy is under cabinet consideration. We will eschew any clauses that curtail competition in the cashew trade or increase costs to the detriment of farmers, and we will seek technical assistance from our development partners as needed.

Combat Corruption and Rent Seeking

32. The government continues to advance and strengthen its anti-corruption and anti-rent seeking framework. We have given sufficient autonomy and adequate resources to the Financial Intelligence Unit (CENTIF) to conduct its mandate, including verification of asset declarations of high-ranking public officials. The cabinet/government approved the national strategic plan for Anti-Money Laundering/Combating of the Financing of Terrorism (AML/CFT), which now awaits parliamentary approval. Meanwhile, we continue to strengthen our operational modalities with assistance from our development partners to bring our operational framework in line with the 2012 FATF standard. Further, we are strictly enforcing our public procurement laws and procedures, and are seeking to prosecute violators swiftly to deter and root out rent seeking in the public and private sectors. Following a recent IMF diagnostics TA mission, CENTIF has intensified information dissemination (through an electronic declaration system, and with TA from the Inter-Governmental Group against Money Laundering in West Africa (GIABA)) that has helped increase declarations of suspicious financial transactions, and to mitigate risks of money laundering in areas identified by the mission.

D. Program Monitoring

33. The program will continue to be monitored semi-annually by the IMF Executive Board based on quantitative performance criteria, indicative targets, and structural benchmarks (Tables 2 and 3). Performance criteria for end-December 2017 and indicative targets for end-September 2017 are being proposed. The performance criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU) along with the relevant adjustors. The fourth program review will be based on the end-June 2017 performance criteria and is scheduled to be completed on or after October 15, 2017. The fifth review (the last after the re-phasing of December 2016) will be based on end-December 2017 performance criteria and is scheduled to be completed on or after April 15, 2018.

34. The government believes that the policies and measures included in this memorandum are adequate to achieve the objectives of the revised economic program for 2017. It stands ready, however, to take any further financial and structural measures that may become necessary to ensure the success of its policies, but only after consultation with the IMF. It reaffirms its commitment to the ECF-supported program, and further undertakes:

- To refrain from accumulating any new domestic arrears (IT) other than those specified in the TMU, and from contracting non-concessional external loans; and
- Not to introduce or increase restrictions on payments and transfers related to current international transactions, to enter into any bilateral payment agreements not in conformity with Article VIII of the IMF Articles of Agreement, or to impose or intensify any import restrictions for balance of payments purposes; and
- To adopt any additional financial and structural measures that may become necessary to ensure the success of its policies, only in consultation with the IMF.

Table 1. Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets for 2016

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

	2015	2016									
		Mar.[1]		Jun.[1]		Sept.[1]		Dec.			
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Adj. Prog.	Act.	Status
Performance criteria[1]											
Total domestic tax revenue (floor)	61.9	15.7	10.4	31.5	31.2	40.7	49.6	61.4	...	63.5	met
Net domestic bank credit to the central government (ceiling)[2]	11.5	0.0	6.4	0.0	19.3	9.1	19.8	15.4	16.1	14.6	met
Ceiling on new nonconcessional external debt (in $ million)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	0.0	met
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	0.0	met
External payment arrears (ceiling)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	0.6	not met
Indicative targets											
New domestic arrears (ceiling)	1.3	0.0	0.0	0.0	4.6	0.0	6.6	6.6	...	4.0	met
Social and priority spending (floor)	36.5	7.7	6.0	21.7	12.9	19.4	23.2	31.0	...	32.2	met
Domestic primary balance (commitment basis, floor)	-9.3	-0.7	-7.1	-1.3	-15.8	-6.0	-9.4	-11.2	...	-14.2	not met
Non regularized expenditures (DNTs, ceiling)	2.7	0.2	2.1	0.4	7.8	0.6	1.0	2.0	...	1.9	met
Memorandum items:											
Clearance of domestic payment arrears	7.4	0.8	3.3	1.8	6.4	6.0	5.7	7.0	...	6.1	
External budgetary assistance (US$ million)[4]	9.5	5.9	0.0	9.2	0.0	15.8	1.7	1.7	...	0.4	
ECF disbursements (SDR millions, flow)	2.8	0.0	0.0	2.3	0.0	0.0	0.0	5.1	...	5.1	
Concessional loans (US$ million)[5]	21.1	6.1	1.8	12.3	5.4	2.8	5.4	12.5	...	7.1	

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

[2] Starting December 2016, sourced from the monetary survey.

[3] These apply on a continuous basis.

[4] Comprises budget support grants and program loans.

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

Table 2. Guinea-Bissau: Proposed Quantitative Performance Criteria and Indicative Targets for 2017
(Cumulative from beginning of calendar year to end of month indicated; billions of CFAF, unless otherwise indicated)

	2016	2017						
		Mar.[1]		Jun.		Sept.[1]	Dec.	
		Prog.	Prel.	Prog.	Proj.	Proposed IT	EBS/16/112	Proposed PC
Performance criteria[1]								
Total domestic tax revenue (floor)	63.5	16.3	13.0	32.6	33.4	48.9	65.2	65.2
Net domestic bank credit to the central government (ceiling)[2]	14.6	8.0	...	7.2	6.4	0.0	-3.7	0.0
Ceiling on new nonconcessional external debt (in $ million)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling)[3]	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets								
New domestic arrears (ceiling)	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social and priority spending (floor)	32.2	7.7	10.8	21.7	21.7	23.2	31.0	31.0
Domestic primary balance (commitment basis, floor)	-14.2	-6.4	-2.3	-5.8	-5.1	-1.0	2.3	4.4
Non regularized expenditures (DNTs, ceiling)	1.9	0.3	0.0	0.4	0.4	1.0	1.0	1.0
Memorandum items:								
Clearance of domestic payment arrears	6.1	0.4	0.4	0.4	0.4	0.8	2.6	3.8
External budgetary assistance (US$ million)[4]	0.4	0.0	0.0	0.0	0.0	0.0	5.5	0.0
ECF disbursements (SDR millions, flow)	5.1	0.0	0.0	3.0	0.0	3.0	3.0	3.0
Concessional loans (US$ million)[5]	7.1	4.6	2.7	9.3	5.4	5.4	18.6	10.9

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

[2] Starting December 2016, sourced from the monetary survey.

[3] These apply on a continuous basis.

[4] Comprises budget support grants and program loans.

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

Table 3. Guinea-Bissau: Structural Benchmarks Under the ECF Program, 2016–17

Measures	Timing	Macro Rationale	Status
Revenue Mobilization			
Prepare a draft law, with technical assistance from the IMF, for a new small taxpayer regime that is simple and transparent, protects the revenue base, lowers compliance costs, and ensures global participation.	December 2017	To improve tax administration and compliance	
Extending the new uniform sales invoice to all taxpayers.	September 2017	To improve tax administration and compliance	Proposed benchmark
Completing the assignment of taxpayer identification numbers to all taxpayers.	September 2017	To improve tax administration and compliance	Proposed benchmark
Expenditure management			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2017 budget.	December 2016 for January 2017, and monthly thereafter	Enhance expenditure management	Met
Prepare timely quarterly reports on ministry-level budget execution with details along economic classification of expenses.	December 2016, and quarterly thereafter	Enhance budget execution and monitoring	Met
As a precursor to the planned Treasury Single Account, draw up a list (including 2015 amounts) of own-source revenues collected by ministries, departments and government agencies.	December 2016	Strengthen public financial management	Met
Debt management			
Prepare a quarterly report on external debt commitments, agreements, and disbursements.	December 2016 for September 2016 Report, and quarterly thereafter.	Enhance debt management capacity and transparency in external debt commitments	Met
Council of ministers to issue a decree to clarify the debt issuance authority and the procedure for the issuance of government guarantees, on-lending operations, and large liabilities.	December 2016	Bring Guinea-Bissau's debt management policy in line with the WAEMU Regulation	Not Met. Completed in June 2017.

Table 3. Guinea-Bissau: Structural Benchmarks Under the ECF Program (concluded)			
Measures	**Timing**	**Macro Rationale**	**Status**
Install the newest version of the debt management software, DMFAS 6.0, and commence its use for effective debt analysis and debt service projections.	September 2017	Strengthen debt management and eschew payment arrears	Proposed benchmark
Business Environment			
Prepare an audit plan for all State-owned Enterprises and autonomous funds.	November 2016	To improve service delivery by, and financial sustainability of, public enterprises.	Met
EAGB will submit reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and on a monthly basis starting from October 2016.	December 2016	To instill transparency in EAGB operations and financial position	Not Met. The EAGB submitted quarterly reports for the first three quarters of 2016, but failed to submit required monthly reports for October-December 2016. The utility maintains that the monthly reports need to be audited and approved prior to submission. Proposed reset for July 2017.
Complete, with assistance of the WAEMU Banking Commission, an assessment of the two banks affected by the bailout, and articulate an action plan to bring these banks into compliance with prudential norms.	April 15, 2017	To strengthen the health of the banking system	Met. Banking Commission Report submitted to Finance Minister in February 2017
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2017	Reduce transaction costs	

Attachment II. Technical Memorandum of Understanding

Bissau, Guinea-Bissau, June 17, 2017

INTRODUCTION

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

2. **Program exchange rates**.[1] For the purpose of the program, foreign currency denominated values for 2017 will be converted into local currency (CFA francs) using a program exchange rate of CFA 622.47/US$ and cross rates as of end-December 2016.

QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on Total Domestic Tax Revenue

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

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

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

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

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

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

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

c. Any domestic loan guarantees issued by the government will be included in the net position of the government as defined in a. and b. above.

6. Adjustment clauses. The ceiling on changes in NCG will be adjusted (a) upwards (downwards) by up to the CFA value of the shortfall (excess) in external program grants and loans, including IMF drawings—the upward adjustment will be capped at the equivalent of CFA 10 billion; and (b) downwards (upwards) by the excess (shortfall) in the CFA value of any programmed privatization receipts. In addition, central government deposits at the BCEAO and the commercial banks will be adjusted downwards by any clearance of domestic arrears (excluding any arrears accumulated during the program period, 2015-18) in excess of program; (c) downwards by the excess in CFAF value of corporate tax revenue that results from the bank bailout, in light of the court injunction freezing transactions associated with the bank bailout; and (d) upwards by the amount of the bank bailout (CFAF 34.2 billion), if NCG includes the bailout and the pending court case is not completed by the time of the third review.

7. Data source. The data source for the above will be the monetary survey *(Position Nette du Gouvernement (PNG))* table, submitted monthly to the IMF staff by the BCEAO.

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

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

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

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

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

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

E. External Payment Arrears of the Central Government

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

QUANTITATIVE INDICATIVE TARGETS

A. New Domestic Arrears of Central Government

13. Definition. The ceiling on domestic arrears are defined as accounts payable (*resto-a-paga*) accumulated during the year, and still unpaid by one month after the quarter for wages and salaries (including pensions), and three months for goods, services and transfers.

B. Social and Priority Poverty-Related Expenditures

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

C. Domestic Primary Balance (Commitment Basis)

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

D. Non-Regularized Expenditure (DNTs)

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

PROGRAM MONITORING

17. The fourth program review will be based on end-June 2017 performance criteria and is scheduled to be completed on or after October 15, 2017. The fifth review (the last after the December 2016 re-phasing of disbursements and reduction in the number of reviews in view of delays in program implementation) will be based on end-December 2017 performance criteria and is scheduled to be completed on or after April 15, 2018. The Bissau-Guinean authorities shall recommend policy responses, inform the IMF monthly about the progress of the program, and transmit supporting information necessary for the evaluation of QPCs and benchmarks in electronic format as indicated in the attached summary table to IMF staff (Table 1).

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

Table 1. Guinea-Bissau: Summary of Reporting Requirements

Information	Frequency	Reporting Deadline	Responsible
Fiscal Sector			
Central Government budget and outturn	Monthly	30 days after the end of the month	Budget Directorate
Grants	Monthly	30 days after the end of the month	Budget Directorate
Budgetary grants	Monthly	30 days after the end of the month	Budget Directorate
Project grants	Monthly	30 days after the end of the month	Budget Directorate
Change in the stock of domestic arrears	Monthly	30 days after the end of the month	Budget Directorate
Unpaid claims	Monthly	30 days after the end of the month	Budget Directorate
Interest arrears	Monthly	30 days after the end of the month	Budget Directorate
Proceeds from bonds issued in the regional WAEMU market	Monthly	30 days after the end of the month	Budget Directorate
Real and External Sector			
Updates on annual National Accounts by sector	Annually	Within 6 weeks of availability	CSO/MOEF [1]
Balance of Payments data	Annually	Within 6 weeks of availability	CSO/MOEF
Details of exports breakdown	Quarterly	30 days after the end of the quarter	CSO/MOEF
Details of imports breakdown	Quarterly	30 days after the end of the quarter	CSO/MOEF
CPI	Monthly	30 days after the end of the month	CSO/MOEF
Debt			
External and domestic debt and guaranteed debt by creditor	Monthly	30 days after the end of the month	DMU [2]
Disbursements	Monthly	30 days after the end of the month	DMU
Amortization	Monthly	30 days after the end of the month	DMU
Interest payments	Monthly	30 days after the end of the month	DMU
Stock of external debt	Monthly	30 days after the end of the month	DMU
Stock of domestic debt	Monthly	30 days after the end of the month	DMU
Arrears on interest and principal	Monthly	30 days after the end of the month	DMU
Exceptional domestic financing	Monthly	30 days after the end of the month	DMU
Copies of any new loan agreements	As occuring		DMU
Monetary/Financial Sector			
Detailed balance sheet of the central bank (national BCEAO)	Monthly	45 days after the end of the month	BCEAO/MOEF
Detailed bank-by-bank balance sheets	Monthly	45 days after the end of the month	BCEAO/MOEF
Detailed consolidated balance sheet of commercial banks	Monthly	45 days after the end of the month	BCEAO/MOEF
The monetary survey	Monthly	45 days after the end of the month	BCEAO/MOEF
Detailed net position of central government (PNG)	Monthly	45 days after the end of the month	BCEAO/MOEF
Financial Stability Indicators	Monthly	45 days after the end of the month	BCEAO/MOEF
Interest rates	Monthly	45 days after the end of the month	BCEAO/MOEF
Deposit rates on all types of deposits at commercial banks	Monthly	45 days after the end of the month	BCEAO/MOEF
Short- and long-term lending rates of commercial banks	Monthly	45 days after the end of the month	BCEAO/MOEF

[1] Central Statistics Office/Ministry of Economy and Finance.
[2] Debt Management Unit of the Ministry of Economy and Finance.