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Guinea-Bissau: Use of Fund Resources—Request for Third Purchase Under Emergency Post-Conflict Assistance—Staff Report; Staff Supplement; Press Release; and Statement by the Executive Director for Guinea-Bissau

In the context of the Use of Fund Resources—Request for Third Purchase Under Emergency Post-Conflict Assistance, the following documents have been released and are included in this package:

- The staff report for the Use of Fund Resources—Request for Third Purchase Under Emergency Post-Conflict Assistance, prepared by a staff team of the IMF, following discussions that ended on April 26, 2009 with the officials of Guinea-Bissau on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 20, 2009**.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement on the joint IMF/World Bank debt sustainability analysis.
- A Press Release summarizing the views of the Executive Board as discussed during its June 19, 2009 discussion of the staff report that concluded the request.
- A statement by the Executive Director for Guinea-Bissau.

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

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

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

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INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

Use of Fund Resources—Request for Third Purchase Under Emergency Post-Conflict Assistance

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

Approved by Roger Nord and Anthony Boote

May 20, 2009

Discussions on a program that could be supported by a third Emergency Post-Conflict Assistance (EPCA) purchase were held in Bissau February 17–March 2 and concluded at headquarters April 20–26, 2009. The team comprised Ms. McAuliffe (head), Ms. Gerling (EP), Mr. Fernández, Mr. Manoel (all AFR), and Mr. Jenkins (SPR). World Bank staff joined the mission in both locations. The team also worked closely with African Development Bank and European Union representatives in Bissau. On March 4, the team met with officials at the French Treasury in Paris, and (via video conference) the EU in Brussels.

The political and security situation has been stable since the assassinations of the Army Chief of Staff and President João Bernardo Vieira on March 1 and 2. The president of the parliament was installed as interim president, in line with constitutional procedures, and the presidential election is scheduled for June 28.

Global economic developments, especially lower export demand and prices, are expected to slow growth significantly and put pressure on the balance of payments and an already tight fiscal situation. The 2009 fiscal framework aims to stabilize public finances and avoid new domestic arrears. Basic current-year expenditures will be maintained within available resources, domestic and external. For lack of resources, payment of sizeable amounts of previous years' arrears will have to be postponed. Fiscal management reforms are planned for 2009. The authorities are requesting a third EPCA purchase to support these policies.

The authorities have met the prior actions: (i) approval by parliament of the 2009 budget in line with the macroeconomic framework agreed for EPCA; and (ii) donor budget financing assurances.

Satisfactory performance on the 2009 EPCA-supported program could pave the way for discussion of a new PRGF arrangement later this year.

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EXECUTIVE SUMMARY

After several years of political instability, which has undermined its economic policies and performance, Guinea-Bissau faces an extremely difficult fiscal and economic situation. Some progress was made during the 2008 EPCA-supported program in reforming fiscal management, but the fiscal situation was worse than expected and sizeable domestic arrears accumulated, particularly on government wages. Looking forward, global economic developments, especially lower demand and prices for exports, are expected to slow growth significantly and put pressure on the balance of payments and an already tight fiscal situation.

The political and security situation is stabilizing since the recent assassinations of the Army Chief of Staff and President João Bernardo Vieira. In accordance with the constitution the president of the parliament was installed as interim president, and an interim army chief has also been appointed. Presidential elections are scheduled for June 28, with the support of the international community.

The 2009 fiscal framework focuses on stabilizing public finances and avoiding new domestic arrears. Basic expenditures will be kept strictly within resources, domestic and external. There are no resources, however, to repay domestic arrears or commercial bank debt. The authorities agreed to postpone payment and seek additional concessional resources for this purpose.

The authorities are requesting a third EPCA purchase of 12.5 percent of quota to support their 2009 economic framework. A third EPCA purchase would give them time to demonstrate a track record of policy performance that could pave the way for a new PRGF arrangement. That in turn is essential to shift focus from immediate needs to critical medium-term growth and development, ensure continued donor support, and move to the HIPC completion point.

Risks to the program are large. High among them are the risk that donor support could be inadequate as well as delayed, which could lead to further wage arrears, reigniting social instability. Further political instability, particularly around the time of the presidential elections, could delay the 2009 program and jeopardize donor support. The authorities' commitment to use available resources, domestic and external, to cover current-year expenditures and avoid accumulation of new domestic arrears, would help contain the risks. The limit on access to EPCA incorporates the risk to Fund resources, and any further purchases would be subject to an updated risk assessment. The BCEAO also has a good record of honoring debt service to the Fund on behalf of WAEMU members.

Staff support the authorities' request for a third EPCA purchase. If performance on the 2009 EPCA-supported program is satisfactory, discussions for a new PRGF arrangement could begin later this year.

I. BACKGROUND

1. **After several years of political instability, which has undermined economic policies and performance, Guinea-Bissau faces an extremely difficult fiscal and economic situation.** Frequent changes in government, lack of accountability and ownership, and poor fiscal controls have left a legacy of low growth, unsustainable fiscal deficits, and large stocks of domestic arrears. Though some progress was made under the 2008 EPCA-supported program to reform fiscal management, the fiscal situation was still difficult and domestic arrears continued to accumulate, including several months of government wages. The country has also been hit hard by global economic developments. Last year's surge in food and fuel prices and more recently the slowdown in global growth have put pressures on inflation, the external sector, and government resources, and threaten to severely weaken economic activity.

2. **Yet there are encouraging signs that the political and security situation is slowly stabilizing**. Following the recent assassinations of the president and the army chief of staff, two long-standing leaders at the center of domestic tensions, a peaceful transition to a new president is underway. In accordance with the constitution, the president of the parliament was promptly installed as interim president, and an interim army chief has been appointed. A presidential election is scheduled for June 28, with the support of the international community. The election is not expected to change the current government, led by the Prime Minister and backed by a two-thirds majority in Parliament, or the direction of economic policy. At a recent roundtable on security sector reform, the international community pledged support to Guinea-Bissau to fight drug trafficking, mainly by strengthening the police and the judiciary, and to reform the armed forces, partly by establishing a pension trust fund for retiring military.

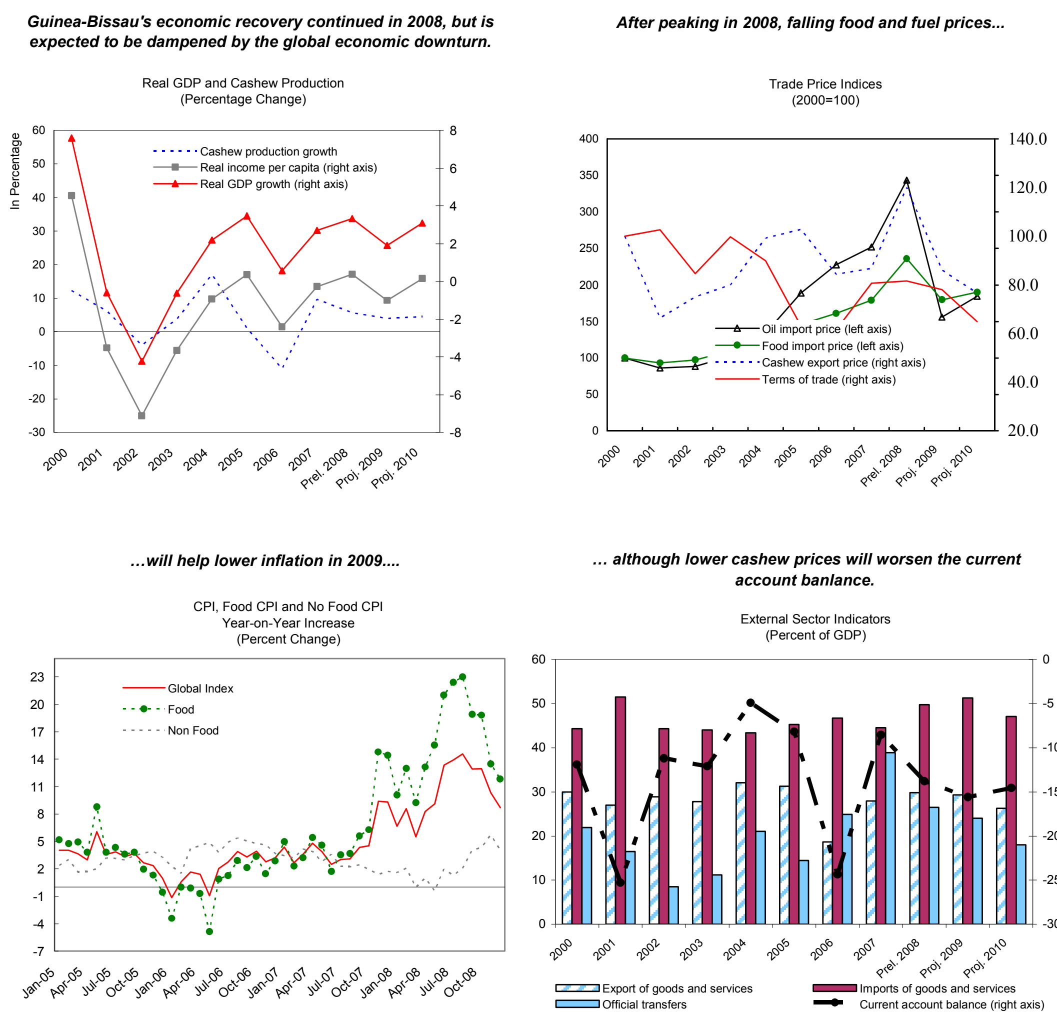
3. **The main challenge will be to stabilize the fiscal situation and avoid new domestic arrears.** The 2009 fiscal framework focuses on keeping basic expenditures within available resources, domestic and external. The fiscal situation, however, is very tight. With no resources to pay the sizeable domestic arrears or outstanding commercial debt, payments will have to be postponed. Timely donor support will be critical. The authorities are requesting a third EPCA purchase to support their 2009 program. Satisfactory performance could pave the way for discussion of a new PRGF arrangement later this year. Moving to a PRGF arrangement is necessary to shift focus to critical medium-term growth and development needs, ensure continued donor support, and move to the HIPC completion point.

II. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

4. **Economic activity continued to recover in 2008.** Real GDP growth reached 3.3 percent, from 2.7 percent in 2007, thanks in part to increased agricultural production as

rains returned to normal (Figure 1 and Table 1). Nevertheless, economic developments in 2008 were dominated by the surge in global food and fuel prices.[1] Consumer price increases, especially for food, peaked at 14.6 percent (year-on-year) in October but steadily declined thereafter. For the year as a whole inflation averaged 10.4 percent, up from 4.6 percent in 2007 and significantly higher than the recent annual average of under 2 percent. The external current account deficit (excluding official transfers) worsened to 14.9 percent of GDP in 2008, from 9.3 percent in 2007, as buoyant cashew exports were outweighed by higher import costs (Table 2). Broad money growth slowed somewhat in 2008 but still reached an estimated annual rate of about 21 percent (Table 3). There was an increase in credit to the private sector as domestic banks, for the first time, participated in financing the cashew campaign.

Figure 1. Guinea-Bissau: Main Economic Trends, 2000 – 10



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

[1] See Box 1 in IMF Country Report No. 08/266).

5. **The 2008 fiscal situation was very difficult, reflecting global economic pressures and continued political instability.** The authorities made some progress in reforming revenue and expenditure management. They also made firm efforts to keep spending within budgeted levels. Revenue shortfalls, however, led to a worse than expected domestic primary deficit. Donor budget support also fell short of programmed amounts and led to a sizeable accumulation of arrears.

6. **The 2008 domestic primary deficit exceeded the program target by about CFAF 3.9 billion** (Text Table 1). Government revenues, both tax and nontax, were lower than expected by CFAF 2.5 billion. Among nontax revenues, fishing licenses under-performed by CFAF 1 billion, reflecting continued weaknesses in monitoring territorial waters. Tax revenue, despite efforts to recover tax arrears, was below the target by about CFAF 1.5 billion. The authorities attributed the shortfall to disruptions at customs caused by political instability surrounding the November 2008 legislative elections. This was compounded by revenue losses from tax exemptions on rice and fuel imports in response to the global price increases.[2] Expenditures were generally as budgeted, although additional savings did not materialize as planned.

Text Table 1. Guinea-Bissau: Quantitative Indicators for the EPCA-supported program for 2008

(Cumulative, CFAF millions)

	End-Dec.		
	Prog.	Prog. Rev. Adjusted	Prel.
1. Government revenues	23,820	24,820	22,268
Collection of tax revenues	21,454	22,454	20,915
Current-year tax revenues	20,754	20,754	19,930
Recovery of tax arrears and additional revenue effort	700	1,700	985
Fishing licenses	2,366	2,366	1,352
2. Domestic primary balance (commitment basis) [1]	-6,282	-8,178	-12,157
3. Domestic financing of the budget [2]	-15,036	-6,063	-7,083
4. New domestic arrears	0	734	10,740
5. Ceiling on payment of previous years arrears	3,600	3,600	5,936
6. External nonconcessional public borrowing, maturity > 1 year	0	0	0
7. Nonregularized expenditures (DNTs)	200	200	0

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

[1] Adjusted for shortfalls in EU fishing compensation.

[2] Adjusted for shortfalls in external budget assistance, including EU fishing compensation.

[2] From March 2008, rice imports have been exempted from taxes, and customs fees were reduced on diesel imports—using below-market reference prices for taxation purposes. Reference prices for diesel imports are now more in line with import prices. Tax exemptions remain temporarily on rice imports (¶ 14).

7. **Pledged donor grants were lower than expected by some CFAF 10 billion (5 percent of GDP)** (Text Table 2). Sizeable domestic arrears accumulated, reaching four months of government salaries (about 4 percent of GDP), and a large amount of Treasury bills held by regional financial institutions (CFAF 7.2 billion, 3.5 percent of GDP) and outstanding since 2006, could not be repaid as planned.[3] The authorities also could not repay large amounts of short-term commercial bank debt, or make scheduled payments to the BCEAO. Key quantitative indicators of the 2008 EPCA-supported program, namely revenue, domestic primary balance, accumulation of domestic arrears and payment of previous years' arrears (four out of seven quantitative indicators) were missed.

Text Table 2. Guinea-Bissau: External Budget Support, 2008–09
(CFAF billions)

	2008		2009	
	EPCA Jul-08	Prel.	Proj.	*% GDP*
Budget support	26.3	16.4	22.0	*9.7*
Traditional	17.5	12.1	22.0	*9.7*
WAEMU	1.5	1.8	5.7	*2.7*
ECOWAS	0.0	0.0	0.0	*0.0*
EU	3.6	3.6	7.5	*3.5*
World Bank	8.5	3.2	5.9	*2.8*
AfDB	0.9	0.0	0.0	*0.0*
Portugal	1.3	1.3	0.0	*0.0*
Spain	1.0	1.0	1.0	*0.5*
France	0.7	1.3	1.3	*0.0*
Other	0.0	0.0	0.6	*0.3*
Nontraditional	8.8	4.2	0.0	*0.0*
South Africa	4.7	0.0	0.0	*0.0*
Japan	1.1	1.1	0.0	*0.0*
Additional regional support	3.0	3.2	0.0	*0.0*
EPCA	2.5	2.5	2.8	*1.3*

Source: Guinea-Bissau authorities, and IMF staff estimates and projections.

8. **Most of the EPCA structural benchmarks were met** (Text Table 3)**.** The installation of new software for unifying payroll and personnel management (SIGASPE) (benchmark for end-September 2008) was delayed pending formal agreement with the regional partner that was supposed to provide the software. Lack of financial resources also prevented the government from upgrading the automated custom systems to ASYCUDA++ as planned for December 2008. That will now be implemented by the end of October 2009, as will the system for payroll and personnel management, which will now be supported by a technical assistance agreement with Portugal (MEFP ¶ 17 and 18). The remaining structural benchmarks that were not met were nonetheless implemented with a delay.

[3] The 2008 budget originally programmed payment of one-half of the principal of the outstanding T-bills during the year.

Text Table 3. Guinea-Bissau: Structural Benchmarks for
Emergency Post-Conflict Assistance
January 1, 2008—December 31, 2008

	Target date	**Status**
Submit to parliament a government budget fully consistent with the fiscal framework presented in this MEFP.	End-November 2007	Done
Secure financing assurances from donors to fully cover the 2008 fiscal financing requirements.	End-November 2007	Done
Approve and adopt by Council of Ministers legal framework for new state budget classification system in line with WAEMU regulations.	End-March 2008	Not met; legal framework was approved in May 2008.
Create an Information Technology (IT) Department in the Ministry of Finance and start training staff.	End-March 2008	Done
Launch a financial audit, by a reputable international firm, of domestic arrears for 2000–07. (Audit financed by EU)	End-April 2008	Not met; audit launched in May 2008.
Regularize all nonaccounted expenditures for end-2007 and end-April 2008 so that they are fully reflected in the expenditure tables of the National Budget Directorate.	End-May 2008	Not met; expenditures regularized as of July 10
Sign a contract with a pre-shipment inspection agency (*Audit Contrôle Expertise*).	End-June 2008	Done
Revitalize the PNG Committee of the BCEAO and Ministry of Finance with weekly meetings to reconcile Treasury operations with BCEAO and domestic banks.	End-June 2008	Done
Improve accounting and information flows of all Treasury transactions, including nonregularized expenditures (within 48 hours) and bank financing.	End-June 2008	Some improvement, but work-in-progress
Collect at least CFAF 300 million in tax arrears.	End-July 2008	Done
Install new software for payroll and personnel management in order to merge the payroll databases of the Ministry of Finance and Ministry of Public Administration.	End-September 2008	Not met
Implement an integrated management system for public accounts, linking data flows between customs (DGA), the tax department (DGCI), the budget office (DGO), and the Treasury.	End-December 2008	Done
Upgrade the automated custom systems to ASYCUDA++ (Automated System for Customs Administrations).	End-December 2008	Not met

9. **Revenue and expenditure performance for the first quarter of 2009 appear to have been as expected.** Tax revenue in the first two months of the year was as expected, although generally lower than for the same period in 2008, reflecting global conditions. There was a slight drop in tax revenues in March when business confidence weakened after the assassinations; a large volume of containers in the port remained unopened in the immediate aftermath. Preliminary indications point to a gradual resumption of business activity since April. First-quarter expenditures were in line with the budget. The authorities have paid all January and February 2009 salaries, using domestic resources, and are beginning to pay March salaries.[4] Inflation declined to 5.8 percent (year-on-year) in February 2009. There are already signs of a drop in remittances, which were lower by nearly 25 percent in the first quarter of 2009 compared to the same period last year.

III. Outlook and Policies for 2009

A. Overview

10. **Achieving a stable fiscal situation in 2009 and avoiding new domestic arrears will be challenging.** Weak external trade is expected to hurt tax revenues. There are pressures to repay the outstanding domestic arrears and short-term commercial debt. Donor support is also subject to increased uncertainties given the current global environment.

11. **The authorities are nonetheless determined to improve fiscal performance in 2009**. In their program for 2009 (MEFP), they agreed to (i) limit the use of 2009 budget resources, domestic and external, to the payment of current-year expenditures; (ii) postpone payment of domestic arrears and commercial debt until resources are available; and (iii) speed up efforts to further strengthen revenue collection and expenditure controls. The authorities have already secured a significant amount of donor financial and technical assistance for 2009. They are requesting a third EPCA purchase to support the 2009 program.

12. **Guinea-Bissau continues to meet the Fund's conditions for EPCA support**. First, though improving, its institutional and administrative capacity remains weak, and it needs more time to implement a comprehensive program that could be supported by a medium-term PRGF arrangement. Second, despite the weaknesses, there is sufficient capacity for policy planning and implementation, as evidenced by the progress in 2008 made on structural reforms. Third, there is an urgent need to meet essential external payments, especially to multilaterals. Finally, there is concerted international support for Guinea-Bissau (¶ 16). Contingent on satisfactory performance under the 2009 EPCA-supported program, discussions for a new PRGF arrangement could begin later this year.

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[4] March 2009 salaries are not considered arrears until unpaid for 90 days.

B. Macroeconomic Outlook

13. **Global economic developments are likely to severely weaken real GDP growth in 2009 and over the medium-term (Box 1)**. Prices for cashew nuts, the main export crop, are expected to be almost 30 percent lower than last year, constraining real GDP growth, affecting the poor in rural areas, and putting pressure on the budget and external current account. Remittances, which account for about 8 percent of GDP, are expected to be lower by more than 10 percent, with negative impact on real incomes and the current account. Real GDP growth of 1–2 percent is now expected for 2009, much lower than in 2008. Lower food and fuel prices, on the other hand, will help suppress inflation. The external current account is projected to worsen because of the lower cashew export prices, offset only partially by lower prices for imported food and fuel. Provisional projections indicate a slight pick-up in economic activity over the medium-term, and inflation should return to trend (Text Table 4).

Text Table 4. Guinea-Bissau: Medium Term Scenario 2006-11

	2006	2007	2008	2009	2010	2011
			Prel.	Projections		
	(Annual percentage change, unless otherwise indicated)					
National accounts and prices						
Real GDP at market prices	0.6	2.7	3.3	1.9	3.2	3.7
Real GDP per capita	-2.4	-0.3	0.4	-1.0	0.2	0.8
Consumer price index (end of period)	-5.5	9.3	8.7	2.1	2.9	2.7
	(Percent of GDP, unless otherwise indicated)					
Investments and savings						
Gross investment	24.2	24.3	24.8	43.1	41.1	40.3
Of which: government investment	10.5	12.8	12.0	31.9	29.9	28.7
Gross national savings	-0.3	16.5	8.9	27.4	26.6	25.9
Government finances						
Budgetary revenue	19.0	14.6	16.8	14.1	14.9	15.4
Total domestic primary expenditure	26.3	25.0	22.7	22.4	22.5	22.7
Domestic primary balance	-7.3	-10.4	-5.9	-8.3	-7.6	-7.3
Overall balance (commitment basis)						
Including grants	-8.3	-10.9	-7.0	-3.3	-2.1	-1.7
Excluding grants	-19.8	-25.7	-22.0	-42.7	-39.0	-37.4
External current account (includes official current transfers)	-10.2	9.4	-3.1	-2.8	-3.1	-1.7
Excluding official current transfers	-23.2	-9.3	-14.9	-16.2	-14.8	-13.4
Nominal stock of external debt, including arrears [1]	306.7	254.2	245.9	247.6	94.3	85.9

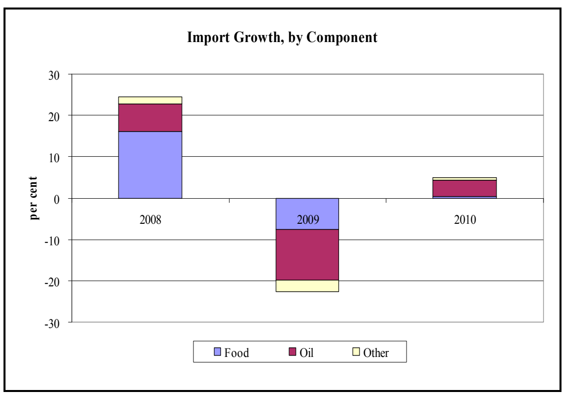
Sources: Guinea-Bissau authorities, and IMF staff estimates and projections.

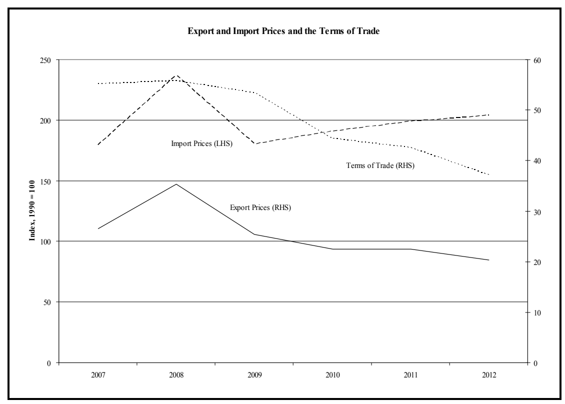
[1] Values in 2010 and thereafter reflect assumed HIPC debt relief.

Box 1. Guinea-Bissau: Impact of the Global Financial Crisis

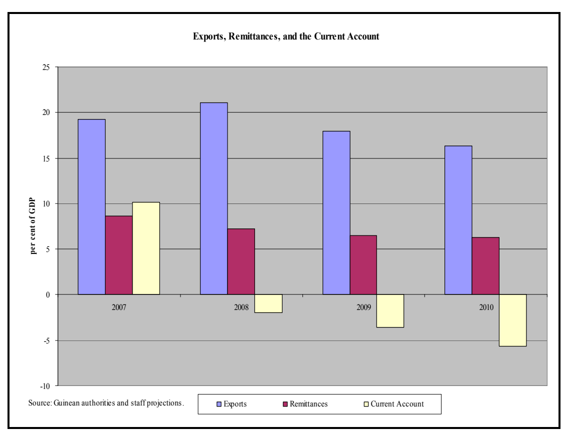
Like many other countries in Sub-Saharan Africa, Guinea-Bissau is expected to experience significant adverse effects from the global financial crisis. This impact will be tempered, however, by the positive impact on the terms of trade from lower world prices for food and fuel.

Prices for cashews, which account for over 95 percent of Guinea-Bissau's export revenues, are expected to weaken 25 to 30 percent in 2009, albeit from the relatively high levels observed in 2008. Export volumes, however, are expected to continue on a rising trend, boosted in part by the shipment of accumulated inventories. At the same time, markedly lower prices for imported foodstuffs (notably, rice and wheat) and a more than 50 percent decline in the price of imported fuel are expected to help contain the deterioration in Guinea-Bissau's terms of trade to a relatively modest 4 percent in 2009. However, looking ahead, WEO projections for the prices of Guinea-Bissau's imports and exports suggest that a further medium-term deterioration of the terms of trade is possible.





Guinea-Bissau is also expected to be hard hit by a sharp fall in remittances, reflecting deteriorating labor market conditions in the advanced countries, namely in South-Western Europe, where the majority of remittances originate. Remittances have been on a sharply rising trend since the early part of this decade, reaching 7.7 percent of GDP in 2008. Preliminary data suggest that remittances could decline by 15–20 percent in 2009.



Taken together, these developments are expected to lead to a significant deterioration in the external balance in 2009, with the current account deficit (excluding grants) expected to deteriorate from14.9 percent of GDP in 2008 to 16.2 percent in 2009.

C. Fiscal Policy

14. **The 2009 fiscal framework aims to meet basic current-year expenditures with available resources, domestic and external, and avoid new domestic arrears**.[5] However, the domestic primary deficit is projected to deteriorate to some 8 percent of GDP, from an estimated 6 percent in 2008. Tax revenues, in particular, will be adversely affected by the global economic slowdown, the expected sharp decline in international prices for cashew nuts, and the projected drop in imports. Total revenues are expected to decline by about 2.7 percent of GDP, with tax revenues lower by 1.3 percent of GDP (Text Table 5). Rice imports continue to be exempted from taxes, as a social safety net in the difficult economic environment. The government will consider removing the exemptions later this year. Nontax revenues will be lower by about 1.6 percent of GDP in 2008 as EU fishing compensation returns to a single annual disbursement.[6]

Text Table 5. Guinea–Bissau: Fiscal Indicators, 2007–11

(Percent of GDP)

	2007	2008		2009	2010	2011
		EPCA Jul-08	Prel.	Prog.	Proj.	Proj.
Revenue and grants	29.4	41.6	31.8	53.5	51.8	51.1
Revenue	14.6	20.0	16.8	14.1	14.9	15.4
Tax revenue	10.3	11.0	10.2	8.9	9.1	9.2
Grants	14.9	21.5	14.9	39.4	36.9	35.8
Budget support	9.3	13.9	8.0	10.4	10.4	10.4
Expenditure	40.3	40.9	38.8	56.8	53.9	52.8
Current expenditure	26.9	26.1	25.5	24.4	23.3	23.1
Of which: wages and salaries	12.0	11.3	10.8	10.4	10.2	9.9
Overall balance, including grants (cash)	-6.7	-0.3	-2.4	-2.1	-3.7	-3.3
Financing	6.7	0.3	2.4	2.1	3.7	3.3
Domestic financing	4.8	-11.2	-2.3	-1.1	-1.0	-0.9
Gross financing gap (+ = financing needs	-6.9	7.8	0.0	1.3	3.6	2.4
Additional financing	0.0	7.8	0.0	0.0	0.0	0.0
Residual financing gap	-6.9	0.0	0.0	1.3	3.6	2.4
Domestic primary balance	-10.4	-4.7	-5.9	-8.3	-7.6	-7.3

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

[5] The 2009 fiscal framework is in line with the budget submitted to Parliament on March 19, 2009. This was a prior action for submission of the third EPCA request for Board approval (MEFP Table 1).

[6] EU fishing compensation will return to a single annual disbursement in 2009, after two disbursements in 2008 corresponding to the 2008 annual compensation and the delayed 2007 compensation.

15. **Current primary expenditures are expected to decline by about 0.8 percent of GDP in 2009 because of a nominal freeze of current expenditures, including the wage bill**. The authorities recognize that the 2009 spending plan is once again very tight and covers only minimum requirements.[7] They aim to achieve additional wage bill savings during the year in order to free resources for priorities like health, education, and basic infrastructure. Efforts are underway to clean up the public payroll to reduce fraud and duplicate payments by, for instance, enforcing the "in-person" payment of wages and pensions. A biometric survey of civil servants will be launched in April, and the authorities plan to complete the merger of the payroll databases of the ministries of Finance and Public Administration (MEFP ¶ 18). The 2009 budget also incorporates a large increase in capital expenditures, financed by external grants, for construction of a new government office complex and the renovation of two hospitals. Construction on these projects is already underway.

16. **A significant amount of budget support has been confirmed for 2009, mainly from traditional donors.**[8] At about CFAF 22 billion (US$44 million), budget support in 2009 is expected to be higher by about 2.4 percent of GDP than in 2008. There is still a small financing gap of CFAF 2.8 billion (about US$5.6 million) for 2009, which is expected to be filled by the third EPCA purchase (SDR 1.775 million or US$2.8 million). The remainder could be filled by a fourth, final, EPCA purchase later this year, or, by PRGF resources.[9] If there are any shortfalls in external financing or domestic revenues in 2009, the government is committed to avoiding new domestic arrears by taking further efforts to reduce expenditures or finding additional sources of revenues.

17. **There are no resources in the 2009 fiscal framework to pay large amounts of outstanding domestic arrears or to service bank debt (Text Table 6)**. In the first quarter of 2009 the authorities paid some CFAF 2 billion in 2008 wage arrears to teachers. For the rest of 2009 the authorities agreed to avoid any further payment of arrears until resources are available. The authorities also intend to reschedule current debt service owed to the BCEAO (CFAF 1.9 billion).

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[7] The 2009 budget incorporates CFAF 0.5 billion in domestically financed spending on the presidential election. The remainder of CFAF 4.8 billion (2.4 percent of GDP) in total election spending will be financed by pledges from the EU, Portugal, ECOWAS, Germany, Spain, the U.K., Brazil, and France.

[8] Namely EU (CFAF 7.5 billion), World Bank (CFAF 5.9 billion), and WAEMU (CFAF 5.7 billion), as well as Spain, France, and Portugal.

[9] The authorities indicated that, contingent on satisfactory performance under the 2009 EPCA-supported program, they may request a PRGF arrangement later this year and not proceed with the fourth EPCA purchase.

Text Table 6. Guinea-Bissau: Stock of Domestic Arrears
(End-2008)

	CFAF billions	% of GDP
Arrears on wages and goods and services	55.6	*27.1*
Of which: arrears accumulated in 2008	10.7	*5.2*
Other domestic debt	29.7	*14.4*
Treasury bills	7.2	*3.5*
Short-term commercial debt	7.2	*3.5*
Owed to the BCEAO	15.2	*7.4*
Total	85.3	*41.5*

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

18. **The government nonetheless will make a major effort to resolve its large overhang of arrears.** Along with external debt relief, clearing domestic arrears will be important to reduce Guinea-Bissau's total public debt to more sustainable levels (¶ 22). Clearing arrears would also help to restore economic confidence and alleviate social tensions caused by the difficult global environment. Given their magnitude, the authorities recognize that clearing domestic arrears can only be accomplished within a sustainable and financed medium-term budget framework. They are seeking donor assistance to help prepare a medium-term action plan to clear domestic arrears,[10] starting with finalizing the external audit of domestic arrears from 2000-07. [11] The arrears clearance strategy will be central to the medium-term expenditure framework of a PRGF arrangement.

19. **The authorities are working hard to reach out to both traditional and new donors for budget support in 2009.** A donors meeting is tentatively planned for the second half of 2009. If donor budget grants in 2009 exceed the amount needed to finance the fiscal gap, priority will be given to using the resources to repay commercial debts, wage arrears, and other audited domestic arrears, as well as increasing spending in priority social sectors, in consultation with the Fund.

20. **The fiscal situation is expected to continue to improve over the medium term, as revenues recover—although not to 2008 levels—and expenditures decline gradually as a share of GDP**. A gradual reduction in the domestic primary deficit, together with continued donor support, would create fiscal space over the medium term to gradually pay down

[10] The arrears clearance plan would include assessing the full amount of outstanding stocks of audited arrears to domestic suppliers, civil servants (for wages), and commercial banks, and determining how much can be paid down annually consistent with a sustainable medium-term budget. The plan would also determine possible modalities for settling outstanding domestic arrears, including, inter alia, discounted cash payments and issuing long-term bonds.

[11] The audit, financed by the EU, was started in 2008 but has not yet been completed.

domestic arrears and to allow the country finally to focus external assistance on meeting critical development needs.

D. Structural Reforms

21. **The authorities agreed to a number of revenue and expenditure measures to further improve administrative capacity and strengthen fiscal performance (MEFP ¶ 17–19)**. The rationale and macro-criticality of each measure are indicated in Table 2 of the MEFP. Importantly, the authorities will agree on a medium-term action plan for public financial management (PFM), in consultation with the World Bank and the EU and drawing on the outcome of the recent EU-financed study on public expenditure and financial accountability (PEFA). The authorities also intend to strengthen customs administration by fully implementing ASYCUDA++ and improving control of territorial waters. For this, the Ministry of Finance is offering better incentives to patrol agents to apprehend illegal fishing boats. As an interim measure to improve revenue collection, the authorities are also proceeding with their plans to retain a preshipment inspection agency, pending longer-term measures to strengthen customs administration.[12] They also intend to enact a new investment code that will eliminate exemptions for investment projects and replace them with tax credits, in line with established best practices.[13] In preparation for possible discussions of a new PRGF arrangement later this year, the authorities are updating their PRSP.

E. Debt Sustainability

22. **Guinea-Bissau remains in a situation of debt distress.** At the end of 2008 its stock of external debt amounted to US$1.04 billion, 246 percent of GDP in nominal terms (316 percent in NPV terms), of which US$382 million were arrears. As shown in the attached Debt Sustainability Analysis (DSA), Guinea-Bissau's external debt ratios are well above country-specific indicative sustainable thresholds, even after assuming full delivery of HIPC Initiative and MDRI debt relief. [14] Domestic debt is also unsustainable.

23. **Guinea-Bissau reached the HIPC decision point in 2000.** At that time, creditors pledged to provide debt relief equivalent to 85 percent cancellation in NPV terms. However, interim relief from the Fund and Paris Club creditors stopped after 2001, when the PRGF-supported program went off track. The African Development Bank (AfDB) and IDA

[12] An upcoming mission from West Afritac will advise on specifics regarding arrangements with the preshipment inspection agencies that will maximize benefits to Guinea-Bissau and support longer-term development of domestic customs capacity. Staff encouraged the authorities to recognize their WTO obligations on preshipment inspection.

[13] The new investment code, already approved by the Council of Ministers, is awaiting the signature of the elected president.

[14] A preliminary DSA and its underlying assumptions were discussed with the authorities. The mission advised the authorities to continue to contact their creditors to discuss rescheduling that will allow them to clear arrears by 2010, before a possible PRGF-supported program.

provided interim debt relief, which was recently extended to 2011. Since 2001 Guinea-Bissau has not repaid any creditor that did not provide interim relief except the IMF.

24. **Reaching the completion point for the Enhanced HIPC Initiative and receiving debt relief would significantly reduce Guinea-Bissau's debt.** However, the country would remain at high risk of external debt distress even after any HIPC and MDRI debt relief, and additional donor support is needed to reduce the domestic debt burden. The authorities are moving toward satisfying the remaining requirements to reach the HIPC completion point, having made progress in regularizing relations with all external creditors and having met most of the completion point triggers (Table 5). The remaining requirement is establishing a satisfactory PRGF track record. Reaching the completion point is currently targeted for 2010, before World Bank and African Development Bank interim debt relief expire.

F. Program Monitoring, Access, and Capacity to Repay

25. **The fiscal framework underlying EPCA covers calendar 2009.** This allows enough time to demonstrate a track record of credible policies to restore fiscal control and avoid domestic arrears for the full period.

26. **The authorities' MEFP contains quantitative indicators through December 2009 and a few structural indicators that are critical for fiscal sustainability (MEFP Tables 1 and 2).** The structural indicators relate to fiscal management measures that can be implemented in 2009. The prior actions identified for the program have already been met. Definitions and adjusters of financial indicators and requirements for transmitting data to staff are described in the Technical Memorandum of Understanding (Appendix II, Attachment II).

27. **Guinea-Bissau has sizable arrears to sovereign and multilateral creditors,[15] and external arrears are expected to accumulate further during the EPCA-supported program.** Paris Club creditors have been informed of this. The authorities have also informed non-Paris Club creditors that they will continue to have difficulties servicing external debt even during the EPCA program period; they are taking steps to reschedule arrears with multilateral creditors. Given these actions and the commitments the authorities have received from other donors, staff considers that financing for their 2009 program, which includes a continued build up of external arrears, is adequate, and the authorities can therefore request EPCA.

28. **The proposed third EPCA purchase is for SDR 1.775 million, equivalent to 12.5 percent of quota.** This would bring Guinea-Bissau's total EPCA purchases to SDR 5.325 million (37.5 percent of quota). Guinea-Bissau could receive subsidies to lower the annual basic charge on the EPCA purchase to 0.5 percent if resources are available. With

[15] See IMF Country Report No. 07/370.

the proposed third purchase, its credit outstanding to the Fund would increase from 42.9 percent of quota in 2008 to 44.6 percent of quota in 2009 (Table 6).

29. **There are considerable risks to the program, especially delays in donor disbursements and political instability**. The risk of delayed donor disbursements has become more pronounced as developing countries in general face the possibility of reduced aid flows because of the global financial turmoil. The absence of donor support could lead to further wage arrears, reigniting social instability, as well as delays in reforms crucial to fiscal sustainability and economic growth (e.g., civil service, security, and energy sector reforms). Further political instability, particularly around the time of the presidential election, could delay implementation of the 2009 program and jeopardize donor support. The limit on access to EPCA incorporates the risk to Fund resources, and any further purchases would be subject to an updated risk assessment.

30. **Notwithstanding these risks, there is little risk to the Fund from EPCA disbursements to Guinea-Bissau.** The government is current on its Fund obligations, and the BCEAO has an exemplary record of honoring debt service to the Fund on behalf of WAEMU members, even without reimbursement by the member country.[16]

31. **To ensure that the fiscal reforms are effective and sustainable, the 2009 EPCA program will continue to be supported by technical assistance (Table 7).** The IMF will continue to provide support, including technical assistance from West AFRITAC and AFRISTAT, to firm up budget management and tax collection and improve economic statistics. The World Bank is helping with these reforms with a grant from the State and Peace-Building Fund (SPF), including financing for a long-term resident fiscal advisor. Other donors, including the EU and bilaterals, are providing technical assistance to government revenue and expenditure departments.

IV. Staff Appraisal

32. **Guinea-Bissau must manage an extremely difficult fiscal and economic situation.** The authorities implemented important fiscal management reforms during the 2008 EPCA-supported program. However, global pressures and continued political instability resulted in a weaker than expected fiscal situation and the accumulation of large amounts of domestic arrears. Now global economic developments, especially lower export demand and prices, are expected to significantly slow growth and put pressure on the balance of payments and an already tight fiscal situation.

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[16] As a member of the Central Bank of West African States (BCEAO), the common central bank of the countries of the West African Economic and Monetary Union (WAEMU), Guinea-Bissau is covered by the periodic safeguards assessments of the BCEAO, the most recent of which was completed on November 2005. The next periodic assessment is scheduled for later in 2009.

33. **The peaceful transition to the presidential election is an encouraging sign that the political and security situation is stabilizing**. Program ownership and the direction of economic policy are expected to continue intact following the elections. The elected president, as head of state, does not play a direct role in economic policy, and the composition of the current government is not expected to change.

34. **Strict implementation of the 2009 EPCA-supported program will be critical.** The authorities have indicated their resolve to keep 2009 expenditures within available resources and avoid domestic arrears. For this, they must resist pressures for additional spending on the coming presidential election. They must also avoid any further payment of 2008 wage arrears and outstanding commercial bank debt until additional resources are found. At the same time, given their magnitude, the authorities must make a strong effort to resolve its large overhang of domestic arrears. They urgently need donor assistance to help prepare a medium-term action plan to clear domestic arrears that is consistent with a sustainable and financed medium-term budget framework. Timely disbursement of external concessional budgetary assistance will be critical to avoid new domestic arrears. The authorities should continue to seek additional donor assistance on highly concessional terms, preferably grants, particularly considering global uncertainties.

35. **Guinea-Bissau continues to meet the requirements for Fund EPCA**. Help in meeting current external payments is urgently needed, particularly given the pressures from the global economic slowdown. Yet despite difficult circumstances, the country's progress during 2008 demonstrates that the authorities have the capacity to implement the program, and concerted donor support continues.

36. **The authorities are determined to establish the track record necessary for a PRGF-supported program and for reaching the HIPC Initiative completion point**. It will be important for them to focus on preparing their medium-term policy framework by updating the PRSP and gaining domestic consensus. Development of a PFM Action Plan and a medium-term expenditure framework, including a strategy for arrears clearance, would also be necessary for a PRGF arrangement. Delay in moving to a PRGF arrangement could jeopardize not only continued donor support but also reaching the HIPC completion point and much-needed external debt relief. Recognizing that a third EPCA purchase could help improve policy performance, absorb the recent heightened strains on the balance of payments, and catalyze more international support, staff recommends approval of the authorities' request for the purchase. Based on improved policy performance, staff would consider initiating discussions for a new PRGF arrangement later this year.

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2007–11

	2007	2008		2009	2010	2011
		EPCA Jul-08	Prel.	Proj.	Projections	
	(Annual percentage change, unless otherwise indicated)					
National accounts and prices						
Real GDP at market prices	2.7	3.3	3.3	1.9	3.2	3.7
Real GDP per capita	-0.3	0.3	0.4	-1.0	0.2	0.8
GDP deflator	7.4	5.8	8.8	1.3	2.1	1.9
Consumer price index (annual average)	4.6	6.3	10.4	3.6	2.5	2.8
Consumer price index (end of period)	9.3	3.5	8.7	2.1	2.9	2.7
External sector						
Exports, f.o.b. (based on US$ values)	31.3	49.8	32.5	-21.6	-3.5	13.4
Imports, f.o.b. (based on US$ values)	-6.2	51.3	49.4	-14.0	-0.7	7.4
Export volume	-7.6	17.2	-0.5	9.3	8.6	13.4
Import volume	-15.5	7.0	13.3	12.9	-6.0	3.1
Terms of trade (deterioration = -)	30.9	10.8	1.2	-4.4	-16.8	-4.2
Real effective exchange rate (depreciation = -)	3.1	…	7.0	3.3	1.7	1.6
Nominal exchange rate (CFAF per US$; average)	478.6	478.6	478.6	445.7	498.9	496.2
Government finances						
Domestic revenue (excluding grants)	-15.4	41.3	30.0	-13.6	11.6	8.8
Total expenditure	14.6	7.7	8.2	51.1	0.0	3.5
Current expenditure	10.4	3.7	6.4	-1.3	0.7	5.0
Capital expenditure	24.1	15.4	12.0	151.5	-0.4	2.4
Money and credit [1]						
Credit to government (net)	-0.7	-14.0	5.5	-8.8	…	…
Credit to the rest of the economy	7.5	3.0	3.0	2.6	…	…
Broad money	25.5	20.7	20.7	8.5	…	…
Velocity (GDP/broad money)	2.6	2.2	2.5	2.3	…	…
	(Percent of GDP, unless otherwise indicated)					
Investments and savings						
Gross investment	24.3	15.3	24.8	43.1	41.1	40.3
Of which: government investment	12.8	13.5	12.0	31.9	29.9	28.7
Gross domestic savings	-9.5	-5.6	-8.0	8.2	8.9	11.3
Of which: government savings	-31.6	-12.6	-21.7	-24.2	-20.8	-2.0
Gross national savings	16.5	20.9	8.9	27.4	26.6	25.9
Government finances						
Budgetary revenue	14.6	20.0	16.8	14.1	14.9	15.4
Total domestic primary expenditure	25.0	24.7	22.7	22.4	22.5	22.7
Domestic primary balance	-10.4	-4.7	-5.9	-8.3	-7.6	-7.3
Overall balance (commitment basis)						
Including grants	-10.9	0.6	-7.0	-3.3	-2.1	-1.7
Excluding grants	-25.7	-20.9	-22.0	-42.7	-39.0	-37.4
External current account (including official current transfers)	9.4	4.5	-3.1	-2.8	-3.1	-1.7
Excluding official transfers	-9.3	-17.8	-14.9	-16.2	-14.8	-13.4
Excluding official transfers (other than fishing licenses)	-9.3	-11.7	-11.1	-13.1	-13.5	-12.1
Net present value of external debt/exports of goods and nonfactor services (percent) [2]	682.5	428.4	483.4	385.3	351.0	321.0
Nominal stock of external debt, including arrears [2]	254.2	325.0	245.9	247.6	94.3	85.9
Memorandum items (US$ millions, unless otherwise indicated)						
Current account balance (including official current transfers)	35.8	17.1	-14.5	-11.8	-14.0	-8.2
Overall balance of payments	4.8	-38.4	-17.0	-31.4	-710.4	-10.1
Nominal GDP at market prices (CFAF billions)	182.8	187.9	205.6	212.2	223.6	236.3
Nominal stock of external arrears, end of period	353.5	329.0	382.8	402.1	0.0	0.0

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

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

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

Table 2. Guinea-Bissau: Balance of Payments, 2007–11

	2007	2008	2009	2010	2011
		Prel.	Projections		
			(CFAF billions)		
Goods and services	-30.4	-41.1	-46.7	-46.6	-46.2
Goods	-13.7	-24.5	-27.3	-28.1	-27.8
Exports, f.o.b	35.1	43.4	38.0	36.5	41.3
Of which : cashew nuts	34.6	41.8	35.9	34.1	35.5
Imports, f.o.b.	-48.8	-67.9	-65.4	-64.6	-69.1
Of which : food products	-15.5	-21.7	-17.9	-18.7	-19.6
petroleum products	-11.0	-16.7	-10.2	-11.1	-12.9
other	-22.3	-29.5	-37.3	-34.8	-37.5
Services (net)	-16.7	-16.6	-19.4	-18.5	-18.4
Credit	16.0	17.9	24.2	22.2	23.5
Debit	-32.7	-34.5	-43.6	-40.8	-41.8
Income (interest scheduled)	-5.1	-6.0	-5.1	-5.2	-5.4
Current transfers (net)	52.6	40.7	45.9	44.9	47.5
Official [1]	34.1	24.3	28.5	26.2	27.5
Of which: balance of payments support grants	17.0	16.4	22.0	23.2	24.5
EU fishing compensation	0.0	7.9	6.5	3.0	3.1
Private	18.5	16.4	17.4	18.7	20.0
Of which : remittances	15.8	14.8	13.7	14.1	14.6
license fees	2.5	1.4	3.4	4.4	5.1
Current account	15.8				
Including official transfers	17.1	-6.4	-5.9	-7.0	-4.1
Excluding official transfers	-16.9	-30.7	-34.4	-33.2	-31.6
Excluding official transfers and interest payments	-11.8	-24.7	-29.3	-27.9	-26.2
Capital and financial balance	-14.8	-1.1	-9.8	-345.5	-0.9
Capital account [2]	12.4	16.9	65.1	62.5	63.4
Financial account	-27.2	-18.0	-74.8	-408.0	-64.3
Official medium- and long-term disbursements	11.6	11.4	5.1	5.3	5.4
Balance of payments support	0.0	0.0	0.0	0.0	0.0
Projects	11.6	11.4	5.1	5.3	5.4
Scheduled amortization	-11.8	-12.8	-11.4	-349.9	-4.1
Treasury bills and regional financing	-1.3	0.0	0.0	0.0	0.0
Commercial bank net foreign assets	2.3	-0.9	-0.1	-0.3	-0.4
Private net foreign assets and errors and omissions	-28.1	-15.7	-68.4	-63.1	-65.3
Overall balance	2.3	-7.6	-15.7	-352.5	-5.0
Financing	-2.3	7.6	15.7	352.5	5.0
Net foreign assets (increase = -) [3]	-10.5	-8.6	-2.0	-3.1	-3.7
Of which: net IMF credits	-1.6	1.6	-0.8	-0.8	-0.7
purchases and loans	0.0	2.5	0.0	0.0	0.0
repurchases and repayments	1.6	0.9	0.8	0.8	0.7
Debt relief	5.3	5.8	8.2	347.4	2.8
Change in debt-service arrears (decrease = -)	15.6	11.0	6.7	0.3	0.0
Gross financing gap	-12.7	-0.6	2.8	7.9	5.9
Memorandum items					
Export volume of goods (annual percentage change)	-7.6	-0.5	9.3	8.6	13.4
Import volume of goods (annual percentage change)	-15.5	13.3	12.9	-6.0	3.1
Scheduled debt service					
Percent of exports and service credits	33.1	21.3	13.3	13.3	10.3
Percent of total government revenue	63.6	37.7	27.7	23.4	18.4
Current account balance (percent of GDP)					
Including official transfers	9.4	-3.1	-2.8	-3.1	-1.7
Excluding official transfers	-9.3	-14.9	-16.2	-14.8	-13.4
Overall balance (percent of GDP)	1.3	-3.7	-7.4	-2.3	-2.1
Gross financing gap (percent of GDP)	-6.9	-0.3	1.3	3.6	2.5

Sources: BCEAO and IMF staff estimates and projections.

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

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

[3] Excludes prospective 2009 EPCA drawing.

Table 3. Guinea-Bissau: Monetary Survey, 2007–09

	2007	2008 Prel.	2009 Proj.
	(CFAF billions)		
Total assets	69.2	83.6	92.5
Net foreign assets	51.5	61.0	63.2
Central bank	44.4	53.0	55.0
Deposit money banks	7.1	8.0	8.1
Net domestic assets	17.8	22.5	29.3
Net domestic credit	22.0	28.4	25.0
Net claims on government	11.5	15.8	10.3
Net claims on central government	11.5	15.8	10.3
Central bank	12.3	16.0	10.5
Claims	12.5	16.2	10.7
Advances to the Treasury	7.2	10.6	5.5
Consolidated loans	5.3	5.6	5.2
Deposits	-0.2	-0.2	-0.2
Deposit money banks	-0.8	-0.2	-0.2
Claims	3.7	3.9	4.0
Deposits	-4.5	-4.1	-4.2
Credit to the economy	10.5	12.6	14.7
Other items (net)	-4.2	-5.8	4.3
Liabilities	69.2	83.6	90.6
Broad money	69.2	83.6	90.6
Local currency	69.2	83.6	90.6
Currency in circulation	43.8	54.1	57.3
Demand deposits and quasi-money	25.4	29.5	33.3
Demand deposits	20.6	24.0	27.1
Quasi-money	4.8	5.5	6.2
	(Annual change as percent of beginning-of-period money stock, unless otherwise indicated)		
Net foreign assets	15.1	13.8	2.6
Net domestic assets	10.5	6.9	-0.4
Domestic credit	6.1	9.2	-6.2
Credit to the governement	-0.7	5.5	-8.8
Credit to the economy (percent)	7.5	3.0	2.6
Other items (net)	4.4	-2.3	12.1
Broad money	25.5	20.7	8.5
Velocity (GDP/M2)	2.6	2.5	2.3

Sources: BCEAO, and IMF staff estimates and projections.

Table 4. Guinea–Bissau: Central Government Operations, 2007–11

(CFAF billions)

	2007	2008		2009	2010	2011
		EPCA Jul-08	Prel.	Prog.	Proj.	Proj.
Revenue and grants	53.8	78.1	65.3	113.5	115.9	120.8
Revenue	26.6	37.6	34.6	29.9	33.4	36.3
Tax revenue	18.8	20.8	20.9	19.0	20.2	21.7
Nontax revenue	7.8	16.9	13.7	10.9	13.1	14.6
Grants	27.2	40.5	30.7	83.6	82.5	84.5
Budget support	17.0	26.1	16.4	22.0	23.2	24.5
Project grants [1]	10.1	14.4	14.4	61.6	59.3	60.0
Total expenditure	73.7	76.9	79.7	120.4	120.5	124.7
Current expenditure	49.3	49.1	52.4	51.7	52.1	54.7
Wages and salaries	21.9	21.3	22.3	22.0	22.8	23.4
Goods and services	6.2	7.1	6.2	7.8	8.7	9.8
Transfers	9.4	11.2	10.9	11.4	9.8	10.1
Other current expenditures	6.0	4.6	5.7	4.3	5.2	5.6
Scheduled interest	5.8	4.8	7.3	6.2	5.6	5.7
Domestic interest	0.7	1.3	1.3	1.1	0.3	0.3
External interest	5.1	3.5	6.0	5.1	5.2	5.4
Capital expenditure and net lending	24.4	27.8	27.3	68.7	68.4	70.1
Public investment program	23.4	24.7	24.7	67.7	66.8	67.9
Other capital expenditure	1.0	3.1	2.6	1.1	1.6	2.2
Overall balance, including grants (commitment)	-19.9	1.2	-14.4	-7.0	-4.7	-4.0
Overall balance, excluding grants (commitment)	-47.0	-39.3	-45.1	-90.6	-87.2	-88.5
Net domestic arrears	4.2	-3.6	4.8	-2.0	-4.0	-4.0
Accumulation current year	7.8	0.0	10.7	0.0	0.0	0.0
Payment previous years	-3.6	-3.6	-5.9	-2.0	-4.0	-4.0
External interest arrears current year	4.5	2.1	5.2	4.5	0.3	0.3
Float and statistical discrepancies	-1.1	-0.3	-0.5	0.0	0.0	0.0
Overall balance, including grants (cash)	-12.3	-0.6	-4.9	-4.6	-8.4	-7.7
Financing	12.3	0.6	4.9	4.6	8.4	7.7
Domestic financing	8.8	-21.1	-4.6	-2.4	-2.2	-2.1
Bank financing	9.9	-21.1	-4.6	-2.4	-2.2	-2.1
Of which: domestic banks	12.6	-7.9	-5.3	-2.0	0.0	0.0
regional financing (including T-bills)	-1.3	-8.5	0.0	0.0	0.0	0.0
BCEAO	-1.4	-4.7	0.7	-0.4	-2.2	-2.1
Nonbank financing	-1.1	0.0	0.0	0.0	0.0	0.0
Foreign financing (net)	16.2	7.1	9.5	4.1	2.7	4.2
Disbursements	11.6	11.4	11.4	5.1	5.3	5.4
Projects	11.6	11.4	11.4	5.1	5.3	5.4
Programs	0.0	0.0	0.0	0.0	0.0	0.0
Amortization (scheduled and arrears)	-11.8	-11.1	-12.8	-11.4	-349.9	-4.1
External arrears	11.1	6.3	5.1	2.2	0.0	0.0
Debt relief	5.3	0.6	5.8	8.2	347.4	2.8
Gross financing gap (+ = financing needs)	-12.7	14.6	0.0	2.8	7.9	5.6
Additional financing [2]	0.0	14.6	0.0	0.0	0.0	0.0
Residual financing gap	-12.7	0.0	0.0	2.8	7.9	5.6
Domestic primary balance	-19.1	-8.8	-12.1	-17.7	-17.0	-17.3

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

[1] Project grants in 2009 includes new public investments externally financed such as the new government offices complex and two l

[2] In 2008 includes World Bank debt relief, EPCA, and authorities' measures to fill the financing gap.

Table 4. Guinea–Bissau: Central Government Operations, 2007–11 (concluded)

(Percent of GDP)

	2007	2008		2009	2010	2011
		EPCA Jul-08	Prel.	Prog.	Proj.	Proj.
Revenue and grants	29.4	41.6	31.8	53.5	51.8	51.1
Revenue	14.6	20.0	16.8	14.1	14.9	15.4
Tax revenue	10.3	11.0	10.2	8.9	9.1	9.2
Nontax revenue	4.3	9.0	6.7	5.1	5.9	6.2
Grants	14.9	21.5	14.9	39.4	36.9	35.8
Budget support	9.3	13.9	8.0	10.4	10.4	10.4
Project grants [1]	5.5	7.6	7.0	29.0	26.5	25.4
Expenditure	40.3	40.9	38.8	56.8	53.9	52.8
Current expenditure	26.9	26.1	25.5	24.4	23.3	23.1
Of which: wages and salaries	12.0	11.3	10.8	10.4	10.2	9.9
interest	3.2	2.6	3.6	2.9	2.5	2.4
Capital expenditure and net lending	13.3	14.8	13.3	32.4	30.6	29.7
Public investment program	12.8	13.1	12.0	31.9	29.9	28.7
Other capital expenditure	0.5	1.6	1.3	0.5	0.7	0.9
Overall balance, including grants (commitment)	-10.9	0.6	-7.0	-3.3	-2.1	-1.7
Overall balance, excluding grants (commitment)	-25.7	-20.9	-22.0	-42.7	-39.0	-37.4
Overall balance, including grants (cash)	-6.7	-0.3	-2.4	-2.1	-3.7	-3.3
Financing	6.7	0.3	2.4	2.1	3.7	3.3
Domestic financing	4.8	-11.2	-2.3	-1.1	-1.0	-0.9
Foreign financing (net)	8.9	3.8	4.6	1.9	1.2	1.8
Of which: external arrears	6.1	3.3	2.5	1.0	0.0	0.0
debt relief	2.9	0.3	2.8	3.9	155.3	1.2
project and program loans	6.4	6.0	5.5	2.4	2.3	2.3
Gross financing gap (+ = financing needs)	-6.9	7.8	0.0	1.3	3.6	2.4
Additional financing [2]	0.0	7.8	0.0	0.0	0.0	0.0
Residual financing gap	-6.9	0.0	0.0	1.3	3.6	2.4
Domestic primary balance	-10.4	-4.7	-5.9	-8.3	-7.6	-7.3

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

[1] Project grants in 2009 includes new public investments externally financed such as the new government offices complex and two hosp

[2] In 2008 includes World Bank debt relief, EPCA, and authorities' measures to fill the financing gap.

Table 5. Progress with HIPC Completion Point Triggers

HIPC Completion Point Triggers	Status of Implementation
Poverty Reduction Strategy Paper	
"A full PRSP has been prepared through a participatory process and satisfactorily implemented for one year, as evidenced by the joint staff assessment of the country's annual progress report."	The DENARP (Guinea-Bissau's PRSP) finalized in 2006, covering the period 2006-2008, was prepared in a participatory process and builds on grassroots consultations at the national level that involved all segments of society (government, private sector, civil society, local communities, and development partners). The PRSP was issued to the Fund and Bank Executive Boards in April 2007 and discussed by the Bank Board on May 10, 2007. The PRSP is currently being implemented. The first annual progress report of the PRSP is expected in 2009.
Macroeconomic stability	
"Continued maintenance of macroeconomic stability as evidenced by satisfactory implementation of the PRGF-supported program."	A PRGF–supported program was adopted in early 2000 but went off track by the end of that same year. Since then the government has had two staff-monitored programs, in 2005 and 2006, with mixed results. Following the appointment of a new government in April 2007 and the launching of a minimum economic reform program to stabilize the macroeconomic situation and reactivate economic growth, the Fund agreed on an EPCA supported program for 2008, which was approved by the IMF Board in January 2008. Fiscal performance under the 2008 EPCA program was mixed. In early 2009, a new government immediately reaffirmed its commitment to sound macroeconomic management and requested a third EPCA purchase to support their 2009 macroeconomic program. Satisfactory performance on the 2008 EPCA-supported program could pave the way for a move to a PRGF arrangement later in 2009.
Governance	
"Satisfactory progress in strengthening public expenditure management assessed by the release to the Parliament and the public, twice a year starting in 2001, of comprehensive budget execution reports. These reports also will allow monitoring of basic education, primary health care and military expenditures."	The government produced comprehensive budget execution reports in 2002; however, this effort was abandoned in 2003 due to continued political and institutional instability. As part of an effort to strengthen public expenditure management, the government established an independent treasury committee to monitor cash flow management. In addition, two modules of the SIGFIP (*Système Intégré de Gestion des Finances Publiques/*Integrated Public Financial Management System), budget preparation and budget execution, have been installed at the Ministry of Finance's budget department with technical assistance and financial support from the European Union. Budget managers and accountants have been trained and pilot tests are ongoing. Monthly budget execution reports will be produced during the 2009 budget calendar.
"The action plan to reform the public procurement system has been implemented and the new system has been installed in all ministries."	The action plan to reform the public procurement system has been implemented in five ministries (Education, Health, Finance, Agriculture, and Infrastructure) and extended to one additional ministry (Defense) through the World Bank LICUS grant. Efforts are underway to extend it to four additional ministries (Commerce and Industry; Economy; Fisheries; Transports and Telecommunication) through the World bank's SPF Economic Governance Support Grant.

"The findings of the external audit to the 1997-99 budgets outturns have been submitted to Parliament and an action plan of corrective measures has been adopted."	The external audit of the 1997-99 budget outturn financed by the Netherlands was completed in 2003; however, its findings and recommendations have yet to be approved by Parliament, and implemented by the executive.
Education Sector	
"Elimination of fees for school books for all primary education students (grades 1–4) implemented in public schools."	In 2002, free primary education was introduced in public schools as part of the government's broader Education For All (EFA) program: tuition and book fees have been eliminated.
"Satisfactory implementation of the basic education action plan, measured by an increase in the gross primary school enrollment ratio to 61 percent".	The gross enrollment ratio increased from 53 percent in 1995, to 60 percent in 1999 and 102 percent in 2005. However, the net enrollment rate in primary education is only 45 percent. Gross and net enrollment rates are highly divergent because of widespread delayed enrollment.
Health Sector	
"Satisfactory implementation of the National Health Development Program, measured by an increase to at least 40 percent the proportion of children under one year fully vaccinated."	62 percent of children under one year were fully vaccinated by end-2007.
"Adoption of an action plan for malaria and its satisfactory implementation measured by an increase to 15 percent in the use of insecticide impregnated bed-nets by pregnant women."	Guinea-Bissau is considered a regional benchmark on malaria prevention. The malaria action plan was adopted in 2002. The implementation allowed increased use of insecticide impregnated bed-nets by vulnerable groups such as children under 5 and pregnant women; 81 percent of children under 5 and 72 percent of pregnant women were sleeping under insecticide treated bed nets the previous night, according to a survey conducted at the end of 2007.
HIV/AIDS	
"Adoption of a strategic framework to fight against HIV/AIDS. At least 50 percent of the population at increased risk (age 14–29) made aware of transmission and prevention methods."	Eighty-seven percent of 15- to 24-year-olds indicated that they knew how HIV is transmitted (2006 survey).
Demobilization Program	
"Demobilization has been successfully completed and discharged combatants are being reinserted into civilian life as established in the DRRP."	The government's Demobilization, Reinsertion and Reintegration Program (DRRP) was successfully completed in 2006. The program demobilized about 4,000 ex-combatants by September 2003. The final phase of reintegration was completed in 2006 and involved about 7,500 ex-combatants.

Source: Updated by the World Bank and authorities in April 2009.

Table 6. Guinea-Bissau: Indicators of Capacity to Repay the Fund, 2008–13

	2008	2009	2010	2011	2012	2013
		Projections				
Fund obligations based on existing credit (SDR millions)						
Principal	1.3	1.0	1.0	0.9	1.8	0.9
Charges and interest	0.1	0.1	0.1	0.1	0.0	0.0
Fund obligations based on existing and prospective credit [1] (SDR millions)						
Principal	1.3	1.0	1.0	0.9	2.2	1.8
Charges and interest	0.1	0.1	0.1	0.1	0.1	0.0
Total obligations based on existing and prospective credit [1]						
SDR millions	1.4	1.1	1.1	1.0	2.3	1.8
CFAF billions	1.0	0.8	0.8	0.7	1.7	1.4
Percent government revenue	2.8	2.8	2.5	2.0	4.4	3.1
Percent exports of goods and services	2.2	2.2	2.3	1.8	4.5	3.4
Percent debt service [2]	4.9	4.9	0.2	12.2	27.6	23.6
Percent GDP	0.5	0.4	0.4	0.3	0.7	0.5
Percent quota	9.7	7.8	7.8	6.8	16.1	12.7
Percent reserves	1.8	1.5	1.4	1.2	2.6	1.9
Outstanding Fund credit [1]						
SDR millions	6.1	6.3	5.3	4.4	2.2	0.4
CFAF billions	4.3	4.8	4.0	3.3	1.7	0.3
Percent government revenue	12.4	16.0	12.0	9.2	4.3	0.8
Percent exports of goods and services	9.9	12.5	10.9	8.1	4.4	0.8
Percent debt service [2]	21.7	28.2	1.1	55.9	26.9	5.7
Percent GDP	2.1	2.2	1.8	1.4	0.7	0.1
Percent quota	42.9	44.6	37.5	31.3	15.6	3.1
Percent reserves	8.1	8.7	6.9	5.4	2.5	0.5
Net use of Fund credit (SDR millions)	2.3	0.8	-1.0	-0.9	-2.2	-1.8
Disbursements	3.6	1.8	0.0	0.0	0.0	0.0
Repayments and repurchases	1.3	1.0	1.0	0.9	2.2	1.8
Memorandum items (CFAF billions)						
Charges and interest, after assumed subsidies [3]	0.1	0.1	0.0	0.0	0.0	0.0
Nominal GDP	205.6	212.2	223.6	236.3	251.2	267.4
Exports of goods and services	43.4	38.0	36.5	41.3	37.7	40.1
Government revenue	34.6	29.9	33.4	36.3	39.1	43.3
Debt service [2, 4]	19.8	16.9	352.2	6.0	6.2	5.7
NFA Central Bank	53.0	55.0	58.1	61.8	65.8	70.0
Quota (SDR)	14.2	14.2	14.2	14.2	14.2	14.2

Sources: IMF staff estimates and projections.

[1] Assumes one EPCA purchase of 12.5 percent of quota (SDR 1.775 million) in 2009. No subsidization of EPCA credit is assumed.
[2] Total debt service includes IMF repurchases and repayments.
[3] Assuming that the rate on EPCA purchase is subsidized down to 0.5 percent per annum plus adjustment for deferred charges. Subsidization is subject to the availability of resources.
[4] The figure in 2010 assumes debt relief.

Table 7. Guinea-Bissau: Ongoing Technical Assistance Program

Department	Area	Long term	Short term	(Possible) provider
Minister's Cabinet	Macrofiscal advisor	X[2]		WB SPF[3]
	Legal expert	X[2]		WB SPF[3]
	Communication expert	X[2]		WB SPF[3]
	Administrative and financial assistant	X[2]		WB SPF[3]
Budget	Expert public finance	X[2]		WB SPF[3]/EU
	IT support to budget	X[2]	X[2]	WB SPF[3]/E.U[2].
	Expert computer systems	X		
	Public financial management		X	IMF/FAD
Treasury	Advisor to the Treasurer		X[1]	WB SPF[3]
	Accounting system	X		(France)
Tax Department	Expert on tax code		X	(Portugal/IDB)
	Computerization of revenue accounting	X		
	Advisor to the Directorate of Large Enterprises		X (6 months)	(West AFRITAC)
	Reform of the sales general tax into a value-added tax		X[1]	WB SPF[3]
Customs	Expert to review organic law of customs	X		IDB
	Customs advisor	X[1]	X[1]	(EU/WB SPF[3])
	Advisor implementing ASYCUDA ++			AfDB
External debt	Debt management		X	DRI/IDB/West-AFRITAC
Procurement	Procurement expert		X[1]	WB SPF[3]
Microfinance	Advisor		X	(West-AFRITAC)
Conjuncture	Advisor, fiscal analysis	X		
Planning	National accounts advisor	X		
	Implementation System of National Accounts 1993		X	IMF/AFRISTAT

[1] Technical Assistance requested and under consideration.

[2] Technical Assistance in place.

[3] World Bank State and Peace-Building Fund (SPF).

APPENDIX I

Bissau, May 13, 2009

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

Dear Mr. Strauss-Khan:

1. Guinea-Bissau is taking important steps to stabilize an extremely difficult fiscal and economic situation. Faced with a heavy burden of salary arrears and large amounts of commercial bank debt, a new government appointed in January 2009 is implementing measures to control expenditures, increase revenue collection, and improve fiscal management. The new government intends to restore fiscal control in 2009 by using available resources to meet current-year expenditures and avoid new domestic arrears. To help achieve its objectives, and restore confidence in macroeconomic management, the government intends to pursue policies under the Fund's Emergency Post-Conflict Assistance (EPCA) for the period January-December 2009. The government is requesting a third purchase of SDR 1.775 million (12.5 percent of quota) under EPCA to support its 2009 program.

2. The details of the program for 2009 are included in the attached Memorandum on Economic and Financial Policies (MEFP). The government believes that the policies and measures set forth in the MEFP are adequate for achieving the objectives of the program, but we will take any further measures that may become appropriate for that purpose. In such cases, as well as before implementing policies that could adversely affect the program, we will consult the Fund.

3. To assist the Fund in assessing progress with implementing the program, we will provide the required information on a regular basis, as detailed in the attached Technical Memorandum of Understanding. Moreover, we invite the staff of the Fund to review performance under the program quarterly, on the basis of the quantitative and structural indicators (Tables 1 and 2 of the MEFP), as well as on the overall implementation of the program.

Sincerely yours,

/s/

José Mario Vaz
Minister of Finance

Attachments:

- Memorandum on Economic and Financial Policies
- Technical Memorandum of Understanding

ATTACHMENT I

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES

Bissau, May 13, 2009

I. INTRODUCTION

1. **Guinea-Bissau faces an extremely difficult fiscal and economic situation.** There are pressures to repay sizeable domestic arrears, including four months of 2008 government wages, that are weighing on an already tight fiscal situation. There are also large amounts of short-term commercial bank debt. At the same time, pressures are emerging from the global economic slowdown, with consequences for lower revenues, lower remittances, tightened trade credits, and reduced aid flows.

2. **Faced with an unsustainable fiscal situation, a new government appointed in January 2009 is already taking action to stabilize the fiscal situation in the near term, accelerate the implementation of structural reforms, and restore economic confidence**. The new government has taken measures to control expenditures, increase revenue collection, and improve transparency and governance. There have been encouraging signs of improved fiscal performance, including the payment of civil servant wages with domestic resources in the first months of the year.

3. **The government has agreed on a program of economic and financial policies for 2009 that focuses on meeting current-year expenditures with available resources, domestic and external, and avoids new budgetary arrears.** The government is requesting a third purchase of SDR 1.775 million (12.5 percent of quota) under EPCA to achieve its 2009 objectives and restore confidence in its economic management.

4. **This memorandum describes economic developments during 2008 and performance under the 2008 EPCA-supported program, and outlines policies and measures for 2009.**

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER EMERGENCY POST-CONFLICT ASSISTANCE IN 2008

5. **Economic activity continued to recover in 2008.** Real GDP growth reached 3.3 percent, from 2.7 percent in 2007, thanks in part to increased agricultural production as rains returned to normal. Consumer prices, especially food, declined in December, reversing the earlier trend; the 12-month rate was down to 8.7 percent in December. Annual inflation still averaged 10.4 percent in 2008, up from 4.6 percent in 2007, significantly higher than the annual average of under 2 percent in recent years. The external current account deficit (excluding official transfers) is estimated to have worsened to 14.9 percent of GDP in 2008, from 9.3 percent of GDP in 2007, as buoyant cashew exports were outweighed by higher

import costs. Broad money growth slowed somewhat in 2008 but still reached an estimated annual rate of about 21 percent.

6. **Despite efforts during the year to improve fiscal management and strengthen administrative capacity, the fiscal situation came under pressure in 2008.** The domestic primary deficit exceeded the program target by CFAF 4 billion, reflecting mainly revenue shortfalls. Total government revenues were lower than expected by CFAF 2.5 billion, with shortfalls in tax revenues amounting to CFAF 1.5 billion. Current expenditures were slightly higher than programmed, including a higher wage bill, as well as some unbudgeted outlays (including one-off payments for legal claims on the government) which were offset by lower spending on goods and services. Key quantitative indicators of the 2008 EPCA-supported program, namely revenue, domestic primary balance, accumulation of domestic arrears and payment of previous years' arrears (four out of seven quantitative indicators) were missed for end-December.

7. **Financing also fell short of projections, contributing to severe cash flow difficulties**. Pledged donor grants were lower than expected by CFAF 10 billion (5 percent of GDP). Payment of previous years' arrears also exceeded programmed levels (by CFAF 2 billion), which contributed to cash flow constraints. Sizeable arrears accumulated, reaching four months of government salaries (about 4 percent of GDP), while a large amount of outstanding Treasury bills held by regional financial institutions (CFAF 7.2 billion or 4 percent of GDP) could not be repaid as planned. Scheduled budgetary payments to the BCEAO were also not made.

8. **Implementation of structural measures under the 2008 EPCA-supported program, on the other hand, was generally satisfactory.** Most of the EPCA structural benchmarks were met. The installation of new software for unifying payroll and personnel management (SIGASPE) (benchmark for end-September 2008) was delayed pending formal agreement with the regional partner that was supposed to provide the necessary software. Lack of sufficient financial resources also prevented the government from upgrading the automated custom systems to ASYCUDA++ as planned for end-December 2008. The measure will now be implemented by end-October 2009, while the system for payroll and personnel management has been reviewed and will now be supported under a technical assistance agreement with Portugal and also implemented by October 2009 (¶¶ 17 and 18). The remaining structural benchmarks that were not met, were nonetheless implemented with a delay.

9. **Preliminary information suggests that revenue and expenditure performance was broadly as expected in the first quarter of 2009**. Strong revenue performance in the first two months of the year offset a sharp drop in customs revenues in March, when business confidence weakened following the assassinations of the president and the army chief of staff. Expenditures were in line with programmed amounts.

III. Outlook, Objectives, and Policies for 2009 and the Medium Term

10. **Real GDP growth in 2009 and the medium term is likely to be dampened by global economic developments**. Export prices for cashew nuts, the main export crop, are expected to be almost 30 percent lower than last year, constraining real GDP growth and affecting the poor in rural areas, as well as putting pressure on the budget and the current account. Remittances, which account for about 8 percent of GDP, are also expected to be lower by more than 10 percent, with further negative impact on real incomes and the current account. Real GDP growth of 1–2 percent is now expected for 2009, sharply lower than in 2008. The external current account is expected to worsen further. Lower food and fuel prices, on the other hand, will contribute to lower inflation.

11. **The fiscal stance is expected to worsen in 2009.** The domestic primary deficit is expected to be about 8 percent of GDP, from an estimated 6 percent in 2008. Tax revenues, in particular, will be hard hit by the global economic slowdown and the sharp expected decline in international prices for cashew nuts. Total revenues are expected to decline by about 2.7 percent of GDP, with tax revenues lower by 1.3 percent of GDP.
Nontax revenues will also be lower by about 1.6 percent of GDP in 2009, as EU fishing compensation returns to one annual disbursement.[1] In order to make up for potential revenue losses from global developments, the authorities will make every effort to strengthen revenue performance elsewhere by fully implementing the planned reforms for 2009, including expanding the tax base, strengthening customs administration, and improving control of fishing licenses (¶ 17).

12. **Current primary expenditures are expected to decline by about 0.5 percent of GDP in 2009, reflecting a nominal freeze of current expenditures, including the wage bill**. Against this background, the government's expenditure policy continues to aim at controlling discretionary spending in order to free resources needed to address the needs of the poorest population groups in the areas of health and education, as well as to maintain and improve basic infrastructure. A slight decline in the 2009 wage bill as a share of GDP will be an important means for improving resource allocation in order to allow for some slight increase in spending on goods and services, especially social services (education, health care and justice). In order to produce a durable reduction in the wage bill, the government intends to finalize the strategy for security sector reform as well as for public administration.

13. **Budget support identified for 2009 is estimated at CFAF 22 billion (US$44 million), from traditional as well as nontraditional donors.** The authorities will

[1] EU fishing compensation will return to a single annual disbursement in 2009, after two disbursements in 2008 corresponding to the 2008 annual compensation and the delayed 2007 compensation.

confirm the pledged donor assistance and continue to seek additional donor assistance. There remains a small financing gap of CFAF 2.8 billion (about US$5.6 million) for 2009, which is expected to be filled by the third EPCA purchase (SDR 1.775 million or US$2.8 million). The remainder could be filled by a fourth, final, EPCA purchase later this year, or, by PRGF resources. Contingent on satisfactory performance under the 2009 EPCA-supported program, the authorities may request a PRGF arrangement later this year and not proceed with the fourth EPCA purchase. To the extent of any shortfalls in external financing in 2009, the government is committed to further efforts to reduce expenditures or recover additional revenues, to make up for financing shortfalls.

14. **There are no resources in the 2009 budget to pay outstanding domestic debt**. These include the large stock of outstanding arrears on wages and goods and services,[2] as well as outstanding commercial bank advances (CFAF 7.2 billion), treasury bills (CFAF 7.2 billion), and debt to the BCEAO (CFAF 15 billion). There are also no resources to pay debt service due to BCEAO in 2009 (CFAF 1.9 billion), which will be rescheduled. In early 2009, the authorities paid some CFAF 2 billion in 2008 wage arrears to teachers. For the remainder of 2009, the authorities will not make any further payment of budgetary arrears unless additional resources are secured (¶ 16).

15. **The government will nonetheless take efforts to resolve its domestic arrears**. The authorities will prepare a medium-term action plan to clear outstanding domestic arrears and seek donor assistance to help prepare this plan. The authorities intend to include arrears clearance as part of a medium-term budget framework that could eventually be supported by a PRGF arrangement.

16. **The government intends to continue to mobilize external resources for 2009 and beyond**. A Donor Round Table Conference is planned for later in 2009. If donor budget grants in 2009 exceed the amount needed to finance the fiscal gap, priority will be given to using the resources to repay outstanding commercial debts, wage arrears and other audited domestic arrears, as well as increased priority spending in social sectors above budgeted levels, in consultation with the Fund.

IV. Structural Reforms in 2009

17. **The government will also implement during 2009 further measures to address remaining structural weaknesses in revenue collection and expenditure management**. In the area of strengthening revenue collection, the government recently undertook a fundamental review of the tax collection process, with technical support from the UNDP. Based on the conclusions of this study, the government intends to implement the necessary measures to broaden the tax base and boost fiscal revenues. These measures include:

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[2] CFAF 56 billion (27 percent of GDP) at end-2008.

(i) Implement (by end-October 2009), the computer software ASYCUDA++ (Automated System for Customs Administration), with financial assistance from the African Development Bank and Portugal. This tool will allow customs to improve control and valuation of imports by accessing on-line information from the General Direction of Taxes (DGCI) and commercial banks.

(ii) Use the recent general population census data (finalized March 2009) to update taxpayer fiscal identification numbers, by end-June 2009, which will allow better control of property and corporate taxes.

(iii) Begin, in June 2009, auctioning goods left in customs warehouses more than 3 months, in accordance with WAEMU customs code and custom legislation. Preparations are already underway.

(iv) Reinforce control of the Exclusive Economic Zone (ZEE) (a prohibited fishing zone) by offering, effective immediately, better incentives to patrol agents.

(v) Enact, by end-September 2009, the new investment code which replaces tax exemptions with tax credits, in line with best practices.

(vi) Strengthen collection of outstanding tax arrears (estimated at CFAF 5 billion), by offering incentives for taxpayers to pay arrears at a discount if paid by a specified date.

(vii) Start operations, by end-September 2009, of preshipment inspection with a reputable international agency, to enhance custom duties.

18. **The government will also significantly tighten expenditure control to prevent the recurrence of expenditure overruns and meet the expenditure targets for the 2009 fiscal program**. The measures include:

(i) Launch biometric survey of civil servants by end-May 2009, with a view to finalizing the survey by end-July 2009.

(ii) Approval by Council of Ministers, by end-September 2009, Action Plan for Public Financial Management (PFM), coordinated with the World Bank, EU, and African Development Bank; the preliminary draft Action Plan will be completed by end-July.

(iii) Implement, by end-October 2009, the unified payroll and personnel management with technical assistance and software provided by the Portugal government.

(iv) Secure donor assistance, by end-June 2009, to finalize the audit of domestic arrears from 2000–07.

19. **The authorities also intend to further build capacity in the budget formulation and execution process to ensure that resources are allocated and used efficiently and that established spending limits are respected**. For this, the measures include:

(i) Fully implement SIGFIP (*Système Intégré de Gestion des Finances Publiques/*Integrated Public Financial Management System) by end-August 2009. This system will better manage and integrate budget preparation and entry, budget execution, and accounting. Two modules (budget preparation and budget execution) are already operational. The remaining accounting module will become operational with assistance from the African Development Bank. The new system will ensure that all expenditures (both regular and DNT *Depense Non Titulaire* expenditures) are recorded at the time of payment.

(ii) Implement, by end-June 2009, public debt management software (SIGADE) with assistance from the African Development Bank.

(iii) For improved fiscal transparency, starting with the 2009 budget, the Research Department of the Ministry of Finance will produce quarterly reports analyzing the fiscal situation (within 45 days of the end of the quarter) and submit to IMF, donors, parliament, and civil society.

(iv) The government has appointed a high-level steering committee, including senior staff of the Ministries of Finance, Economy, and the BCEAO, to monitor the IMF program. The committee meets at least one a month, and its main task is to follow up all actions and targets agreed in the IMF program.

(v) For improved transparency, starting with the 2010 budget, all government bodies that receive entitlements (*restituições*) will be required to submit their budgets to the Council of Ministers and send quarterly budget execution reports to the Ministry of Finance. In addition, the State Budget presented to parliament will include an attachment with the consolidated budgets of all the government bodies that receive entitlements.

20. **The authorities will strive to prepare a consistent and sustainable medium-term macroeconomic framework that could serve as the basis for a future PRGF arrangement.** Over the medium term the overall fiscal balance is expected to decline to levels that are more manageable given available domestic resources and sustainable levels of external budget support. The fiscal improvement will reflect further efforts to restore fiscal controls and rein in nonpriority expenditures. Importantly, the government wage bill should decline further through projected civil and security sector reform. The expected fiscal improvement will allow the country finally to move away from the situation of the recent past where external assistance is used to fill budget deficits and focus assistance instead on the country's critical development needs. Continued commitment to policy reform will also enable the government to implement stronger Fund-supported reform programs and achieve

sustained donor support. The medium-term fiscal situation will also allow fiscal space to repay the large burden of outstanding budgetary arrears.

21. **The government intends to move to a PRGF arrangement with the IMF later in 2009 based on satisfactory performance under this EPCA-supported program**. As a first step, the government will finalize, by end-June, the PRSP progress report and update it for 2010–12.

22. **The authorities will avoid introducing or intensifying exchange and trade restrictions in 2009 and beyond**.

V. Capacity Building and Technical Assistance

23. **Capacity building is a key complement to fiscal reforms in order to ensure their effectiveness and sustainability.** A number of partners are already providing technical assistance in all areas of public financial management as well as macroeconomic statistics. The highest priority is assistance to the Customs, Treasury, Tax and Budget Departments, National Statistics Institute, and the debt unit. The IMF is providing technical support, including technical assistance from West AFRITAC and AFRISTAT, to strengthen public financial management and tax collection, as well as improve macroeconomic statistics. The World Bank is also assisting these reforms with support from the State and Peace-Building Fund (SPF).

VI. Program Monitoring

24. **Progress with implementing the program outlined above will be monitored based on the quantitative and structural indicators provided in Tables 1 and 2**. The quantitative indicators are (i) a floor on government revenue (tax and nontax); (ii) a ceiling on the domestic primary deficit; (iii) a ceiling on domestic financing of the budget; (iv) no new domestic arrears; (v) a ceiling on payment of previous years' arrears; (vi) ceilings on public sector short- and long-term nonconcessional external debt. Specific definitions and explanations are contained in the annexed Technical Memorandum of Understanding (TMU). The government will provide, on a timely basis, all necessary data to monitor the program as indicated in the TMU. The third purchase under the EPCA will cover the period January–June 2009, based on completion of a number of prior actions. A fourth and final purchase, if necessary, would cover the period July-December 2009 based on performance through June 2009.

25. **As prior actions, and to ensure the success of the program,** (i) Parliament has already approved the 2009 government budget, which is fully consistent with the fiscal framework presented in this Memorandum; and (ii) the government will obtain firm donor financing assurances. The authorities have already received assurances that there are no objections to EPCA from official Paris Club creditors to whom Guinea-Bissau is currently in

arrears. The authorities have also been in periodic contact with their other creditors to make good-faith efforts to seek resolution to their external debt and arrears problem.

Table 1. Guinea-Bissau: Quantitative Indicators for the EPCA program for 2009

Quarterly Targets 1/

(Cumulative, CFAF millions)

	End-Jun.	End-Sep.	End-Dec.
	Prog.	Prog.	Prog.
1. Government Revenues 2/	17,313	24,047	29,887
Collection of tax revenues	9,341	14,683	18,966
Non tax revenues	7,972	9,364	10,921
2. Domestic primary balance (commitment basis) 3/	-6,736	-11,820	-17,684
3. Domestic financing of the budget 4/	-387	-1,518	-2,343
4. New domestic arrears 5/	1,308	-1,201	0
5. Payment of previous years arrears 6/	2,031	2,031	2,031
6. External nonconcessional public borrowing, maturity > 1 year	0	0	0
7. Non regularized expenditures (DNTs)	200	200	200

1/ Cumulative from January 1 of the corresponding year. The definition of the aggregates is provided in the Technical Memorandum of Understanding (TMU).

2/ Floor. Defined as direct taxes (01.00.00) plus indirect taxes (02.00.00) plus non tax revenues. If the disbursed amounts of EU fishing compensation are lower (higher) than programmed, the floor will be lowered (increased). For the programmed quarterly amounts of EU fishing compensation for 2009 see the TMU, ¶ 12.

3/ Ceiling. If the disbursed amounts of EU fishing compensation are lower (higher) than programmed, the ceiling will be increased (lowered). For the programmed quarterly amounts of EU fishing compensation for 2009 see the TMU, ¶ 12.

4/ Ceiling. If the actual amount of external budgetary assistance (including EU fishing compensation) falls short of program forecasts, the ceiling will be increased for the full amount of the shortfall. For the programmed quarterly amounts of external assistance (including EU fishing compensation) in 2009 see the TMU, ¶ 12. If external financing specifically targeted to clear arrears is available, the ceiling will be increased for the full amount of the funds available.

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

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

Table 2. Guinea Bissau: Prior Actions and Structural Indicators
Under the Emergency Post-Conflict Assistance
January 1, 2009–December, 31, 2009

Measures	Macro rationale	Timetable
Prior Actions		
Approval by Cabinet of Ministers of the 2009 budget consistent with the fiscal framework presented in the MEFP for the 2009 EPCA-supported program	The 2009 budget objective is to avoid new domestic arrears	Done
Firm assurances of donor grants to finance 2009 fiscal framework	Budget support from donors is critical for budget finance and balance	Prior action
Structural Indicators		
Launch biometric survey for civil servants	Biometric survey will allow the preparation of a strategy for civil servant reform and elimination of "ghost workers"	End-May 2009
Enact new investment code	The new code replaces tax exemptions with tax credits, in line with best practices	End-Sep. 2009
Start operations of pre-shipment inspection with a reputable international firm as an interim measure to improve revenue collection pending development of stronger domestic customs capacity.	The pre-shipment inspection aims to improve collection of custom duties during a period of weak domestic capacity	End-Sep. 2009
Approval by Council of Minister of PRSP progress report and update for 2010-12	Requirement for a PRGF program which is envisaged for later 2009	End-Sep. 2009
Fully implement the computer software ASYCUDA++ (Automated System for Customs Administration) with financial assistance from African Development Bank and Portugal	This tool will allow customs to improve control on valuation of imports	End-Oct. 2009
Approval by Council of Ministers of Action plan for public financial management (PFM) coordinated with the World Bank, EU, and African Development Bank.	Improvements on PFM is critical for budget control and will enhance fiscal policy implementation	End-Sep. 2009
Fully implement computer-based and unified payroll system with technical support and computer software provided by the Portugal government.	Wage bill is the main item of expenditures and the unification and computerization will avoid duplication of payments	End-Oct. 2009

ATTACHMENT II
TECHNICAL MEMORANDUM OF UNDERSTANDING

Bissau, May 13, 2009

1. **This memorandum describes the definitions of the quantitative indicators for the program for 2009 to be supported by Emergency Post-Conflict Assistance (EPCA) (Table 1) of the Memorandum on Economic and Financial Policies (MEFP)** in accordance with the understandings reached between the authorities of Guinea-Bissau and the staff of the IMF. It also specifies the agreed periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes.

I. QUANTITATIVE INDICATORS AND ADJUSTORS

A. Quantitative Indicators

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

a) cumulative floors on government revenue
b) cumulative ceilings on the domestic primary fiscal deficit (on a commitment basis)
c) cumulative ceilings on the change in net domestic financing of the budget
d) cumulative ceiling on new domestic arrears of the government, including wage arrears
e) ceiling on payments of previous years domestic arrears (before 2009)
f) cumulative ceilings on new nonconcessional external debt contracted or guaranteed by the government
g) cumulative ceiling on the amount of nonregularized expenditures (DNTs)

Quantitative indicators have been set for end-June, end-September, and end-December 2009, and their values are cumulative from January 1, 2009. Indicative targets for new nonconcessional external debt are continuous.

Definitions and computation

3. **For EPCA purposes, the government is defined as the central government of Guinea-Bissau.** This definition excludes public entities with autonomous legal personality whose budget is not included in the central government budget.

4. **The targeted ceiling of government revenues includes direct taxes, indirect taxes, and nontax revenues as well as recovery of tax arrears and additional revenue efforts.**

Table 1. Quarterly Targets for Government Revenues, 2009
(Cumulative, CFAF millions)

	Jun. Prog.	Sept. Prog.	Dec. Prog.
Government Revenues	17,313.4	24,046.9	29,886.7
Tax revenues (direct, 01.00.00, and indirect, 02.00.00)	9,341.2	14,682.9	18,966.2
Non-tax revenues	7,972.2	9,364.1	10,920.5

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

Table 2. Estimates of the Quarterly Domestic Primary Balance, New Domestic Arrears,
and Payment of Previous Arrears, 2009
(Cumulative, CFAF millions)

	Jun. Prog.	Sept. Prog.	Dec. Prog.
1. Total domestic primary deficit	-6,736	-11,820	-17,684
Revenue	17,313	24,047	29,887
Domestic primary expenditure	24,049	35,867	47,571
2. New domestic arrears	1,308	-1,201	0
3. Nonregularized expenditures (DNTs)	200	200	200
4. Payment of previous years' domestic arrears	2,031	2,031	2,031

6. **New domestic arrears of the government are defined as follows:**

a. At end-June and end-September 2009, the stock of account payables (*rest-à-payer*).

b. At end-December, accounts payable accumulated during 2009 and still outstanding one month after December 31 in the case of wages and salaries (including pensions), and three months after in the case of goods and services and transfers.

The targets for the program period are presented in Table 2.

7. **Nonregistered expenditures are defined as follows:** any Treasury outlay (including nontitularized expenditures, restitutions, etc.) not accounted for and therefore not reflected in the expenditure tables presented by the National Direction of Budget.

8. **Previous year's domestic arrears are defined as arrears in wages, transfers, and goods and services** outstanding as of January 1, 2009. The targets for the program period are presented in Table 2. The program allows for partial payment of expenditure commitments related to 2008 that are still outstanding as of January 1, 2009, up to a maximum of CFAF 2.31 billion.

9. **Net domestic financing consists of bank and nonbank financing.** Bank financing consists of net changes in the balances of the treasury accounts at the BCEAO and at commercial banks (excluding balances in those accounts that are not available for budget financing, such as accounts that are held under double signature arrangements with donors) and the outstanding amounts of loans, including T-bills, from the BCEAO and commercial banks (local and regional). Domestic nonbank financing encompasses privatization receipts and any other domestic financial debt held outside the banking sector, other than new domestic arrears as defined above, that may arise. Table 3 provides the details.

Table 3. Domestic Financing by Quarter, 2009
(Cumulative, CFAF millions)

	Jun.	Sept.	Dec.
	Prog.	Prog.	Prog.
Domestic financing	-387	-1,518	-2,343
Bank financing	-387	-1,518	-2,343
BCEAO	1,166	297	-471
Commercial banks (including regional banks)	-1,554	-1,815	-1,872
Regional commercial banks and Treasury bills	0	0	0
Non-bank financing	0	0	0

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

a. **The indicator for external borrowing** applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. For purposes of these guidelines, the term "debt" is understood to mean a current, that is not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services that requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being (i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For purposes of the guideline, the debt is the present value at the inception of the lease of all lease payments expected to be made during the period of the agreement, excluding those that cover the operation, repair, or maintenance of the property. Under this definition of debt, arrears, penalties, and judicially awarded damages arising from failure to make payment on a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt. For the purposes of monitoring the EPCA, arrangements to pay over time obligations arising from judicial awards to external creditors do not constitute nonconcessional external borrowing.

b. **Loan concessionality** is assessed on the basis of currency-specific discount rates based on the OECD commercial interest reference rates (CIRRs). A loan is said to be on concessional terms if, on the date the loan is contracted, the difference between the net present value (NPV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt, is less than 50 percent (that is, a grant element of at least 50 percent). For debt with a maturity of at least 15 years, the ten-year average CIRR will be used to calculate the NPV of debt and hence its grant element. For debt with a maturity of less than 15 years the six-month average CIRR will be used. For shorter maturities, the six-month market reference rate is used. Purchases from the IMF are excluded from this limit.

11. **The concept of government for the purposes of the indicators on external debt is broader than the one used for the budget aggregates; it includes all debt that may ultimately be deemed to be a liability of the state.** In addition to the government as defined in paragraph 3, the definition includes administrative public institutions; public enterprises authorized to contract, guarantee, or accommodate nonconcessional borrowing; scientific and technical public institutions; professional public institutions; industrial and/or commercial public institutions; and local governments.

B. Adjusters

12. The following adjusters will be in effect:

The ceilings on nontax revenues and domestic primary fiscal deficit will be adjusted upward (downward) for any shortfall (excess) in EU fishing compensation:[3]

- **The ceiling on nontax revenues and domestic primary deficit (on a commitment basis) will be increased (lowered) in case of lower (higher) than programmed disbursement of EU fishing compensation, for the full amount of the shortfall (excess).** The program assumes the following amounts of EU fishing compensation (cumulative from January 1, 2009): by end-June CFAF 4.59 billion; by end-September CFAF 4.59 billion; and by end December CFAF 4.59 billion.

The ceilings on domestic financing and on new domestic arrears will be adjusted upward (downward) for any shortfall (excess) in external budgetary assistance (including EU fishing compensation),

- **The ceiling on domestic financing will be adjusted in line with the amount of external budget support (including EU fishing compensation).** In particular, the ceiling will be increased (lowered) in the case of shortfall (excess) in external budget support, by the full amount of the shortfall (excess). The program assumes the following amounts of external budgetary assistance (including EU fishing compensation) (cumulative from January 1, 2009): by end-June CFAF 12.41 billion; by end-September CFAF 22.73 billion; and by end December CFAF 26.0 billion.

- **The ceiling on the accumulation of new domestic arrears will be adjusted in line with available domestic financing of the budget.** In particular, if the government is not able to increase (decrease) the domestic financing of the budget by the full amount of the shortfall (excess) in external support, the ceiling on the accumulation of new domestic arrears of nonpersonnel expenditures will be adjusted upward (downward) by that difference.

II. Program Monitoring

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

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

[3] For the purposes of the TMU, the CFAF/US$ exchange rate was updated to 426,6 and the CFAF/Euro exchange rate is 656.

b. Data on any extrabudgetary expenditure not included above, including: (i) incentives to tax collectors; (ii) restitutions to collecting agencies; and (iii) any other retentions operated by collecting agencies (DGA, DGCI, Fishing Ministry, etc.) (monthly, two weeks after the end of the month

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

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

e. Previous years' domestic arrears (including 2008): stock and clearance, broken down by budget category (wages, goods and services, transfers, other) (monthly, two weeks after the end of the month)

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

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

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

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

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

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

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

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

15. **The above data will be provided to the economist at the local office of the IMF in Bissau (Mr. Fonseca) for transfer to the African Department of the IMF in Washington.**

INTERNATIONAL MONETARY FUND

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

GUINEA-BISSAU

Joint IMF/IDA Debt Sustainability Analysis

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

Approved by Roger Nord and Anthony Boote (IMF) and Carlos Braga and Sudhir Shetty (World Bank)

May 20, 2009

The 2009 debt sustainability analysis (DSA) indicates that Guinea-Bissau remains in debt distress. [1] *External debt ratios have been roughly constant over the past few years, while domestic debt ratios have been deteriorating owing to the accumulation of new domestic arrears and increased borrowing from regional financial institutions. Debt dynamics under the baseline scenario are projected to remain unfavorable, but to significantly improve should the country reach completion point, as expected in 2010, and receive HIPC and MDRI debt relief.*

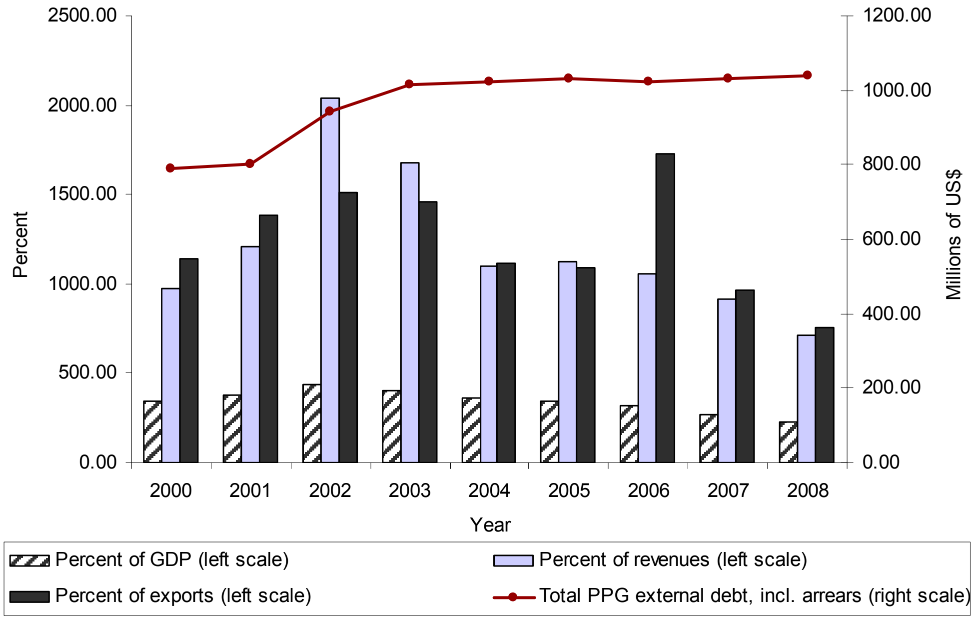
III. BACKGROUND

1. **At end-2008, Guinea-Bissau's stock of public and publicly guaranteed (PPG) external debt amounted to US$1,040 million (246 percent of GDP), of which US$383 million were in arrears** (Figure 1 and Tables 1 and 2). Bilateral debt accounts for about 51 percent of total PPG external debt (37 percent is owed to Paris Club creditors). Multilateral debt accounts for about 49 percent of total PPG external debt (28 percent is owed to IDA, 14 percent to AfDB/AfDF and 0.9 percent to the IMF), with a marginal amount outstanding to commercial creditors. In end-2008 Present Value (PV) terms, external debt was US$788 million or 171 percent of GDP and 573 percent of exports. Despite the

[1] The DSA was produced jointly by IMF and World Bank staffs, and in consultation with the African Development Bank (AfDB), using the joint Fund-Bank framework for DSA for low-income countries. The bilateral external and multilateral debt data underlying this DSA were provided by the Guinea-Bissau authorities, whereby the multilateral debt data were reconciled with information obtained from the creditors. The fiscal year for Guinea-Bissau is January 1 to December 31.

concessional nature of most of the external debt, the debt burden indicators far exceed the relevant policy dependent debt thresholds (Text Table 1).[2]

Figure 1. Stock of External Debt, 2000–08



Source: World Bank and IMF staff estimates.

2. **Domestic debt has continued to increase in recent years**, reaching CFAF 144 billion (70 percent of GDP) at end-2008, from CFAF 125 billion in 2006, and CFAF 91.1 billion in 2000, mainly as a result of steady accumulation of arrears on government wages, goods and services, and new regional borrowing. A large amount of domestic debt corresponds to outstanding arrears on wages, goods and services (CFAF 56 billion at end- 2008) (Figure 2).[3] Other large domestic debt corresponds to a required capital contribution to join WAEMU. Under the terms of its accession to the WAEMU in 1998, Guinea-Bissau agreed to a contribution of CFAF 70 billion to be paid over 25 years starting in 2005, but only a small fraction has been paid using distributed dividends.[4] At end-2008, some CFAF 58.8 billion remains to be paid. Other components of domestic debt include commercial debt (CFAF 14 billion) outstanding to WAEMU banks, of

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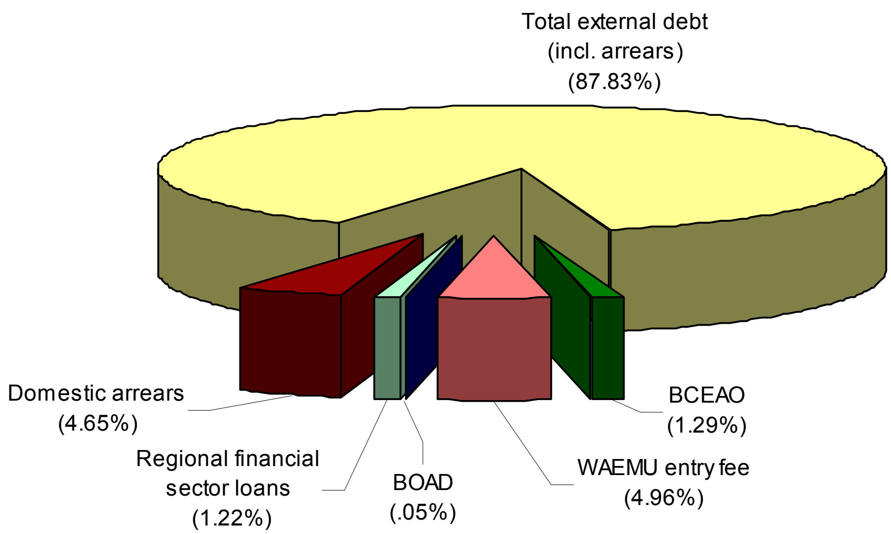
[2] According to the World Bank Country Policy and Institutions Assessment (CPIA), Guinea-Bissau is classified as a country with poor quality of policies and institutions. Its average CPIA rating for 2005–07 is 2.62 on a scale from 1 to 6 and below the operational cutoff of 3.25 for poor performers.

[3] These include CFAF 11 billion that were accumulated in 2008.

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

which CFAF 7.2 billion are Treasury bills outstanding since 2006. The government has also accumulated some CFAF 15 billion in arrears owed to the central bank (BCEAO), including to compensate the BCEAO for repayments to the IMF made on behalf of the government. Including the domestic debt, the PV of total public sector debt stood at 256 percent of GDP and 807 percent of government revenue and grants at end-2008.

Figure 2. Composition of Public Debt (Debt Stock at end-2008



Source: World Bank and IMF staff estimates.

3. **Guinea-Bissau reached the decision point under the HIPC Initiative in 2000, but has so far not reached the completion point.** In 2000, the government failed to maintain macroeconomic stability causing its PRGF supported program to go off track at a very early stage.[5] Two Fund staff-monitored programs (SMP) followed, in 2005 and 2006. Progress under both SMPs was mixed.[6] A full Poverty Reduction Strategy Paper (PRSP) was finalized in 2006 after delays owing to political instability and capacity constraints.[7] In 2008, the

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

[6] See IMF Country Report No. 06/312.

[7] See Guinea-Bissau Poverty Reduction Strategy Paper 2007–10 (IMF Country Report No. 07/339, September 2007, and IDA/SecM2007-0253, 4/19/07).

government agreed to a new timeline to re-engage in a program supported by the IMF. The Fund approved two purchases under Emergency Post-Conflict Assistance (EPCA) in 2008. A third EPCA purchase is scheduled for Fund Board discussion in June 2009. A PRSP Progress Report is under preparation. Contingent on satisfactory performance under the 2009 EPCA-supported program, discussions for a new PRGF arrangement could be initiated in the second half of 2009. Satisfactory performance under a PRGF arrangement, in turn, is a necessary condition for reaching the HIPC completion point in the first half of 2010.

4. **Since the completion point has not been reached, Guinea-Bissau has not benefited from most of the debt relief committed at decision point.** At the decision point in 2000, external creditors of Guinea-Bissau were expected to provide HIPC relief amounting to US$416 million in end-1999 PV terms (currently estimated at about US$579.9 million in nominal terms).[8] But as Guinea-Bissau went off-track with its PRGF program, it has been liable for servicing a large share of external debt in full since 2001. Many agreements signed with multilateral and bilateral creditors have not been implemented because the country failed to remain current on debt service obligations.[9] The Paris Club declared null and void any debt rescheduling agreements beyond end-2001 and the IMF suspended interim debt relief after the 2000 PRGF had gone off track. The African Development Bank (AfDB)[10] and IDA[11] are currently providing interim debt relief which is expected to continue until 2011. Since 2000, only China and Cuba have cancelled all outstanding claims.

5. **After the decision point in 2000, Guinea-Bissau could not service its external debt and accumulated arrears to most of its external creditors.** Since 2001, the country has not repaid any creditor that did not provide interim relief, with the exception of the IMF. The stock of external arrears has increased from US$142 million before decision point in December 2000 to US$383 million at end-2008.

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

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

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

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

IV. UNDERLYING ASSUMPTIONS

6. **The macroeconomic framework underlying the DSA is based on the implementation of sound macroeconomic and structural policies, and external financing (grants and highly concessional loans).** Box 1 summarizes the key macroeconomic assumptions.[12] Growth projections average 4.2 percent over 2009 to 2028. This reflects a stabilization of the political environment and the government's intention to raise the growth potential of the economy, mainly through investments in agriculture, infrastructure and energy provision, as well as efforts to improve the business environment and to attract FDI related to investments in the mining sector. Over the medium and long term, these efforts are expected to lead to fiscal consolidation and to stimulate significant export growth that also outpace any FDI-related import growth. Grants and loans from donors as a percentage of GDP are projected to remain at historical levels. Going forward, the entire financing gap is assumed to be filled through multilateral grants and loans.

7. **The DSA assumptions underlying the baseline scenario differ slightly from the previous DSA in 2007.**[13] They stem from updating key macroeconomic variables in the short and medium term based on recent evidence and a newer global economic outlook. For this reason, projections for growth and exports have worsened in the near term, in line with current global economic conditions. Further differences arise as the evolution of the domestic borrowing situation requires adjusted repayment assumptions.[14] Long-term growth assumptions for 2015–29 remain broadly unchanged.[15] But with fiscal consolidation still under way, the domestic primary fiscal deficit is now assumed to decline less rapidly relative to previous projections. Without access to non-concessional loans and the regional financial market, any remaining gap will have to be covered by higher budget grants. These are expected to slightly increase relative to the average levels observed over the last few years, stimulated by the ongoing political and macroeconomic stabilization. Moreover, the external sector outlook has been revised downwards, mainly because of slow progress in achieving export diversification.

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[12] Also see Section III of main text of the IMF Staff Report.

[13] Joint World Bank/IMF Debt Sustainability Analysis, 8/28/07 in IMF Country Report No. 07/370, November 2007.

[14] The 2007 DSA assumed that domestic debts to the banking sector would be repaid before end-2008 and domestic arrears by 2010. Both have not been repaid, but have risen further.

[15] The 2007 DSA already lowered the long-term growth rate from 5 percent in the 2006 DSA to 4.5 percent in order to account for greater uncertainties about the development of the cashew sector and more conservative assumptions about the implementation of needed structural reforms, including civil service reforms.

Box 1. Macroeconomic Assumptions Underlying the DSA Baseline Scenario

The macroeconomic assumptions over the period 2009 to 29 are as follows:

Real GDP growth is expected to first drop from 3.3 percent in 2008 to 1.9 percent in 2009 and then to gradually recover until it reaches 4.5 percent over the period from 2016 onward. This exceeds the historical average by roughly one percentage point, reflecting an assumed stabilization following a history marked by great political instability and inappropriate macroeconomic policies which are expected to improve in the period ahead.

Inflation, as measured by the GDP deflator, is assumed to grow at a rate slightly below CPI inflation in the medium term, reflecting a worsening in the terms of trade. Over the long term, both GDP deflator and CPI are projected to return to their historical level of 2 percent.

The non-interest **current account deficit** (including grants) is expected to deteriorate over the medium term from 0.2 percent of GDP in 2008 to about 7 percent by 2015, reflecting projected sustained weakness in cashew prices, Guinea-Bissau's dominant export. This is significantly above the deficit of 2 percent of GDP observed over the 2000–08 period. Over the longer term to 2029, real export volumes are projected to grow at around 4.5 percent per year, contributing to a reduction in the current account deficit back to under 3 percent of GDP. Growth in overall exports also reflects in part expected strong growth in non-cashew exports over the medium term, as structural reforms and a more stable political environment contribute to an improved investment climate.

The **domestic primary fiscal deficit** (i.e. revenue, excluding grants, minus non-interest expenditure, excluding foreign-financed investment projects) is assumed to gradually decrease from 8.3 percent of GDP in 2009 to 5.3 percent from 2019 onwards, due to stable revenues as a percentage of GDP and improved public expenditure management.

Net aid flows (grants and concessional loans) are expected to slightly increase in line with GDP. Budget support grants are projected at 10 percent of GDP per annum. Project grants are projected at nearly 27 percent of GDP during the period of 2009–11 due to large foreign-supported projects (e.g., new government office complex, hospitals and schools). They will gradually decrease to 19 percent of GDP in 2017, reflecting continued implementation of public investment programs. It is assumed that there will be no nonconcessional borrowing, in an environment in which the country will not have meaningful access to commercial debt markets. It is expected that all borrowing would be from multilateral sources. Fiscal financing gaps will thus have to be filled through highly concessional loans, especially since running further domestic arrears over the medium and long term would not be feasible. The grant element in new disbursements is assumed to remain above 50 percent. Concessional loans are assumed to be on standard terms.

Access to **public sector domestic borrowing** will remain difficult in view of the sizeable arrears. It is assumed that the part owed to the regional banking sector will be rescheduled in the course of 2009 and then gradually repaid by end-2028. Annual capital contributions to WAEMU are expected to be fully made from 2010 onwards, and to continue until arrears accumulated up to then are fully paid off. Domestic arrears owed to commercial banks, in turn, are projected to be fully rescheduled in 2010 and, along with other domestic arrears, repaid by 2029 using concessional loans.

V. External DSA

A. Baseline: No Debt Relief

8. **Under the baseline scenario, all PPG external debt indicator ratios decline from their historical levels, but remain well above the policy-dependent debt burden thresholds (Tables 1a, 1b and Figure 1a).** The baseline presumes that the HIPC completion point is not attained, but that real GDP growth converges to the long-run average of about 4.5 percent per annum.[35] Both, in nominal and PV terms, external debt indicators persist at very high levels. All debt indicators stay far above the indicative thresholds for poor performers (Text Table 1). Any downward trend is mainly driven by the assumption that Guinea-Bissau only takes out highly concessional loans to finance fiscal gaps.

Text Table 1. Summary of Baseline External Debt Sustainability Indicators 1/

	Indicative Threshold 2/	2009	2019	2029	*Average*
PV of debt-to-GDP	*30*	196	129	76	*134*
PV of debt-to-exports	*100*	666	514	288	*489*
PV of debt-to-revenue	*200*	1388	721	410	*840*
Debt service-to-exports	*15*	28	19	14	*20*
Debt service-to-revenue	*25*	57	26	20	*35*

Source: IMF staff estimates

1/ Debt indicators refer to Guinea-Bissau's public and publicly guaranteed external debt.

2/ Threshold over which countries considered as poor performers according to their CPIA would have at least a 25 percent chance of having a prolonged debt distress episode in the coming year. Guinea-Bissau lies within the bottom quintile of countries ranked by CPIA.

B. Alternative Scenarios and Stress Tests

9. **Should Guinea-Bissau reach the HIPC completion point in the first half of 2010, its debt burden will be significantly alleviated, although most debt burden indicators will continue to remain high (Table 1b, Scenario A3).** Satisfactory performance under the PRGF arrangement as well as achievement of other completion point triggers would help the country reach completion point in the first half of 2010. This alternative scenario assumes total debt relief —including HIPC, MDRI and additional rescheduling of arrears—of US$620 million in end-2010 PV terms.[36] In this context, the NPV of external debt to GDP falls significantly due to the assumed clearance of external arrears, and the lower debt service after HIPC and MDRI debt relief (down by about 5 percent of GDP per year). Yet even in the

[35] The underlying growth rates are less than one percent higher than the historical average. The reason is that the past was marked by great political instability and inappropriate macroeconomic policies which are expected to improve in the period ahead.

[36] MDRI alone amounts to almost US$100 million in end-2010 PV terms.

long run, the PV of debt stays above the relevant indicative thresholds (except for PV of debt-to-revenue in 2029), irrespectively of whether debt is measured relative to GDP, exports or government revenues. Only debt service is expected to decline to below-threshold levels, reflecting highly concessional terms of existing debt and the terms assumed for the treatment of arrears and new borrowing.[37]

10. **Standard stress tests to the baseline scenario confirm the vulnerabilities to unexpected shocks.** The external debt of Guinea Bissau is extremely vulnerable to a one-time 30 percent depreciation in the nominal exchange rate (Table 1b, Scenario B6): the PV of debt would increase by 77 percentage points of GDP in 2010, relative to the baseline in that year. Nominal exchange rate depreciation is the most extreme shock in terms of PV/GDP, debt/revenue, and debt service/revenue (Figure 1a). The other shock that the country is highly vulnerable to is a one-standard deviation negative export shock (Table 1b, B2): shocks on exports can have a large impact on both the PV debt/exports and debt service/export ratios. All other stress tests (Table 1b, B1 and B3 to B5) confirm these vulnerabilities from different angles.

VI. Public DSA

A. Baseline: No Debt Relief

11. **The baseline scenario, adapted from the same assumptions and consistent with the external DSA, shows a deterioration of domestic debt indicators in the short term (Table 2a, 2b and Figure 2a).** Over the long run, total public debt (domestic and external) as a percent of GDP decreases, similar to the behavior of external debt described in the previous section. Despite a long run downward trend, the PV of total public debt to GDP ratio remains very high. This points to a highly vulnerable debt position, particularly in view of the possibility that any deterioration in the underlying fiscal stance or limited access to concessional loans could further deteriorate the situation. Shocks to the economy are also likely to significantly increase the debt burden.

B. Alternative Scenarios and Stress Tests

12. **Under the assumption of the HIPC completion point being attained in 2010 and the corresponding external debt relief being fully delivered, the risk of debt distress declines significantly (Table 2b, Scenario A4).** The PV of debt would fall to 108 percent of GDP in 2010, which amounts to a debt reduction of nearly 150 percentage points of GDP in

[37] Further tests (not shown here) confirm that the same vulnerabilities persist even if, in addition to total debt relief after the completion point in 2010, Guinea-Bissau would obtain grants to pay off its stock of domestic arrears.

PV terms with respect to the baseline scenario. Despite this reduction, the PV of public debt to GDP would still remain at high levels.

13. **Assuming that GDP growth remains permanently below the baseline level (Table 2b, Scenario A3) or that the primary balance persists at its 2009 level (Table 2b, Scenario A2) has a major impact on debt ratios.** In both cases, the PV of debt to GDP ratio stays well above 150 percent through 2019, although both moderate thereafter. Debt service remains high at over 10 percent of revenues despite the assumption of highly concessional loans to finance the fiscal gaps.

14. **Standard stress tests to the baseline scenario confirm that the public debt position remains highly vulnerable to economic shocks.** The first stress test simulates a negative GDP shock (Table 2b, Scenario B1) and finds that the PV of debt-to-GDP and debt service-to-revenue ratios are most affected. The shock to GDP amounts to assuming negative growth of 3.9 percent for two years (2010-11), which translates into a 27 percentage point difference in PV of debt-to-GDP with respect to the baseline in 2011. Another stress test imposes a one-time 30 percent depreciation in the exchange rate (Table 2b, Scenario B4), which adversely effects the PV of debt-to-fiscal revenues ratio.[38] It translates into a 141 percentage point increase in the PV of debt-to revenues ratio in 2011 compared with the baseline.

VII. CONCLUSION

15. **Guinea-Bissau remains in debt distress.** External debt burden ratios are well above the country-specific indicative thresholds during the complete projection period, even after assuming full delivery of MDRI and HIPC Initiative debt relief. In addition, the public DSA suggests that Guinea-Bissau's overall public sector debt dynamics are unsustainable in light of the current size and the evolution of the domestic debt stock. The risk rating therefore remains unchanged with respect to the previous DSA.

16. **Prudent macro policies, especially under the 2009 EPCA-supported program and a potential new PRGF, are critical to reach the HIPC completion point and in turn reduce debt ratios.** The country's debt strategy should focus on strengthening its fiscal stance; on avoiding nonconcessional debt, securing foreign aid on highly concessional terms and increasing the grant content of aid received; and on providing a stable political and business environment. The latter would not only be conducive to additional investment, but also to a more stable inflow of external aid than in the past. Containing the wage bill and avoiding off-budget expenditures will be key to reduce the current fiscal imbalance in a sustainable fashion.

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[38] Based on PV of debt and debt service ratios projected ten years ahead.

Table 1. Guinea-Bissau: External Debt Outstanding, 2000–08[1]
(In millions of U.S. dollars, including arrears)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total external debt outstanding (end of year; including arrears)	**787.9**	**801.0**	**941.4**	**1,013.5**	**1,023.5**	**1,029.0**	**1,024.6**	**1,031.4**	**1,040.3**
Multilateral	**435.3**	**440.5**	**447.8**	**488.8**	**514.9**	**513.7**	**507.5**	**506.2**	**504.7**
African Development Bank Group	121.9	123.4	128.3	143.2	141.4	140.7	142.2	143.6	145.3
Arab Bank for Economic Development in Africa (BADEA)	8.7	8.8	9.7	12.8	9.2	9.5	9.9	9.7	9.7
Economic Community of West African States (ECOWAS)	3.1	3.1	3.8	5.1	3.9	3.9	4.0	4.0	4.0
European Investment Bank (EIB)	7.6	7.6	11.2	12.7	9.4	9.4	9.4	9.4	9.4
International Fund for Agricultural Development (FIDA)	9.2	9.3	11.4	12.5	11.1	11.2	11.3	11.0	11.0
International Development Agency (IDA)	238.0	243.2	231.1	257.5	301.3	303.4	298.9	299.8	292.7
Islamic Development Bank (IsDB)	13.7	13.5	15.3	17.6	15.6	15.6	15.6	15.6	15.6
OPEC Fund	8.0	8.0	14.8	8.2	8.1	8.1	8.2	8.2	8.2
International Monetary Fund (IMF)	25.0	23.5	22.3	19.3	15.1	11.9	8.0	5.0	8.8
Bilateral creditors	**352.0**	**359.9**	**493.0**	**523.9**	**507.8**	**514.5**	**516.3**	**524.4**	**534.7**
Paris Club (cutoff date: December 1986)	240.0	246.5	345.4	375.6	366.5	371.1	372.9	378.0	385.4
Pre-cutoff date (rescheduled Paris Club III-1995)	191.0	196.4	264.9	291.1	285.0	289.3	291.1	296.1	303.3
Belgium	7.8	8.1	9.1	11.2	15.5	15.8	15.9	16.1	18.4
Brazil	23.1	24.0	26.3	28.7	17.4	18.0	18.4	18.7	18.9
France	8.9	9.3	14.4	15.4	14.4	14.5	15.4	16.7	17.5
Germany	4.3	4.4	1.1	1.3	1.3	1.4	1.4	1.6	1.7
Italy	76.2	78.0	123.5	129.2	128.7	129.0	129.2	129.5	129.9
Portugal	70.7	72.7	18.8	20.0	107.0	109.3	109.3	111.7	114.4
Russia	...	...	71.6	85.2	0.7	1.3	1.3	1.7	2.5
Post-cutoff date	49.0	50.1	80.5	84.5	81.5	81.8	81.8	82.0	82.1
Italy	41.6	42.5	67.4	70.5	70.2	70.4	70.4	70.4	70.4
Spain	7.5	7.6	13.2	14.0	11.3	11.4	11.4	11.6	11.7
Other bilateral creditors	112.0	113.4	147.6	148.4	141.3	143.4	143.4	146.3	149.4
Abu Dhabi Fund for Arab Economic Development	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Algeria	6.5	6.6	10.9	11.5	9.5	9.6	9.6	9.7	9.8
Angola	18.8	18.8	18.8	18.8	17.0	17.0	17.0	17.0	17.0
Kuwait	27.8	27.9	45.0	40.0	49.5	50.1	50.1	51.2	52.4
Libya	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Pakistan	2.6	2.6	3.8	4.0	2.6	2.6	2.6	2.6	2.6
Saudi Arabia	15.1	15.2	22.1	22.9	15.5	15.7	15.7	16.0	16.4
Taiwan Province of China	36.9	38.0	42.8	46.8	43.0	44.1	44.1	45.5	46.9
Commercial	**0.6**	**0.6**	**0.6**	**0.7**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**
Banque Franco-Portugaise	0.6	0.6	0.6	0.7	0.8	0.8	0.8	0.8	0.8

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

1/ Estimates are based on incomplete and unreconciled data provided by the Guinea-Bissau authorities and on IMF and WB staff estimates and projections

Table 2. Guinea-Bissau: External Arrears Outstanding, 2000–08[1]
(In millions of U.S. dollars)

	1992	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total stock of arrears outstanding (end of year)	**189.3**	**141.7**	**137.5**	**197.3**	**224.5**	**293.8**	**322.2**	**330.7**	**353.5**	**382.8**
Multilateral	**25.7**	**29.3**	**17.5**	**22.1**	**28.3**	**31.6**	**34.2**	**36.8**	**37.8**	**39.4**
African Development Bank Group	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arab Bank for Economic Development in Africa (BADEA)	4.1	5.5	5.6	4.6	8.3	8.1	8.8	9.7	9.6	9.6
Economic Community of West African States (ECOWAS)	0.2	1.9	2.0	2.0	3.1	3.3	3.4	3.5	3.5	3.6
European Investment Bank (EIB)	0.5	0.9	1.0	4.6	4.8	6.5	6.5	6.5	6.5	6.5
International Fund for Agricultural Development (FIDA)	0.1	0.9	1.0	2.0	2.2	3.1	3.4	3.8	3.7	4.1
International Development Agency (IDA)	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Islamic Development Bank (IsDB)	10.3	12.5	0.3	0.8	1.7	2.6	4.0	5.1	6.3	7.5
OPEC Fund	7.1	7.6	7.6	8.2	8.2	8.1	8.1	8.2	8.2	8.2
International Monetary Fund (IMF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	**163.2**	**112.0**	**119.6**	**174.6**	**195.4**	**261.5**	**287.2**	**293.1**	**314.8**	**342.5**
Paris Club	133.4	58.8	65.2	118.6	131.9	193.3	212.4	218.3	230.3	248.5
Pre-cutoff date 1986 (rescheduled Paris Club III-1995)	73.5	32.0	35.6	72.6	77.8	101.3	110.7	116.6	127.5	144.6
Belgium	0.8	1.8	2.1	0.6	1.0	3.6	4.3	4.8	5.1	9.1
Brazil	7.3	8.9	9.8	11.1	13.6	7.7	10.2	12.9	15.8	18.9
France	2.1	2.5	2.9	6.4	6.9	8.8	9.3	10.8	13.0	16.7
Germany	0.0	2.6	2.6	0.2	0.3	0.5	0.5	0.6	0.8	0.9
Italy	25.5	7.1	7.1	39.0	37.5	64.5	65.7	66.8	68.0	69.2
Portugal	37.8	9.1	11.1	13.1	15.1	16.2	19.1	19.1	22.4	26.2
Russia	...	...	...	2.1	3.4	0.1	1.6	1.6	2.5	3.6
Post-cutoff date	59.9	26.8	29.6	46.0	54.1	91.9	101.7	101.7	102.8	103.9
Italy	59.7	23.8	26.5	44.6	51.8	88.1	96.5	96.5	96.5	96.5
Spain	0.2	3.0	3.1	1.5	2.3	3.9	5.2	5.2	6.3	7.4
Non-Paris Club	29.8	53.2	54.4	56.0	63.5	68.2	74.8	74.8	84.5	94.1
Abu Dhabi Fund for Arab Economic Development	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Algeria	3.6	1.5	1.5	5.9	6.5	5.9	6.5	6.5	7.1	7.7
Angola	18.8	18.8	18.8	18.8	18.8	17.0	17.0	17.0	17.0	17.0
Kuwait	4.2	17.9	17.9	1.6	3.4	7.3	8.5	8.5	10.9	13.1
Libya	0.0	0.7	0.7	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Pakistan	0.5	1.3	1.3	1.6	1.8	2.0	2.2	2.2	2.2	2.2
Saudi Arabia	2.5	4.7	4.8	9.9	10.7	9.7	10.2	10.2	11.4	12.6
Taiwan Province of China	--	8.1	9.2	13.9	18.0	22.0	26.0	26.0	31.5	37.1
Commercial	**0.4**	**0.4**	**0.4**	**0.6**	**0.7**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**
Banque Franco-Portugaise	0.4	0.4	0.4	0.6	0.7	0.8	0.8	0.8	0.8	0.8

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

1/ Estimates are based on incomplete and unreconciled data provided by the Guinea-Bissau authorities and on IMF and WB staff estimates and projections.

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

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2029	2015-2029 Average
External debt (nominal) 1/	**306.7**	**254.2**	**245.9**			**267.3**	**255.9**	**247.0**	**236.6**	**226.6**	**220.9**		**189.8**	**116.8**	
o/w public and publicly guaranteed (PPG)	306.7	254.2	245.9			267.3	255.9	247.0	236.6	226.6	220.9		189.8	116.8	
Change in external debt	-50.8	-52.5	-8.3			21.4	-11.4	-8.9	-10.4	-10.0	-5.7		-6.3	-8.5	
Identified net debt-creating flows	-12.5	-66.1	-42.8			-4.2	-6.8	-9.1	-6.6	-6.8	-5.4		-5.0	-6.1	
Non-interest current account deficit	**8.4**	**-12.4**	**0.2**	**-2.1**	**7.5**	**0.2**	**1.3**	**0.0**	**3.3**	**3.3**	**4.2**		**3.9**	**0.6**	2.9
Deficit in balance of goods and services	28.0	16.6	20.0			22.0	20.8	19.5	22.7	22.8	23.6		22.8	19.2	
Exports	18.7	28.0	29.8			29.4	26.3	27.4	24.9	24.8	24.8		25.2	26.5	
Imports	46.7	44.6	49.8			51.3	47.1	46.9	47.6	47.6	48.4		47.9	45.7	
Net current transfers (negative = inflow)	-19.6	-28.8	-19.8	-20.7	4.8	-21.6	-20.1	-20.1	-20.0	-20.0	-20.0		-19.3	-17.9	-18.9
o/w official	-13.0	-18.6	-11.8			-13.4	-11.7	-11.7	-11.7	-11.7	-11.7		-11.6	-11.5	
Other current account flows (negative = net inflow)	0.0	-0.2	0.0			-0.1	0.5	0.6	0.6	0.6	0.5		0.4	-0.7	
Net FDI (negative = inflow)	**-5.7**	**-4.7**	**-2.2**	**-2.2**	**1.9**	**-2.1**	**-1.8**	**-1.8**	**-1.8**	**-1.8**	**-1.8**		**-1.9**	**-2.1**	-1.9
Endogenous debt dynamics 2/	**-15.1**	**-49.1**	**-40.8**			**-2.3**	**-6.2**	**-7.3**	**-8.1**	**-8.2**	**-7.8**		**-7.0**	**-4.6**	
Contribution from nominal interest rate	1.9	2.8	2.8			2.8	1.8	1.7	1.6	1.5	1.5		1.3	0.7	
Contribution from real GDP growth	-1.9	-6.9	-7.0			-5.1	-8.1	-9.0	-9.7	-9.8	-9.3		-8.3	-5.3	
Contribution from price and exchange rate changes	-15.0	-45.0	-36.6			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-38.3**	**13.6**	**34.5**			**25.6**	**-4.7**	**0.2**	**-3.8**	**-3.2**	**-0.3**		**-1.2**	**-2.4**	
o/w exceptional financing	-9.5	-11.4	-8.2			-7.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	170.9			195.5	186.7	179.7	171.6	163.8	157.8		129.3	76.2	
In percent of exports	...	...	573.2			666.2	710.3	655.8	690.1	659.4	636.3		513.7	287.7	
PV of PPG external debt	**...**	**...**	**170.9**			**195.5**	**186.7**	**179.7**	**171.6**	**163.8**	**157.8**		**129.3**	**76.2**	
In percent of exports	**...**	**...**	**573.2**			**666.2**	**710.3**	**655.8**	**690.1**	**659.4**	**636.3**		**513.7**	**287.7**	
In percent of government revenues	**...**	**...**	**1015.4**			**1388.4**	**1251.3**	**1170.3**	**1101.7**	**1011.1**	**955.7**		**721.1**	**409.9**	
Debt service-to-exports ratio (in percent)	**41.3**	**36.9**	**32.3**			**27.5**	**27.1**	**23.3**	**23.7**	**22.0**	**20.9**		**18.6**	**14.0**	
PPG debt service-to-exports ratio (in percent)	**41.3**	**36.9**	**32.3**			**27.5**	**27.1**	**23.3**	**23.7**	**22.0**	**20.9**		**18.6**	**14.0**	
PPG debt service-to-revenue ratio (in percent)	**40.7**	**70.9**	**57.2**			**57.4**	**47.8**	**41.6**	**37.8**	**33.7**	**31.4**		**26.2**	**19.9**	
Total gross financing need (Millions of U.S. dollars)	32.9	-25.7	35.2			26.4	29.6	21.8	37.4	37.9	43.7		53.2	33.4	
Non-interest current account deficit that stabilizes debt ratio	59.2	40.2	8.5			-21.2	12.7	8.9	13.7	13.3	9.9		10.2	9.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	0.6	2.7	3.3	2.3	3.9	1.9	3.2	3.7	4.2	4.4	4.3	3.6	4.5	4.5	4.5
GDP deflator in US dollar terms (change in percent)	4.4	17.2	16.8	5.7	9.6	-9.5	2.7	2.3	2.5	2.5	2.0	0.4	2.0	2.0	2.0
Effective interest rate (percent) 5/	0.5	1.1	1.3	1.1	0.3	1.0	0.7	0.7	0.7	0.7	0.7	0.8	0.7	0.6	0.7
Growth of exports of G&S (US dollar terms, in percent)	-37.3	80.0	28.7	22.0	38.5	-9.2	-5.1	10.6	-3.0	6.9	6.2	1.1	7.1	7.1	7.0
Growth of imports of G&S (US dollar terms, in percent)	8.4	14.8	34.9	12.5	11.9	-4.9	-2.8	5.7	8.3	7.1	8.2	3.6	6.0	6.1	6.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	57.6	55.7	56.7	58.0	59.5	59.5	57.8	59.5	59.5	59.5
Government revenues (excluding grants, in percent of GDP)	19.0	14.6	16.8			14.1	14.9	15.4	15.6	16.2	16.5		17.9	18.6	18.0
Aid flows (in Millions of US dollars) 7/	53.4	81.1	94.4			177.7	176.8	181.9	184.0	192.6	198.5		252.1	447.5	
o/w Grants	36.7	56.8	68.9			167.5	166.3	170.9	172.4	180.4	185.8		236.4	447.5	
o/w Concessional loans	16.8	24.3	25.5			10.2	10.6	11.0	11.5	12.1	12.6		15.7	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			51.7	42.5	42.9	40.5	39.7	38.9		35.2	30.9	34.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			85.1	90.5	88.6	89.3	89.7	89.1		90.3	97.2	92.1
Memorandum items:															
Nominal GDP (Millions of US dollars)	317.4	382.0	461.2			425.3	450.7	478.1	510.8	546.6	581.6		798.6	1511.8	
Nominal dollar GDP growth	5.0	20.4	20.7			-7.8	6.0	6.1	6.8	7.0	6.4	4.1	6.6	6.6	6.6
PV of PPG external debt (in Millions of US dollars)			788.3			831.7	841.2	859.0	876.5	895.3	917.5		1032.6	1152.3	
(PVt-PVt-1)/GDPt-1 (in percent)						9.4	2.2	4.0	3.7	3.7	4.1	4.5	3.1	-0.3	2.0

Source: IMF and World Bank staff simulations.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

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

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of debt-to GDP ratio								
Baseline	196	187	180	172	164	158	129	76
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	196	181	170	157	146	135	89	28
A2. New public sector loans on less favorable terms in 2009-2029 2/	196	189	186	181	176	173	157	111
A3. HIPC completion point attained in 2010	140	46	47	47	48	49	50	37
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	196	196	198	190	181	174	143	84
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	196	188	185	177	169	163	134	78
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	196	199	204	195	186	179	147	87
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	196	189	185	176	168	162	133	78
B5. Combination of B1-B4 using one-half standard deviation shocks	196	196	199	190	182	175	144	85
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	196	264	254	242	231	223	183	108
PV of debt-to-exports ratio								
Baseline	666	710	656	690	659	636	514	288
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	666	689	619	633	587	546	353	105
A2. New public sector loans on less favorable terms in 2009-2029 2/	666	721	678	728	710	699	625	420
A3. HIPC completion point attained in 2010	478	174	172	191	192	197	199	140
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	666	710	656	690	659	636	514	288
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	666	813	1016	1070	1023	987	799	445
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	666	710	656	690	659	636	514	288
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	666	720	674	709	678	655	530	295
B5. Combination of B1-B4 using one-half standard deviation shocks	666	657	659	694	663	640	517	289
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	666	710	656	690	659	636	514	288
PV of debt-to-revenue ratio								
Baseline	1388	1251	1170	1102	1011	956	721	410
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	1388	1213	1105	1010	901	820	495	150
A2. New public sector loans on less favorable terms in 2009-2029 2/	1388	1269	1211	1162	1088	1050	877	599
A3. HIPC completion point attained in 2010	996	307	307	305	295	295	279	199
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	1388	1312	1292	1217	1117	1056	797	453
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	1388	1260	1205	1135	1042	986	746	422
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	1388	1336	1330	1252	1149	1086	820	467
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	1388	1268	1202	1132	1040	983	744	421
B5. Combination of B1-B4 using one-half standard deviation shocks	1388	1312	1297	1221	1121	1060	801	455
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	1388	1768	1653	1556	1428	1350	1019	580

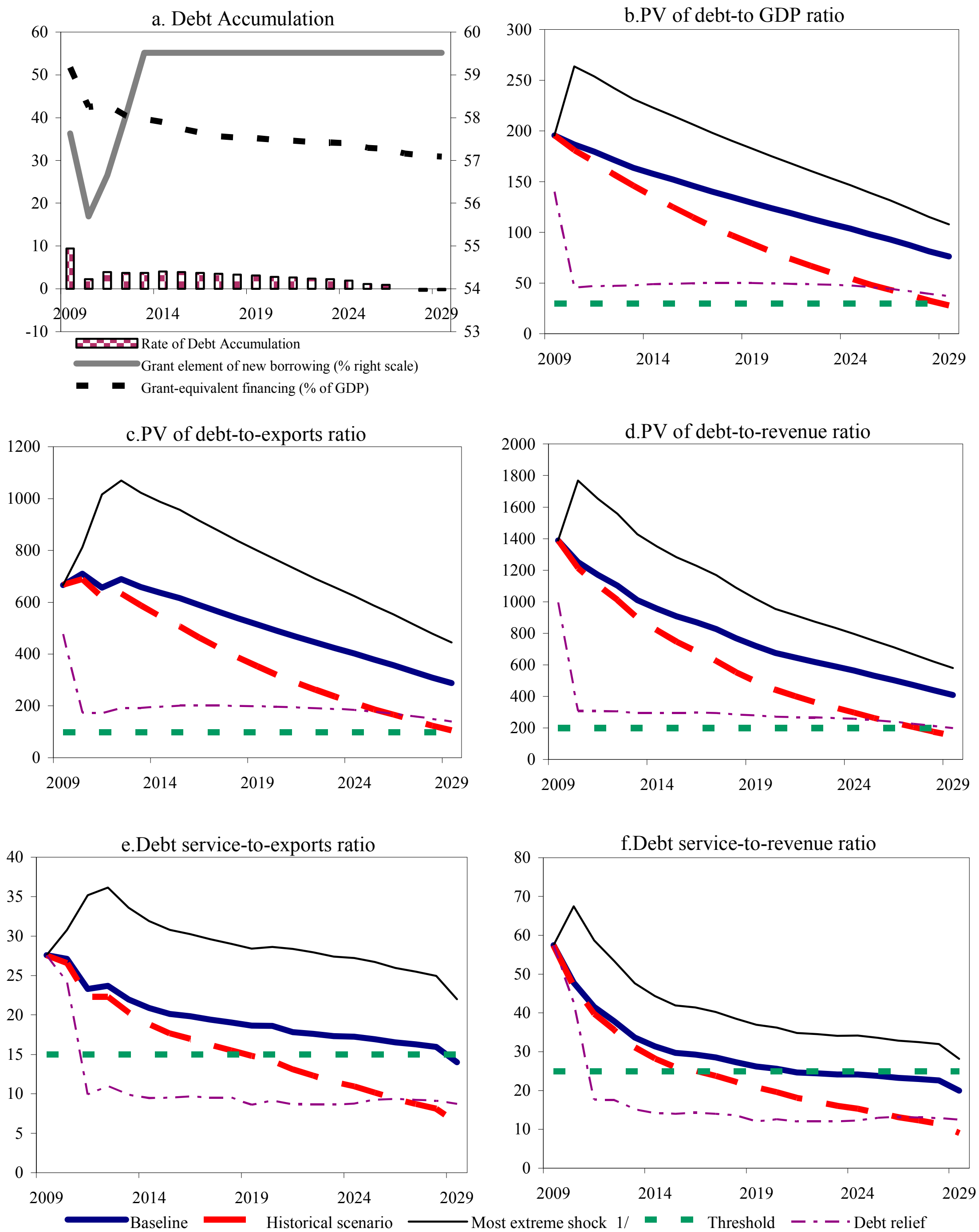
Table 1b.Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
Debt service-to-exports ratio								
Baseline	28	27	23	24	22	21	19	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	28	27	22	22	20	19	15	6
A2. New public sector loans on less favorable terms in 2009-2029 2/	28	27	23	25	24	24	23	22
A3. HIPC completion point attained in 2010	28	24	10	11	10	9	9	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	28	27	23	24	22	21	19	14
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	28	31	35	36	34	32	28	22
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	28	27	23	24	22	21	19	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	28	27	23	24	22	21	19	15
B5. Combination of B1-B4 using one-half standard deviation shocks	28	25	23	24	22	21	19	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	28	27	23	24	22	21	19	14
Debt service-to-revenue ratio								
Baseline	57	48	42	38	34	31	26	20
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	57	47	40	36	31	28	21	9
A2. New public sector loans on less favorable terms in 2009-2029 2/	57	48	42	40	37	35	33	31
A3. HIPC completion point attained in 2010	57	43	18	17	15	14	12	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	57	50	46	42	37	35	29	22
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	57	48	42	38	34	32	27	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	57	51	47	43	38	36	30	23
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	57	48	42	38	34	32	26	21
B5. Combination of B1-B4 using one-half standard deviation shocks	57	50	46	42	37	35	29	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	57	67	59	53	48	44	37	28
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	57	57	57	57	57	57	57	57

Source: IMF and World Bank staff projections and simulations.

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

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



Source: IMF and World Bank staff projections and simulations.

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

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

	Actual					Estimate				Projections				
	2006	2007	2008	Average 5/	Standard 5/ Deviation	2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029
Public sector debt 1/	382.2	326.1	316.0			328.3	317.6	304.6	290.0	276.2	266.8	297.2	221.2	132.4
o/w domestic	75.5	71.9	70.1			61.0	61.7	57.6	53.4	49.6	45.9	54.9	31.4	15.6
o/w external	306.7	254.2	245.9			267.3	255.9	247.0	236.6	226.6	220.9	242.4	189.8	116.8
Change in public sector debt	-45.3	-56.1	-10.1			12.3	-10.7	-13.0	-14.6	-13.8	-9.4		-8.8	-9.2
Identified debt-creating flows	-46.7	-53.6	-13.9			-1.7	-17.2	-18.5	-18.8	-19.1	-15.4		-13.6	-8.9
Primary deficit	6.4	7.7	3.8	5.6	2.9	0.5	0.2	-0.1	0.5	-0.3	-0.4	0.1	-0.6	-0.8
Revenue and grants	30.5	29.4	31.8			53.5	51.8	51.1	49.3	49.2	48.5		47.5	48.2
of which: grants	11.5	14.9	14.9			39.4	36.9	35.8	33.8	33.0	32.0		29.6	29.6
Primary (noninterest) expenditure	37.0	37.1	35.5			54.0	52.0	51.0	49.9	48.9	48.1		46.9	47.4
Automatic debt dynamics	-50.5	-58.3	-14.8			1.6	-17.4	-18.4	-19.3	-18.8	-15.0		-13.0	-8.0
Contribution from interest rate/growth differential	-14.0	-19.5	-18.0			-6.0	-10.9	-13.1	-15.2	-15.9	-15.1		-9.3	-5.7
of which: contribution from average real interest rate	-11.6	-9.4	-7.5			-0.1	-0.7	-1.7	-2.9	-3.6	-3.6		0.6	0.4
of which: contribution from real GDP growth	-2.4	-10.1	-10.5			-5.9	-10.2	-11.4	-12.3	-12.3	-11.5		-9.9	-6.1
Contribution from real exchange rate depreciation	-36.6	-38.8	3.2			7.6	-6.5	-5.3	-4.2	-2.9	0.1		...	...
Other identified debt-creating flows	-2.6	-3.0	-2.8			-3.9	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Privatization receipts (negative)	0.8	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Debt relief (HIPC and other)	-3.4	-2.9	-2.8			-3.9	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes	1.4	-2.5	3.8			14.0	6.5	5.5	4.2	5.4	6.0		4.8	-0.4
Other Sustainability Indicators														
PV of public sector debt	...	...	256.4			258.4	249.2	236.5	222.9	210.2	200.6		158.2	90.3
o/w domestic	...	...	70.1			61.0	61.7	57.6	53.4	49.6	45.9	0.0	31.4	15.6
o/w external	...	...	186.3			197.4	187.5	178.9	169.5	160.6	154.7		126.8	74.7
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	41.8	52.1	48.2			49.7	40.8	42.8	41.2	38.1	36.2		28.4	18.0
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	806.9			483.2	481.1	462.8	451.8	427.1	413.9		332.8	187.5
PV of public sector debt-to-revenue ratio (in percent)	…	…	1523.4			1834.4	1670.7	1540.3	1431.0	1297.5	1215.0		882.3	485.9
o/w external 3/	…	…	1106.9			1401.5	1257.2	1165.1	1088.2	991.2	936.9		707.0	401.9
Debt service-to-revenue and grants ratio (in percent) 4/	28.3	38.2	33.1			16.8	15.1	13.8	13.2	12.3	11.8		10.6	8.1
Debt service-to-revenue ratio (in percent) 4/	45.5	77.2	62.5			63.9	52.4	45.9	41.7	37.3	34.7		28.1	20.9
Primary deficit that stabilizes the debt-to-GDP ratio	51.8	63.8	13.8			-11.8	10.9	12.9	15.2	13.4	9.0		8.2	8.4
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	0.6	2.7	3.3	2.3	3.9	1.9	3.2	3.7	4.2	4.4	4.3	3.6	4.5	4.5
Average nominal interest rate on forex debt (in percent)	0.5	1.1	1.3	1.1	0.3	1.0	0.7	0.7	0.7	0.7	0.7	0.8	0.7	0.6
Average real interest rate on domestic debt (in percent)	-3.4	-6.6	-7.7	-1.6	4.1	-0.9	-1.9	-1.7	-1.8	-1.8	-1.8	-1.7	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	-10.6	-13.2	1.3	-4.0	10.3	3.2	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.6	7.4	8.8	3.0	4.3	1.3	2.1	1.9	2.0	1.9	2.0	1.9	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.0	0.0	0.0	0.2	0.5	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	57.6	55.7	56.7	58.0	59.5	59.5	57.8	59.5	59.5

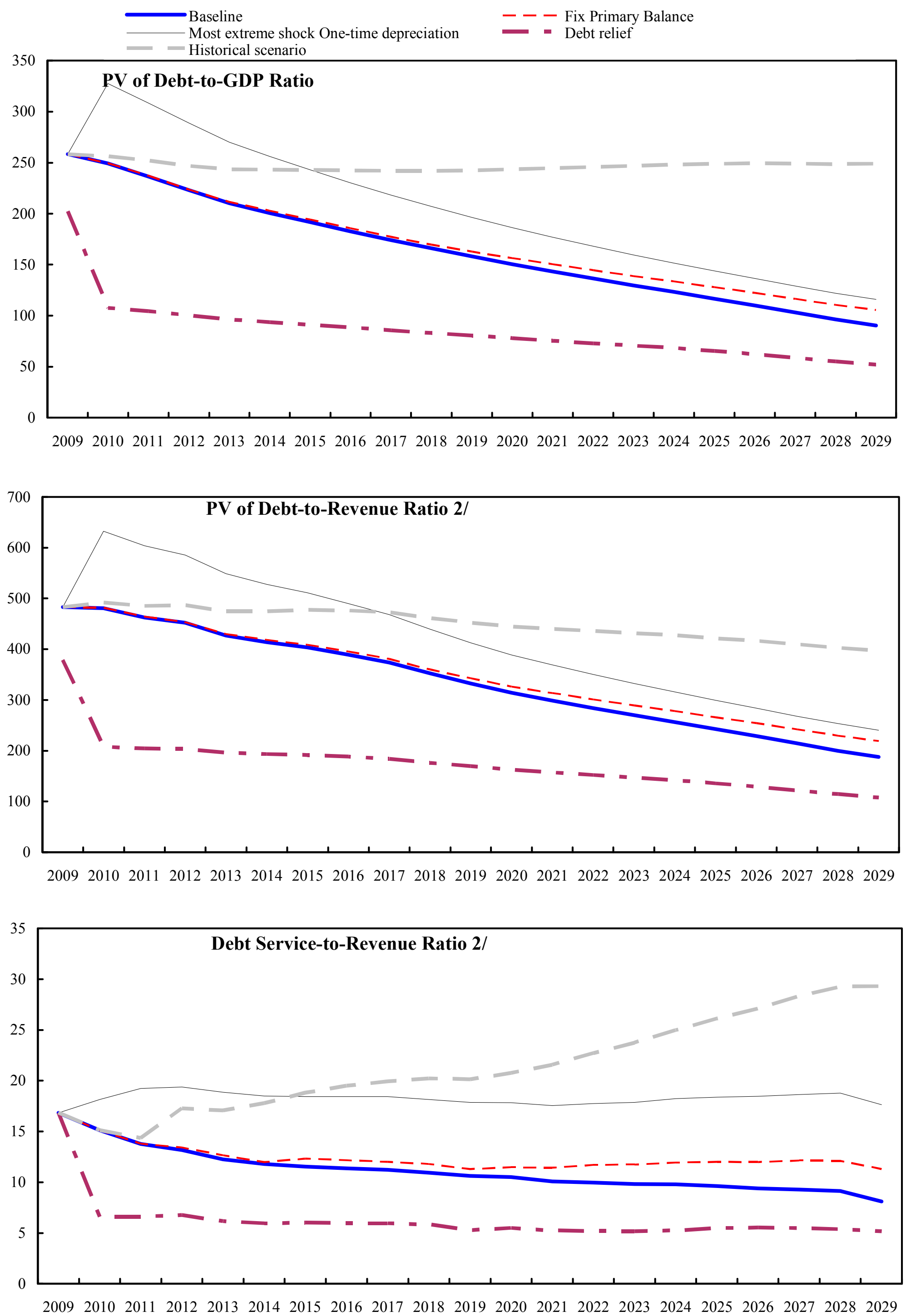
Sources: Guinea-Bissau authorities; and IMF and World Bank staff estimates and projections.
1/ Gross general government debt (external and domestic).
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b.Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public Debt 2009-2029

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	258	249	236	223	210	201	158	90
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	258	256	252	247	244	243	242	249
A2. Primary balance is unchanged from 2009	258	250	237	224	212	203	163	106
A3. Permanently lower GDP growth 1/	258	251	241	229	218	211	178	134
A4. HIPC completion point attained in 2010	203	108	105	100	96	94	81	52
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	258	262	263	250	237	228	189	127
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	258	257	252	238	225	215	171	101
B3. Combination of B1-B2 using one half standard deviation shocks	258	263	264	250	237	228	186	120
B4. One-time 30 percent real depreciation in 2010	258	328	309	289	270	256	196	116
B5. 10 percent of GDP increase in other debt-creating flows in 2010	258	258	246	232	219	209	166	96
PV of Debt-to-Revenue Ratio 2/								
Baseline	483	481	463	452	427	414	333	187
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	483	492	486	487	475	475	453	397
A2. Primary balance is unchanged from 2009	483	482	464	453	430	419	343	219
A3. Permanently lower GDP growth 1/	483	482	466	457	434	423	357	251
A4. HIPC completion point attained in 2010	379	208	205	203	196	193	169	108
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	483	489	480	473	451	440	373	248
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	483	496	493	482	456	443	360	209
B3. Combination of B1-B2 using one half standard deviation shocks	483	497	495	487	463	451	377	240
B4. One-time 30 percent real depreciation in 2010	483	632	604	585	549	528	413	241
B5. 10 percent of GDP increase in other debt-creating flows in 2010	483	499	481	470	444	431	349	200
Debt Service-to-Revenue Ratio 2/								
Baseline	17	15	14	13	12	12	11	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	17	15	14	17	17	18	20	29
A2. Primary balance is unchanged from 2009	17	15	14	13	13	12	11	11
A3. Permanently lower GDP growth 1/	17	15	14	13	13	12	12	14
A4. HIPC completion point attained in 2010	17	14	7	7	6	6	5	5
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	17	15	14	14	14	14	14	14
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	17	15	15	19	18	15	12	11
B3. Combination of B1-B2 using one half standard deviation shocks	17	15	15	18	18	15	14	14
B4. One-time 30 percent real depreciation in 2010	17	18	19	19	19	18	18	18
B5. 10 percent of GDP increase in other debt-creating flows in 2010	17	15	15	20	13	14	12	10

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

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



Sources: Guinea-Bissau authorities; and IMF and World Bank staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2019.
2/ Revenues are defined inclusive of grants.

Press Release No. 09/224
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June 19 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$ xx Million Purchase Under Emergency Post-Conflict Assistance for Guinea-Bissau

The Executive Board of the International Monetary Fund (IMF) has approved a purchase in an amount equivalent to SDR 1.775 million (about US$ 2.737 million) under the Emergency Post-Conflict Assistance (EPCA). The assistance supports the authorities' 2009 economic program and is the third purchase under the EPCA. The Executive Board approved previous purchases under EPCA on January 28, 2008 (see Press Release No. 08/11) and July 28, 2008 (see Press Release No. 08/183).

EPCA is designed to promote a strengthening of administrative and institutional capacity, which will be necessary to sustain economic recovery and a higher level of financial assistance. The IMF's support through EPCA formed a key part of a concerted international effort to provide financial assistance to Guinea-Bissau.

Following the Executive Board's discussion of Guinea-Bissau's performance under the EPCA-supported program on June 19, 2009, Murilo Portugal, Deputy Managing Director and Acting Chair, said:

"Guinea-Bissau continues to face an extremely difficult economic and fiscal situation. Some progress was made during the 2008 EPCA-supported program in reforming fiscal management, but global economic developments, especially lower demand and prices for exports, are expected to slow growth significantly and put pressure on the balance of payments and an already tight fiscal situation.

"The authorities' program for 2009 appropriately focuses on stabilizing public finances and avoiding new domestic arrears by keeping current spending strictly within available domestic and external resources. Clearing the stock of domestic arrears is also important, but will need to be based on a thorough external audit and the availability of additional concessional external assistance.

"Recent progress on structural reforms to strengthen fiscal management is encouraging, and demonstrates that the authorities have the capacity to implement the proposed program. At the same time, the pace of fiscal reforms needs to accelerate to further build capacity and improve confidence in the economy. Planned measures under the 2009 program include a medium-term action plan for public financial management and further strengthening customs administration and control of territorial waters.

"Strong engagement of the international community is essential for the success of the EPCA-supported program. In light of Guinea Bissau's debt burden, donor assistance should be on highly concessional terms, preferably grants. The authorities must remain steadfast in their efforts to improve governance and strengthen institutional capacity.

"Satisfactory performance under the EPCA-supported program could pave the way for a PRGF arrangement and eventual debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI)", said Mr. Portugal.

Statement by Laurean Rutayisire, Executive Director for Guinea-Bissau
June 19, 2009

1. My Guinean authorities are grateful for the valuable assistance that the Fund has continued to provide in support of their policy and reform agenda and they are thankful to the Board, Management and staff for the key role each has played in this process.

2. Over the past years, economic performance in Guinea-Bissau has often been weakened by a legacy of political instability. Most recently, the assassinations of the president and the army chief of staff in early March 2009 augured a brief period of economic uncertainty and adversely affected business confidence which has ultimately been overcome by subsequent adherence to constitutional procedures in the process of electing the new president. In this connection, the authorities are determined to manage the risks associated with the presidential elections scheduled to take place on June 28. On top of the policy challenges stemming from the political arena, Guinea-Bissau is currently coping with the adverse effects of the global economic crisis which are materializing notably through a decline in revenues, remittances and aid flows. Notwithstanding these difficult circumstances, the authorities remain committed to sound economic management and improved economic performance. The new government which took office earlier this year proceeded steadfastly to strengthening fiscal management, notably through stricter expenditure control and moreefficient tax and customs administration.

Recent Economic Developments and Performance Under the EPCA-Supported Program

3. Amid a difficult domestic and external environment, the authorities strive to lay the foundations of strong economic performance through notably a strong implementation of their Fund-supported program. Recent economic and policy developments augur good economic management and successful program implementation going forward. Boosted by higher agricultural output, GDP increased in 2008 from its 2007 level. After reaching double-digit levels in 2008 at the onset of the food and oil price shocks, average consumer inflation is projected to decline sharply this year. The country's external position also deteriorated although the current account deficit was lower than projected under the 2008 EPCA-supported program.

4. On the structural front, the authorities made significant progress toward the implementation of their reform agenda. The bulk of the structural measures agreed under the 2008 EPCA-supported program have been implemented—albeit some with delay. These include the establishment of a legal framework for budget classification consistent with WAEMU regional regulations, the launch of the financial audit of domestic arrears, thepartial

collection of tax arrears, the implementation of an integrated management system for public accounts, and the regularization of unaccounted expenditures for end-2007 andend-April 2008. Two other measures that were not met as initially planned due to circumstances beyond the authorities' control are now expected to be implemented by end-October 2009 with the assistance of the African Development Bank and Portugal, namely the upgrading of the automated system for customs administration (ASYCUDA++) and the installation of a computer-based and unified payroll system.

Economic Outlook and Policy and Reform Agenda for 2009

5. Against the backdrop of the global economic slowdown, economic prospects remain shady. Reflecting the anticipated fall in export prices of cashew nut, real GDP growth is expected to be lower in 2009 and the external current account deficit is projected to further increase. The fiscal position is expected to deteriorate owing notably to the adverse impact of the global economic downturn on tax revenues. However, on a positive note, consumer inflation is projected to follow its declining trend driven by lower food and energy prices,thereby dropping below 3 percent this year.

6. Mirroring the authorities' priorities, the fiscal program focuses on stabilizing public finances and avoiding the accumulation of new arrears. The 2009 budget that has been recently approved by the Parliament reflects the fiscal framework of the EPCA-supported program. The authorities are committed to continuing their fiscal reform agenda geared towards broadening the tax base and improving tax and customs administration. To improve tax collection, a number of measures have been identified, including the aforementioned implementation of ASYCUDA++, the update of the taxpayer fiscal identification numbers, compliance with regional customs regulations about goods left in customs warehouses formore than three months, incentive-based approach to collecting outstanding tax arrears, pre-shipment inspections to collect customs duties, and replacement of tax exemptions withtax credits. Revenue-boosting measures will be accompanied by steps to improve expenditure management. In this regard, the authorities will continue to work toward containing current primary expenditures, particularly the wage bill and discretionary spending. In this regard,they plan to finalize a survey of civil servants by the end of July 2009. In coordination withsome of the country's development partners, namely the World Bank, the European Unionand the African Development Bank, they also aim to complete by end-September 2009 anaction plan for public financial management.

7. With regard to budget formulation and execution, the authorities intend to fully implement an integrated public financial management system with a view to integrating the process of budget preparation, execution and accounting and improving the monitoring of expenditures. Going forward, a key priority of the authorities will be to clear and prevent reaccumulation of domestic arrears. The authorities intend to devise an arrears clearance plan which they plan to integrate into a medium-term budget framework to be developed in the

context of the future PRGF arrangement. At the same time, they plan to strengthen debt management, notably through the installation of a public debt management software with the support of the African Development Bank.

8. For a satisfactory implementation of the EPCA-supported program, capacity building will be critical. Substantial technical assistance needs remain unmet, particularly in the fiscal area. The authorities are appreciative of the assistance they continue to benefit from the country's partners, including the Fund. Going forward, we call on the Fund to step up its technical assistance to Guinea-Bissau, particularly in the areas of tax administration, debt management, and national accounts.

Conclusion

9. The authorities remain committed to a strong implementation of the EPCA-supported program, with the aim at continuing their program relations with the Fund in the context of a PRGF arrangement. Reflective of this commitment is the recent appointment of the high-level steering committee which comprises staffs from ministries of economy and finance and the central bank tasked with monitoring program implementation. Theauthorities' ultimate focus is to speed up progress toward the HIPC completion point in orderto benefit from HIPC and MDRI debt relief. In support of the authorities' efforts to pressahead with their economic program, we call on the Board to consider favorably theauthorities' request for a third purchase under the EPCA.