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Guinea-Bissau: Recent Economic Developments

This Recent Economic Developments report on Guinea-Bissau was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Guinea-Bissau or the Executive Board of the IMF.

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GUINEA-BISSAU

Recent Economic Developments

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Approved by the African Department

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GUINEA-BISSAU - Basic Data 1/

Area and land use (square kilometers)

Area	36,125
Crop land (1993)	4,350
Forest (1990)	20,000

Population (1993)

Total (estimate; millions)	1.06
Growth rate (percent)	2.0
Density (population per sq. km)	29
Life expectancy at birth	38
Infant mortality rate (under 5 years; per 1,000)	138
Urban population (percent of total)	22.0

Labor force (1994)

Total number of workers	500,000
Of which: percentage working in agriculture	(76)
Female participation rate	41

Nutrition and health (1993)

Daily caloric supply (calories per person)	2,600
Population per physician	7,500
Access to safe water (in percent)	25.0
Access to sanitation (in percent)	29.0

Education (1993)

Gross enrollment ratios	
Primary (percent of school-age group)	60
Female	42
Secondary (percent of school-age group)	6
Female	2
Illiteracy (percent of population; more than 15 years)	56

Commercial energy use (1994)

Kilogram per capita (oil equivalent)	37
Net imports in percent of energy consumption	100.0

	1991	1992	1993	1994	1995	1996	1997 Prel.
Gross domestic product							
GDP at market prices (in billions of PG)	941	1,573	2,389	3,038	4,589	7,136	10,315
GDP at market prices (in billions of CFAF)						138.4	156.5
GDP per capita (in U.S. dollars)	257.2	222.3	227.6	221.8	234.3	244.4	250.4
	(In percent of GDP at factor cost)						
Primary sector	52.0	48.1	53.4	52.8	52.5	55.0	54.4
Secondary sector	15.1	18.4	16.2	15.1	15.7	15.3	14.5
Tertiary sector	32.9	33.5	30.4	32.1	31.8	29.7	31.1
	(In percent of GDP at market prices)						
Consumption	96.8	96.9	93.0	96.1	101.2	98.2	96.7
Gross domestic investment	31.0	48.3	30.9	21.8	22.3	23.0	19.1
Gross domestic savings	3.2	3.1	7.0	3.9	1.2	1.8	3.3
Resource gap	-27.8	-45.1	-23.8	-17.8	-23.5	-21.3	-15.9
	(Annual percentage change)						
Real GDP at market prices	5.1	1.1	2.1	3.2	4.4	4.6	5.1
GDP deflator at market prices	56.3	65.4	48.8	23.3	44.7	49.8	39.5

GUINEA-BISSAU - Basic Data (continued)

	1991	1992	1993	1994	1995	1996	1997 Prel.
Prices							
Consumer price index (period average)	57.6	69.4	48.2	15.2	45.4	56.6	49.8
Terms of trade (deterioration -)	1.7	5.6	-1.6	-15.2	-7.0	0.8	...
Exchange rate (PG/US\$, period average)	3,659	6,934	10,082	12,892	18,073	26,374	...
Trade-weighted effective exchange rate indexes (depreciation -)							
Nominal	-35.5	-48.0	-22.4	-15.0	-32.2	-18.3	...
Real	-8.8	-18.4	8.6	-11.0	-7.6	14.0	...
Government finances							
	(In billions of Guinea-Bissau pesos, unless otherwise indicated)						
Total revenue and grants	263	416	653	823	1,329	1,529	40.9 ²
<i>Of which:</i> revenue	116	168	249	376	581	890	24.0
Total expenditure and net lending	427	755	963	1,078	1,395	2,401	65.7
Current expenditure	165	251	343	441	703	1,129	24.0
Capital expenditure	218	445	588	620	696	1,053	21.3
Net lending	45	59	33	18	-4	219	20.3
Overall balance (commitment basis)							
Excluding grants	-311	-587	-714	-702	-814	-1,511	-41.6
Overall balance (cash basis)	-102	-270	-270	-140	-682	-879	-29.9
Financing (net)	102	270	270	140	682	879	29.9
External	94	226	117	159	-2,615	-618	12.7
Domestic banking system	-31	34	--	-22	-85	224	0.7
Debt relief	39	10	153	4	3,381	1,273	16.4
	(In percent of GDP)						
Budgetary revenue	12.4	10.7	10.4	12.4	12.7	12.5	15.4
Current expenditure	17.5	15.9	14.4	14.5	15.3	14.8	13.6
Current primary balance 3/	0.2	-0.6	1.8	3.3	4.0	3.3	5.5
Overall balance (commitment basis)							
Excluding grants	-33.0	-37.3	-29.9	-23.1	-17.7	-21.2	-26.6
Money and credit							
	(In billions of Guinea-Bissau pesos; end of period)						
Net foreign assets	-60	7	-91	-300	-198	-444	...
Net domestic assets	229	471	633	828	953	1647	...
<i>Of which:</i> net claims on the government	-20	9	28	-90	-268	-178	...
credit to the economy	126	139	204	320	338	...	...
Broad money	120	253	356	528	754	1,202	...
Medium- and long-term foreign liabilities	49	224	187	--	1	1	...
Balance of payments							
	(In millions of U.S. dollars)						
Current account	-75.4	-97.0	-61.5	-38.4	-41.8	-39.8	-13.7
Exports of goods and services	33.5	18.0	25.7	45.4	36.4	28.6	61.7
Imports of goods and services	-110.7	-125.4	-88.1	-90.5	-92.9	-86.1	-103.8
Income (net)	-3.6	--	-4.5	-2.4	-6.8	-5.0	-1.6
Fishing licenses	13.5	13.5	10.8	11.7	11.3	13.7	13.0
Scheduled interest payments	-17.0	-13.5	-15.3	-14.1	-18.0	-18.6	-14.6
Current transfers (net)	5.4	10.4	5.5	9.1	21.5	22.7	30.0

GUINEA-BISSAU - Basic Data (concluded)

	1991	1992	1993	1994	1995	1996	1997 Prel.
Capital account	32.9	28.5	36.6	44.4	55.5	40.7	13.8
Financial account	-8.3	32.9	-29.1	-54.6	-25.8	-12.9	...
Medium- and long-term loan disbursements	38.6	44.4	22.3	18.0	21.1	22.0	15.0
Scheduled amortization	-31.2	-33.3	-35.0	-42.3	-40.3	-28.5	-20.0
Private short-term capital (including errors and omissions)	-15.7	21.7	-16.4	-35.6	0.3	-14.2	-6.3
Overall balance	-50.8	-35.7	-53.9	-48.7	-12.0	-19.8	-11.2
Change in official net foreign assets (increase -)	8.6	-5.0	8.6	6.2	-3.6	-10.9	-27.3
Debt relief obtained	10.4	1.5	15.2	0.2	177.1	46.9	9.5
Change in arrears	31.8	39.2	30.2	42.3	-161.5	-18.2	20.3
External public debt (including to the Fund)	788.0	839.9	842.0	891.3	944.6	918.8	...
<i>Of which:</i> outstanding debt service arrears	321.9	361.1	375.2	414.3	232.4	202.9	...
	(In ratios as indicated)						
Current account (excluding official transfers, in percent of GDP)	-33.0	-47.6	-28.9	-20.6	-24.4	-20.6	-14.2
Scheduled debt service ratio (in percent of exports of goods and service credits) 4/	130.3	259.0	184.8	124.1	144.8	165.3	55.9
Gross official reserves (end of period) In months of imports of goods and nonfactor services	1.6	1.7	1.9	2.4	2.6	2.6	...

Sources: *World Development Report 1996*, World Bank; Guinea-Bissau authorities; and staff estimates.

1/ Numbers may not total because of rounding.

2/ In billions of CFA francs.

3 Current budget, excluding scheduled external interest payments.

4/ After debt relief.

I. PRODUCTION, INCOME, AND PRICES

A. Introduction

Guinea-Bissau is a small West African country of 36,125 square kilometers which shares borders with Senegal on the north, Guinea (Conakry) on the south and east and faces the Atlantic ocean on the west. With a GDP per capita of US\$250, its mostly rural population of a little more than 1 million people is one of the poorest in the world (see Box 1). Agriculture accounts for about 50 percent of GDP, 85 percent of employment, and more than 90 percent of all exports. Out of the 200,000 acres of cultivated land, 68,000 are cultivated in rice, the main foodcrop, 50,000 acres in other cereals, and about 30,000 acres in cashew nuts, the main export crop, which accounts for 90 percent of all exports. Poor infrastructure and equipment, together with a low literacy level and poor health standards, are the main obstacles to the transformation of agricultural products and to the creation of value added in the secondary and tertiary sectors. Guinea-Bissau is endowed with abundant fishing resources but, because of the lack of a modern fleet and harbor, the country is unable to exploit them on its own; hence, most of the fishing is contracted out to foreign fleets, whose fishing licenses constitute a significant part of government revenue. Similarly, forestry resources are relatively abundant but remain underexploited.

Guinea-Bissau's long independence war (1963-74) has had a major impact in retarding the country's economic development, if only because it led to the destruction of one-third of the country's agricultural sector. Moreover, the policies implemented in the early years of independence, geared to creating a centrally planned economy, did not help to restore fundamental economic balances (see SM/95/219, 8/31/95). Guinea-Bissau's adjustment efforts were initiated with programs supported by two annual arrangements under the Structural Adjustment Facility (SAF) in 1987-89. Following mixed economic performance in 1991-92, a period of financial stabilization in 1993-94 led to an economic program that was supported by a three-year annual arrangement under the Enhanced Structural Adjustment Facility (ESAF) approved in January 1995.

Box 1: Guinea-Bissau's Social Indicators

A poverty assessment conducted by the World Bank in 1994 on the basis of the 1991 household survey revealed that:

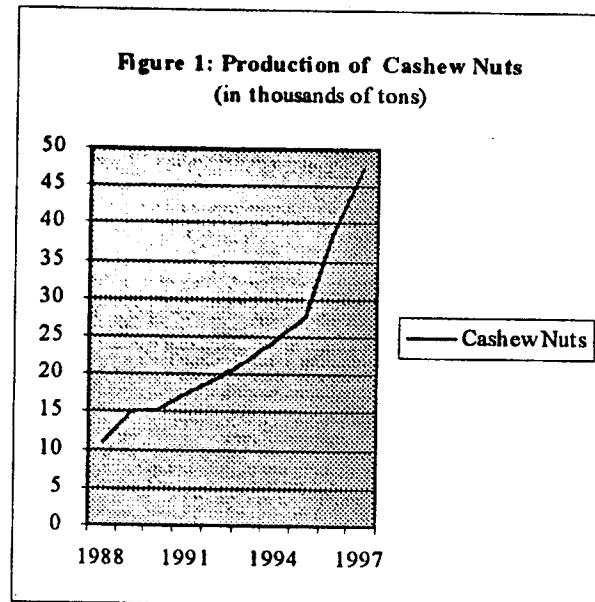
- 26 percent of the population lives in extreme poverty.
- The male and female literacy rate are only 41 percent and 14 percent, respectively.
- The infant mortality rate is 138 per 1,000 and life expectancy is only 44 years.
- Only one quarter of the population has access to safe water and sanitation.

B. Recent Developments, 1995-97

After some difficulties in early 1995, the program objectives for budgetary revenue, the external account, and real growth rate were surpassed; inflation, however, rose to almost 50 percent in the 12-month period to December 1995, fueled by the pass-through effect of the depreciation of the peso against the U.S. dollar in January 1994 and by a surge in the international price of rice. Economic developments were generally favorable in 1996 and 1997 although inflation continued to be a source of concern until mid-1997.

During the period 1995-97, real GDP grew by 4.7 percent per year on average compared to 2.6 percent in 1993-94, reflecting a steady expansion in agriculture, construction and services (Figure 1 and 2). Underpinning this favorable trend was the remarkable increase in the production of cashew nuts, which rose from little more than 10,000 tons in 1988 to about 40,000 tons in 1996 and an estimated 50,000 tons in 1997. Only part of the 1996 production was exported during that year, owing to delays in concluding export contracts; the stocks accumulated in 1996 (15,000 tons) were exported in 1997.

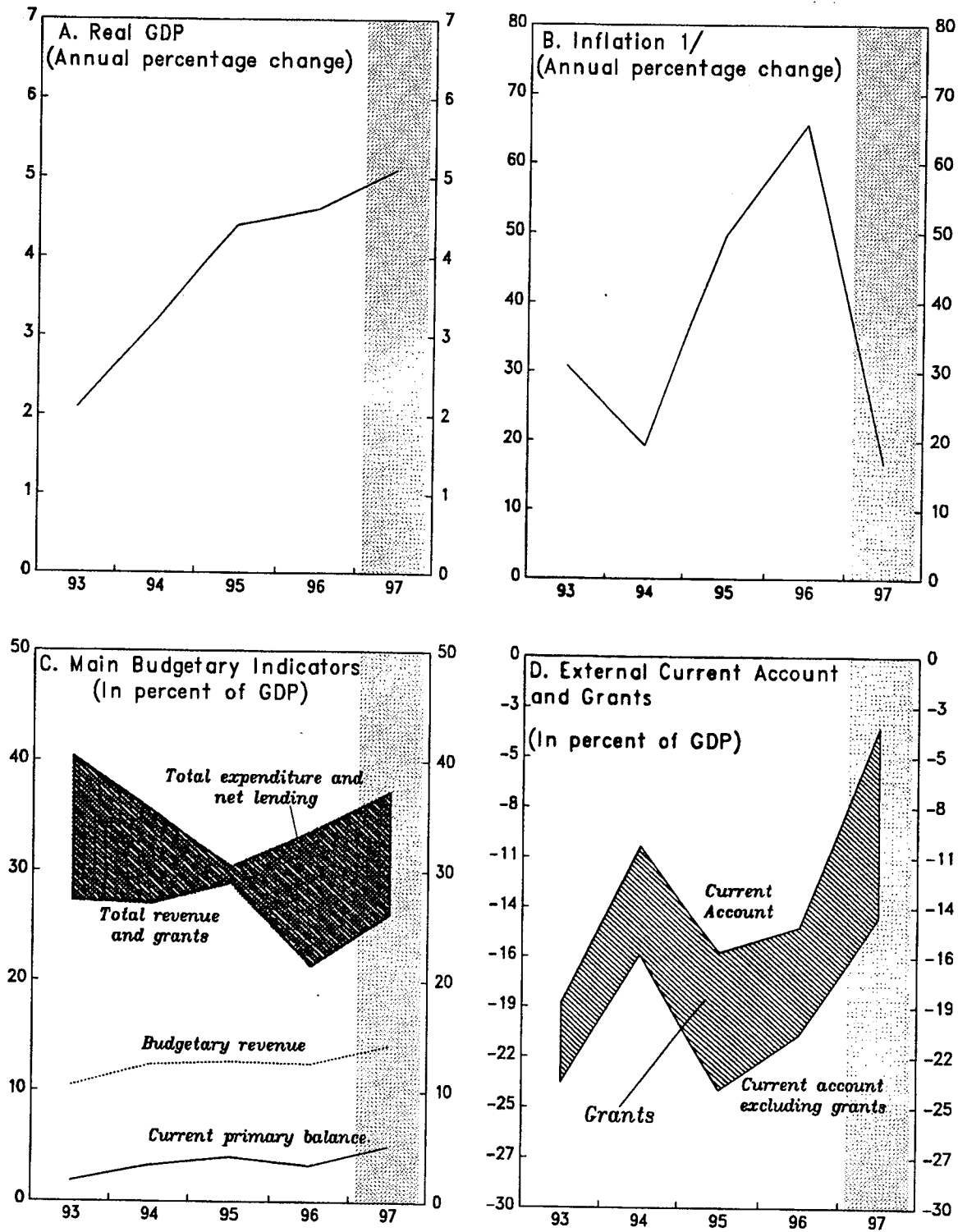
The rise in the production of cashew nuts reflects both an increase in the area under cultivation and an increase in yields, and can be seen as the consequence of improved incentives and sustained private investment. Although some areas land use appear to have been converted from the production of rice to that of cashew nuts (which is more profitable and easier to cultivate), this has not adversely affected the volume of rice production, which has continued to hover around 135,000 tons (see Table 4).



Investment in the plantations of cashew nuts was accompanied by a strong increase in construction and services and by other investments in agro-industries, including plantations in mango trees. Additionally, a brewery was established in 1997 which constitutes the first sizable joint industrial venture with international participation. Fishing activity appears to have been strong, as indicated by the revenue from fishing licenses which have doubled in CFA francs from 1995 to 1997 to CFAF 9.1 billion; these encouraging results are in part the consequence of a strong investment effort to modernize the sector, undertaken in recent years with the support of the European Union.

The combination of sustained economic growth and improvement in public finances (see below) has led to a substantial narrowing of the gap between investment and savings during the 1995-97 period. Based on the preliminary data prepared by the authorities and the

Figure 2. Guinea-Bissau: Selected Economic Indicators, 1993-97



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

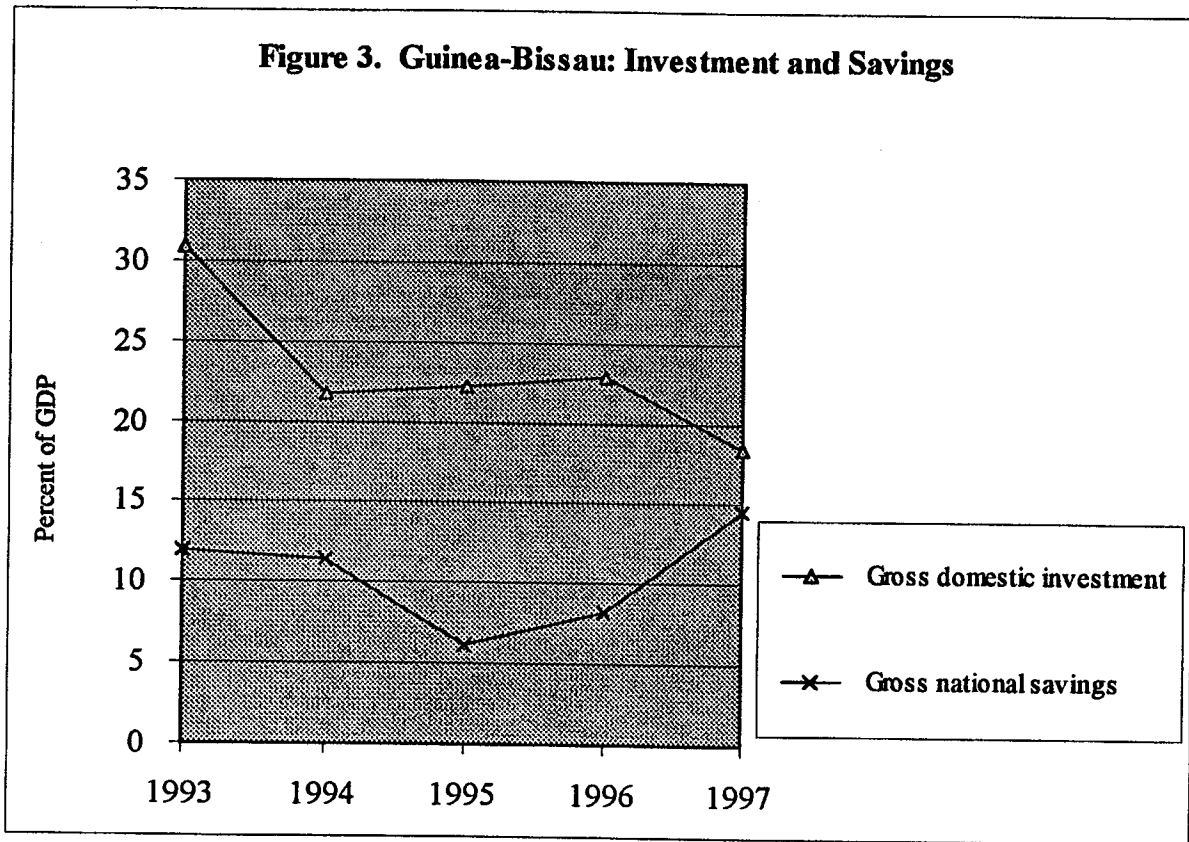
1/ End of period.

estimates of the staff,¹ the ratio of domestic investment to GDP, including stocks, rose from 22 percent in 1995 to 23 percent in 1996, while the domestic savings ratio improved by some 3 percentage points of GDP from a negative level in 1995. After incorporation of external transfers, the ratio of national savings to GDP (Figure 3) reflects the same trend. The year 1997 saw a further improvement in the savings-investment balance, in part owing to a marked decline in the ratio of domestic investment to GDP, from an estimated 23 percent in 1996 to an estimated 19 percent in 1997; this decline is almost entirely the consequence of the drawdown on the stock of cashew nuts accumulated in 1996.

C. Inflation

While a new consumer price index (CPI) based on a nationwide consumption survey carried out in 1992 is being prepared, the main source of information on inflation is a CPI that comprises only three commodity groups—foodstuffs, beverages, and tobacco. Moreover, it covers only the capital city of Bissau, and is based on a basket of weights dating back to a 1986 consumption survey and are seriously biased by the large relative weight of the tobacco component. In 1996, the year-on-year rate of CPI growth reached 66 percent, although there was a deceleration in the last quarter of the year. In the first seven months of 1996, the consumer price index rose by 43 percent; it continued to accelerate in August and September, reflecting higher international cereal prices in late 1995 and the depreciation of the exchange rate in mid year, as discussed below. However, the monthly inflation rate declined in October to 0.7 percent and was about 2 percent in November and December, as monetary policy was tightened and the exchange rate stabilized. In the first quarter of 1997, the rate of inflation decelerated to less than 1 percent a month on average, following the announcement at the beginning of the year that the country would join the Western African Monetary Union (WAMU) and the Western African Monetary and Economic Union (WAEMU) on May 2. Inflation flared up to the monthly rate of 4.2 percent in the period April-July 1997, in connection with the currency conversion, as traders took the opportunity to make upwards price adjustments, but then declined to 0.6 percent per month in August-November, as the effects of exchange rate stability and higher agricultural supply materialized. The rate of inflation declined sharply in December, reflecting a large supply of rice and fish. Over the whole year, the rate of inflation declined to 16.7 percent (Figure 3).

¹The quality of national accounts statistics, when available, is problematic in Guinea-Bissau, even by African standards, owing to a shortage of adequately trained staff. National accounts were published last in 1994; only preliminary estimates are available for the years 1995, 1996 and 1997.



D. Public Enterprise Restructuring

In 1996-98 significant progress was achieved in the government's divestiture program. The first phase of the liquidation and privatization program of the 37 enterprises in the government portfolio was completed by end-1995 with the privatization or liquidation of twelve enterprises, the placing under management contracts of six enterprises, and the opening of tenders for seven enterprises. In 1996, the following actions were taken: (a) the pharmaceutical company FARMEDI was liquidated; (b) the sales of CICER (brewery) and SUINAVE (pork and poultry) were completed; (c) technical work was prepared for the divestment of Cerâmica de Bafatá (ceramics) and TAGB (airline); and (d) the government closed the bidding process for eight enterprises that had been put up for tender, including the four enterprises spun off from SOCOTRAM (wood processing). In 1997, the government completed (a) the sale of assets of TAGB; (b) the liquidation of GUINAVE (ship repair), and RODOFLUVIAL (land transport); (c) the sale by auction of SOCOTRAM (wood processing), FOLBI (wood processing), GUIMETAL (mechanics) and CAIC (agroindustry); (d) the call for tenders for the sale of Cerâmica de Bafatá; and (e) in the energy sector, the liquidation of DICOL (petroleum) and GUINEGAZ (gas) (see Table 17). In early 1998, bids were launched to place the electricity company (EAGB) under a long-term leasing contract with a private operating company; and the government committed to initiate a second phase of privatization that will involve the companies in the tourism and fishing sectors.

II. PUBLIC FINANCE²

A. Overall Fiscal Developments in 1996-97

During the period 1996-97, the government's financial position strengthened further as a result of an improvement in the primary fiscal surplus; however, the overall fiscal deficit deteriorated, owing to the cost for the government to recapitalize the central bank before joining the CFA franc zone. After a fall of 0.2 percentage points of GDP to 12.5 percent of GDP in 1996, government revenue increased by 2.9 percentage points of GDP to 15.4 percent of GDP in 1997, well in excess of the program objective of 13.7 percent. During the same period, total expenditure and net lending rose by 3.2 percentage points to 33.6 percent of GDP in 1996, and further to 42.0 percent of GDP in 1997, mainly due to the cost of recapitalizing the central bank, before the country's entry in the WAMU in May 1997. As a result, the overall deficit, on a commitment basis and excluding grants, widened to the equivalent of 26.6 percent of GDP in 1997, from 21.2 percent in 1996, and 17.7 percent in 1995 (Table 11 and Figure 1). The current primary balance³, however, improved to the equivalent of 5.5 percent of GDP in 1997, from surpluses of 3.3 percent of GDP in 1996, and 4.0 percent in 1995. Actual debt-service payments after debt relief remained broadly stable between 1996 and 1997, and declined as a share of revenue, as debt negotiations with a number of creditors, both bilateral and multilateral, continued. The government's net indebtedness to the banking system increased in 1996, in connection with the assumption by the Central Bank, of debt the liquidated Banco de Credito Nacional (BCN). The net indebtedness increased only marginally in 1997.

B. Revenue Developments

The budgetary revenue-to-GDP ratio, which remained stable at about 12.6 percent of GDP from 1995 to 1996, increased by 2.8 percentage points, to 15.4 percent in 1997. Tax revenue rose to 8.1 percent of GDP in 1997 from 6.8 percent of GDP in 1996, and 6.9 percent of GDP in 1995; this reflects increases in the collection of both income taxes, which increased by 0.3 percentage point of GDP to 1.3 percent of GDP, and of indirect taxes, which rose by 0.7 percentage of GDP to 6.2 percent of GDP (Table 12). Income taxes, which accounted for about 19 percent of tax revenue, rose as a share of GDP, because of improved assessment of business profit taxes. Taxes on international trade (excluding consumption taxes on imports) rose, as a share of GDP, from 3.5 percent in 1995 to 4.1 percent in 1996; including consumption taxes on imports, the ratio to GDP rose from 5.5 percent in 1995 to 6.2 percent in 1997. In 1997, the main reason for the increase in international trade tax

² The public sector in Guinea-Bissau comprises the central government, local authorities, and nonfinancial public enterprises. The central government's budget covers the financial operations of the Treasury. Since 1996, the Tourism Fund, the Forestry Fund, and the Road Fund have been integrated in the budget.

³ Excluding scheduled interest payments.

receipts was the record cashew nut exports, which resulted in export tax receipts growing to 1.6 percent of GDP from 1.1 percent in 1996, despite the reduction in the rate of the special export tax on cashew nut from 12.5 percent to 10 percent. With respect to domestic indirect taxes, consumption taxes levied on locally produced consumer goods remained at a very low level.

The nontax revenue-to-GDP ratio increased to 7.3 percent in 1997 from 5.6 percent in 1996, and 5.7 percent in 1995, mostly on account of higher fishing license receipts. Privatization revenues⁴ accruing to the Treasury amounted to 0.8 percent of GDP, as the public enterprise reform program accelerated in 1997.

External grants to support the government budget increased in 1997 by US\$7.8 million, to US\$32 million; this includes exceptional contributions from donors to cover the cost of recapitalizing the central bank in the context of Guinea-Bissau's entry into the CFA franc zone.

C. Expenditure Developments

In 1996, government current primary expenditure increased by 0.5 percentage points of GDP to 9.2 percent of GDP (Table 13); a further increase to 9.9 percent occurred in 1997. The wage bill rose from 2.8 percent of GDP in 1995 to 3.2 percent in 1996, and remained at about that level in 1997, as the 50 percent increase in the salary base⁵ granted in October 1997 was partly offset by the downsizing of the civil service through the voluntary departure program (under which 500 employees left in 1996, and 350 in 1997) and by the savings resulting from the audits of payrolls. An audit of civil service staff was conducted in 1996, and led to the finding that civilian employees at end-1996 were 12,672, or about 1,000 less than previously estimated. A census of military personnel at the Ministry of Defense and Interior conducted in 1997 identified about 5,000 staff, also representing a decline of about 700 units from previous estimates. A major reform of the civil service is under preparation, with the aim of shifting to the private service personnel employed in maintenance functions (about 4,000) and of improving the career progression and the differential for skilled personnel, in order to stimulate performance.

Expenditure on goods and services and on transfers rose in 1997 to 3.9 percent and 2.8 percent of GDP respectively, from 3.4 percent and 2.6 percent respectively in 1996, owing to higher spending for electricity consumption and for strengthening tax administration.

⁴ Privatization proceeds are recorded in the government financial operations as a negative component of government capital transfers and net lending.

⁵ The increase in civil service salaries became effective few months after the entry in the WAMU, and was motivated by the decline in salary in real terms in 1995 and 1996 and by the lower level in the average civil servants' wages in Guinea-Bissau than in all other countries of the WAMU.

Measures were adopted in 1997 to improve budgetary procedures, including the requirement of prior approval of expenditure commitments by the Ministry of Finance. In view of the unfavorable social indicators in Guinea-Bissau, the government aimed at keeping spending on health and education sectors in 1997 at about 16 percent of total current expenditure (excluding interest payments). Debt-service payments, after debt relief, amounted to 2.7 percent of GDP in 1997, compared with 5.1 percent of GDP in 1996.

Capital expenditure declined from 15.2 percent of GDP in 1995 to 14.8 percent in 1996 and 13.6 percent in 1997, because of a decline in the foreign-financed component; the domestic contribution to the investment budget, a small component of the total, rose steadily over the period. In 1997, the sectoral distribution of public investment⁶ was as follows: 28 percent for infrastructure and transportation, 24 percent for rural development and the fishing sector, 19 percent for energy and hydraulic resource projects, 18 percent for health and education, and 10 percent for projects to build administrative capacity (Table 15).

Finally, net lending increased in 1997 by 10 percentage points of GDP, to 13.1 percent of GDP because of the large outlays to recapitalize the central bank, before the entry in the WAMU (for details see Appendix I, Section III, and Box 2).

D. The Ongoing Tax Reform

The authorities' strategy to reform the tax system aims at improving the tax structure and reducing reliance on external trade taxation, while broadening the tax base and strengthening tax administration. The tax reform, which was adopted by the national assembly in October 1997, focused on the following measures: for import taxation, (a) a consolidation of the three existing duties⁷ into one, (b) a simplification of the tariff structure which previously comprised nine rates, in addition to 29 different rates of consumption tax on imported goods, and (c) a reduction in the maximum rate of 60 percent⁸; for export taxation, a further reduction in the level of export taxes; and for taxation of goods and services, the replacement of the consumption tax (a) by introducing a generalized sales tax (Imposto Geral sobre Vendas, IGV) levied at the manufacturing, services and import level, with deduction for taxes paid from previous sales of intermediate products, and, (b) by reforming the excise tax system on specific products, expanding its base, and increasing its rates.

⁶ The sectoral execution breakdown was estimated at end-September 1997.

⁷ Consisting of (1) import duties levied on the c.i.f. import value, with rates ranging from 0 to 60 percent, (2) a customs service charge levied on the fiscal value of imports, with rates from 6 percent to 10 percent, and (3) a consumption tax levied on the c.i.f. fiscal value of imports, with rates from 5 to 85 percent.

⁸ The maximum rate of import taxation reaches 151 percent when the three duties are combined.

In coordination with the other WAEMU countries, which have decided to adopt a **Common External Tariff (TEC) in mid-1998**, the new customs tariff provides for a simplified structure of five rates (0, 5, 10, 20, and 30 percent), which is consistent with the structure of the TEC. The maximum tariff rate will be cut to 25 percent on January 1, 1999 and to 20 percent on January 1, 2000, in accordance with the decision taken by the WAEMU Council of Ministers at end-November 1997. The tariff reform is being accompanied by a strengthening of the customs administration, which includes (1) streamlining the computerized data processing system for merchandises declaration, and its extension to customs bureaus outside Bissau; (2) improving the verification of import values; (3) reinforcing controls on transit operations and on bonded warehouses at the land borders; and (4) enhancing cooperation with the customs administrations of Senegal and Guinea with regard to imports transiting to these two countries.

The main objective of the reform is progressively to **reduce the tax burden on the export sector**. Thus, the taxation levied on exports of cashew nuts, which was reduced from 19.5 percent in 1996 to 14 percent in 1997 (comprising a 10 percent special export tax, a 2 percent customs service charge, and a 2 percent tax on rural real estate) will be reduced further to 12 percent in 1998, when the tax on customs service will be abolished.

The **generalized sales tax (IGV)**, which will enter in effect on April 1, 1998, is set at a uniform rate of 10 percent, and is applicable to imports and local production activities, including electricity production, telecommunications services, and tourism activities. Taxes on intermediate goods are deductible, while exemptions are being granted to a limited number of products, such as school books, drugs, and medical equipment. The tax applies to all taxpayers subject to the Group A business profit tax. Group B taxpayers⁹ are subject to a presumptive tax determined as a percentage of their turnover. The introduction of the IGV is accompanied by a strengthening of the Directorate-General of Taxes and Duties (DGCI), involving (1) the establishment of a new unit to monitor major taxpayers, relying on a database that will encompass information from customs and the treasury; (2) the strengthening of collection and audit staff, since the IGV is based on a procedure involving spontaneous payment by taxpayers; (3) the establishment of a new IGV registry; and (4) the assignment of a new identification number for all taxpayers liable to the IGV. At the same time, the identification number is required for clearing imported goods from customs and for supplying goods and services to the government. The successful implementation of the IGV paves the way for the introduction of a value-added tax as the second step of the reform. The harmonization of the existing consumption taxes into a **new structure of excise taxes (Imposto especial de consumo—IEC)** was also approved by the national assembly in October 1997. These excises apply to alcoholic and nonalcoholic beverages, cigarettes and tobacco, automobiles, and petroleum products. A new price structure of petroleum products, incorporating the new customs tariff, the IEC, and the IGV, was established in December 1997. Petroleum product prices are subject to adjustments as a function of movements of

⁹ Taxpayers whose business turnover in the preceding year was greater or equal to PG 130 million (CFAF 2 million).

international prices under the initiative of a newly established Petroleum Price Commission. Taxation of cigarettes and tobacco will also be strengthened by applying a seal system in 1998.

Others aspects of the tax reform are:

- Measures to centralize government revenue collection. Thus, receipts from autonomous funds (Road Fund, Forestry Fund, Tourism Fund, and Mining Fund) were included in the 1996 Budget, while revenue traditionally collected by some ministerial departments (the National Directorate of Transportation and Land Transport, the National Maritime and Port Directorate, and the Ministries of Justice and of Fisheries) and the Courts were incorporated in the 1997 Budget.
- The simplification of the income tax system and the broadening of its base. As a first step of the process, an improvement in the assessment of the domestic income tax and a tightening in the taxation of real estate income through improved property surveys have been implemented in 1997.

III. MONEY AND BANKING

A. Banking System

Guinea-Bissau's banking system consists of two private commercial banks—the Banco Internacional da Guiné-Bissau (BIGB), established in 1990, and subsidiary of the Portuguese bank Totta & Açores (BTA), established in 1992, and of the Central Bank. A third bank, the Banco de Crédito Nacional (BCN), established in 1990, was closed in 1991 and liquidated by end-1993. The Bank of Guinea-Bissau (BCGB) was the central bank until Guinea-Bissau joined the WAMU on May 2, 1997; subsequently, it was incorporated in the Central Bank of the West African States (BCEAO), which took over a part of its assets and liabilities, with the remaining part being assumed by the Treasury.

Agreements among the Guinea-Bissau authorities, the BCEAO and the WAMU on Guinea-Bissau's entry into the WAMU were reached in December 1996. They covered (1) the start of the currency conversion operation that was set for May 2, 1997, with the operation envisaged to last for two months; (2) the exchange rate for the conversion, set at PG 65 per CFA franc, a rate close to the one prevailing during the month of December and considered adequate to ensure competitiveness; and (3) the recapitalization of the Central Bank undertaken so that it could present a nonnegative capital position at the time of its incorporation into the BCEAO. At end-1996, the central bank's negative capital position stood at the equivalent of about US\$33 million, excluding provisions for severance indemnities to its personnel; in March–April 1997 the treasury recapitalized the Central Bank by a corresponding amount (see Box 2 and Appendix I). As the central bank was merged into the BCEAO with a zero net capital position, the government is committed to paying on a

graduated schedule its capital share of the BCEAO, equal to one seventh of the net capital of the institution. This share is provisionally estimated to be equivalent to about US\$84 million, but the terms and precise amount of payments have not yet been set (see Appendix I).

The WAMU regional banking commission launched in mid-1997 an audit of the two commercial banks with a view to identifying the need for recapitalization, and to ensuring the observance of the prudential capital ratios. In the process, the commission has proceeded to some preliminary revisions of the assets and liabilities of the commercial banks; in particular, the net foreign asset position was revised downwards at the end of 1996 by the equivalent of US\$10 million, in line with an upward revision in the amount of nonperforming loans.

Box 2. Recapitalization of the Central Bank to Meet Requirements of WAMU Entry

A key requirement of WAMU entry was that the negative capital position of the Central Bank of Guinea-Bissau (BCGB) be reequilibrated before May 2, 1997; this required mainly a reduction of external obligations. To that end, in the last quarter of 1996 the central bank negotiated partial cancellation of its external debt to commercial banks and the Portuguese treasury, in the context of buy back agreements for an amount of US\$9 million. Following these operations, the net negative capital position was evaluated at the equivalent of US\$33.0 million, or 12 percent of 1996 GDP. In order to cover this shortfall, in March–April, the Ministry of Finance:

● **transferred to the central bank:**

- (i) the proceeds of the IMF loan disbursement under the ESAF arrangement effected in March (US\$2.9 million equivalent) and a US\$3 million grant from Taiwan Province of China, for a total amount of US\$5.9 million;
- (ii) the equivalent of US\$6.3 million in government deposits at the central bank constituted in the past with exceptional assistance from the European Union (US\$3.0 million), the World Bank SAL, and related cofinancing (US\$3.3 million); and

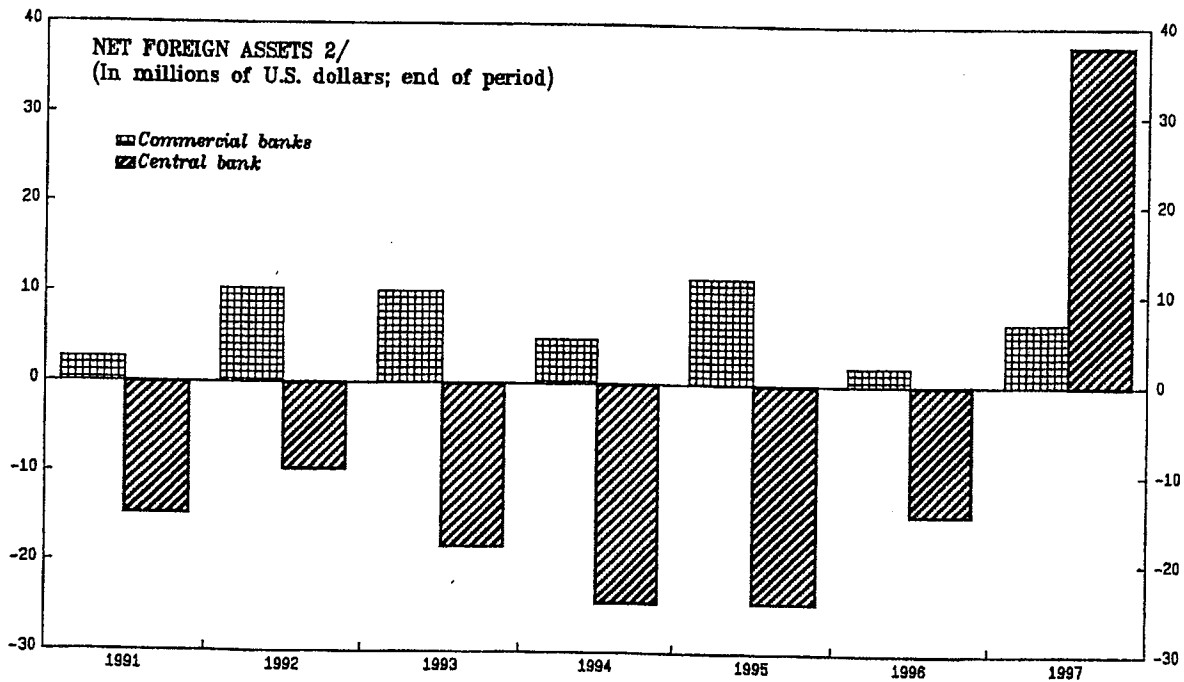
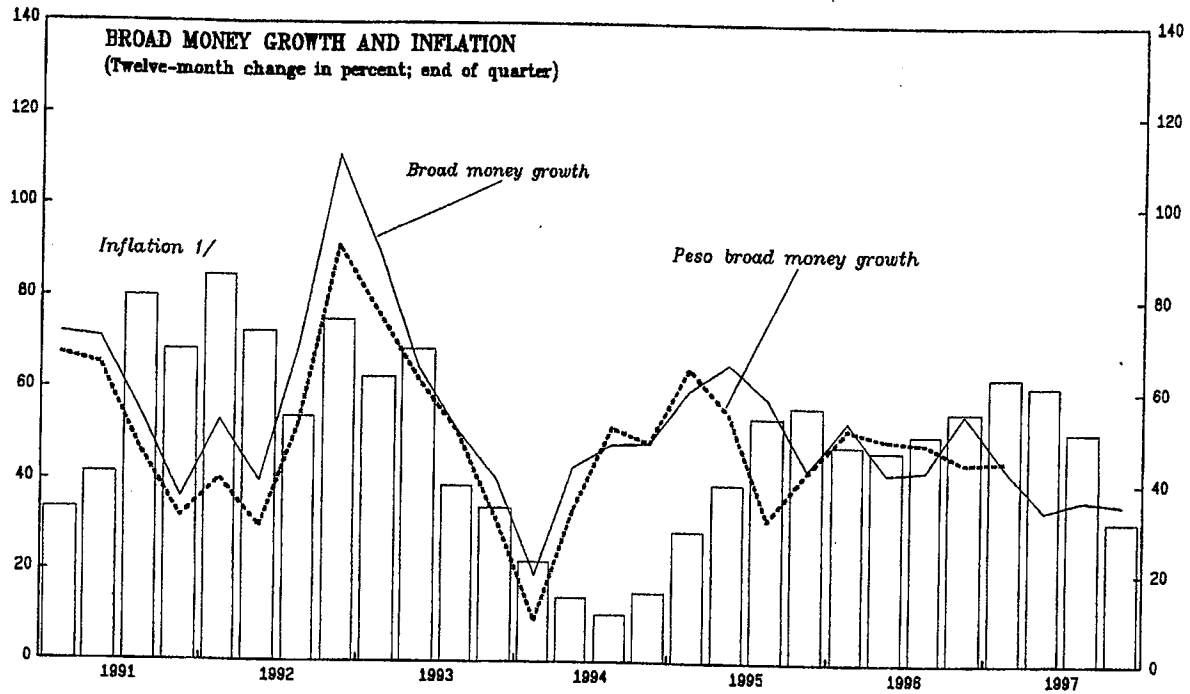
● **assumed the central bank external obligations to the IMF, the BCEAO, and certain commercial banks and suppliers for an amount equivalent to US\$20.7 million.**

To support the cost of the recapitalization, the European Union increased its disbursement envisaged for 1997 by ECU 1.5 million, and some bilateral donors enlarged their external assistance.

B. Monetary Developments in 1996-97

Despite a policy of tight domestic credit, the expansion in the money stock (excluding foreign exchange deposits) was very rapid in the first half of 1996 (28 percent), owing in part to stronger-than-expected capital inflows associated with the purchase by exporters of the domestic cashew crop (Figure 4). This was reflected in a strengthening of the

Figure 4
 GUINEA-BISSAU
 SELECTED MONETARY INDICATORS, 1991-97



Sources: Data provided by the Guinea-Bissau authorities; and staff estimates.

1/ Quarterly average of the three 12-month rates during each quarter.

2/ The Central bank data for 1997 reflect the recapitalization of the BCGB carried in March-April 1997.

net foreign assets position of the banking system; net credit to the government was in line with the program. Peso money growth declined to 13.1 percent in the second half of 1996, as monetary policy was sharply tightened to counter heavy pressures on the exchange rate in August, when it depreciated by 25 percent in local currency terms, reflecting concerns about a possible devaluation in the context of Guinea-Bissau's envisaged entry into WAMU. The monetary policy response to these pressures included raising, at end-August, reserve requirements from 20 percent to 25 percent, and the six-month lending rate from 50 percent to 55 percent; in addition, banks were instructed to accelerate the reimbursement by their customers of crop credit.

Credit to the economy remained relatively stable during the first nine months of 1997, as an increase in the second quarter, associated with crop financing, was followed by net repayments in the third quarter. The increased confidence in the monetary system resulting from the announcement at end-1996 of the entry into the WAMU and from the strong performance of exports led to a strong rise of bank deposits in the first nine months of the year, and a concurrent increase in the net foreign assets of the commercial banks. The gross foreign assets of the central bank also increased during the first nine months of the year, while its external liabilities were assured by the Treasury. Data on currency in circulation and on net foreign assets of the central bank for the last quarter of 1997 are not yet available.

IV. BALANCE OF PAYMENTS AND EXTERNAL DEBT

A. Balance of Payments

The current account of the balance of payments improved in 1996 and more significantly in 1997, with the ratio of the current account deficit (excluding official transfers to GDP) falling from 23.6 percent in 1995 to 20.6 percent in 1996 and to 14.2 percent in 1997 (Table 22). In 1996 the improvement resulted from a decline in imports in U.S. dollar terms, while exports declined modestly, as final contracts for a part of the cashew crop (15,000 tons out of 49,000 tons) were not concluded. This was partly offset by an increase in export prices of 5.8 percent in U.S. dollar terms. In 1997, the external current account benefited from a surge in the export of cashew nuts in U.S. dollar terms, which rose by 173 percent. This resulted from a 20 percent increase in the cashew crop to 50,000 tons, a 5 percent rise in prices, and the sale in 1997 of cashew held over from the 1996 crop (Tables 23 and 24). Export volumes grew by 139 percent, compared with a fall of 13 percent in 1996. Cashews accounted for 94 percent of total exports in 1997; the major noncashew exports are cotton, fish products and wood.

Following a decline of 4.3 percent in U.S. dollar terms in 1996, import grew by nearly 20 percent in 1997, in U.S. dollar terms, as strong volume growth was only partially offset by a slight fall in import prices. Rice imports increased by 29 percent, partly to reconstitute stocks (Table 25). Strong growth was also recorded in imports of construction and transport

materials, and electrical equipment. Guinea-Bissau's major trading partner is Portugal, which accounts for about 10 percent of exports and 37 percent of imports (Table 26). India remains the top export destination for unprocessed cashews.

Net services payments increased in 1997, in part due to higher costs for freight and insurance associated with higher imports (Table 27). However, this was more than compensated for by the fall in the deficit on the balance of trade and lower scheduled interest payments.

External grants in 1997 amounted to almost \$30 million, similar to the level in 1996, but below the level of US\$59 million received in 1995 (Table 28). A fall in project related grants and food aid disbursements in 1997 was balanced by an increase in balance of payments support grants. The largest donors were the European Union and Taiwan, Province of China. The current account of the balance of payments including official transfers improved from a deficit of 14.7 percent of GDP in 1996 to 5.7 percent of GDP in 1997.

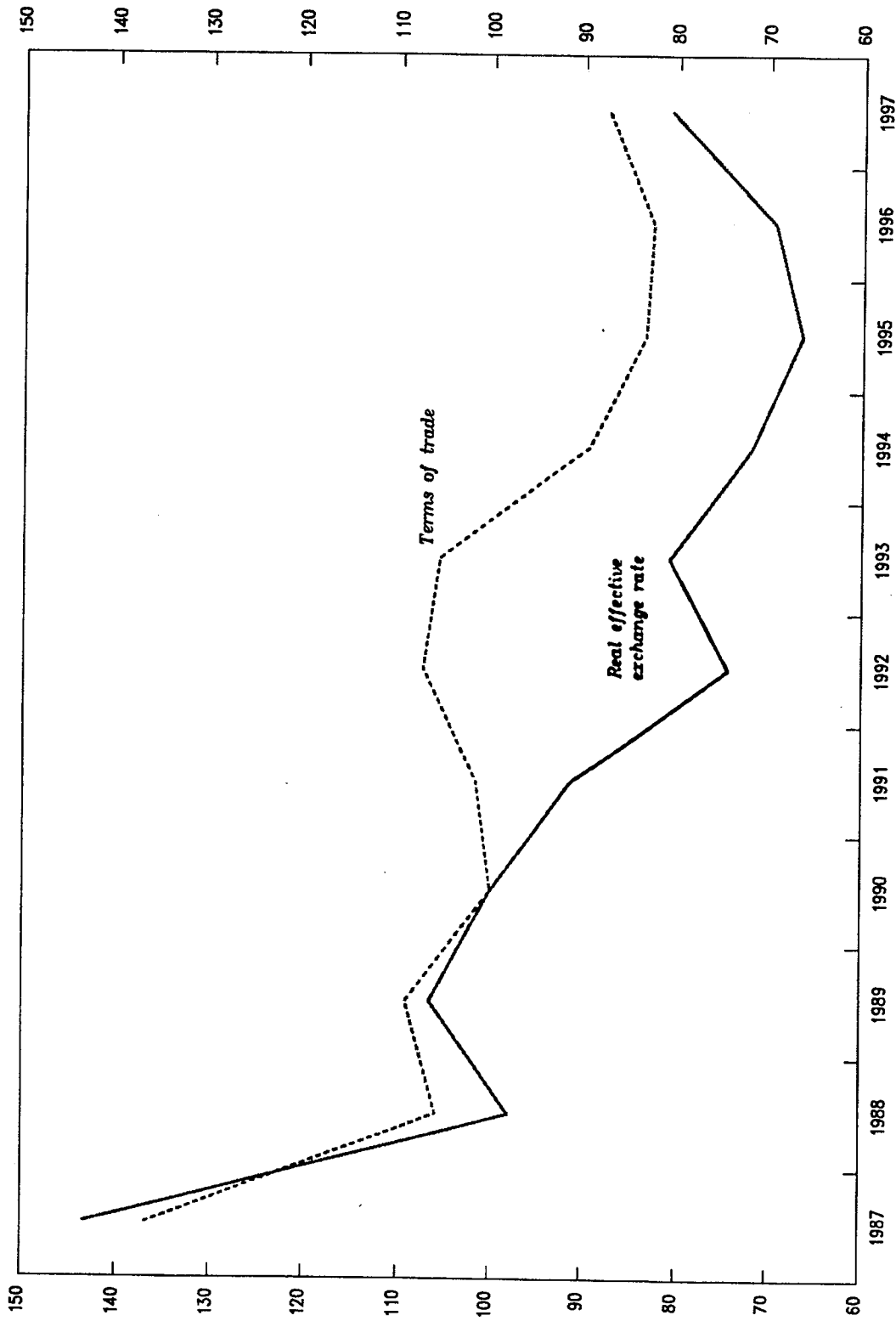
Guinea-Bissau became a member of the WAMU on May 1, 1997, and the Guinea-Bissau peso was converted into CFA francs at the rate of PG 65 per CFA franc in the three-month period May 2-July 31, 1997. The evolution of the terms of trade and of the real effective exchange is presented in Figure 5. After declining between 1993 and 1995, the terms of trade were stable in 1996 and improved significantly in 1997. The real effective exchange rate declined by 38 percent from 1989 to 1995, thereby increasing the competitiveness of the economy. (For an analysis of competitiveness, and the evolution of the exchange rate vis-à-vis the CFA franc up to 1997, see Appendix I). In 1996 and 1997 the real effective exchange rate rose by 17 percent, offsetting only a part of the previous decline.

B. External Debt

At end-1996, official external debt liabilities were estimated to be about US\$918 million (Table 29), equivalent to about 2,170 percent of exports of goods and services (including fishing licence income), and 339 percent of GDP. Guinea-Bissau is therefore one of the most highly indebted countries in the world. Arrears on external debt have accumulated since the early 1980s and were estimated to have peaked at over US\$400 million in 1994; however, comprehensive concessional reschedulings from bilateral creditors allowed the estimated arrears to fall to about US\$200 million by end-1996 (Table 30).

About 55 percent of end-1996 external debt was owed to bilateral creditors, evenly split between Paris Club and non-Paris Club creditors. Over half of the total external arrears at end-1996 were owed to Russia, which did not start to participate as a Paris Club creditor until 1997. In addition to Russia, the other major bilateral creditors are Portugal, Italy, and Taiwan Province of China. The cutoff date agreed with the Paris Club creditors is December 1986, and Guinea-Bissau had about \$73 million of post-cutoff-date debt outstanding at end-1996, owed mainly to Italy. The most recent Paris Club agreement, in February 1995, was on Naples

Figure 5. Guinea-Bissau: Real Effective Exchange Rate, and Terms of Trade, 1987-97
(1990=100)



Sources: Information Notice Systems; and staff estimates.

1/ A decline indicates a depreciation of the Guinea-Bissau peso.

terms (providing for a 67 percent debt reduction in net present value terms), and covered outstanding arrears and maturities falling due until the end of 1997. This agreement also provided for a deferral of payments on post-cutoff-date debts.

About 43 percent of Guinea-Bissau's external debt at end-1996 was owed to multilateral creditors. Most of the multilateral debt was owed to the International Development Association (55 percent) and the African Development Bank/Fund (30 percent). At end-1996 arrears had accumulated to some other multilaterals, including the OPEC Fund and the Arab Bank for Economic Development in Africa (BADEA). Short-term debt at end-1996 accounted for about 2 percent of external debt; this was mainly debt in arrears owed by the central bank to the BCEAO.

Debt service payments made by the Guinea-Bissau Treasury in 1997 amounted to about US\$7.6 million, compared with scheduled debt service of about US\$35 million (about 60 percent of exports). Debt relief obtained in 1997, mainly on account of the implementation of the third tranche of the 1995 Paris Club agreement, amounted to about US\$9.5 million. Negotiations are underway with multilateral lenders such as the OPEC Fund, BADEA, and the Islamic Development Bank, to reschedule or refinance outstanding arrears, and with bilateral creditors not participating in the Paris Club to obtain debt relief on terms comparable to those granted by Paris Club members.

Table 1. Guinea-Bissau: Real GDP by Sector, 1991-97

	1991	1992	1993	1994	1995	1996	1997
					Estimates		
(In billions of Guinea-Bissau pesos at constant 1986 prices)							
Agriculture, fishing, and forestry	27.2	27.4	29.1	30.7	32.7	35.0	37.6
Industry (including water and electricity)	6.6	6.7	6.9	7.1	7.3	7.5	7.8
Construction	2.9	3.8	3.0	1.9	2.0	2.1	2.2
Commerce, restaurants, and hotels	13.2	12.8	12.8	14.0	14.2	14.7	15.2
Transport and communications	1.4	1.5	1.4	1.5	1.5	1.6	1.6
Banks, insurance, and other services	0.5	0.5	0.5	0.5	0.5	0.5	0.6
Public administration	4.7	4.8	4.8	4.7	4.6	4.3	4.1
GDP at factor cost	56.5	57.5	58.5	60.4	62.9	65.7	69.0
Indirect taxes	0.8	0.5	0.6	0.7	0.8	1.0	1.1
GDP at market prices	57.4	58.0	59.2	61.0	63.7	66.7	70.1
(In percent of GDP)							
Agriculture, fishing, and forestry	48.1	47.7	49.7	50.8	52.0	53.2	54.4
Industry (including water and electricity)	11.6	11.6	11.8	11.7	11.7	11.5	11.3
Construction	5.2	6.6	5.1	3.2	3.2	3.2	3.2
Commerce, restaurants, and hotels	23.3	22.3	21.8	23.2	22.5	22.3	22.0
Transport and communications	2.5	2.6	2.5	2.5	2.5	2.4	2.4
Banks, insurance, and other services	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Public administration	8.3	8.4	8.3	7.8	7.3	6.5	5.9
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Annual changes in percent)							
Agriculture, fishing, and forestry	5.6	0.9	6.1	5.4	6.6	6.9	7.5
Industry (including water and electricity)	1.5	1.4	3.8	2.1	3.8	2.6	3.5
Construction	12.9	28.6	-20.4	-35.7	3.5	5.1	5.0
Commerce, restaurants, and hotels	1.0	-2.7	-0.4	9.3	1.4	3.5	3.4
Transport and communications	7.5	2.8	-2.0	3.1	3.7	3.7	3.0
Banks, insurance, and other services	6.0	0.8	-10.7	8.9	4.3	3.7	2.3
Public administration	10.7	2.5	0.2	-2.4	-2.2	-6.8	-5.0
GDP at factor cost	4.8	1.7	1.8	3.1	4.2	4.5	5.1
GDP at market prices	5.1	1.1	2.1	3.2	4.4	4.6	5.1

Source: National Institute of Statistics and Census (INEC); and staff estimates and projections.

Table 2. Guinea-Bissau: Nominal GDP by Sector, 1991-97

	1991	1992	1993	1994	1995	1996	1997
	Estimates						
(In billions of Guinea-Bissau pesos)							
Agriculture, fishing, and forestry	482	751	1,262	1,587	2,377	3,869	5,473
Industry (including water and electricity)	87	163	231	330	527	778	1,123
Construction	53	125	150	124	186	280	411
Commerce, restaurants, and hotels	220	394	538	748	1,118	1,653	2,383
Transport and communications	24	41	60	74	110	164	235
Banks, insurance, and other services	8	14	19	25	38	57	81
Public administration	52	72	103	116	173	233	309
GDP at factor cost	927	1,561	2,364	3,004	4,529	7,033	10,015
Indirect taxes	14	12	25	33	60	103	158
GDP at market prices	941	1,573	2,389	3,038	4,589	7,136	10,173
(In percent of GDP at factor cost)							
Agriculture, fishing, and forestry	52.0	48.1	53.4	52.8	52.5	55.0	54.7
Industry (including water and electricity)	9.4	10.4	9.8	11.0	11.6	11.1	11.2
Construction	5.7	8.0	6.4	4.1	4.1	4.0	4.1
Commerce, restaurants, and hotels	23.8	25.3	22.8	24.9	24.7	23.5	23.8
Transport and communications	2.6	2.7	2.5	2.5	2.4	2.3	2.3
Banks, insurance, and other services	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Public administration	5.6	4.6	4.4	3.9	3.8	3.3	3.1
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Annual changes in percent)							
Agriculture, fishing, and forestry	58.9	55.6	68.1	25.8	49.8	62.7	41.5
Industry (including water and electricity)	59.8	86.7	42.0	42.8	59.6	47.6	44.4
Construction	87.1	134.8	20.0	-17.6	50.3	50.8	46.5
Commerce, restaurants, and hotels	63.7	78.9	36.5	38.9	49.4	47.9	44.2
Transport and communications	78.3	73.2	45.2	22.9	49.4	48.4	43.7
Banks, insurance, and other services	65.6	66.8	32.8	34.3	50.9	49.0	42.7
Public administration	95.4	39.6	42.4	12.8	48.7	35.1	32.5
GDP at factor cost	63.8	68.3	51.4	27.1	50.7	55.3	42.4
Memorandum item:							
GDP deflator at factor cost	56.3	65.4	48.8	23.3	44.7	49.8	39.5

Sources: National Institute of Statistics and Census (INEC); and staff estimates and projections.

Table 3. Guinea-Bissau: National Accounts, 1991-97

	1991	1992	1993	1994	1995	1996	1997
					Estimates		
(In billions of Guinea-Bissau pesos at current prices)							
Consumption	911	1,524	2,221	2,919	4,642	7,009	9,841
Private	811	1,383	2,052	2,702	4,348	6,540	9,125
Public	100	141	168	216	294	469	716
Gross domestic investment	292	759	737	661	1,024	1,645	1,946
Private	74	314	149	42	328	591	540
Public	218	445	588	620	696	1,054	1,406
Exports of goods and services	94	77	212	501	536	752	2,366
Imports of goods and services	-356	-787	-781	-1,043	-1,612	-2,270	-3,980
GDP at market prices	941.0	1,573.1	2,388.8	3,037.9	4,589.2	7,135.8	10,173.1
(In percent of GDP)							
Consumption	96.8	96.9	93.0	96.1	101.2	98.2	96.7
Private	86.2	87.9	85.9	89.0	94.8	91.7	89.7
Public	10.6	9.0	7.0	7.1	6.4	6.6	7.0
Gross domestic investment	31.0	48.3	30.9	21.8	22.3	23.0	19.1
Private	7.8	20.0	6.3	1.4	7.1	8.3	5.3
Public	23.2	28.3	24.6	20.4	15.2	14.8	13.8
Exports of goods and services	10.0	4.9	8.9	16.5	11.7	10.5	23.3
Imports of goods and services	-37.8	-50.0	-32.7	-34.3	-35.1	-31.8	-39.1
Gross domestic savings	3.2	3.1	7.0	3.9	-1.2	1.8	3.3
Resource gap	-27.8	-45.1	-23.8	-17.8	-23.5	-21.3	-15.9
Memorandum items:							
Real GDP growth (in percent)	5.1	1.1	2.1	3.2	4.4	4.6	5.1
GDP (in millions of U.S. dollars)	257.2	226.9	236.9	235.6	253.9	270.6	265.5
GDP per capita (in U.S. dollars)	257.2	222.3	227.6	221.8	234.3	244.6	235.2

Sources: Guinea-Bissau authorities; and staff estimates.

Table 4. Guinea-Bissau: Output of Main Crops, 1991-97
(In thousands of metric tons)

	1991	1992	1993	1994	1995	1996	1997 Est.
Rice (paddy)	118.8	123.8	125.9	131.0	133.3	135.5	137.8
Other cereals	46.4	57.1	47.8	54.8	59.1	61.7	61.8
Manioc	14.8	15.7	16.7	16.3	15.5	16.4	16.7
Sweet potatoes	16.9	17.4	17.8	18.3	18.8	19.7	22.5
Coconut	1.9	5.1	3.5	2.8	1.2	0.8	0.75
Sugar cane	53.1	55.7	58.5	61.4	64.5	71.1	72.5
Vegetables	7.4	7.6	7.9	8.2	8.6	8.9	9.2
Fresh fruit	131.1	142.8	154.7	168.8	186.5	203.6	327.4
<i>Of which: cashews</i>	77.4	87.5	97.1	108.8	124.0	192.0	258.5
Cashew nuts	17.5	19.4	21.7	24.8	27.8	38.6	51.7
Groundnuts	14.8	15.7	16.7	16.3	15.5	16.4	15.8
Cotton	2.4	2.4	1.2	1.7	1.6	0.5	0.6

Sources: National Institute of Statistics and Census (INEC); and Ministry of Planning and International Cooperation.

Table 5. Guinea-Bissau: Stocks, Production, and Uses of Cashew Nuts, 1991-97
(In metric tons)

	1991	1992	1993	1994	1995	1996 Est.	1997
Stock at beginning of year	3,910	2,887	18,383	22,863	912	356	15072
Production	17,494	19,418	21,748	24,793	27,768	40,000	51697
Domestic consumption	-266	-272	-278	-283	-288	-284	-289
Exports	-18,250	-3,650	-16,990	-46,460	-28,382	-25,000	-64304
Level of stocks	2,888	18,383	22,863	913	10	15,072	2,176
Change in stocks	-1,023	15,495	4,480	-21,950	-903	15,062	-12,896

Source: Institute of National Statistics and Census (INEC), Ministry of Planning and International Cooperation; and staff estimates.

Table 6. Guinea-Bissau: Industrial and Artisanal Fishing, 1991-97

	1991	1992	1993	1994	1995	1996	1997
	(In metric tons)						
Artisanal fishing (all species)	13,594	14,154	16,407	17,578	18,917	20,088	22,312
Industrial fishing by domestic operators							
Fish	3,000	3,274	3,393	3,546	3,723	4,070	4,272
Shrimp	310	315	406	410	450	480	505
Other crustaceans	54	60	69	71	76	81	85
	(In millions of U.S. dollars)						
Fish and shrimp exports	3.4	2.6	0.9	0.7	0.3	0.2	...
Revenue from fishing licenses	22.9	13.5	13.5	10.8	11.7	11.3	...
Memorandum items:							
Number of fishing licenses	315	323	242	141	169	...	...
Number of authorized boats	208	213	162	120	108	...	...

Sources: Institute of National Statistics and Census (INEC); and Ministry of Planning and International Cooperation.

Table 7. Guinea-Bissau: Manufacturing Production in Major Industries, 1991-97

	1991	1992	1993	1994	1995	1996	1997
	(In thousands of metric tons)						
Food industries							
Hulled rice	68.0	68.1	68.4	69.6	72.4	73.6	79.6
Peanut processing	9.5	7.7	8.2	8.7	8.5	8.1	8.2
Bakery products	6.7	6.9	7.1	7.3	7.6	7.8	...
Frozen fish	1.0	1.0	1.1	1.2	1.1	1.2	2.5
Dry and smoked fish	1.7	1.7	2.0	2.1	2.0	3.7	6.6
	(In millions of liters)						
Vegetable oils	4.9	5.2	5.3	6.2	6.0	4.3	4.1
Beverages	1.9	2.0	2.0	1.7	2.7	2.8	...
Distilled liquor	1.0	1.0	1.1	1.2	1.2	1.3	1.3
Dairy products	1.0	1.1	1.1	1.1	1.2	1.2	...
	(In thousands of metric tons)						
Nonfood industries							
Wood processing	5.9	5.5	4.7	4.9	6.0	18.2	21.4
Wood products	2.9	5.1	4.3	4.4	4.2	7.9	7.0
Soap	2.6	2.7	2.7	2.8	2.8	2.9	3.0

Source: Institute of National Statistics and Census (INEC); and Ministry of Planning and International Cooperation.

Table 8. Guinea-Bissau: Electricity and Water Production, 1991-97

	1991	1992	1993	1994	1995	1996	1997
(In thousands of kilowatts-hours)							
Electricity production	48,233	44,029	44,024	44,924	46,302	47,623	49,459
<i>Of which</i> : Bissau	42,040	37,704	37,553	38,304	39,530	40,715	42,344
(In thousands of cubic meters)							
Water production	5,179	5,437	5,730	6,042	6,371	6,661	7,127
<i>Of which</i> : Bissau	4,314	4,552	4,825	5,116	5,423	5,694	6,036

Sources: Institute of National Statistics and Census (INEC); and Ministry of Planning and International Cooperation.

Table 9. Guinea-Bissau: Income Distribution, 1991 1/

Percentage Share of Population Ranked by Share of Consumption Per Capita	Percentage Share of Consumption (in percent)
Highest 20 percent	58.9
<i>Of which</i> : highest 10 percent	42.4
Fourth quintile	20.6
Third quintile	12.0
Second quintile	6.5
Lowest 20 percent	2.1
<i>Of which</i> : lowest 10 percent	0.5
Memorandum item:	
Gini index	56.2

Source: World Bank, 1996 *World Development Report*.

1/ Refers to expenditure shares by fractiles of nationals.

Table 10. Guinea-Bissau: Consumer Price Indices, 1991-97

	1991	1992	1993	1994	1995	1996	1997 Est.
Period average basis							
Indices (February 1986=100)							
Total consumer price index (CPI) 1/	1,696	2,873	4,259	4,905	8,306	10,748	16,025
Food	1,725	2,931	4,427	5,068	7,158	10,582	15,547
Beverages	1,332	2,482	3,139	3,415	6,632	9,363	12,422
Tobacco	1,686	2,646	3,616	4,511	7,094	12,763	21,657
Changes from previous period (in percent) 2/							
Total CPI 1/	57.6	69.4	48.2	15.2	69.3	29.4	49.1
Food	61.1	69.9	51.0	14.5	41.2	47.8	46.9
Beverages	28.3	86.3	26.5	8.8	94.2	41.2	32.7
Tobacco	48.6	56.9	36.7	24.8	57.3	79.9	69.7
End-of-period basis							
Indices (February 1986=100)							
Total CPI 1/	1,906	3,559	4,652	5,548	8,306	13,756	16,062
Food	1,908	3,590	4,820	5,749	8,165	13,433	15,484
Beverages	1,857	3,281	2,643	4,469	8,478	11,835	12,694
Tobacco	1,922	3,479	4,502	4,643	9,264	17,241	22,705
Changes from previous period (in percent)							
Total CPI 1/	60.1	86.7	30.7	19.3	49.7	65.6	16.8
Food	58.4	88.2	34.3	19.3	42.0	64.5	15.3
Beverages	74.5	76.7	-19.4	69.1	89.7	39.6	7.3
Tobacco	66.4	81.0	29.4	3.1	99.5	86.1	31.7

Source: Directorate-General of Statistics, Ministry of Planning and International Cooperation.

Table 11. Guinea-Bissau: Central Government Operations, 1991-97 1/

	1991	1992	1993	1994	1995	1996	1997
						(in billions of PG)	Est.
(For 1991-95, in billions of Guinea-Bissau pesos; for 1996-97, in billions of CFA francs, unless otherwise indicated)							
Total revenue and grants	262.7	415.5	653.3	822.8	1,328.8	1,529.2	40.9
Total revenue	116.4	168.0	249.3	375.8	580.8	889.8	24.0
Tax revenue	56.3	60.2	121.0	207.4	317.7	487.6	12.6
Of which: international trade taxes	(33.4)	(31.3)	(73.5)	(134.6)	(159.0)	292.3	(6.8)
Nontax revenue	60.2	107.7	128.3	168.4	263.1	402.1	11.4
Of which: fishing licenses	(52.3)	(99.5)	(113.7)	(150.6)	(219.1)	360.8	(9.1)
Grants	146.2	247.5	404.1	447.0	748.0	639.4	16.8
Marketable food aid	13.2	0.0	0.0	0.0	41.7	0.0	0.0
Balance of payments support	13.3	49.9	35.3	21.8	267.2	75.6	9.1
Project aid	119.7	197.5	368.8	425.2	439.2	563.8	7.8
Total expenditure and net lending	427.4	755.4	963.4	1,078.2	1,395.2	2,400.7	65.7
Current expenditure	164.6	250.7	343.3	440.8	703.3	1,128.9	24.0
Wages and salaries	43.9	60.1	77.9	80.8	128.2	227.6	4.9
Other goods and services	56.0	80.8	90.4	135.6	165.9	240.2	6.1
Transfers	14.7	36.8	37.5	60.5	103.3	188.6	4.4
Scheduled external interest payments	49.9	72.9	137.4	163.9	305.9	472.5	8.6
Capital expenditure	218.0	445.4	587.6	619.6	695.6	1,052.8	21.3
Of which: domestically financed	(16.0)	(2.3)	(2.8)	(2.5)	(10.0)	81.5	(2.0)
Net lending	44.9	59.3	32.6	17.8	-3.7	219.0	20.3
Of which: privatization revenues	(0.0)	(-19.4)	(-4.4)	(0.0)	(-4.0)	-6.4	(-1.5)
Overall balance							
Excluding grants	-311.0	-587.4	-714.2	-702.4	-814.4	-1,511.0	-41.6
Including grants	-164.8	-339.9	-310.1	-255.5	-64.4	-871.6	-24.8
Changes in external interest arrears	42.1	60.5	64.8	136.4	-614.6	-10.0	0.0
Changes in domestic arrears	0.0	25.6	-7.9	-3.1	-9.4	8.8	-3.8
Float and errors and omissions (net)	20.7	-16.3	-16.6	-18.1	109.0	-6.4	-1.3
Overall balance (cash basis)	-102.0	-270.1	-269.8	-140.4	-581.3	-879.2	-29.9
Financing	102.0	270.1	269.8	140.4	581.3	879.2	29.9
Domestic banking system (net)	-31.1	33.7	0.3	-22.2	-184.9	224.4	0.7
Foreign (net)	94.4	226.0	116.7	158.5	-2,615.1	-618.2	12.7
Drawings	134.3	245.6	225.2	231.4	338.7	541.0	24.7
Balance of payments loans	52.1	0.0	9.3	39.5	92.2	133.5	0.0
Project loans	82.2	245.6	216.0	191.9	246.5	407.5	11.0
Foreign liabilities transfer from BCGB 2/	0.0	0.0	0.0	0.0	0.0	0.0	13.7
Amortization	-114.2	-230.8	-348.3	-481.3	-649.9	-780.2	-11.2
Changes in principal external arrears	74.3	211.3	239.8	408.3	-2,303.8	-379.0	-0.7
Debt relief 3/	38.8	10.4	152.8	4.1	3,381.3	1,273.0	16.4
(In percent of GDP)							
Total revenue	12.4	10.7	10.4	12.4	12.7	12.5	15.4
(excluding fishing licenses)	(8.8)	(8.7)	(7.4)	(7.9)	(9.2)	7.4	(9.6)
Total expenditure and net lending	45.4	48.0	40.3	35.5	30.4	33.6	42.0
Current expenditure	17.5	15.9	14.4	14.5	15.3	15.8	15.3
Capital expenditure	23.2	28.3	24.6	20.4	15.2	14.7	13.6
Current primary balance 4/	0.2	-0.6	1.8	3.3	4.0	3.3	5.5
Overall balance (commitment basis)							
Excluding grants	-33.0	-37.3	-29.9	-23.1	-17.7	-21.2	-26.6

Source: Directorate-General of Analysis and Forecasting, Ministry of Finance.

1/ In May 1997, Guinea-Bissau joined the WAMU zone, and the Guinean pesos were converted into CFA Franc at an exchange rate of CFAF 1 = PG 65.

2/ Central Bank of Guinea-Bissau (BCGB).

3/ In 1997, also includes external debt under renegotiation.

4/ Current expenditure, excluding scheduled external interest payments.

Table 12. Guinea-Bissau: Central Government Revenue, 1991-97 1/

	1991	1992	1993	1994	1995	1996		1997
						(in billions) of PG)		Est.
(For 1991-95, in billions of Guinea-Bissau pesos; for 1996-97, in billions of CFA francs, unless otherwise indicated)								
Tax revenue	56.3	60.2	121.0	207.4	317.7	487.6	9.5	12.6
Income taxes	6.9	11.5	18.0	25.2	45.7	69.8	1.4	2.0
Business profits	3.8	6.2	9.2	11.8	28.0	42.7	0.8	1.4
Individuals	2.1	2.9	5.4	9.5	12.0	19.5	0.4	0.6
Salaries and fees	0.9	1.3	2.1	3.0	6.3	10.8	0.2	0.4
Rental income	1.3	1.7	3.3	6.5	5.7	2.9	0.1	0.0
Complementary tax	0.8	1.7	1.9	2.2	4.7	5.8	0.1	0.1
Capital tax	0.1	0.2	0.5	1.5	1.0	1.4	0.0	0.0
Other taxes	0.1	0.5	0.9	0.3	0.0	0.4	0.0	0.0
Property tax	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Consumption taxes	12.7	12.6	23.4	27.7	97.9	100.4	1.9	3.0
On imports	11.9	11.6	22.2	25.6	95.1	125.1	2.4	4.3
On local production	0.8	1.0	1.2	2.1	2.8	1.3	0.0	0.1
Taxes on international trade	33.4	31.3	73.5	134.6	159.0	292.3	5.7	6.8
Import duties	13.5	12.4	25.2	33.5	60.3	102.6	2.0	2.4
Export taxes	11.3	5.7	18.0	57.5	25.9	81.2	1.6	2.5
Port service charges	8.5	13.2	30.4	43.7	72.8	108.5	2.1	1.8
Other taxes	3.2	4.9	6.1	19.9	14.7	25.2	0.5	0.8
Nontax revenues	60.2	107.7	128.3	168.4	263.1	402.1	7.8	11.4
Entrepreneurial and property income	0.6	1.3	1.3	1.5	15.7	14.0	0.3	0.2
Fees and duties	52.7	100.1	114.7	151.3	228.1	367.8	7.1	9.2
Of which: fishing licenses	(52.3)	(99.5)	(113.7)	(150.6)	(219.1)	(360.8)	(7.0)	(9.1)
Civil servants' social security contributions	1.8	1.9	3.5	4.3	6.4	8.3	0.2	0.2
Other nontax revenues	5.0	4.4	8.8	11.4	13.0	5.9	0.1	1.8
Total revenue	116.4	168.0	249.3	375.8	580.8	889.8	17.3	24.0
(In percent of GDP)								
Tax revenue	6.0	3.8	5.1	6.8	6.9	6.8	6.8	8.1
Of which								
Income taxes	0.7	0.7	0.8	0.8	1.0	1.0	1.0	1.3
Consumption taxes	1.4	0.8	1.0	0.9	2.1	1.4	1.4	1.9
Taxes on international trade	3.6	2.0	3.1	4.4	3.5	4.1	4.1	4.3
Nontax revenue	6.4	6.8	5.4	5.5	5.7	5.6	5.6	7.3
Of which								
Fishing licenses	5.6	6.3	4.8	5.0	4.8	5.1	5.1	5.8

Source: Directorate-General of Analysis and Forecasting, Ministry of Finance.

1/ In May 1997, Guinea-Bissau joined the WAMU zone, and the Guinean pesos were converted into CFA Franc at an exchange rate of CFAF 1 = PG 65.

Table 13. Guinea-Bissau: Central Government Expenditure, 1991-97 1/

	1991	1992	1993	1994	1995	1996 (in billions) of PG)		1997 Est.
(For 1991-95, in billions of Guinea-Bissau pesos; for 1996-97, in billions of CFA francs, unless otherwise indicated)								
Current expenditure	164.6	250.7	343.3	440.8	703.3	1128.9	21.9	24.0
Wages and salaries	43.9	60.1	77.9	80.8	128.2	227.6	4.4	4.9
Permanent staff	11.6	13.5	17.5	14.4	17.9	113.2	2.2	2.1
Other remunerations	32.3	46.6	60.4	66.4	110.2	114.4	2.2	2.7
Goods and services	56.0	80.8	90.4	135.6	165.9	240.2	4.7	6.1
Durable goods	0.1	0.1	0.0	3.0	3.3	18.9	0.4	0.1
Nondurable goods	16.3	10.1	10.9	12.4	12.9	19.1	0.4	0.6
Of which: gasoline	(5.7)	(6.6)	(7.1)	(8.1)	(8.3)	9.4	0.2	0.2
Acquisition of goods and services	11.8	30.7	35.6	37.2	35.0	29.1	0.6	1.1
Of which: electricity and water	(5.1)	(21.0)	(19.4)	(23.7)	(9.9)	12.1	0.2	0.2
Food and housing	3.2	4.6	10.4	31.7	35.8	48.1	0.9	0.8
Clothing	0.7	0.2	0.3	0.7	0.6	0.5	0.0	0.0
Travel	7.0	9.9	14.2	17.3	33.8	18.3	0.4	0.6
Maintenance	2.1	2.9	5.9	6.3	11.3	25.6	0.5	0.4
Other	14.8	22.3	13.2	26.8	33.1	80.5	1.6	2.6
Transfers	14.7	36.8	37.5	60.5	103.3	188.6	3.7	4.4
Civil servants and other individuals	10.5	18.7	20.1	21.0	51.5	72.4	1.4	1.9
Rest of public administration	0.6	0.6	2.0	2.9	3.3	49.7	1.0	1.7
Public enterprises	0.3	1.1	0.7	26.7	35.2	1.7	0.0	0.0
Abroad	3.4	1.8	1.8	0.0	5.7	1.5	0.0	0.4
Voluntary departure program	0.0	14.6	13.0	10.0	7.8	0.0	0.0	0.3
Scheduled external interest payments	49.9	72.9	137.4	163.9	305.9	472.5	9.2	8.6
Capital expenditure	218.0	445.4	587.6	619.6	695.6	1052.8	20.4	21.3
Foreign financed	201.9	443.1	584.7	617.1	685.6	971.3	18.8	19.4
Domestically financed	16.0	2.3	2.8	2.5	10.0	81.5	1.6	2.0
Total expenditure	382.5	696.1	930.9	1,060.4	1,398.9	2181.8	42.3	45.4
(In percent of current expenditure)								
Wages and salaries	26.7	24.0	22.7	18.3	18.2	20.2	20.2	20.3
Goods and services	34.1	32.2	26.3	30.8	23.6	21.3	21.3	25.5
Transfers	8.9	14.7	10.9	13.7	14.7	16.7	16.7	18.5
Scheduled external interest payments	30.3	29.1	40.0	37.2	43.5	41.9	41.9	35.7
(In percent of GDP)								
Current expenditure	17.5	15.9	14.4	14.5	15.3	15.8	15.8	15.4
Current primary expenditure	12.2	11.3	8.6	9.1	8.7	9.2	9.2	9.9
Wages and salaries	4.7	3.8	3.3	2.7	2.8	3.2	3.2	3.1
Goods and services	6.0	5.1	3.8	4.5	3.6	3.4	3.4	3.9
Transfers	1.6	2.3	1.6	2.0	2.3	2.6	2.6	2.8
Capital expenditure	23.2	28.3	24.6	20.4	15.2	14.8	14.8	13.6

Source: Directorate-General of Analysis and Forecasting, Ministry of Finance.

1/ In May 1997, Guinea-Bissau joined the WAMU zone, and the Guinean pesos were converted into CFA Franc at an exchange rate of CFAF 1 = P

Table 14. Guinea-Bissau: Central Government Current Primary Expenditure
by Agency, 1994-96

(In billions of Guinea-Bissau pesos)

	1994	1995	1996
Presidency	16	23	23
National Assembly	3	28	31
Prime Minister's Office	1	6	11
Courts of Law	1	2	6
State Attorney's Office	1	1	...
Ministries			
Civil Service and Labor (MFPT)	2	2	2
Commerce (MC)	1	2	2
Defense (MDN)	26	40	50
Education (MEN)	28	49	62
Energy, Industry, and Natural Resources (MEIRN)	4	5	6
Finance (MF)	17	28	73
Fisheries (MP)	3	4	4
Foreign Affairs and Guinean Communities (MNECG)	39	47	54
Of which: embassies	35	44	48
Home Affairs (MI)	24	32	41
Justice (MJ)	2	3	4
Planning and International Cooperation (MPCI)	2	5	5
Public Health (MSP)	29	29	48
Public Works, Construction, and Urbanism (MOPCU)	5	7	3
Rural Development and Agriculture (MDRA)	9	12	18
Social Affairs and Women's Promotion (MASPF)	1	4	8
Territorial Administration (MAT) 1/	...	...	5
Tourism, Environment, and Crafts (MTAA)	1	1	4
Transport and Telecommunications (MTT) 1/	...	...	3
Youth, Culture, and Sports (MJCD)	5	7	7
Veterans Affairs (MCLP)	4	2	7
Secretariat of State of Social Communications (SECS)	3	4	4
Social security contributions	20	45	44
Other common expenditures	30	9	133
Total current primary expenditures	277	397	656

Sources: Directorate-General of the Civil Service, Ministry of the Civil Service and Labor; and Directorate-General of Public Accounting and Budget, Ministry of Finance.

1/ Not in existence before ministerial restructuring of January 15, 1996.

Table 15. Guinea-Bissau: Sectoral Distribution of Public Investment Program
Outlays, 1994-1997

(In millions of U.S. dollars)

	1994	1995	1996	1997 Est.
Rural development	5.5	0.0	6.2	5.4
Fisheries	0.1	0.0	2.2	3.8
Mining	0.0	0.0	0.2	0.0
Water resources	2.8	9.1	8.8	4.2
Industry	0.3	0.3	0.0	0.1
Energy	6.8	2.1	9.9	3.2
Public infrastructure	8.3	5.0	7.4	10.1
Transport	0.0	1.7	0.5	0.7
Tourism	0.2	0.0	0.0	0.4
Health	1.6	5.6	5.1	4.0
Education and culture	3.1	5.4	5.6	2.8
Social affairs	1.5	0.0	0.0	0.1
Economic and administrative management	0.8	1.8	7.8	4.0
Regional development	0.1	0.0	0.0	0.0
Unspecified	0.4	2.4	0.0	0.0
Total	31.6	33.5	53.8	38.7
Memorandum items:				
External financing of public investment program	27.9	33.2	49.5	32.8
Grants	13.3	21.2	28.7	13.2
Loans	14.6	11.9	20.8	19.6
Domestic financing of public investment program	3.7	0.3	4.2	5.9

Sources: Bureau of Strategic Planning, Ministry of Planning and International Cooperation.

Table 16. Guinea-Bissau: Civil Service Employment and Developments
Under the Voluntary Departure Program, 1992-96

	1992	1993	1994	1995	1996
(In number of staff, end of period)					
Total government payroll	...	...	20,095	19,310	18,492
Civil servants	15,056	14,314	13,646	13,263	12,672
Presidency 2/	...	...	234	238	183
National Assembly	...	...	...	...	...
Prime Minister's Office	...	...	34	28	92
Courts of Law	...	...	112	92	159
State Attorney's Office	...	...	33	31	78
Ministries					
Civil Service and Labor (MFPT)	...	...	62	63	77
Commerce (MC)	...	...	139	125	116
Defense (MDN) 3/	...	...	...	...	...
Education (MEN)	...	...	5,552	5,552	4,916
Energy, Industry, and Natural Resources (MEIRN)	...	...	472	412	371
Finance (MF)	...	...	798	679	663
Fisheries (MP)	...	...	199	183	174
Foreign Affairs and Guinean Communities (MNECG) 4/	...	...	92	92	80
Home Affairs (MI) 3/	...	...	...	...	...
Justice (MJ)	...	...	211	210	198
Planning and International Cooperation (MPCI)	...	...	133	130	115
Public Health (MSP)	...	...	2,336	2,341	2,256
Public Works, Construction, and Urbanism (MOPCU)	\$	\$	\$	\$	260
Rural Development and Agriculture (MDRA)	...	...	1,555	1,550	1,097
Social Affairs and Women's Promotion (MASPF)	...	...	236	206	173
Territorial Administration (MAT)	\$	\$	\$	\$	138
Tourism, Environment, and Crafts (MTAA)	...	...	66	61	54
Transport and Telecommunications (MTT)	\$	\$	\$	\$	197
Youth, Culture, and Sports (MJCD)	...	...	374	372	314
Veterans Affairs (MCLP)	...	...	69	64	54
Secretariat of State of Social Communications (SECS)	...	...	102	68	...
Inactive staff	...	...	...	...	12
Other 6/	...	...	...	...	895
Military personnel 2/	...	...	6,449	6,047	5,820
Ministry of Defense (MDN) 3/	...	...	2,992	2,635	2,576
Ministry of Home Affairs (MAI) 3/	...	...	3,457	3,412	3,244
Net changes in total government payroll					
from end of previous year	...	...	...	-785	...
Civil service	-1,043	-742	-688	-383	...
Terminations	...	...	...	-383	...
Under the voluntary departure program	-1,043	-742	-764	-114	-319
Other	...	...	...	-269	...
New hirings	...	...	96	...	...
Military	...	...	...	-402	-33
(In millions of Guinea-Bissau pesos)					
Memorandum items:					
Total outlays under the Voluntary Departure Program 7/	14,618	12,975	10,000 7/	7,753	8,163
Average compensation paid	13.6	17.5	13.1	...	22.1
Monthly wage in the civil service					
Year average	0.3	0.4	0.43	0.72	0.83
Minimum (end-of-period)	0.2	0.3	0.3	0.45	0.6

Sources: Directorate-General of the Civil Service, Ministry of the Civil Service and Labor, and Directorate-General of Public Accounting and Budget, Ministry of Finance.

1/ The 1996 figures reflect the results of the census of the civil service completed in 1996 and are not fully comparable with previous years, which were based on payroll lists employed by the Ministry of Finance.

2/ The military personnel assigned to the Presidency are accounted for under the Ministry of Defense and the Ministry of Home Affairs.

3/ In the absence of detailed information, all Ministry of Defense and Ministry of Home Affairs staff are counted as military personnel.

4/ Does not include embassies' staff.

5/ Not in existence before ministerial restructuring of January 15, 1996.

6/ Corresponds to an estimated number of contractual teachers whose situation is being regularized.

7/ Includes payments to retrenched military personnel.

Table 17. Guinea-Bissau: Status of Public Enterprise Reform, End-January 1998.

Companies	Ownership/divestment status
Companies liquidated or extinct	
1 ENAVE (poultry)	Legally extinct in 1980 with incorporation of SUINAVE.
2 Titina Sila (processed fruits)	Out of business in 1988.
3 EGA (automobile maintenance)	Liquidated in 1994.
4 DICOL (petroleum products distribution)	Liquidated in 1997.
5 GUINEGAZ (gas distribution)	Liquidated in 1997.
6 GUINEMAR (shipping)	Liquidated in 1995.
7 JAPG (port authority)	Liquidated in 1995.
8 SILO DIATA (urban transportation)	Liquidated in 1995.
9 FARMEDI (pharmaceuticals import and distribution)	Liquidated in 1996.
10 TAGB (airline)	Liquidated in 1997.
Fully privatized companies	
11 Leite Bluflo (dairy)	Fully privatized in 1992.
12 Fábrica Espuma (mattresses)	Fully privatized in 1993.
13 CMV (automobile maintenance)	Fully privatized in 1995.
14 SOCOTRAM/Bafatá (wood processing) 1/	Fully privatized in 1996.
15 CICER (brewery)	Fully privatized in 1996.
16 SUINAVE (pork and poultry)	Fully privatized in 1996.
Companies operated by private management 2/	
17 Fábrica de Plásticos (plastics)	Under leasing contract.
18 EAGB (electricity and water)	Under management contract.
19 Estância Balnear de Bubaque (hotel)	Under management contract.
20 Hotel Hottí-Bissau (hotel)	Under management contract.
21 Hotel Ilha de Maio (hotel)	Under management contract.
22 Hotel 24 de Setembro (hotel)	Under interim management contract. 3/
Companies put up for tender	
23 Complexo Frigorífico Bolola (frozen foods)	Tender opened in 1993; no bids received; interim lease.
24 Granja Agrícola de Gambiel (sugar)	Tender opened in 1995; no bids received.
25 CAIC (agro-industry)	Buyer selected; negotiations being finalized.
26 FOLBI (wood products)	Buyer selected; negotiations being finalized.
27 GUIMETAL (metalworks)	Initial tender canceled; to be relaunched.
28 SOCOTRAM/Bissau-Gambiel (wood processing) 1/	Buyer selected; negotiations being finalized.
29 SOCOTRAM/GEMSA (wood works) 1/	Buyer selected; negotiations being finalized.
30 SOCOTRAM/MACA (logging) 1/	Identified buyer walked out; to be readvertised.
31 GUINAVE	Tender to be relaunched.
32 Cerâmica Bafatá (ceramics)	Tender launched in early 1998.
Other public enterprises	
33 ENAG (airport services)	To be dealt with in the context of airport privatization.
34 INACEP (printer)	
35 OMETAL (metalworks)	
36 PETROGUIN (petroleum exploration)	
37 RODOFLUVIAL (river transport) 3/	Study to be launched in early 1998.
38 Complexo Pescarte de Bubaque	To be divested in 1998.
39 Complexo Pescarte de Cacheu	To be divested in 1998.
40 Complexo semiindustrial de pesca em Bissau	To be divested in 1998.
Other mixed companies	
41 FRETAMAR (shipping)	70 percent of capital state-owned; German company owns balance; to be divested in 1998.
42 Estrela do Mar (fishing)	51 percent of capital state-owned; Russia owns balance; to be divested in 1998.
43 GUIALP (fishing)	51 percent of capital state-owned; Algeria owns balance; to be divested in 1998.
44 GUINE-TELECOM (telecommunications) 2/	49 percent of capital state-owned; concession contract to be revised in 1998.
45 NAVIPESCA/SEMAPESCA (fishing)	35 percent of capital state-owned after privatization in 1991; to be divested in 1998.
46 Armazéns do Povo (commerce)	29 percent of capital state-owned after privatization in 1992.
47 BIGB (bank)	26 percent of capital state-owned; Portuguese bank owns balance.
48 GUIPORT (port services) 2/	25 percent of capital state-owned; concession contract to be revised in 1998.
49 TRANSTER (urban transportation)	25 percent of capital state-owned; Portuguese company owns balance.

Source: Managing Unit for the Reform of Public Enterprises (UGREP), Ministry of Finance.

1/ The former state enterprise SOCOTRAM was divested through separate sales of its regional operational divisions.

2/ Three types of private management arrangements have been employed:

(i) leasing, under which profits/losses accrue to the lessee; (ii) management contracts, under which profits/losses accrue to the state; and (iii) concession contracts, which are joint ventures for extended periods in which the states hold a minority position.

3/ Former road operations divested in 1995.

Table 18. Guinea-Bissau: Monetary Survey, 1990-96

	1990	1991	1992	1993	1994	1995	1996 Prel.
(In billions of Guinea-Bissau pesos; end of period)							
Net foreign assets	-6.5	-59.7	6.7	-91.4	-299.8	-275.9	-432.7
Central bank	-15.2	-72.6	-83.0	-208.1	-374.7	-533.4	-500.8
Assets	45.8	72.5	154.9	162.6	283.2	445.3	403.7
Liabilities 1/	-61.0	-145.0	-237.9	-370.7	-657.9	-978.7	-904.5
Commercial banks	8.7	12.9	89.7	116.7	74.9	257.4	68.1
Assets	11.2	13.9	104.6	124.3	185.6	409.1	519.0
Liabilities	-2.5	-1.0	-14.9	-7.6	-110.7	-151.7	-450.9
Net domestic assets	118.0	228.8	470.7	633.4	828.0	1,030.7	1,605.4
Net domestic credit	109.1	105.6	148.4	231.3	229.9	70.1	322.5
Claims on government (net)	0.5	-20.4	9.0	27.5	-90.4	-268.0	-180.7
Claims on central government (net)	31.6	0.5	34.2	34.4	12.2	-272.6	-174.8
Claims	124.3	127.2	184.0	199.4	224.7	225.3	449.2
Advances to the treasury	--	--	--	--	--	--	--
Loans	124.3	127.2	143.1	151.4	224.7	225.3	449.2
Deposits	-92.7	-126.7	-149.8	-164.9	-212.5	-497.9	-624.0
Counterpart funds	-90.8	-115.4	-128.5	-135.1	-174.3	-231.5	-305.9
Other deposits	-1.9	-11.3	-21.4	-29.8	-38.2	-266.4	-318.0
Net claims on other Gov.	-31.1	-20.8	-25.1	-6.9	-102.6	4.7	-6.0
Credit to the economy	108.6	126.0	139.3	203.8	320.3	338.1	503.3
Public enterprises	28.8	29.9	40.6	35.4	53.8	71.5	3.1
Private enterprises	91.1	108.6	113.8	185.8	320.9	337.3	652.1
Write-offs	-11.3	-12.5	-15.1	-17.4	-54.4	-70.8	-151.9
Other items (net)	8.9	123.2	322.3	402.1	598.1	960.7	1,282.8
Of which: valuation changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Broad money	88.0	119.9	253.0	355.5	527.8	754.3	1,171.8
Currency in circulation	36.5	54.5	104.2	132.6	196.0	278.1	414.7
Deposits	51.4	65.3	148.8	222.9	331.8	476.3	664.6
Foreign currency deposits	15.2	23.7	68.9	113.1	167.4	240.7	429.0
Local currency deposits	36.2	41.6	79.9	109.8	164.4	235.6	235.6
Medium- and long-term foreign liabilities 1/	23.5	49.2	224.4	186.5	0.4	0.5	0.8
(In percent of beginning-of-period broad money, unless otherwise indicated)							
Net foreign assets	67.8	-60.5	55.4	-38.8	-58.6	4.5	-20.8
Net domestic assets	40.9	125.9	201.7	64.3	54.7	38.4	76.1
Net domestic credit	87.6	-4.0	35.6	32.8	-0.4	-30.3	33.4
Claims on government (net)	47.0	-23.7	24.5	7.3	-33.2	-33.7	11.6
Credit to the economy (change in percent)	24.2	16.0	10.6	46.3	57.2	5.6	48.9
Broad money	68.8	36.3	111.0	40.5	48.5	42.9	55.4
Memorandum items:							
Velocity	6,509.1	7,847.1	6,217.9	6,719.6	5,755.8	6,084.1	6,089.4
Foreign assets of the central bank							
Gross foreign assets in US\$ millions	18.3	14.6	17.9	14.2	18.4	20.3	11.6
Net foreign assets in US\$ millions	-6.0	-14.6	-9.6	-18.2	-24.4	-24.3	-14.3
Exchange rate (PG per US\$, end of period)	2,508.6	4,959.2	8,655.6	11,463.8	15,369.3	21,926.8	34,936.3

Source: Central Bank of Guinea-Bissau (BCGB).

1/ During 1994, the treasury assumed all of the central bank's medium- and long-term liabilities to official creditors (PG 110 billion), and the central bank reclassified its remaining (commercial) medium- and long-term liabilities (PG 85 billion) as short-term liabilities.

Table 19. Guinea-Bissau: Summary Accounts of the Central Bank
of Guinea-Bissau, 1991-96
(in billions of Pesos)

	1991	1992	1993	1994	1995	1996
Net foreign assets	-72.6	-83.0	-208.1	-374.7	-533.4	-500.8
Assets	72.5	154.9	162.6	283.2	445.3	403.7
Liabilities 1/	-145.0	-237.9	-370.7	-657.9	-978.7	-904.5
Net domestic assets	239.7	504.2	654.7	719.2	988.1	1131.8
Claims on government (net)	-19.8	24.1	36.1	-87.3	-267.1	-150.0
Claims	127.2	184.0	199.4	224.7	224.7	440.4
Advances to the treasury	0.0	40.9	48.0	0.0	0.0	0.0
Loans	127.2	143.1	151.4	224.7	224.7	440.4
Deposits	-146.9	-159.9	-163.3	-312.0	-496.5	-584.4
Counterpart funds	-115.4	-128.5	-135.1	-174.3	-231.5	-305.9
Other deposits	-31.5	-31.4	-28.2	-137.8	-264.9	-278.5
Claims on commercial banks	148.1	201.4	277.2	281.4	-172.8	-214.1
Credit to the private sector	0.0	0.0	0.0	22.1	64.8	58.8
Public enterprises	0.0	0.0	0.0	20.8	37.6	...
Private enterprises	0.0	0.0	0.0	16.3	34.7	...
Write-offs	0.0	0.0	0.0	-15.1	-7.5	...
Other items (net)	112.4	278.7	341.4	503.1	909.1	1223.0
Of which: valuation changes	112.1	275.8	388.4	541.3	9.5	-332.1
Base money	117.9	196.8	259.2	341.7	450.9	628.8
Currency in circulation	57.9	106.6	136.5	202.4	286.4	426.0
Bank's reserves	60.0	90.2	122.7	139.3	164.5	202.8
Other Deposits	1.0	0.2	1.1	2.7	4.0	2.2
Medium- and long-term foreign liabilities 1/	49.2	224.2	186.3	0.0	0.0	0.0

Source: Central Bank of Guinea-Bissau (BCGB).

1/ During 1994, the treasury assumed all of the central bank's medium- and long-term liabilities to official creditors (PG 110 billion), and the central bank reclassified its remaining (commercial) medium- and long-term liabilities (PG 85 billion) as short-term liabilities.

Table 20. Guinea-Bissau: Summary Accounts of the Commercial Banking System, 1991-96

(In billions of Guinea-Bissau pesos; end of period)

	1991	1992	1993	1994	1995	1996
Net foreign assets	12.9	89.7	116.7	74.9	257.4	68.1
Assets	13.9	104.6	124.3	185.6	409.1	519.0
Liabilities	-1.0	-14.9	-7.6	-110.7	-151.7	-450.9
Net domestic assets	199.1	259.6	382.5	535.7	497.3	695.4
Domestic credit	125.4	124.2	195.2	295.1	272.4	404.2
Claims on government (net)	-0.6	-15.1	-8.5	-3.1	-0.9	-30.8
Claims	0.0	0.0	0.0	0.0	0.6	8.8
Deposits	-0.6	-15.1	-8.5	-3.1	-1.5	-39.6
Credit to the economy 1/	126.0	139.3	203.8	298.2	273.3	434.9
Public enterprises	108.6	113.8	185.8	300.1	299.7	593.3
Private enterprises	29.9	40.6	35.4	37.4	36.8	3.1
Write-offs	-12.5	-15.1	-17.4	-39.3	-63.3	-161.5
Reserves and cash	61.7	96.5	133.4	157.4	218.6	203.5
Other items (net) 1/	12.0	38.8	53.9	83.2	6.3	87.7
Deposits	64.3	148.6	221.7	329.0	472.9	756.4
Demand deposits	52.1	121.1	178.8	285.5	423.5	714.1
Local currency	30.9	54.2	68.3	120.5	187.2	286.5
Foreign currency	21.2	66.9	110.6	165.0	236.3	427.6
Time deposits	12.1	27.4	42.8	43.5	49.4	42.3
Local currency	9.6	25.5	40.4	41.1	45.6	40.4
Foreign currency	2.5	1.9	2.4	2.3	3.8	1.9
Liabilities to the central bank 1/	147.7	200.5	277.2	281.3	281.3	6.3
Long-term foreign liabilities	0.0	0.2	0.3	0.4	0.5	0.8

Source: Central Bank of Guinea-Bissau (BCGB).

1/ From 1996 onward, data exclude the liquidated Banco do Credito Nacional (BCN).

Table 21. Guinea-Bissau: Interest Rates and Required Reserve Ratios
for Commercial Banks, December 1991-January 1997

	1991	1992	1993	1994	1995	1996	1997
	End-December						End-Jan.
(In percent per annum)							
Lending interest rates							
Up to 180 days	47	57	48	28	46	55	23
181 days to 1 year	48	58	55	35	48	56	24
More than 1 year	49	59	57	37	49	58	25
Penalty interest rate (in excess of the above)	2	2	2	2	2	2	2
Deposit interest rates							
Demand deposits	5	5	3	3	5	11	6
Saving deposits (15 days' notice)	17	17	13	10	15	24	7
Time deposits							
Up to 90 days	34	45	34	21	33	48	7
91 days to 180 days	36	46	37	23	36	51	9
181 days to 1 year	38	48	40	25	38	53	9
More than 1 year	39	50	46	28	39	55	9
Central bank discount rate	46	51	41	26	39	54	35
Interest rates on operations between the central bank and the treasury							
Deposits	5	5	5	5	5	5	5
Loans	0	0	0	0	14	14	14
Interest rate on required reserves of commercial banks 1/							
Demand deposits	0	0	0	0	5	10	10
Time deposits	0	0	0	0	36	41	0
(In percent of the respective deposit basis)							
Commercial bank reserve requirements							
Demand deposits							
In Guinea-Bissau pesos	25	30	25	15	20	25	25
In foreign currency	25	30	25	20	20	25	25
Time deposits							
In Guinea-Bissau pesos	25	30	20	10	20	25	25
In foreign currency	25	30	25	20	20	25	25
(In percent above banks' one-year lending rate)							
Penalty rate on required reserves shortfalls							
Shortfalls for up to two weeks	2	2	2	2	2	1	1
Shortfalls in excess of two weeks	2	2	2	2	5	3	3

Source: Central Bank of Guinea-Bissau (BCGB).

1/ On required reserves in excess of 10 percent for domestic currency deposits only.

Table 22. Guinea-Bissau: Balance of Payments, 1992-97
(In millions of U.S. dollars, unless otherwise indicated)

	1992	1993	1994	1995	1996	1997 Est.
Goods and services	-102.4	-56.4	-42.0	-59.6	-57.5	-42.1
Goods	-77.1	-37.9	-20.5	-35.4	-35.2	-14.0
Exports, f.o.b.	6.5	16.0	33.2	23.9	21.6	53.9
<i>Of which: cashew nuts</i>	3.0	13.0	31.0	20.5	18.6	50.8
Imports, f.o.b.	-83.5	-53.8	-53.8	-59.3	-56.8	-67.9
Services (net)	-25.4	-18.6	-21.5	-24.1	-22.3	-28.1
Credit	4.6	5.1	5.6	5.7	7.0	7.8
Debit	-30.0	-23.7	-27.1	-29.9	-29.3	-35.9
Income	0.0	-4.5	-2.4	-6.8	-5.0	-1.6
Fishing license fees	13.5	10.8	11.7	11.3	13.7	13.0
Scheduled interest	-13.5	-15.3	-14.1	-18.0	-18.6	-14.6
<i>Of which: central bank (including Fund)</i>	-2.9	-1.7	-1.4	-1.1	-0.7	0.0
Current transfers (net)	21.4	16.1	20.2	25.4	22.7	28.5
Official	15.7	10.1	14.0	19.0	16.0	22.5
Private	5.7	5.9	6.2	6.4	6.7	6.0
Current account						
Including official transfers	-80.9	-44.9	-24.2	-40.9	-39.8	-15.2
Excluding official transfers	-96.7	-55.0	-38.3	-59.9	-55.8	-37.7
Capital and financial balance	45.3	-8.7	-24.0	24.1	20.0	2.5
Capital account	28.5	36.6	44.4	55.5	40.7	13.8
Capital transfers	28.5	36.6	44.4	55.5	40.7	13.8
<i>Of which: debt forgiveness</i>	0.0	0.0	0.1	16.2	11.8	0.0
Financial account	16.8	-45.2	-68.4	-31.5	-20.7	-11.3
Official medium- and long-term disbursements	35.4	22.3	18.0	18.7	22.0	15.0
Balance of payments support	0.0	0.9	3.1	5.1	5.8	0.0
Projects	35.4	21.4	14.9	13.6	16.2	15.0
Scheduled amortization	-33.3	-34.1	-36.9	-34.8	-28.5	-20.0
Short-term capital (commercial banks' net foreign assets; increase -)	-7.8	0.2	5.3	-6.9	9.8	-11.7
Private capital; errors and omissions	22.4	-33.6	-54.8	-8.5	-24.0	5.4
Overall balance	-35.7	-53.5	-48.2	-16.9	-19.8	-12.7
Financing	35.7	53.5	48.2	16.9	19.8	12.7
Change in net foreign assets, excluding Fund position (increase -)	-5.0	8.6	6.2	-0.1	-10.9	-27.3
Debt rescheduling	1.5	15.2	0.2	177.1	46.9	9.5
Change in debt-service arrears 1/	39.2	30.2	42.3	-161.5	-18.2	20.3
Memorandum items:						
Current account balance (in percent of GDP)						
Including official transfers	-10.0	-10.3	-13.1	-16.1	-14.7	-5.7
Excluding official transfers	-27.9	-16.2	-27.9	-23.6	-20.6	-14.2
Excluding official transfers and interest payments	-22.3	-10.3	-19.9	-16.5	-13.7	-8.7

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

1/ for 1997, includes certain current debt service payments under negotiation.

Table 23. Guinea-Bissau: Trade and Exchange Rate Indicators, 1992-97
(Annual percentage changes, unless otherwise indicated)

	1992	1993	1994	1995	1996	1997 Est.
Trade indicators						
Exports, f.o.b.						
Value (in U.S. dollar terms)	-68.4	147.1	108.1	-28.0	-9.8	150.3
Volume	-70.7	164.6	133.8	-30.9	-12.8	139.2
Prices (in U.S. dollar terms)	7.7	-6.6	-11.0	4.1	-3.4	4.7
Imports, f.o.b.						
Value (in U.S. dollar terms)	23.8	-35.6	-0.1	10.4	-4.3	19.7
Volume	21.4	-32.1	-4.8	-1.0	-7.5	21.1
Prices (in U.S. dollar terms)	2.0	-5.1	4.9	11.5	3.4	-1.2
Terms of trade (deterioration -)	5.6	-1.6	-15.2	-6.6	-0.1	5.9
Exchange rates						
Guinea Bissau peso per U.S. dollar						
Period average	6,934	10,082	12,892	18,073	26,374	38,318
End of Period	8,656	11,464	15,369	21,927	34,936	...
CFA franc per U.S. dollar						
Period average					523.7	575.0
End of Period					511.6	592.6
Effective exchange rates (period average, 1990=100)						
Nominal	36.8	29.8	27.5	18.8	13.5	10.0
Real	75.8	80.8	72.5	67.4	70.0	79.1
(In percent)						
Annual variations (depreciation -)						
Peso per U.S. dollar, period average	-47.2	-31.2	-21.8	-28.7	-31.5	-31.5
Peso per U.S. dollar, end of period	-42.7	-24.5	-25.4	-29.9	-37.2	
Effective exchange rates						
Nominal	-42.9	-19.0	-7.8	-31.6	-28.4	-25.7
Real	-16.9	6.5	-10.2	-7.0	3.9	12.9

Sources: Central Bank of West African States (BCEAO); and IMF, Information Notice System.

Table 24. Guinea-Bissau: Merchandise Exports, f.o.b., 1992-97

	1992	1993	1994	1995	1996	1997 Est.
(In millions of U.S. dollars)						
Total merchandise exports	6.5	16.0	33.2	23.9	21.6	53.9
Agricultural products	4.2	14.0	32.2	22.1	19.9	52.2
Groundnuts	0.2	0.0	0.0	0.0	0.0	0.0
Cotton	0.6	0.7	1.1	1.3	1.3	1.3
Cashew nuts	3.0	13.0	31.0	20.5	18.6	50.8
Other	0.5	0.3	0.1	0.2	0.1	0.1
Fish products	0.9	0.7	0.3	0.2	0.7	0.7
Fish	0.1	0.5	0.1	0.0	0.0	0.0
Shrimp	0.7	0.1	0.1	0.2	0.6	0.6
Other	0.1	0.1	0.1	0.0	0.1	0.1
Wood products	1.3	1.2	0.6	1.5	0.8	0.9
Sawn wood	0.1	0.1	0.3	0.2	0.2	0.1
Logs	1.1	0.9	0.3	1.3	0.5	0.6
Other	0.1	0.3	0.0	0.0	0.0	0.3
Miscellaneous	0.1	0.1	0.2	0.1	0.2	0.2
(In thousands of metric tons)						
Volume						
Groundnuts	0.4	0.0	0.0	0.1	0.0	0.0
Cotton	0.4	0.6	0.6	0.7	0.9	0.9
Cashew nuts	3.7	17.0	46.5	29.3	25.0	65.3
Fish (frozen)	0.1	0.8	0.0	0.0	0.0	0.0
Shrimp (frozen)	0.1	0.0	0.0	0.0	0.1	0.1
Sawn wood	0.2	0.2	1.4	0.9	0.5	0.5
Logs	5.2	3.4	1.3	5.3	2.3	2.4
(In U.S. dollars per metric ton)						
Unit prices						
Groundnuts	436	...	...	500	500	557
Cotton	1,341	1,079	1,867	1,932	1,460	1,450
Cashew nuts	825	764	667	700	741	778
Fish	600	614	1,800	600	711	715
Shrimp	6,481	4,000	8,813	4,192	4,964	4,996
Sawn wood	343	292	234	242	242	226
Logs	210	259	222	245	240	233

Source: Central Bank of West African States (BCEAO).

Table 25. Guinea-Bissau: Merchandise Imports, c.i.f., 1992-97
(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	1997 Est.
Total merchandise imports	95.4	61.5	65.2	71.9	68.8	82.4
Foodstuffs	31.7	25.1	17.3	25.6	22.3	26.3
Rice	21.7	17.2	8.6	18.0	13.9	17.9
Wheat flour	0.8	0.6	0.5	0.6	1.0	0.8
Sugar	0.2	0.5	0.9	0.9	1.4	1.4
Oil	4.3	1.1	1.8	2.0	2.2	2.2
Dairy products	1.4	1.2	0.9	1.1	0.6	0.7
Others	3.4	4.5	4.7	3.0	3.2	3.4
Beverages and tobacco	3.3	3.2	3.7	4.3	4.0	4.6
Other consumer goods	7.1	5.1	6.2	6.6	7.3	7.7
Clothing and shoes	1.3	0.6	1.5	1.1	1.7	1.7
Durable consumer goods	3.1	2.7	2.8	2.3	2.7	2.9
Nondurable consumer goods	2.8	1.8	1.9	3.2	2.9	3.1
Petroleum products	5.3	3.2	6.3	8.2	9.3	11.3
Diesel and gasoline	4.5	2.5	4.2	5.8	8.6	8.7
Gas	0.2	0.1	0.0	0.1	0.1	0.1
Others	0.6	0.7	2.1	2.4	0.7	2.5
Construction material	7.6	4.9	6.0	7.2	7.7	9.6
Transport equipment	19.6	8.9	14.5	8.4	9.4	11.6
Passenger vehicles	13.3	3.6	5.7	2.2	4.4	5.3
Freight vehicles	2.6	1.8	6.7	5.2	4.2	5.2
Vehicle parts	3.7	3.5	2.1	1.0	0.9	1.1
Electrical equipment and machinery	14.1	5.3	6.5	7.7	5.8	7.6
Parts and accessories	3.1	2.3	2.0	1.7	0.7	0.9
Miscellaneous	3.6	3.7	2.7	2.3	2.3	2.9

Source: Central Bank of West African States (BCEAO).

Table 26. Guinea Bissau: Direction of Trade, 1992-95

(In percent of total)

	1992	1993	1994	1995
Exports				
Europe	73.7	58.3	37.5	11.5
France	0.0	3.5	1.5	1.0
Netherlands	0.0	0.3	0.1	0.2
Portugal	60.1	51.5	35.7	10.2
Spain	13.1	3.0	0.0	0.8
Other	0.5	0.0	0.1	0.0
Africa	18.7	2.6	5.7	0.5
Cape Verde	7.4	2.4	5.5	0.1
Gambia, The	2.0	0.0	0.0	0.1
Guinea	5.7	0.2	0.2	0.0
Nigeria	0.0	0.0	0.0	0.0
Senegal	3.6	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.3
Asia	7.7	39.1	56.9	88.0
China	0.0	0.0	8.8	0.0
India	7.7	39.1	48.1	87.8
Total	100.0	100.0	100.0	100.0
Imports				
Europe	76.3	58.5	68.2	64.1
France	5.3	1.5	5.4	3.4
Germany	4.4	2.2	0.7	0.3
Italy	4.1	0.7	1.8	0.9
Netherlands	23.2	21.1	16.6	13.6
Portugal	28.4	31.3	40.5	36.9
Spain	5.5	1.0	0.6	4.3
Sweden	1.2	0.0	0.4	0.0
United Kingdom	3.3	0.1	0.7	3.8
Other	0.9	0.6	1.5	1.0
Africa	7.9	11.9	6.4	14.4
Cape Verde	0.0	0.3	0.1	0.0
Senegal	2.9	2.3	2.4	2.3
Other	5.0	9.3	4.0	6.2
Asia	15.0	29.1	24.1	18.3
China	8.5	20.3	7.7	8.3
Japan	2.5	6.1	14.8	8.0
Pakistan	1.5	0.0	0.0	0.0
Other	2.5	2.8	1.6	0.6
United States	0.5	0.5	1.3	3.2
Other	0.4	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: Central Bank of West African States (BCEAO).

Table 27. Guinea-Bissau: Services and Income, 1991-97

(In millions of U.S. dollars)

	1991	1992	1993	1994	1995	1996	1997
Services (net)	-24.5	-25.4	-18.6	-21.5	-24.1	-22.3	-28.1
Credit	5.2	4.6	5.1	5.6	5.7	7.0	7.8
Transportation	0.2	0.0	0.3	0.6	0.4	0.8	0.9
Foreign government embassies	3.3	2.8	3.0	3.1	3.3	4.1	4.3
Other	1.7	1.8	1.8	1.9	2.0	2.1	2.1
Debit	-29.7	-30.0	-23.7	-27.1	-29.9	-29.3	-35.9
Freight and insurance	-9.1	-11.9	-7.7	-11.4	-12.6	-12.0	-14.4
Technical assistance	-2.3	-2.4	-2.5	-2.6	-2.7	-2.8	-3.0
Other transport and travel	-4.1	-3.6	-4.3	-3.0	-3.2	-3.2	-4.2
Scholarships	-0.6	-0.4	-0.6	-0.6	-0.6	-0.6	-0.7
Other private	-11.1	-9.4	-6.1	-6.5	-7.5	-7.8	-10.1
Miscellaneous	-2.6	-2.2	-2.5	-3.0	-3.3	-2.8	-3.6
Income (net)	-3.6	0.0	-4.5	-2.4	-6.8	-5.0	-1.6
Credit	13.5	13.5	10.8	11.7	11.3	13.7	13.0
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fishing license fees	13.5	13.5	10.8	11.7	11.3	13.7	13.0
Debit	-17.0	-13.5	-15.3	-14.1	-18.0	-18.6	-14.6
Treasury	-13.7	-10.5	-13.6	-12.7	-16.9	-17.9	-14.6
Central bank	-3.4	-2.9	-1.7	-1.4	-1.1	-0.7	-0.0
<i>Of which: IMF</i>	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1

Sources: Central Bank of West African States (BCEAO); and staff estimates and projections.

Table 28. Guinea-Bissau: External Grant Disbursements, 1992-97
(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	1997
Total	39.48	43.69	54.38	59.42	29.63	29.84
Project aid	28.49	36.58	44.27	39.26	22.25	13.84
<i>Of which</i> : technical assistance	7.41	8.41	5.14	6.49	6.65	5.00
multilateral donors 1/	...	6.28	13.13	7.26	5.47	...
bilateral donors 1/	...	16.93	24.80	18.61	14.76	...
nongovernmental organizations 1/ 2/	...	4.96	6.34	6.91	...	...
Balance of payments aid	7.20	3.50	1.69	14.79	3.08	16.00
<i>Of which</i> : European Union	0.00	0.00	0.00	1.60	0.00	5.70
bilateral donors	5.40	3.50	1.69	13.19	3.08	10.30
Food aid	3.79	1.80	2.06	3.05	2.31	0.00
<i>Of which</i> : World Food Program	...	...	2.03	0.76	...	...
Other aid	...	1.81	6.37	2.32	2.00	0.00
<i>Of which</i> : elections aid	0.00	...	4.15	0.00	...	...
Nongovernmental organizations	...	...	1.77	2.16	...	...
<i>Of which</i> : Association of Dutch Volunteers (SNV)	...	...	1.32	1.35	...	...

Sources: Directorate-General of Strategic Planning, Ministry of Planning and International Cooperation.

1/ Excludes technical assistance.

2/ Not included in the public investment program.

3/ Not included in the public investment program, except for SNV disbursements.

Table 29. Guinea-Bissau: External Debt Outstanding, 1992-96
(In millions of U.S. dollars)

	1992	1993	1994	1995	1996
Total external debt outstanding (end of year)	845.7	839.7	888.5	932.6	918.8
Medium- and long-term debt	821.5	805.7	842.5	890.3	899.4
Multilateral	333.5	336.4	366.0	388.8	393.0
African Development Bank (ADB)	10.7	10.7	11.3	7.4	5.4
African Development Fund	94.7	96.4	103.0	111.8	111.1
ADB Group - Nigeria Special Fund	2.3	2.3	2.4	1.9	0.0
Arab Bank for Economic Development in Africa	6.0	5.4	7.4	9.4	7.9
Economic Community of West African States	1.3	1.4	1.6	1.6	2.7
European Investment Bank	8.9	7.9	8.7	9.4	9.1
International Fund for Agricultural Development	9.0	9.0	9.5	11.0	10.1
IDA	175.7	178.7	197.3	211.8	216.2
IDA/European Union	0.8	0.7	0.7	0.7	0.7
IMF (central bank debt)	5.1	4.8	4.6	5.9	7.7
Islamic Development Bank	10.3	10.3	11.0	9.4	14.1
OPEC Fund	8.7	8.8	8.5	8.5	8.0
Bilateral	488.0	469.3	476.5	501.5	506.4
Treasury	462.1	453.6	476.5	501.5	506.4
Paris Club (cutoff date: December 1986)	237.4	223.9	238.3	253.3	247.7
Pre-cutoff date	172.0	163.8	174.2	175.3	174.3
Belgium	5.8	5.4	6.5	5.6	7.7
Brazil	12.1	15.2	15.8	15.7	19.3
France	12.2	11.1	12.6	10.4	9.6
Germany	3.2	3.2	3.2	3.0	2.8
Italy	57.6	48.9	53.8	54.4	55.2
Portugal	74.7	73.8	75.3	85.3	79.7
Sweden	0.6	0.6	0.7	0.9	0.0
Switzerland	5.8	5.6	6.3	0.0	0.0
Post-cutoff date	65.4	60.1	64.1	78.0	73.4
Italy	59.7	53.9	57.8	70.2	65.5
Spain	5.7	6.2	6.3	7.8	7.9
Non-Paris Club	224.7	229.7	238.2	248.2	258.7
Abu Dhabi	0.2	0.2	0.2	0.2	0.2
Algeria	6.4	6.4	6.4	6.4	6.1
Angola	18.8	18.8	18.8	16.6	18.8
China	2.0	2.0	1.0	6.8	16.6
Cuba	3.0	2.6	2.9	3.2	2.8
Kuwait	17.3	18.8	20.4	23.1	22.5
Libya	2.5	1.9	1.2	1.3	3.7
Pakistan	2.5	2.6	2.6	2.7	2.6
Russia 1/	138.9	140.1	141.0	142.0	138.8
Saudi Arabia	12.6	13.0	12.5	12.4	13.4
Taiwan Province of China	19.4	22.4	30.2	32.6	32.3
Nonsovereign (Banque Franco-Portugaise)	1.2	1.0	0.9	0.9	0.8
Central bank	25.9	15.7	0.0	0.0	0.0
Short-term debt	24.2	34.0	46.0	42.3	19.4
Treasury	1.8	1.8	4.4	4.4	1.9
Netherlands	0.0	0.0	2.6	2.6	1.9
Pakistan	1.8	1.8	1.8	1.8	0.0
Central bank	22.4	32.2	41.6	37.9	17.5

Sources: Directorate-General of the Treasury, Ministry of Finance; and Central Bank of Guinea-Bissau (BCGB).

1/ At official accounting exchange rate for ruble-denominated debt. Prior to 1997, Russia was considered a non-Paris Club creditor.

Table 30. Guinea-Bissau: External Arrears Outstanding, 1992-96
(In millions of U.S. dollars)

	1992	1993	1994	1995	1996
Total stock of arrears outstanding (end-of-year)	361.1	375.2	414.3	232.4	202.9
Medium- and long-term	337.5	341.3	372.4	201.3	190.0
Multilateral	25.6	29.4	34.4	23.9	12.8
Treasury	25.6	29.4	34.4	23.9	12.8
African Development Bank	0.9	2.9	4.4	0.0	0.0
African Development Fund	2.1	2.0	3.3	0.0	0.0
Arab Bank for Economic Development in Africa	4.1	4.7	4.4	2.7	2.8
Economic Community of West African States	0.2	0.5	0.6	0.8	1.2
European Investment Bank	0.5	0.9	2.3	1.9	1.6
International Fund for Agricultural Development	0.1	0.3	0.5	0.7	0.0
IDA	0.4	0.3	0.4	0.8	0.0
IDA/European Union	0.0	0.0	0.0	0.0	0.0
Islamic Development Bank	10.3	10.3	11.0	9.3	0.0
OPEC Fund	7.1	7.5	7.5	7.7	7.2
Central bank (IMF only)	0.0	0.0	0.0	0.0	0.0
Bilateral	311.9	311.8	338.1	177.4	177.3
Treasury	299.4	305.5	338.1	177.4	177.3
Paris Club (Cutoff date: December 1986)	134.7	136.9	165.1	6.0	11.2
Pre cut off date	74.8	82.5	106.8	2.5	5.8
Belgium	0.8	1.3	1.7	0.1	0.0
Brazil	7.3	0.0	0.7	0.1	4.2
France	2.1	2.5	5.8	0.2	0.0
Germany	0.0	0.1	0.4	0.0	0.0
Italy	25.5	26.5	35.1	0.3	1.6
Portugal	37.8	50.5	59.5	1.8	0.0
Sweden	0.0	0.0	0.0	0.0	0.0
Switzerland	1.3	1.6	3.6	0.0	0.0
Post-cutoff	59.9	54.4	58.3	3.5	5.5
Italy	59.7	53.9	57.8	3.0	3.9
Spain	0.2	0.5	0.5	0.6	1.6
Non-Paris Club	164.7	168.9	172.9	171.4	166.1
Abu Dhabi	0.2	0.2	0.2	0.2	0.2
Algeria	3.6	4.3	5.1	5.7	0.9
Angola	18.8	18.8	18.8	16.6	18.8
China, P.R.	0.1	0.4	0.5	3.2	14.3
Cuba	3.0	2.6	2.9	3.2	2.8
Kuwait	4.2	5.4	6.4	1.5	0.2
Libya	0.0	0.0	0.0	0.7	3.2
Pakistan	0.5	0.8	1.0	1.3	1.5
Russia 1/	131.3	132.2	133.2	134.2	120.6
Saudi Arabia	2.5	3.2	3.1	0.9	0.0
Taiwan, Province of China	—	0.9	1.5	3.8	3.4
Nonsovereign (Banque Franco-Portugaise)	0.4	0.1	0.3	0.3	0.3
Central bank	12.5	6.3	0.0	0.0	0.0
Short-term debt	23.6	33.9	41.9	31.1	12.9
Treasury	1.8	1.8	1.8	4.6	1.9
The Netherlands	0.0	0.0	0.0	2.8	1.9
Pakistan	1.8	1.8	1.8	1.8	0.0
Central bank	21.8	32.1	40.1	26.5	11.0

Sources: Directorate-General of the Treasury, Ministry of Finance; and Central Bank of Guinea-Bissau (BCGB).

1/ At official accounting exchange rate for ruble-denominated debt.

ECONOMIC AND FINANCIAL ISSUES RELATED TO THE ENTRY OF GUINEA-BISSAU INTO THE WAMU

This section addresses the key factors that were considered in analyzing the appropriateness of Guinea-Bissau's entry into the West African Monetary Union (WAMU), which became effective on May 2, 1997. The analyzed factors were (1) the benefits that participation in the Union is expected to confer versus the costs in terms of losses of monetary sovereignty and policy discretion; (2) the relative competitiveness of Guinea-Bissau and the appropriate exchange rate for entry; and (3) the budgetary policy that will have to be pursued in order to ensure consistency with the requirement of Union discipline. The last part of the section presents estimates of the financial cost for the Government for entry into the WAMU.

A. Economic Benefits and Possible Costs from Entry into the WAMU

Participation in a monetary union, with a record of price stability associated with monetary discipline, provides an important anchor through the exchange rate for prices, at the cost of loss of policy flexibility with regard to the ability to adjust the exchange rate in response to exogenous shocks. In the period 1986-93 annual consumer price inflation averaged about 60 percent in Guinea-Bissau, but was virtually nil in the WAMU countries (based on an average annual rate among the seven member countries); following the 1994 CFA franc devaluation, price inflation in the WAMU countries averaged 31 percent in 1994, followed by a sharp deceleration in 1995 to 12.2 percent, and in 1996 to 4.7 percent, compared with 37 percent a year average in 1994-96 in Guinea-Bissau (Table 31). Thus, in terms of achieving price stability, there is evidence that participation in the WAMU would be beneficial.

This being said, it must be recognized that lax monetary policies were the principal cause for the high inflation and exchange rate depreciation. In the period 1986-95, money supply in Guinea-Bissau increased by 86 times, while the price index rose by 25 times; while monetary deepening has occurred—the velocity of circulation of broad money declined from 7.5 in 1990 to 6.0 in 1994 and 1995—money growth has been largely in excess of money demand, as shown by the behavior of prices. With high inflation, financial deepening is much lower than in WAMU member countries; the velocity of peso-denominated money stock was very high, at 10.4 on average in 1994-95, compared with velocity in the WAMU countries, in the range of 3 to 5 in 1995. Since 1993, the central bank of Guinea-Bissau sought to restore the credibility of the peso by not providing any new credit to the government, but it was not able either to mop up the excess liquidity of the banking system, or to constrain bank credit in a steady manner, except in 1995 and 1996; the past, the banking system had extended loans that in significant part could not be recovered, leading to the liquidation of the main commercial bank (Banco de Crédito Nacional) in 1993. The stock of nonperforming loans of the largest bank presently in operation is estimated at more than 20 percent; and borrowers have shown a tendency not to repay loans on time, using the overdraft to put pressure on the

exchange rate. Against the background of a weak banking system, and inadequate instruments for credit control, even under the 1995-96 Fund-supported program, it proved difficult for the central bank, which had only a limited amount of free external reserves, to prevent recurrent bouts of speculative pressures on the peso. The exchange rate of the Guinea-Bissau peso versus the U.S. dollar depreciated by a factor of 146 in the period end-1986 to end-December 1996 (from PG 239 per U.S. dollar to PG 34,900); the CFA franc over the same period depreciated by 62 percent in local currency terms (from CFAF 322 per U.S. dollar to CFAF 524). These recurrent pressures, and the resulting inflationary effects, provide considerable evidence that in the period of monetary independence Guinea-Bissau was not able to conduct policies conducive to exchange rate and monetary stability.

The loss of monetary independence (associated with joining the WAMU) has a cost, in terms of the inability to offset external shocks, such as a deterioration in the terms of trade, with a flexible exchange rate policy. In this respect, it is to be noted that in the period 1986-93 the growth performance of the WAMU member countries was hampered by a gradual appreciation of the exchange rate in real terms; faced with a deterioration of their terms of trade and under a fixed exchange rate, these countries tried unsuccessfully to adjust and generate growth through internal adjustment over a protracted period. The weighted annual average increase in real GDP in the WAMU countries was about 1 percent in this period. By contrast, under a flexible exchange rate regime, Guinea-Bissau recorded a faster rate of growth of real GDP (4.2 percent on average).

The above-noted cost of monetary independence may, however, be mitigated by some of the benefits of joining the WAMU. It has to be considered that because of the similarities between the economic structure of Guinea-Bissau and the other WAMU countries, in terms of specialization in agricultural production and export, these economies are likely to be subject to exogenous shocks of a similar nature. Thus, if the economic and financial policies in the zone respond appropriately to these shocks, Guinea-Bissau will derive similar benefits.

On the positive side, it has to be noted that following the 1994 devaluation of the CFA franc, growth accelerated sharply in the WAMU, averaging 4.9 percent on a weighted basis in the period 1994-96. Given the relative price realignment and the comprehensive adjustment efforts under way in WAMU countries, such growth is expected to persist, and it will benefit Guinea-Bissau. Importantly, price stability is likely to contribute to growth in Guinea-Bissau, by providing a more predictable economic environment. A major result of price stability is that it will promote financial deepening, and permit the development of cooperative savings and loan institutions (including those specialized in providing support to small-scale rural and urban projects), which already play an important role in the WAMU area. The development of such financial intermediation was impossible in an environment of high and variable inflation such as the one that prevailed in Guinea-Bissau, where commercial banking services were mainly limited to external trade financing. In addition, by joining the union, the banking system will benefit from more rigorous supervision, carried out by the regional banking commission, thus strengthening confidence in the banking system, and encouraging its expansion. Guinea-Bissau will, however, still need to restore to health the

larger of its two major commercial banks which needs a substantial recapitalization; once this is done, the WAMU discipline of bank supervision and regional credit restraint will help Guinea-Bissau preserve and expand a healthy banking network .

In conclusion, while Guinea-Bissau could in principle have benefited from monetary independence, and pursued effectively a flexible exchange rate policy that would foster growth, respond to exogenous shocks, and ensure adequate price stability, in practice, as demonstrated by past experience, Guinea-Bissau was not able to implement such a policy successfully. After a period of excessive credit expansion, including credit to the government, the credibility of central bank policies proved difficult to restore, even during the period 1995-96 when the country was carrying out a Fund-supported program. The weakness of the banking system was an obstacle to the successful conduct of monetary policy; and the central bank was not able either to respond with sufficient rapidity to monetary shocks arising from the behavior of economic agents, or always use effectively the monetary instruments at its disposal. In these circumstances, the benefit of entry into a monetary union with a proven record of stability and monetary discipline would appear to outweigh the costs. The risk that the monetary union will follow inappropriate policies in the future, and that these policies will hamper growth (as it occurred in the 1986-93 period) is minimal, since the WAMU countries are now solidly pursuing sound structural adjustment efforts.

B. Degree of Competitiveness

The degree of competitiveness of Guinea-Bissau in relation to the other countries of the zone at end-1996 was examined by the staff at end-1996, in order to assess whether the exchange rate at that time was broadly appropriate for entry, or whether a one-time adjustment would have been necessary. Available indicators of competitiveness are the relative labor costs, as measured by civil servants' wages and by the official minimum wage level (Table 32), and the movement in the relative exchange rate adjusted by consumer price inflation (Figure 6).

Relative labor costs, measured in common currency, show that such costs are substantially lower in Guinea-Bissau than in all other countries of the region. Average civil servants' wages in Bissau were about one-sixth the level in the WAMU countries at end-1996, on the basis of the unweighted average of such wages in the seven countries. The difference in the minimum wage level is smaller, but still substantial, with a ratio of about ½ between Guinea-Bissau and the WAMU countries in 1996 (unweighted average). The per capita income of Guinea-Bissau is also significantly lower; for 1996, it is estimated at 60 percent of the unweighted WAMU average per capita income. This would suggest that productivity levels in Guinea-Bissau are about half of those in WAMU, so that Guinea-Bissau's apparent advantage in terms of remunerations is less when expressed in unit labor costs.

The exchange rate adjusted by the relative CPI indicates that in the period 1986-93 competitiveness between Guinea-Bissau and the WAMU partners, in particular neighboring Senegal, remained broadly stable at a time when it is recognized that the CFA franc was

overvalued. Following the January 1994 CFA franc devaluation, the peso appreciated by about 12 percent in real terms between end-1993 and December 1996 (based on relative price developments in Guinea-Bissau and Senegal).¹ Nevertheless, it is quite noteworthy that for most of the past decade, relative price movements have broadly offset nominal exchange rate changes in Guinea-Bissau. This reflects the openness of Guinea-Bissau's economy, its small size, and the significant impact on the overall price level of border trade with WAMU members neighbors; a depreciation of the Guinea peso relative to the CFA franc, and to the European currencies to which the CFA franc has been pegged, rapidly translates in offsetting higher inflation. This experience has been substantially different from that of a relatively large economy like Nigeria; over the last 10 years its competitiveness increased markedly vis-à-vis the CFA countries, as a result of its flexible exchange rate policy, as the higher inflation did not fully offset the depreciation of the exchange rate on a bilateral basis.

Given its relatively low wage structure and the broad flexibility prevailing in final consumer prices in the region, one could surmise that Guinea-Bissau probably enjoyed some advantage in terms of the relative profitability of its tradable goods sector.² Moreover, the terms of trade have evolved more favorably for Guinea-Bissau than for its neighbors in the WAMU region over the last 10 years. Perhaps reflecting these factors, the export performance has been favorable in the period since 1990 (average annual growth rate of exports of 4.5 percent in U.S. dollar terms), and the current account deficit has declined.

Finally, one should note that the peso recorded some real appreciation—relative to the CFA franc—during 1996 (see Figure 6). In these circumstances, the conversion rate of PG 65/CFAF 1, which became effective on May 2, 1997 and which is close to the average market rate in December 1996, appears appropriate.

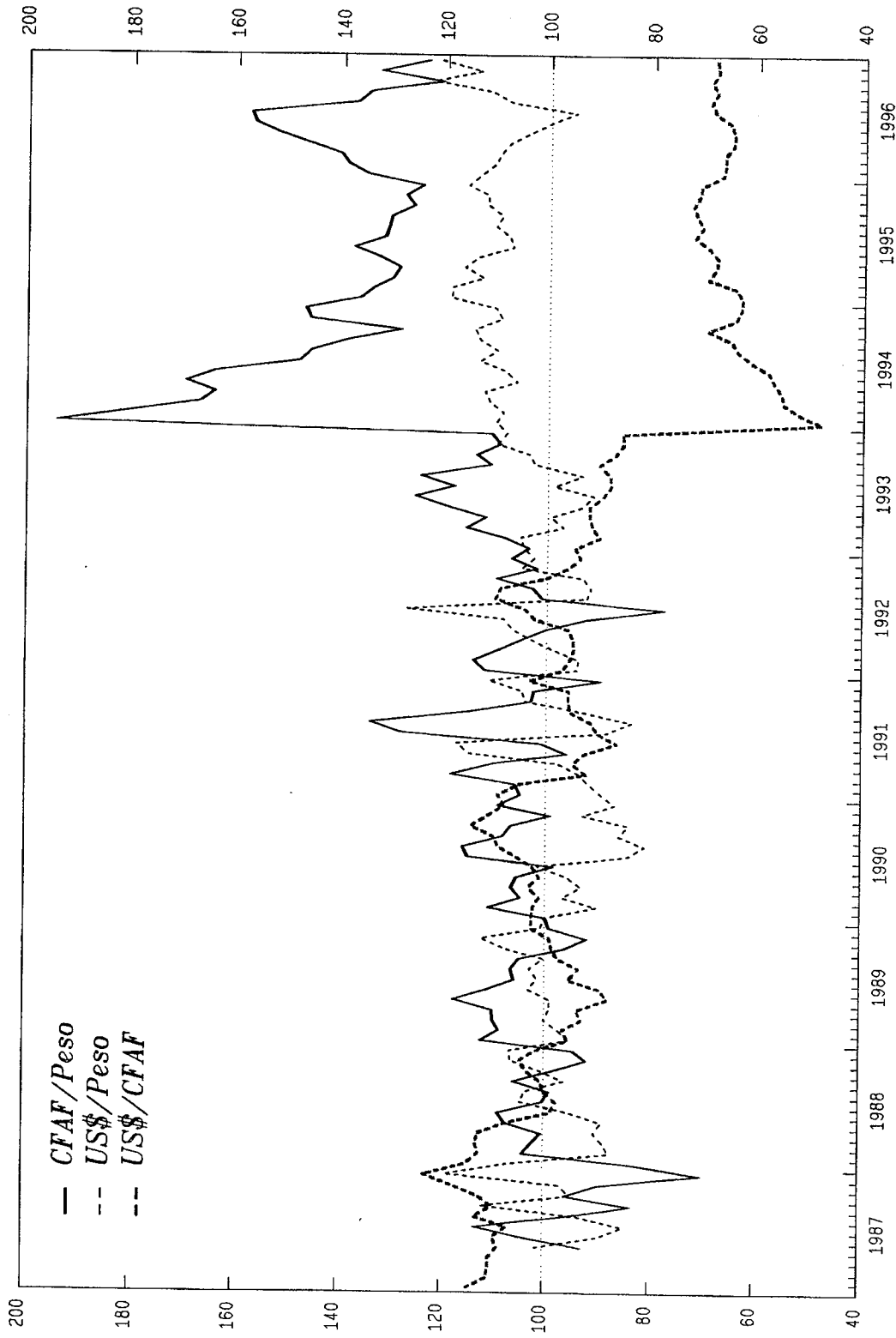
C. Union Membership Discipline: The Budgetary Stance

Participation in a monetary union requires that all members pursue a similar degree of budgetary discipline. Otherwise, expansionary policies of one of the members may contribute to a weakening of the external position of the whole union, and adversely impact its common exchange rate. Budgetary indicators are presented in Table 33. They show that in recent years Guinea-Bissau has achieved a budgetary position in many respects similar to, and in some respect stronger than, WAMU member countries, and that the required budgetary convergence is well within reach, in particular if the debt burden is substantially alleviated in the context of the HIPC Initiative. Budgetary revenues in terms of GDP, at 12.5 percent in Guinea-Bissau in 1996 and 15.4 percent in 1997, are higher than in the poorest WAMU

¹However, the data also show that based on the real effective exchange rate of Guinea-Bissau, competitiveness has improved somewhat over the last decade.

²For example, the available data for cashew nut exports indicate a profit margin of about 40 percent.

Figure 6. Guinea-Bissau: CPI-Adjusted Peso and CFAF Exchange Rate Indices, 1987-96 1/ (1990=100)



Source: Staff estimates.

1/An increase in the index corresponds to a real appreciation of the currency in the denominator. The CPI for Senegal is used to adjust the CFAF exchange rate.

members; the primary surplus narrowly defined (excluding interest charges and foreign-financed investment) at 3.2 percent of GDP in 1996, is well within the range observed in WAMU members; and the wage bill as a ratio to budgetary revenue and GDP is markedly lower than in the WAMU members. Progress over the last three years in strengthening the budgetary position has been encouraging; and there is potential for further revenue improvement.

The country has differed in recent years from the WAMU members in terms of higher overall government deficit as a ratio to GDP, which reflects both higher scheduled interest charges, and higher foreign-financed investment. It also differs in terms of much higher external debt-service charges, after debt relief, in percent of government revenue (67 percent in 1996), and in terms of the stock of external debt as a ratio to GDP (930 percent at end-1995, and 700 percent in terms of NPV). However, if Guinea-Bissau becomes eligible for the Debt Initiative for Highly-Indebted Poor Countries (HIPC), the burden of the debt will decline markedly in coming years, to a level that would be sustainable, provided rigorous budgetary policies are consistently pursued.

D. Financial Cost of Entry

Finally, the cost of entry in the WAMU refers to two major financial conditions that the Government has had to deal with: (1) the recapitalization of the central bank before its incorporation as a national branch of the BCEAO, and (2) the payment of one-seventh of the capital of the BCEAO and the West African Development Bank (BOAD).³

A key requirement of WAMU entry was to eliminate the negative capital position of the Central Bank of Guinea-Bissau (BCGB) before May 2, 1997. This mainly consisted in eliminating all external obligations, except for those inherent to the central bank's monetary functions. To that end, in the last quarter of 1996, the central Bank negotiated partial cancellations of its external debt to commercial banks and to some official creditors through buy-back operations in an amount of US\$ 9 million. Following these operations, the net negative capital was estimated at about US\$ 33 million⁴, or 12.4 percent of 1997 GDP. The shortfall was covered by the Ministry of Finance as follows : (1) transferring to the central bank of existing external financial assistance, consisting of the proceeds of the IMF loan disbursement under the ESAF arrangement effected in March 1997 (US\$ 2.9 million), and of a grant from a bilateral donor (US\$ 3 million), for a total amount of US\$ 5.9 million; (2) taking over by the Treasury of the external obligations of the central bank to the IMF, the BCEAO and some commercial banks and suppliers for an amount of US\$ 20.7 million; and

³According to WAMU rules, each member must contribute in equal shares to the capital of the BCEAO and BOAD.

⁴ Excluding provisions for separation indemnities to personnel.

(3) using the government deposits at the central bank constituted in the past with exceptional financial assistance from the European Union, the World Bank structural adjustment loan, and related cofinancing, equivalent to US\$6.3 million.

The cost of acquiring one seventh of the net capital position of the BCEAO and the BOAD constitutes the largest financial cost for the WAMU entry; the terms of payment are still under negotiation. One seventh of the capital of the BCEAO and the BOAD at end-April 1997, the date of entry, is provisionally estimated to amount to about US\$84 million and US\$8 million, respectively, equivalent to about one-third of Guinea-Bissau's 1997 GDP.⁵ Even if deferred over, say, 20 years, the annual cost of US\$4.6 million would represent about 11 percent of budgetary revenues in 1997, and about 1.7 percent of 1997 GDP; it would increase by about 20 percent the debt-service cost after debt relief. A part of this cost could be offset by the payment of dividends by the BCEAO, although this remains subject to uncertainty. If no offset were to take place, the additional effort can be estimated in the range of 1-2 percent of GDP in the initial years; the burden will be reduced over time with the prospective increase in GDP. In the event that such additional fiscal adjustment becomes unfeasible, and if the debt burden noted above is not sufficiently reduced, Guinea-Bissau may need to rely—at least for a transition period—on a higher level of external financial assistance.

⁵Final audited data on the capital position of the BCEAO and BOAD at end-April 1997 were not yet available at end-1997.

Table 31. Selected Indicators for Guinea-Bissau and Countries in the WAMU, 1986-96

	Population (millions)	GDP (mil. US\$)	Share in		GDP per capita US\$	Real GDP growth		Average inflation		Current account balance, % of GDP		Export growth in volume	
			WAEMU output %	1996		1990-93	1994-96	1986-93	1994-96	1994-96	1991-93	1994-96	
													Incl. off.transf	xcl. off. Transf.	Annual average
Benin	5.7	2,209.7	8.3%	389.3	3.7%	4.9%	1.5%	15.4%	-4.8%	-7.0%	19.2%	-2.0%	
Burkina Faso	11.3	2,535.7	9.5%	224.4	2.5%	3.7%	-0.1%	13.0%	-5.7%	-11.4%	-2.0%	-3.2%	
Cote d'Ivoire	14.8	10,686.5	40.1%	722.1	-0.4%	5.3%	3.6%	14.3%	-3.6%	3.6%	-3.9%	-2.2%	
Mali	10.1	2,660.0	10.0%	263.4	1.4%	4.2%	-1.4%	14.6%	-5.2%	-15.6%	9.4%	7.9%	
Niger	9.2	1,985.7	7.5%	215.5	-1.0%	3.3%	-2.0%	17.3%	-3.7%	-10.7%	-3.3%	5.4%	
Senegal	8.8	5,155.4	19.3%	588.7	1.2%	4.1%	-0.2%	14.3%	-5.0%	-7.8%	-2.3%	6.7%	
Togo	4.2	1,419.8	5.3%	339.7	-5.9%	8.9%	0.4%	20.9%	-7.6%	-8.5%	-10.7%	8.5%	
WAEMU Average 1/	9.1	3807.53	100.0%	416.3	0.2%	4.9%	0.3%	15.7%	-5.1%	-8.2%	0.9%	3.0%	
Guinea-Bissau	1.1	271.2	1.0%	245.2	3.2%	4.2%	61.9%	37.1%	-13.7%	-20.1%		36.8% 2/	

Sources: IMF staff reports, Direction of Trade Statistics, World Bank World Development Report.

1/ Unweighted average for GDP level, inflation, and for current account balances;

2/ Average growth in 1990-96.

Table 32: Average and Minimum Monthly Wages in Selected West African Countries, 1990-96
(In thousands of CFA francs)

	1990	1991	1992	1993	1994	1995	1996
Average monthly civil service wages							
Guinea-Bissau	13.2	16.6	11.3	11.2	18.7	19.8	19.2
Other BCEAO Member Countries	...	87.1	88.1	87.5	116.6	124.9	131.3
Benin	...	67.8	73.2	74.6	93.8	112.5	121.7
Burkina Faso	97.5	94.9	91.4	90.9	101.0	108.3	113.7
Cote d'Ivoire	...	...	...	175.0	191.6	200.0	229.9
Mali	52.1	63.6	74.0	76.7	92.2	99.9	108.2
Niger	65.8	66.5	68.2	71.0	81.4	85.0	73.3
Senegal	125.6	131.0	135.2	125.8	142.2	149.6	149.2
Togo	81.8	98.7	86.6	86.0	113.8	118.6	123.2
Minimum Monthly wages(end-of-period)							
Guinea-Bissau (civil service)	8.7	9.3	7.6	8.4	12.9	12.4	11.6
Other BCEAO Member Countries 1/	20.1	21.0	21.0	21.0	22.5	22.5	22.6
Benin	13.0	13.0	13.0	13.0	18.7	18.7	18.7
Burkina Faso	20.9	20.9	20.9	20.9	20.9	20.9	20.9
Cote d'Ivoire	30.6	30.6	30.6	30.6	33.7	33.7	33.7
Mali	12.7	19.2	19.2	19.2	20.9	21.0	21.6
Niger	17.4	17.4	17.4	17.4	17.4	17.4	17.4
Senegal	32.2	32.2	32.2	32.2	32.2	32.2	32.2
Togo	13.8	13.8	13.8	13.8	13.8	13.8	13.8

Source: Official data from the national authorities concerned.

1/ Based on hourly wages for industrial workers for 40 hours of weekly work.

Table 33. Budgetary Indicators in Selected West African Countries, 1994-97

	1994	1995	1996	1997 Est.
(In percent of GDP, except where otherwise indicated)				
Guinea-Bissau				
Budgetary revenue	12.4	12.7	12.5	15.7
Wage bill	2.7	2.8	3.2	3.1
(In percent of budgetary revenues)	21.5	22.1	25.6	20.3
Primary fiscal balance 1/	-17.7	-11.1	-10.2	-7.0
Overall government deficit(commitment basis) 2/	-5.2	-2.1	-12.2	-13.1
Foreign financed investment	20.3	14.9	13.6	12.4
Debt service ratio to budgetary revenue 3/	...	28.9	67.3	68.2
BCEAO Members' average				
Budgetary revenue	12.6	14.1	14.8	15.0
Wage bill	6.4	5.9	5.8	5.3
(In percent of budgetary revenues)	52.7	44.2	37.1	37.4
Primary fiscal balance 1/	-6.4	-4.0	-3.0	-3.4
Overall government deficit(commitment basis) 2/	-5.4	-2.9	-1.5	-2.0
Foreign financed investment	4.2	4.6	4.5	3.9
Debt service ratio to budgetary revenue 3/	...	...	...	...
Benin				
Budgetary revenue	12.5	14.4	15.2	14.8
Wage bill	5.4	5.2	5.2	5.2
(In percent of budgetary revenues)	43.0	36.1	34.1	34.7
Primary fiscal balance 1/	-3.8	-4.5	-1.9	-3.0
Overall government deficit(commitment basis) 2/	-2.4	-3.2	-0.4	0.0
Foreign financed investment	4.6	4.0	3.9	4.1
Debt service ratio to budgetary revenue 3/	19.6	15.0	20.3	20.4
Burkina Faso				
Budgetary revenue	11.0	11.8	12.3	12.6
Wage bill	5.6	5.3	5.0	4.8
(In percent of budgetary revenues)	43.0	44.9	40.6	38.1
Primary fiscal balance 1/	-9.6	-7.9	-8.1	-7.8
Overall government deficit(commitment basis) 2/	-3.7	-1.8	-0.6	-2.6
Foreign financed investment	6.1	8.3	9.6	9.4
Debt service ratio to budgetary revenue 3/	29.5	25.3	16.7	16.7
Cote d'Ivoire				
Budgetary revenue	19.9	22.1	22.5	22.1
Wage bill	7.7	6.9	7.1	6.9
(In percent of budgetary revenues)	38.7	31.4	31.6	31.3
Primary fiscal balance 1/	0.7	2.5	3.1	2.4
Overall government deficit(commitment basis) 2/	-6.5	-3.7	-2.1	-2.1
Foreign financed investment	2.3	2.4	2.5	2.1
Debt service ratio to budgetary revenue 3/	64.5	47.6	36.6	29.9
Mali				
Budgetary revenue	13.5	14.4	15.9	14.8
Wage bill	4.3	3.9	3.7	3.8
(In percent of budgetary revenues)	32.0	27.1	23.3	26.8
Primary fiscal balance 1/	-11.4	-9.1	-6.9	-7.8
Overall government deficit(commitment basis) 2/	-4.2	-3.0	-0.8	-3.4
Foreign financed investment	7.5	7.4	6.0	2.8
Debt service ratio to budgetary revenue 3/	4.0	3.1	2.5	4.2
Niger				
Budgetary revenue	6.0	7.2	7.3	9.8
Wage bill	5.5	5.3	6.3	4.1
(In percent of budgetary revenues)	89.0	73.2	41.0	49.3
Primary fiscal balance 1/	-10.2	-5.8	-3.5	-6.8
Overall government deficit(commitment basis) 2/	-6.7	-3.5	-0.2	-3.0
Foreign financed investment	4.0	4.5	3.7	4.0
Debt service ratio to budgetary revenue 3/	...	4.7	...	1.9
Senegal				
Budgetary revenue	14.0	15.1	15.3	15.5
Wage bill	6.9	6.5	6.3	5.6
(In percent of budgetary revenues)	49.0	43.0	40.9	36.5
Primary fiscal balance 1/	-2.4	-0.6	0.1	1.2
Overall government deficit(commitment basis) 2/	-1.8	-0.2	-0.2	0.3
Foreign financed investment	3.4	3.4	3.3	3.2
Debt service ratio to budgetary revenue 3/	...	2.2	3.2	3.6
Togo				
Budgetary revenue	11.5	13.7	14.8	15.2
Wage bill	9.6	8.1	7.2	6.9
(In percent of budgetary revenues)	74.2	54.0	48.0	45.4
Primary fiscal balance 1/	-8.0	-2.8	-3.7	-1.8
Overall government deficit(commitment basis) 2/	-12.3	-4.9	-6.0	-3.4
Foreign financed investment	1.6	2.2	2.2	1.8
Debt service ratio to budgetary revenue 3/	...	...	17.7	...

Sources: Official data from the national authorities concerned; staff estimates and projections.

1/ Total government revenue excluding grants minus government non interest expenditure.

2/ Including grants.

3/ After debt relief.

**THE MONEY-INFLATION TRANSMISSION MECHANISM IN GUINEA-BISSAU:
A RETROSPECTIVE ON THE PESO PERIOD**

A. Introduction

1. On May 2, 1997, Guinea-Bissau adopted the CFA franc as its legal currency. This date marked the end of the relatively short-lived history of the Guinea-Bissau peso, a currency embraced immediately after independence.¹ In a press conference on December 27, 1996, the Central Bank of West African States (BCEAO) announced the parity against the CFA franc with which the peso would enter the West African Monetary Union (WAMU, or UMOA by its French acronym), thus effectively providing a nominal anchor for the peso during the last months of its existence.²

2. The advent of a fixed exchange rate system for Guinea-Bissau might be an appropriate moment to evaluate the monetary and price developments during the period when the peso was floating. The history of the peso coincided with high and variable inflation, in stark contrast to the history of the CFA franc, which, apart from a short inflationary spell in the aftermath of its 50 percent devaluation in January 1994, has been a low-inflation currency; the high variability of the aggregates involved should facilitate the discovery of any linkages between money and inflation. Two other factors argue for studying inflation and monetary developments in Guinea-Bissau up to the moment of currency conversion: (1) the future lack of independent monetary policy; and (2) the difficulties of accurately measuring domestic money stock in a currency union where domestically emitted currency co-circulates with values issued elsewhere in the union; both are reasons to expect a structural break in money demand at the time of the conversion to the CFA franc.

3. The methodology used here follows closely similar attempts made to estimate the transmission mechanism between money and prices in other countries, notably Madagascar, and consists of the following steps³: (1) determine the level of integration of the data used—in particular, verify whether the first differences are stationary; (2) estimate long-run equilibrium equations for money demand and the real exchange rate, and verify whether these variables are cointegrated, i.e. whether the residual of this regression is stationary; (3) interpret the residuals of these regressions as short-term deviations from a long-run equilibrium level, which push prices in the direction of equilibrium (the so-called error correction terms);

¹The peso continued to cocirculate with the CFA franc for a three-month conversion period which ended on July 31, 1997.

²This parity was set at PG 65 = CFAF 1, effective May 2, 1997.

³See SM/97/105 for a detailed description of the methodology, and references to the literature.

(4) estimate an inflation equation which uses the error correction terms as explanatory variables, as well as lagged price and exchange rate changes to capture short-run dynamics.

4. The results are broadly in line with prior conceptions on the transmission mechanism. Firstly, it is possible to identify a long-run equilibrium money demand function for Guinea-Bissau; however, the interest rate variable used to capture the opportunity cost of holding money has a more complex interpretation than usual. Second, the error correction terms, obtained as deviations from the long-run money demand and real exchange rate equilibrium relationships, help explain changes in inflation. Third, seasonal effects are present, but not extremely pronounced. Lastly, the introduction of variations in rice prices and/or rainfall data does not contribute to explaining variations in prices, despite frequent reference to these variables in explaining inflationary bouts.

B. Data Issues and Preliminary Tests

5. This section will discuss data issues, and proceed with the necessary preliminaries—testing the order of integration of the variables, to verify the appropriateness of using the cointegration methodology.

Data issues

6. For the exercise in question, the economic database of Guinea-Bissau is comprehensive from the late 1980s onwards. Complete monthly series are available on monetary aggregates, prices, interest rates, and exchange rates; annual series are available for gross domestic product and the terms of trade. However, it should be kept in mind that the consumer price index (CPI) is a rather narrow index based on three product categories (food, beverages, and tobacco), and measured only in the city of Bissau. The monthly terms of trade and gross domestic product data are interpolated for lack of more frequent data, a procedure considered appropriate in a situation in which long-run relationships are sought.

Tests for the order of integration

7. Since the long-run equilibrium relations for money demand and the real exchange rate are modeled as cointegrated vectors of explanatory variables, it is necessary to verify: (1) that the variables used are of the same degree of integration; and (2) that the estimated linear combination of these variables is stationary. Table 34 shows the unit root tests on the variables concerned. Tests are performed both on log levels, and on their first differences; test statistics are provided for series without a constant, with a constant, as well as with a constant and a trend. The larger the test statistic, the less likely it is that the series is stationary. Since the tests on log levels for the inflation, money, nominal exchange rates, and interest rates do not reject non-stationarity, but those on first differences do, one can conclude that these series

are integrated of order one.⁴ The real exchange rate variable seems stationary in levels, once a trend and/or constant is added. The terms of trade and real GDP variables start out as annual series before they are interpolated to interact with monthly series, and the unit root tests are performed on the annual series. While the terms of trade series seems to contain a unit root, the annual real GDP series does not show stationarity after differencing at the 5 percent significance level⁵.

C. The Model

8. An econometric model of inflation⁶ is used that identifies three different sources of inflationary pressure: (1) deviations from money market equilibrium; (2) deviations from real exchange rate equilibrium; and (3) short-run dynamics of lagged exchange rates and/or prices. In addition, seasonal factors may also play a role in fluctuations in inflation, as do variation in rainfall and international rice prices.

The quest for a stable money demand equation

9. Central to explaining inflation, according to the methodology used, is the existence of a stable long-run money demand function, which describes a situation of equilibrium in the money market. The supply of real money balances M/P is then equal to demand for real balances m , so that $M/P = m(y, i)$, where M denotes the money stock, P is the price level, $y = Y/P$ is a variable related to the real volume of transactions in the economy (usually gross domestic product), and i is the opportunity cost of holding money. The money market equilibrium is considered to hold only in the long run, with deviations, say, caused by money supply shocks only slowly working their way through adjustments in price levels. During such a period of disequilibrium, excess holding of real balances will contribute to inflation as agents try to rid themselves of excess money holding by increasing demand for goods, and vice versa, thus giving rise to the error correction term mentioned above.

10. The financial system in Guinea-Bissau before joining the WAMU had several characteristics that influence the modeling of the money market equilibrium. One was the relatively high degree of dollarization of the banking system; many formal sector enterprises whose inputs or revenues are predominantly imported (inter alia the electricity company and enterprises in the tourist sector) had large dollar-denominated deposits. A second

⁴Alternatively, such series are referred to as unit-root or I(1) processes.

⁵The Augmented Dickey-Fuller statistics are -1.17, -2.90, and -3.28 (without constant, with constant, with constant and trend), while the 5 percent critical values are respectively -1.98, -3.27, and -4.08.

⁶For a description of a structural economic model that could serve as the basis for the estimated econometric model used, see e.g. SM/97/105.

characteristic was that the interest rate structure was determined directly by the Central Bank of Guinea-Bissau (BCGB), which did not necessarily attempt to impose market-clearing rates.

11. In fact, the monetary policy objectives of the BCGB included—at least from 1993 onward—obtaining positive real interest rates to increase money demand and reduce inflation. This objective was achieved by setting all interest rates by administrative decree⁷ at a level above the contemporaneous annualized inflation rate. Faced with interest rates on deposits which jeopardized their profitability, commercial banks reacted by reducing time deposits to a minimum, including through outright rejection of new accounts. In 1993, the average share of peso time deposits in broad money amounted to 10.9 percent, falling to 3.4 percent at end-1996.

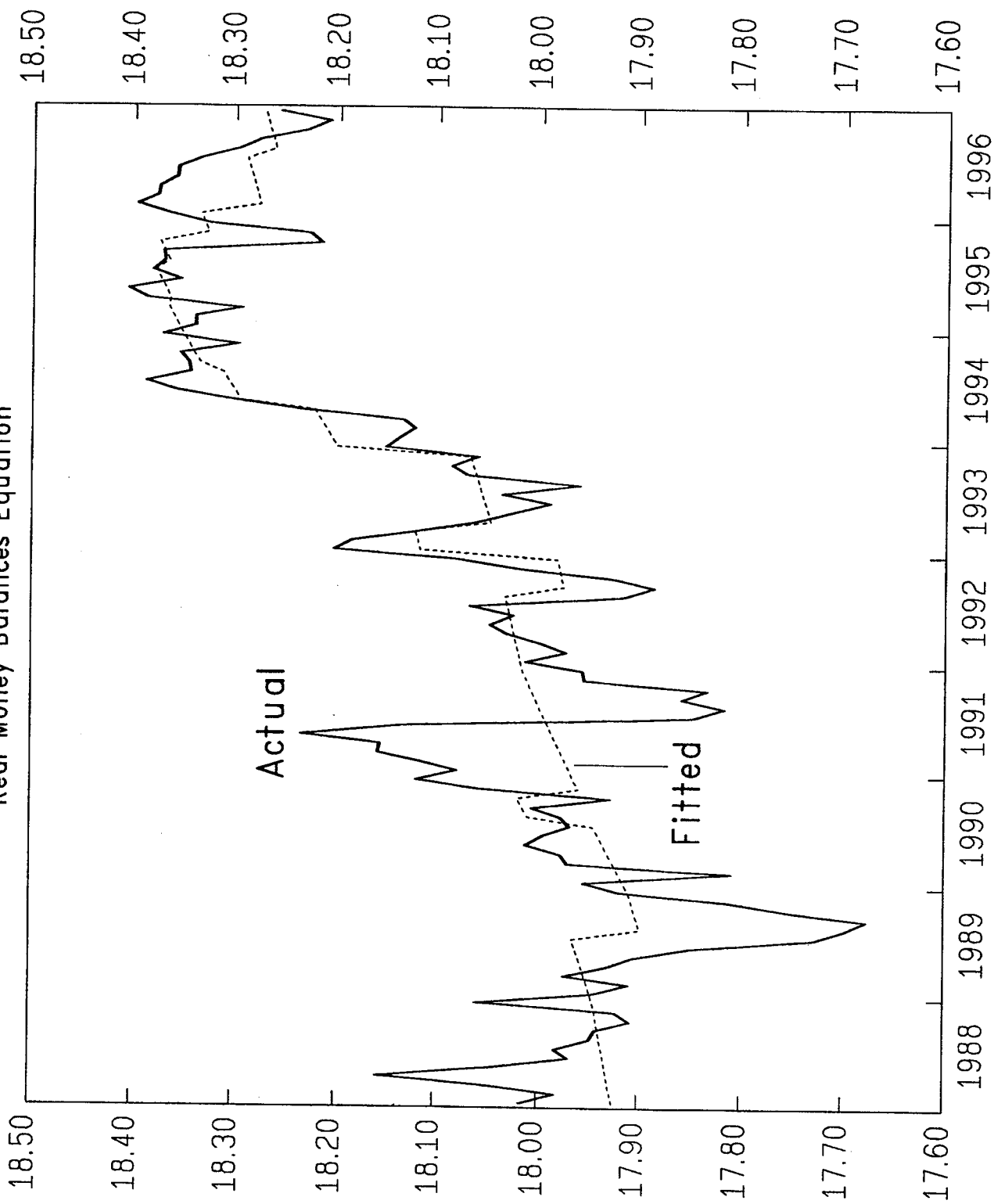
12. In such an environment, the signal provided by the interest rate on time deposits can then be interpreted as a measure of the *opportunity cost* of holding peso, rather than as an indication of the remuneration such holdings would generate—except for the fortunate few who were able to maintain their time deposits.

13. Figure 7 shows the evolution of real broad money balances (REALM2) in Guinea-Bissau during the last decade, as well as the fitted money demand equation. The exogenous variables used in the estimated equation are log real GDP, the interest rate on time deposits, and a dummy (BRK931) that spans the period 1993-1996, during which the country was following an IMF adjustment program⁸. Table 35 displays the regression results for different specifications. In particular, three different opportunity cost variables were tried: log changes in exchange rates, log changes in domestic prices, and the interest rate on time deposits. The coefficient on the interest rate variable are estimated with the lowest standard error, and are therefore retained. Inclusion of the dummy has the additional effect of bringing the income elasticity closer to unity.

⁷The rates included various commercial bank lending and deposit rates, as well as central bank refinancing rates, see Table 21.

⁸Including a staff-monitored shadow program during 1993-94. It should be noted that a dummy is not a stochastic variable, and therefore it cannot share a common stochastic trend. Moreover, Perron (1989, 1990) shows that the existence of a structural change (e.g. as captured by a dummy variable) in the mean of a stationary time series biases the standard ADF tests towards non-rejection of non-stationarity.

Figure 7. Guinea-Bissau: Actual and Fitted Real Money Balances Equation



14. The equation used for subsequent analysis, estimated for the period January 1988 to December 1996 then is (standard errors are shown in square brackets):

$$(1) \quad \text{REALM2} = 9.43 + 1.38 \text{RGDP} - 0.0059 \text{DEPOSIT} + 0.13 \text{BRK931}$$

$$\quad \quad \quad [1.12] \quad [0.18] \quad \quad [0.00059] \quad \quad [0.030]$$

with an R-squared of 0.77, and a Durbin Watson coefficient of 0.59.

15. The interpretation of the negative sign on the interest rate on time deposits requires some care: one would normally expect that an increase in that rate would make holding such deposits (and thus broad money) more attractive than other assets (such as foreign currency or bonds). Instead, the robust finding of a negative coefficient can be explained by the administrative nature of the interest rate structure, which—by virtue of imposing quantity restrictions in the money market—designates the interest rate on time deposits as a measure of the opportunity cost to holding pesos. By publishing the interest rate structure, the central bank announces to agents broadly what the negative return on holding pesos is, in case agents cannot place a time deposit.

16. The residuals from this regression were found to be stationary, thus confirming that real money balances and a linear combination of explanatory variables are cointegrated.⁹ The residuals can be interpreted as temporary deviations from the long-run money market equilibrium, and therefore contribute to price pressures. Thus, if real money balances exceed their equilibrium value, excess demand for goods will force up the price level.

The real exchange rate equation

17. Sluggishness in the adjustment of prices and/or the exchange rate allows for the possibility that the real exchange rate, defined as $e = P/EP^*$, where P^* is the foreign price level and E is the nominal exchange rate expressed as the price of a unit of foreign exchange, deviates from its long-run equilibrium value. Here, two specifications are estimated for a long-run real exchange rate equation: (1) using the terms of trade as an explanatory variable; and (2) keeping the real equilibrium exchange rate constant, except for a structural break in 1994 corresponding to the change in the operation of the foreign exchange market.

18. The terms of trade affect the real exchange rate in the usual way: an improvement in the terms of trade, e.g. through higher export prices, should appreciate the equilibrium real exchange rate, since domestic prices will increase (and/or the nominal exchange rate will appreciate). Data on the terms of trade—calculated as the ratio of the export price index to the index of import prices—are subject to large measurement error in Guinea-Bissau, and thus a specification keeping the equilibrium real exchange rate constant was also estimated.

⁹The Augmented Dickey-Fuller test statistic was -3.99 (-3.98/-4.00) for the series without constant (with constant/with constant and trend), and the 5 percent critical value -1.94 (-2.89/-3.46), thus rejecting the hypothesis of non-stationarity; see also table 1 under ECM_M2.

19. Figure 8 displays the evolution of real exchange rate (RXR) in Guinea-Bissau during the last decade, as well as the fitted equilibrium equation. The exogenous variables used in the estimated equation are the terms of trade and a dummy (BRK941) that spans the period 1994-1996, to capture the effect of the unification of the foreign exchange market in 1994. Table 36 displays the regression results for the different specifications. In a regression using only a constant and the terms of trade as regressors, the coefficient of the terms of trade is of the right sign and seems to fit relatively well; however, if the dummy is included in the regression, the contribution of the terms of trade to explaining variation in the real exchange rate is reduced to virtually zero, corresponding to the lack of independence between the two variables. The simpler form is retained.

20. The equation used for subsequent analysis, estimated for the period 1/1988-12/1996, then is

$$(2) \quad \text{RXR} = -5.607 \quad -0.1183 \text{ BRK941} \\ \quad \quad \quad [0.01007] \quad [0.01266]$$

with an R-squared of 0.36, and a Durbin Watson coefficient of 1.06.

21. The residuals from this regression were found to be stationary.¹⁰ As with the residuals from the money market equilibrium equation, the residuals can be interpreted as temporary deviations from the equilibrium real exchange rate, and thus contributing to price pressures. Therefore, if the real exchange rate exceeds its equilibrium value, which corresponds to an excess strengthening of the real exchange rate, demand for cheaper foreign goods will force down the price level.

The inflation equation

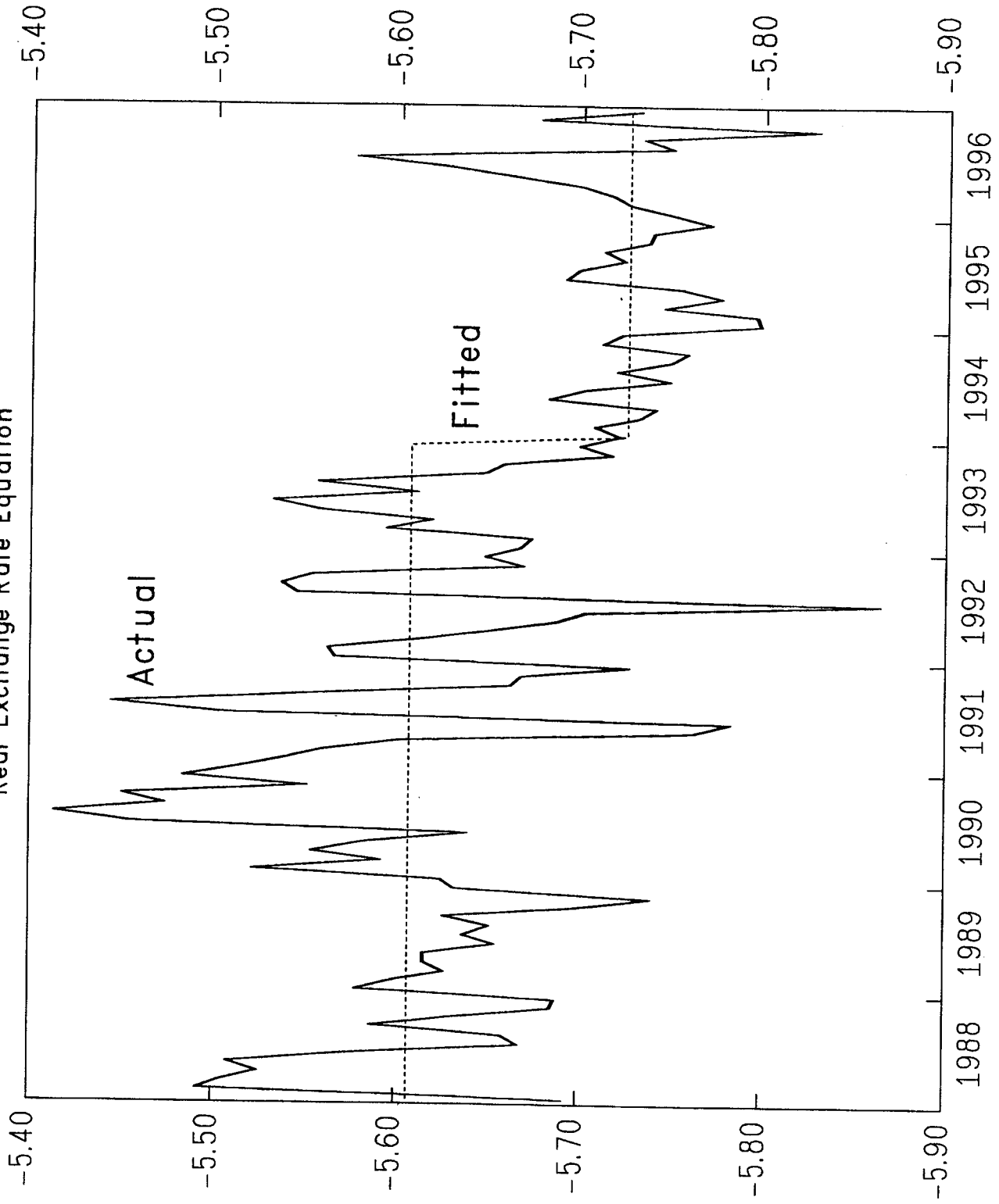
22. The deviations from long-run money demand and real exchange equilibrium can now be used to explain variations in the price level. Various specifications were explored, yielding broadly the same conclusion (see Table 37). The simplest form is presented below:

$$(3) \quad \text{DCPI} = \quad 0.03396 \quad +0.2242 \text{ ECM_M2}(t-1) \quad -0.3029 \text{ ECM_RXR}(t-1) \\ \quad \quad \quad [0.004233] \quad [0.04931] \quad [0.08141]$$

with an R-squared of 0.38, and a Durbin Watson coefficient of 1.64.

¹⁰The Augmented Dickey-Fuller test statistic was -6.02 (including constant and trend), and the 5 percent critical value -3.45, thus rejecting the hypothesis of non-stationarity.

Figure 8. Guinea-Bissau: Actual and Fitted Real Exchange Rate Equation



23. The coefficients on the error correction variables are of the right sign and significant. An overhang during the previous period in money demand will lead to a positive inflationary impulse; analogously, an overvalued exchange rate will contribute to lowering inflation during the next period. Figure 9 shows the actual and fitted values of the changes in inflation.

24. Various other specifications were estimated, with seasonal dummies and/or lagged prices and exchange rates. The error correction terms are always (close to) significant, and of the right sign. Lagged prices were not significant, and lagged exchange rate only barely. The seasonal coefficients were markedly present during midyear, corresponding to the period of scarcity in basic foodstuffs before the harvest (the so-called "soudure"), as well as the cashew nut campaign, during which consumer spending accelerates. There were no clear effects of either rainfall-related or world rice price variables.^{11 12} In all likelihood, the observed correlation in Bissau between increasing rice prices and inflation is fully captured in the exchange rate transmission mechanism, so that the observed rice price increase was merely a reflection of the depreciation of the peso.

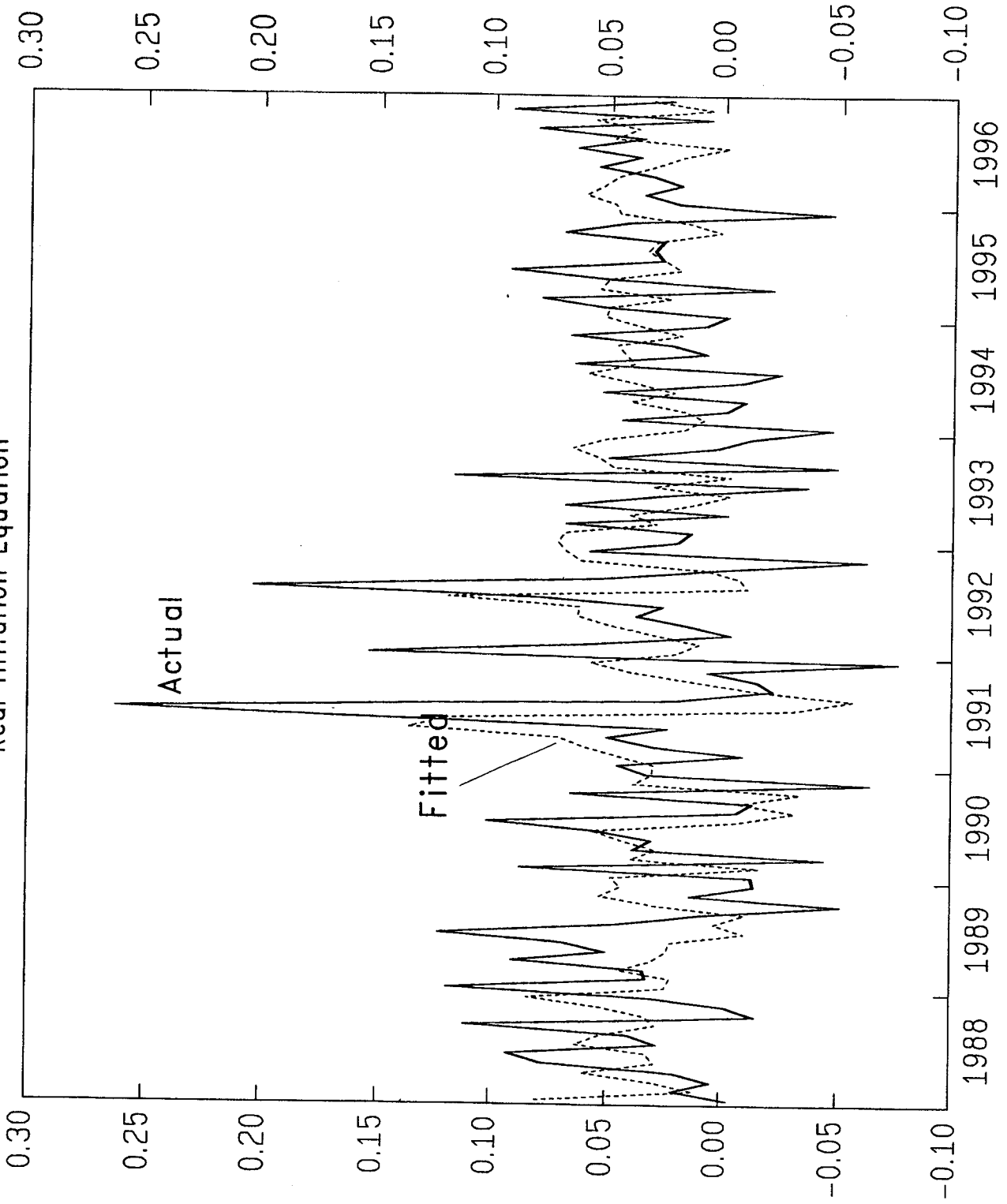
D. Conclusions

25. On the basis of the inflation equation estimated above, the lessons that can be drawn from the data include the following: (1) money demand was stable during the period 1988-1996 in Guinea-Bissau; (2) as a result, strict monetary policy would have been effective in combating or preventing inflationary episodes; (3) administrative interest rates were counterproductive, as they signaled the high opportunity costs of holding pesos; (4) world rice prices were not found to significantly influence changes in inflation, thus going counter to popular belief; and (5) a significant seasonal inflation pattern exists, broadly from May through September, corresponding both to the cashew campaign and the period before the harvest of basic food crops.

¹¹Different rainfall variables were constructed to attempt to capture drought-induced price hikes; the rainfall data was kindly provided by Chris Landsea, Department of Atmospheric Science, Colorado State University.

¹²The source of world market prices for rice was *International Financial Statistics*.

Figure 9. Guinea-Bissau: Actual and Fitted Real Inflation Equation



References

- Perron, Pierre, 1989, The Great Crash, the Oil Shock and the Unit Root Hypothesis, in *Econometrica*, vol. 57, pp. 1361-1401.
- Perron, Pierre, 1990, Testing for a Unit Root in a Time Series with a Changing Mean, in *Journal of Business and Economic Statistics*, vol. 8, pp. 153-162.

Table 34. Guinea-Bissau: Unit Root Tests, 1989-96
 Period: April 1989-December 1996

	Levels			First differences		
	Without constant	With constant	With constant and trend	Without constant	With constant	With constant and trend
CPI	5.71	-0.51	-2.35	-6.9861**	-9.0588**	-9.0125**
Broad Money	7.14	-0.40	-3.12	-7.5133**	-11.423**	-11.362**
Nominal exchange rate	5.25	-0.24	-2.18	-7.0303**	-8.7666**	-8.7164**
Lending rate	0.06	-2.16	-2.16	-9.5917**	-9.5740**	-9.5299**
Deposit rate	0.21	-1.84	-1.88	-9.5917**	-9.5948**	-9.5419**
Money demand ECM	-3.99	** -3.98	** -4.00	...	...	...
Real exchange rate ECM	-6.07	** -6.05	** -6.02	...	...	...
Residual Inflation Equation	-9.47	** -9.41	** -9.41	...	...	...
Critical value DF 5 percent	-1.94	-2.89	-3.46	-1.94	-2.89	-3.46
Critical value DF 1 percent	-2.59	-3.50	-4.06	-2.59	-3.50	-4.06
Real exchange rate	0.08	-4.1888**	** -5.3075**	...	...	...
Real GDP 1/	7.75	0.25	-1.84	-1.17	-2.90	-3.28
Terms of trade 1/	-1.17	-1.03	-2.78	-3.60	** -4.80	** -4.41
Critical value DF 5 percent 1/	-1.98	-3.22	-4	-1.98	-3.27	-4.08

1/ Based on annual data (1986-96).

Table 35. Guinea-Bissau: Real Money Balances Equation: Coefficients and Standard Errors

Endogenous	Constant	RGDP	Deposit rate	Dprices	DXR	BRK931
Real M2	5.379	2.022	-0.005868			
R ² =0.73	(0.7512)	(0.1195)	(0.0009441)			
DW=0.53	[0.6726]	[0.1053]	[0.0006702]			
R ² =0.77	9.425	1.38	-0.005941			0.1314
DW=0.54	(1.229)	(0.1951)	(0.0008829)			(0.03275)
	[1.119]	[0.1766]	[0.0005904]			[0.03040]
R ² =0.64	7.043	1.731		-0.2403		
DW=0.33	(0.8189)	(0.1281)		(0.2084)		
	[0.7968]	[0.1242]		[0.2435]		
R ² =0.67	10.83	1.129		-0.1579		0.1228
DW=0.36	(1.449)	(0.2292)		(0.202)		(0.03945)
	[1.479]	[0.2338]		[0.2271]		[0.04243]
R ² =0.63	7.014	1.734			0.04042	
DW=0.37	(0.8238)	(0.129)			(0.1838)	
	[0.8084]	[0.1261]			[0.1952]	
R ² =0.67	11.07	1.09			0.1226	0.1307
DW=0.39	(1.458)	(0.2306)			(0.1775)	(0.03952)
	[1.487]	[0.2349]			[0.185]	[0.04173]

(Long-run standard errors in parentheses; heteroskedasticity-consistent standard errors in square brackets.)

Table 36. Real Exchange Rate Equation: Coefficients and Standard Errors

Endogenous	Constant	TOT	BRK941
RXR	-7.553	0.4136	
R ² =0.24	(0.3307)	(0.07172)	
DW=0.88	[0.2866]	[0.06242]	
	-5.615	0.001746	-0.118
R ² =0.36	(0.5265)	(0.1127)	(0.02616)
DW=1.06	[0.586]	[0.1252]	[0.02653]
	-5.646		
R ² =0.00	(0.008956)		
DW=0.67	[0.008956]		
	-5.607		-0.1183
R ² =0.36	(0.008801)		(0.01524)
DW=1.06	[0.01007]		[0.01273]

(Long run standard errors in parentheses, heteroskedasticity-consistent standard errors in square brackets).

Table 37. Inflation Equation: Coefficients and Standard Errors

Endogenous	Constant	Excess Money balances	Excess Appreciation XR
DCPI	0.03396	0.2242	-0.3029
R ² =0.34	(0.004151)	(0.04639)	(0.05612)
DW=1.64	[0.004233]	[0.04931]	[0.08141]
Including seasonal dummies			
R ² =0.48	-0.006507	0.2123	-0.3421
DW=1.86	[0.01656]	[0.05375]	[0.07049]
+ 0.02452 S1 + 0.03402 S2 + 0.03298 S3 + 0.02903 S4 + 0.04397 S5 + 0.05595 S6			
	[0.02702]	[0.0215]	[0.01836]
		[0.01948]	[0.01861]
			[0.02094]
+ 0.06882 S7 + 0.07407 S8 + 0.05586 S9 + 0.03971 S10 + 0.02668 S11			
	[0.02827]	[0.02176]	[0.02235]
		[0.0221]	[0.02128]
Including lagged price and exchange rate changes			
R ² =0.48	0.02178	0.243	-0.3348
DW=2.12	[0.01051]	[0.0655]	[0.109]
+ 0.2248 DCPI(t-1) + 0.07141 DCPI(t-2) + 0.1796 DCPI(t-3) - 0.02252DCPI(t-4)			
	[0.1508]	[0.1312]	[0.1216]
			[0.1071]
- 0.1383 DCPI(t-5) + 0.03555 DCPI(t-6) + 0.1006 DXR(t-1) - 0.09606 DXR(t-2)			
	[0.1219]	[0.1225]	[0.133]
			[0.1137]
+ 0.1175DXR(t-3) - 0.08007 DXR(t-4) - 0.04964 DXR(t-5) + 0.03182 DXR(t-6)			
	[0.1181]	[0.1094]	[0.09378]
			[0.102]

(Standard errors in parentheses; heteroskedasticity-consistent standard errors in square brackets).

Guinea-Bissau: Summary of Tax System, December 1997

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Direct taxes			
1.1 Business Profit Tax (Contribuição Industrial)	<p>Levied on income from commercial or industrial activities, whether permanent or occasional; chargeable to individuals and to legal entities having their main offices or a permanent agency in Guinea-Bissau and to nonresidents which are owed payments or loans by resident entities, for the exercise of such activities and for a period of less than six months; withholding at source of 15 percent of taxable base; and withholding at customs of 3 percent of c.i.f. value of selected imports. In addition, the central government, the local authorities, public agencies, and autonomous fund have been required, since the approval of the 1997 budget to withhold 3 percent on their payments to contractors for supply of goods and services. This withholding constitutes an advance on the business profit tax due.</p> <p>For corporations without accounting records and low business volume (less than PG 500 million in sales), taxation is made on a presumptive basis at the applicable rate.</p>	<p>Exemptions granted to legally constituted political parties; employers' and professional associations; legal entities engaged in activities in the public interest; international organizations deemed legal entities under international public law; diplomatic missions; religious organizations and welfare, sports, cultural, recreational, and similar associations.</p> <p>Tax liability reductions awarded as incentives to selected productive activities.</p> <p>Full deduction for 3 percent withholding of c.i.f. import value at customs. However, the following are exempt from withholding:</p> <ul style="list-style-type: none"> - by importer: Merchandise imported by emigrants, foreign cooperants, nongovernmental organizations, religious organizations, and other entities declared officially as of "public interest or utility." <p>- by product: Rice, flour, sugar, soap, edible oils, fuel products, milk, zinc sheet, nails cement, and medications.</p>	<p>Single individual corporations: (subject to complementary tax)</p> <p>Income Brackets Rates (In PG millions)</p> <p>Up to 6 20 percent 6 - 50 30 percent Over 50 35 percent</p> <p>Profits from commercialization of oil products 50 percent</p> <p>Multiple individual corporations: 1/</p> <p>Non resident 15 percent Resident 39 percent</p> <p>Profits from commercialization of oil products 50 percent</p>

Guinea-Bissau: Summary of Tax System, December 1997 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
<p>1.2 Tax on Urban Rental Income (Contribuição Predial Urbana)</p>	<p>Income from urban real estate (rent or utility obtained or potentially obtainable by the owner of record from the use or enjoyment thereof, including compensation for any right of use or enjoyment through normal or principal use or through accessory, secondary, or occasional uses).</p>	<p>Site exemptions for national monuments, properties used for religious purposes, cemeteries and their structures; properties on which are located schools, hospitals, or assistance stations, provided they do not generate income.</p>	<p>Income Brackets (In PG millions)</p> <p>Up to 1.5 15 percent Over 1.5 20 percent</p>
	<p>Chargeable to the owner of record of income (those persons in whose name the property is registered or who are in possession of it); to each joint owner, to lessees in the case of subleasing.</p>	<p>Owner exemptions for the State, including local governments; legally constituted political parties; public institutions; legal entities engaged in activities in the public interest; cultural, recreational and sports associations; diplomatic and consular missions, and missions of international organizations deemed legal entities under the international public law.</p>	
		<p>Also exempted are buildings whose gross taxable income does not exceed PG 120,000 per year, and, for 10 years, new residential buildings for owner occupancy or for rental yielding up to PG 600,000 per year.</p>	
		<p>Reduction of 25 percent of the gross taxable income (rental value) for property maintenance expenses.</p>	
<p>1.3 Tax on Rural Income (Contribuição Predial Rústica)</p>	<p>Assessed by the customs department on the f.o.b. value of the main agricultural export commodities.</p>	<p>None.</p>	<p>Products</p> <p>Cashew nuts 2 percent Cotton 2 percent Cotton seed 2 percent Coconuts 1 percent Groundnuts 1 percent Palm oil 1 percent Logs and wood products 1 percent</p> <p>Rates (On f.o.b. value)</p>

Guinea-Bissau: Summary of Tax System, December 1997 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates																		
1.4 Labor Income Tax (Imposto Profissional)	<p>Earned income, in cash or in kind, from employment for others, contracts for furnishing of services, or exercise of professional or technical activities (day wages, wages and salaries, gratuities and bonuses, and other forms of compensation, including honoraria, paid to scientists, artists and technical professionals, or permanent or occasional services).</p> <p>Chargeable to public servants, employees of public semipublic and private enterprises, workers in cooperatives (including their members), self-employed, and to those who are not permanent residents of Guinea-Bissau but are the owners of record of income generated from work therein.</p>	<p>Does not cover income from family allowance or other allowances based on household composition or status; sickness allowances and pensions; relocation allowances and severance pay, income earned by aliens in diplomatic or official activities for organizations deemed to be governed by international public law; annual income up to PG 3.6 million.</p>	<p>Income Brackets (In PG millions)</p> <p>I. Employees:</p> <table border="0"> <tr><td>Up to 3.6</td><td>exempt</td></tr> <tr><td>Over 3.6 - 7.2</td><td>2 percent</td></tr> <tr><td>Over 7.2 - 10.5</td><td>4 percent</td></tr> <tr><td>Over 10.5 - 15.4</td><td>6 percent</td></tr> <tr><td>Over 15.4 - 24.3</td><td>8 percent</td></tr> <tr><td>Over 24.3 - 40.5</td><td>10 percent</td></tr> <tr><td>Over 40.5 - 50.0</td><td>13 percent</td></tr> <tr><td>Over 50.0 - 59.0</td><td>16 percent</td></tr> <tr><td>Over 59.0</td><td>20 percent</td></tr> </table>	Up to 3.6	exempt	Over 3.6 - 7.2	2 percent	Over 7.2 - 10.5	4 percent	Over 10.5 - 15.4	6 percent	Over 15.4 - 24.3	8 percent	Over 24.3 - 40.5	10 percent	Over 40.5 - 50.0	13 percent	Over 50.0 - 59.0	16 percent	Over 59.0	20 percent
Up to 3.6	exempt																				
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Over 40.5 - 50.0	13 percent																				
Over 50.0 - 59.0	16 percent																				
Over 59.0	20 percent																				
1.5 Complementary Tax (Imposto Complementar)	<p>Levied on aggregate income generated in Guinea-Bissau by individuals entities subject to the preceding taxes or to the Capital Income Tax and having their domicile, actual residence, main offices or a permanent agency in Guinea-Bissau for a period in excess of six months per year.</p> <p>Individuals are assessed on household income earned by both spouses and dependent children and on income arising from their shares in partnerships.</p>	<p>Exemptions: The State, including local governments; legally constituted political parties; legal entities engaged in activities in the public interest; sports, recreational, cultural and welfare associations; entities engaged in activities of significant national interest; and exemptions granted under agreements (limited to the income from the activities covered by the agreements).</p>	<p>Income Brackets (In PG millions)</p> <p>I. Individuals:</p> <table border="0"> <tr><td>Up to 3.5</td><td>4 percent</td></tr> <tr><td>Over 3.5 - 10.0</td><td>8 percent</td></tr> <tr><td>Over 10.0 - 15.0</td><td>12 percent</td></tr> <tr><td>Over 15.0 - 20.0</td><td>16 percent</td></tr> <tr><td>Over 20.0</td><td>20 percent</td></tr> </table> <p>II. Self-employed professionals:</p> <table border="0"> <tr><td>Up to 10.0</td><td>10 percent</td></tr> <tr><td>Over 10.0 - 40.0</td><td>20 percent</td></tr> <tr><td>Over 40.0</td><td>30 percent</td></tr> </table>	Up to 3.5	4 percent	Over 3.5 - 10.0	8 percent	Over 10.0 - 15.0	12 percent	Over 15.0 - 20.0	16 percent	Over 20.0	20 percent	Up to 10.0	10 percent	Over 10.0 - 40.0	20 percent	Over 40.0	30 percent		
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Up to 10.0	10 percent																				
Over 10.0 - 40.0	20 percent																				
Over 40.0	30 percent																				
		<p>Deductions</p>																			
		<p>I. From gross taxable income:</p> <ol style="list-style-type: none"> a. Schedular taxes paid on aggregate income. b. Income exempt from the Complementary Tax. 	<p>II. Multiple individual corporations: 1/</p> <table border="0"> <tr><td>Up to 12.0</td><td>5 percent</td></tr> <tr><td>Over 12.0 - 24.0</td><td>10 percent</td></tr> <tr><td>Over 24.0</td><td>20 percent</td></tr> </table>	Up to 12.0	5 percent	Over 12.0 - 24.0	10 percent	Over 24.0	20 percent												
Up to 12.0	5 percent																				
Over 12.0 - 24.0	10 percent																				
Over 24.0	20 percent																				

Guinea-Bissau: Summary of Tax System, December 1997 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
<p>1.6 Capital Income Tax (Imposto de Capitais)</p>	<p>Interest from capital lent out, in cash or in kind; income arising from deferral of installments or from late compliance with obligations; profits or dividends imputed to partners; profits earned in participation accounts; interest on deposits; interest from partners' capital contributions or supplies to companies; interest earned in current accounts; interest on obligations issued by any public or private entity; income arising from the temporary assignment of commercial or industrial establishments or received as compensation for the suspension or reduction of commercial or industrial activities; income from franchising or assignment of patents, exploration licenses, utility models, industrial designs and models, trade marks, establishment names or insignia, manufacturing processes, or any kind of assignment of technology; any income from capital investments not provided for and not subject to any other schedular tax.</p>	<p>II. From the taxable income of individuals:</p> <ul style="list-style-type: none"> a. Taxpayers without dependents: PG 6 million. b. Taxpayers with dependents: PG 12 million. c. Mandatory social contributions chargeable to wages and salaries. 	<p>Standard rate - 25 percent</p> <p>Reduced rate - 10 percent</p> <p>Applicable to:</p> <ul style="list-style-type: none"> a. Profits or dividends imputed to partners; b. Profits earned in participation accounts; c. Income from franchising or assignment of patents, exploration licenses, utility models, industrial designs and models, trademarks, establishment names or insignia, manufacturing processes, or any kind of assignment of technology or of income from capital investments not explicitly provided for and subject to any other schedular tax.
		<p>Exemptions: The State, including local governments; legally constituted political parties; legal entities engaged in activities in the public interest; credit institutions subject to Business Profits Tax on interest from loans extended; businessmen subject to Business Profits Tax on income arising from services rendered or obtained from the exercise of activities not explicitly excluded from the Business Profits Tax Code.</p>	

Guinea-Bissau: Summary of Tax System, December 1997 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates																											
2. Indirect taxes																														
2.1 Domestic Consumption Tax (Imposto sobre o Consumo e Fabrico de Produtos Locais)	Levied on domestically produced consumer goods, except export goods.	For exceptional cases, as determined by ministerial order.	Ad valorem and specific rates, examples of which are the following: Beer 50 percent Rum ("aguardente") PG 5,000/liter Bricks, tiles 5 percent Statuettes and other crafts 30 percent Gasoline 45 percent Diesel fuel 5 percent Cigarettes 16 percent																											
2.2 Stamp Tax (Imposto de Selo e Estampilhas)	Levied on all documents, books, papers, acts and products listed in the Schedules.	As listed in the Schedules, including court proceedings and records, partition and distribution proceedings, award deeds, sea rescue service charters, and many others.	Variable fixed amounts or rates for specific transactions: "Papel selado" - PG 3,000 "Selo de Assistencia" - PG 1,000 "Selo de Reconstrucao" - PG 1,000																											
2.3 Motor Vehicle Transfer Tax (Imposto de Transacões sobre Veiculos)	Levied on the transfer of automobiles, ships or boats, motorcycles, and airplanes	Exemptions: For imports for the importer's own use or for use by a taxpayer already subject to Business Profits Tax on the same event. Deduction of 50 percent when a used vehicle is received as part payment for a new vehicle.	<table border="0"> <tr> <td></td> <td style="text-align: center;">Rates</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">(In percent)</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;"><u>Self-Use</u></td> <td style="text-align: center;"><u>Rental</u></td> </tr> <tr> <td>Motorcycles</td> <td style="text-align: center;">3</td> <td style="text-align: center;">6</td> </tr> <tr> <td>All other vehicles</td> <td style="text-align: center;">6</td> <td style="text-align: center;">10</td> </tr> <tr> <td>Business use</td> <td style="text-align: center;">6</td> <td style="text-align: center;">10</td> </tr> <tr> <td>Private use</td> <td style="text-align: center;">3</td> <td style="text-align: center;">...</td> </tr> <tr> <td>Land vehicles</td> <td style="text-align: center;">3</td> <td style="text-align: center;">...</td> </tr> <tr> <td>Aircraft, boats</td> <td style="text-align: center;">5</td> <td style="text-align: center;">...</td> </tr> </table>		Rates			(In percent)			<u>Self-Use</u>	<u>Rental</u>	Motorcycles	3	6	All other vehicles	6	10	Business use	6	10	Private use	3	...	Land vehicles	3	...	Aircraft, boats	5	...
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2.4 Real Estate Transfer Tax (Imposto de Sisa)	Levied on transfers of real estate.	Same as for rental value tax.	10 percent																											
2.5 Inheritance and Gift Tax (Imposto sobre Sucessões e Doações)	Levied on net value of property transferred as gifts or inheritances.	Same as for rental value tax.	5, 10, 20, 25, and 50 percent depending on degree of kinship.																											

Guinea-Bissau: Summary of Tax System, December 1997 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
3. Taxes on international trade			
3.1 Import Duty (Direitos de Importação) (Customs Tariff, Decree 39/80 of November 1, 1980 and ministerial order and 1995 law on exemptions)	Levied on the c.i.f. fiscal value of imported goods.	<p>Exemptions: Capital goods and raw materials imported under the Investment Code; personal belongings of individuals who become Guinea-Bissau residents and of arriving travelers, small merchandise remittances from emigrants, foreign estates accruing to residents of Guinea-Bissau, and basic goods imported by State agencies or charitable organizations, foreign donations, educational and scientific materials, funerary articles, medical supplies imported by the State or State-approved organizations, military equipment for the Armed Forces, and some merchandises imported by emigrants, foreign cooperants, non-governmental organizations, diplomats, and political parties.</p>	<p>Rates ranging from 0 to 60 percent, depending on kind of merchandise imported. Examples:</p> <ul style="list-style-type: none"> Sugar 25 percent Diesel fuel 5 percent Gasoline 60 percent Beer 25 percent Cigarettes 25 percent Automobiles 0-60 percent Pharmaceuticals 0-5 percent Concrete 5 percent Flour (all grains) 5 percent Machinery, engines, and electrical appliances 0-20 percent Distilled spirits 20-40 percent
3.2 Port Service Charges (Emolumentos Gerais Aduaneiros) (Decree 36/A-83 of December 23, 1983)	Levied on the fiscal value of exports or imports and customs services.	Same as for the import duty. Diplomatic representatives and religious missions.	<ul style="list-style-type: none"> - 6-10 percent ad valorem on fiscal value of imports. Rice - 6 percent Gasoline - 6 percent Diesel fuel - 6 percent <p>- Reduced to 2 percent ad valorem on fiscal value of cashew nut exports in 1997, from 5 percent previously.</p>

Guinea-Bissau: Summary of Tax System, December 1997 (concluded)

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.3 Consumption Tax (Imposto de Consumo) (Decree 36/A-83 of December 23, 1983)	Levied on the c.i.f. fiscal value of certain imported goods.	Generally same as for the Import Duty, with exceptions such as vehicles imported by emigrants.	Rates ranging from 5 to 85 percent, depending on kind of merchandise imported. (Rice imports - 14 percent.)
3.4 Lighthouse Tax (Taxa de Farolagem)	Levied on boats departing national ports, to pay for the cost of sea marks, buoys, and lighthouses.	None.	Specific rates.
3.5 Maritime Commerce Tax (Imposto do Comércio Marítimo) (Decree 36/A-83 of December 23, 1983)	Levied on goods offloaded at the Port of Bissau.	Exemptions: Military material, grants, scientific missions, and fishing vessels.	Specific rates.
3.6 Tonnage Tax (Imposto de Tonelagem) (Decree 36/A-83 of December 23, 1983)	Levied on gross measurement tonnage of ships.	Exemptions: Warships, ships carrying grant aid, scientific missions, and fishing vessels.	Specific rates.
3.7 Storage Fees (Taxas de Armazenagem) (Decree 36/A-83 of December 23, 1983)	Levied on the warehousing of merchandise.	None.	Specific rates.
3.8 Transit Fees (Taxas de Tráfego) (Decree 36/A-83 of December 23, 1983)	Levied on the circulation of merchandise within customs areas.	None.	Specific rates.
3.9 Extraordinary Tax on Cashew Nut Exports (Imposto Extraordinário sobre a Exportação de Castanha de Cajú) (Decree 8/87 of May 4, 1987)	Incidence: Levied on the f.o.b. fiscal value of exports of cashew nuts.	None.	Reduced to 10 percent of the f.o.b. value in 1997 (from 12.5 percent previously). (Since 1989 this rate has been gradually reduced from 34 percent.)

Sources: Directorate-General of Taxes and Contributions (DGCI) and Directorate-General of Customs (DGA), Ministry of Finance.

1/ Starting in 1997, multiple individual corporations will be exempt from complementary tax.

