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Guinea-Bissau: Third Review Under the Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review—Staff Report; Joint IMF/World Bank Debt Sustainability Analysis; Informational Annex; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Guinea-Bissau

In the context of the third review under the three-year arrangement under the Extended Credit Facility and Financing Assurances Review, the following documents have been released and are included in this package:

- The staff report for the third review under the three-year arrangement under the extended credit facility and financing assurances review, prepared by a staff team of the IMF, following discussions that ended on September 21, 2011, 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 November 11, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- Joint IMF/World Bank Debt Sustainability Analysis
- Informational Annex
- A Press Release summarizing the views of the executive board as expressed during its December 2, 2011, discussion of the staff report that completed the review
- A statement by the Executive Director for Guinea-Bissau.

The documents below have been separately released:

Letter of Intent sent to the IMF by Guinea-Bissau's authorities*
Memorandum of Economic and Financial Policies for 2011–12*
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

Third Review Under the Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review

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

Approved by Roger Nord and Thomas Dorsey

November 15, 2011

Executive Summary

Economic developments have been generally favorable. The economy is benefitting from rising cashew production and higher cashew prices. Economic growth is expected to accelerate to 5.3 percent this year, stronger than envisaged at the time of the second review. Inflation is expected to rise this year driven by higher import prices for fuel and food, but core inflation remains subdued.

Performance under the ECF-supported program has been satisfactory. Favorable economic performance and sound policies continued in 2011. The authorities have met all performance criteria through end-June 2011 and all but one structural benchmark for the third review.

Fiscal performance in 2011 remains on track and end-year targets are within reach. The fiscal program is expected to be fully financed with no recourse to domestic financing.

It will be critical to maintain the post-HIPC momentum of economic reforms. Priority areas continue to be mobilizing more revenue, strengthening public finance management, improving debt management, and creating a better environment for private sector development.

Staff recommends completion of the third review of the ECF arrangement. The authorities' satisfactory performance and their commitment to successful implementation of the program warrant support from the IMF. Completion of the review will enable the disbursement of SDR 2.414 million (17 percent of quota).

Discussions were held in Bissau on September 8–21, 2011. The team comprised Mr. Drummond (head), Mr. Yoon, Ms. Zdzienicka (all AFR), Mr. Torrez (Resident Representative), and Mr. Fonseca (local economist). Mr. Tall from the Executive Director's office participated in the policy discussions.

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Abbreviations

AfDB	African Development Bank
ANP	National People's Assembly
ASYCUDA	Automated Systems for Customs Data
BCEAO	Central Bank of West African States
CPLP	Community of Portuguese-Speaking Countries
DNT	non-regularized expenditure
DSA	debt sustainability analysis
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EU	European Union
FNNPI	Fund to promote the industrialization of agricultural products
FY	fiscal year
GDP	gross domestic product
GNB	Guinea-Bissau
HIPC	Highly Indebted Poor Countries
IEO	Independent Evaluation Office
MEFP	Memorandum of Economic and Financial Policies
NGO	Non-government organization
PC	performance criterion
PFM	public financial management
PIP	public investment program
PRGF	Poverty Reduction and Growth Facility
PRS	poverty reduction strategy
PRSP	Poverty Reduction Strategy Paper
SIGRHAP	Personnel Management System
SSR	security sector reform
SYGADE	Debt Management System
TMU	Technical Memorandum of Understanding
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
VAT	value added tax
WAEMU	West African Economic and Monetary Union
WEO	World Economic Outlook

I. OVERVIEW

1. **A confluence of developments is creating a more favorable economic situation for Guinea-Bissau**:

- High prices for the predominant export (cashews) and robust cashew harvests.
- Continued political stability since the presidential election in 2009, a representative civilian government, and an unchanged economic team for three years.
- Improved institutions and technical capacity, with extensive technical assistance from development partners.

2. **Effective implementation of the ECF-supported program is beginning to yield measurable results**:

- The country has moved away from debt distress with the debt relief granted after the HIPC completion point last year.
- Fiscal sustainability has improved considerably through expenditure control and substantial increases in revenue. For the first time, the 2012 budget envisages sufficient fiscal revenue to cover current spending. This will allow all budgetary assistance to be directed to support investment projects.
- While the wage bill swallowed all tax revenues in 2008, it now accounts for less than two thirds. Better expenditure control has created space for spending in priority areas identified by the government (infrastructure, agriculture, health, education).

3. **It will be important to stay the course for sustainable growth and poverty alleviation**.

- With mounting domestic pressure for faster delivery of tangible economic results along with a subdued outlook for the external environment, the authorities' determination to keep on track and deepen reforms will be paramount. Political stability and improved security continue to be critical to economic prospects.
- The immediate challenge is to maintain fiscal prudence, modernize the public administration and the defense and security sectors, and create space for the private sector development.
- The medium-term challenge is to create a competitive economy and to reduce vulnerability and dependency on one export by improving the business environment and diversifying the economy.

II. Recent Developments and Performance Under the ECF

4. **The economy benefitted from high prices for cashew exports and a good cashew harvest** (Figures 1–2 and Tables 1–2). Prices reached about a third higher than envisaged at the previous review, and due to favorable weather, the cashew harvest was about 30 percent higher. This helped contain balance of payments pressures arising from higher food and fuel import bills. Headline inflation rose to 5.5 percent (year-on-year) in September 2011, but core inflation, which excludes food and energy, has remained subdued. The increase in income from rising cashew exports helped improve the external current account (Table 3).

5. **The FY 2011 budget execution has been broadly consistent with program targets** (Text Table 1). Through September, tax revenue was in line with the program while nontax revenue fell short of the programmed level due to lower-than-envisaged fishing compensation from the EU. Primary expenditure (excluding the counterpart to fishing compensation) were also broadly in line with the program, with slightly higher current spending (underbudgeted representation and other expenses) offset by lower domestically financed capital spending (delays in implementing the public investment program). As a result, the domestic primary deficit target was met as envisaged under the program.

Text Table 1. Guinea-Bissau: Fiscal Outturn, January-September

	2010	2011	
		Prog.[1]	Actual
	(Percent of GDP)		
Fiscal revenue	8.4	8.2	8.1
Tax revenue	6.1	6.6	6.7
Nontax revenue	2.3	1.6	1.4
Fishing compensation	1.1	1.0	0.4
Domestic primary expenditure	8.8	9.4	9.4
Current primary spending	8.6	8.7	9.0
Expenditure related to fishing comp.	0.2	0.4	0.1
Representation	0.4	0.3	0.5
Domestically financed capital	0.2	0.7	0.4
Domestic primary balance	-0.4	-1.2	-1.3
Memorandum items:			
Fiscal revenue excl. fishing comp.	7.3	7.2	7.7
Current primary spending excl. fishing comp.	8.4	8.3	8.9

Sources: GNB authorities and IMF staff estimates and projections.
[1] Projected at the Second ECF Review in May 2011.

6. **Program performance has been satisfactory**. All performance criteria through end-June were observed (Table 4). All but one structural benchmark for the third review were met. The unified payroll system has been extended to most ministries and work is underway to have it completed in the ministries of defense and interior (Table 5). Also, all but one of the indicative targets were met through end-September. The target on non-regularized expenditures (DNTs) was missed due to insufficient control in the face of spending pressures. The authorities managed to bring DNTs below target by end-October and agreed to strictly enforce the existing regulation which restricts such spending only to exceptional circumstances.

III. THE ECONOMIC OUTLOOK AND RISKS

7. **The near-term outlook remains favorable**.

- Real GDP growth is expected to accelerate to 5.3 percent in 2011, backed by a good harvest of cashews and favorable terms of trade. Economic prospects for 2012 remain favorable, owing to restoration of the public investment program and buoyant construction activity. The gradual return of confidence after the HIPC completion point heralds an improved economic outlook.

- Annual average inflation is projected to reach 4.8 percent in 2011. Core inflation, however, will remain subdued. Headline inflation should taper off to below the WAEMU's target range of 2(±1) percent in 2012 because international food and fuel prices are expected to weaken.

- The large improvement in the terms of trade is expected to reduce the current account deficit in 2011, but only moderately, due to the offset of higher imports, especially food and fuel. Assuming cashew export prices revert to their medium-term average, the current account would widen modestly in 2012.

8. **Risks to the outlook persist**. From the external environment, risks arise from lower-than-expected cashew prices or growth in advanced economies. Domestically, pressures for pre-election shifts in economic policies could pose risks as well.

IV. POLICY DISCUSSION

9. **The discussions focused on the need to stay the course, consolidating gains on an improved fiscal situation and deepening the post-HIPC reforms**. Reform areas continue to be mobilizing more revenue, modernizing the public administration, and accelerating growth under the new Poverty Reduction Strategy Paper (PRSP).

A. Maintaining Fiscal Prudence

10. **The fiscal program for 2011 continues to be fully financed**[1] (Text Table 2 and Tables 6a–6b). For the year as a whole, tax revenue is projected to reach the program objective, consolidating a gain of almost 3 percentage points of GDP in the last three years. Nontax revenue will reflect lower-than-expected fishing compensation from the EU and fishing licenses. Also, budget support is expected to be slightly below program owing to lower-than-envisaged assistance from the World Bank and the AfDB. On the spending side, higher current spending (mostly underbudgeted representation expenses) would be more than

[1] Compared to the program approved in the first review (IMF Country Report No. 10/379), the fiscal program for 2011 was revised in the second review in May 2011 (IMF Country Report No. 11/67), reflecting the higher revenue base from 2010 and budget support from Angola disbursed in March 2011.

offset by lower-than-programmed capital expenditure, reflecting delays in the foreign financing and execution of capital projects, even though domestically financed capital expenditure increased compared to last year. As a result, the overall balance and financing remains as projected in the program without recourse to domestic financing.

Text Table 2. Guinea-Bissau: Fiscal Projection, 2010–11

	2010	2011	
		Prog.[1]	Proj.
	(Percent of GDP)		
Revenue and grants	20.4	19.3	18.8
Fiscal revenue	10.8	10.9	10.6
Tax revenue	8.0	8.3	8.4
Nontax revenue	2.8	2.6	2.2
Fishing licenses, fees and penalties	0.7	0.7	0.5
Fishing compensation	1.2	1.1	0.9
Grants	9.7	8.5	8.3
Budget support	2.3	2.9	2.7
Expenditure	20.7	21.3	20.8
Current expenditure	11.9	12.0	12.5
Wages and salaries	5.0	5.2	5.3
Other current expenditure	2.1	2.0	2.6
Representation	0.8	0.4	0.8
Capital expenditure	8.8	9.3	8.2
Net domestic arrears payment	1.9	0.8	0.8
Overall balance including grants (cash)	-2.5	-2.8	-2.8
Memorandum item:			
Fiscal revenue excl. fish. comp. and licenses	8.9	9.1	9.2

Sources: GNB authorities and IMF staff estimates and projections.
[1] Projected at the Second ECF Review in May 2011.

11. **The discussions of the 2012 budget focused on the need for the authorities to keep fiscal prudence**. The budget reflects a tight envelope for resources and growing pressure for higher spending. After years of spending containment, pressure is intensifying from various interest groups for greater outlays and higher wages. An additional challenge is relatively low budget support, which is expected only from the World Bank (CFAF 3.3 billion) and the AfDB (CFAF 3 billion) in 2012. The authorities continue to assume no budget support from the EU in 2012.[2]

12. **The authorities designed the 2012 budget to reach several important objectives**: keep spending within available resources without adding to the debt burden; mobilize more revenues largely by reducing implicit customs subsidies and exemptions and tightening controls; continue to reduce the large stock of domestic arrears of previous years consistent with the government medium-term strategy; protect priority spending; and incorporate resources for contingencies. For the first time in recent years, fiscal revenues in the budget will be sufficient to cover current

Text Table 3. Guinea-Bissau: Fiscal Projection, 2011–12

	2011	2012
	(Percent of GDP)	
Revenue and grants	18.8	20.8
Revenue	10.6	12.7
Tax revenue	8.4	9.6
Nontax revenue	2.2	3.1
Grants	8.3	8.2
Budget support	2.7	1.3
Total expenditure	20.8	21.8
Current expenditure	12.5	12.7
Capital expenditure	8.2	9.1
Domestic primary deficit	-2.5	-1.6
Overall balance, including grants (cash)	-2.8	-1.3

Sources: Guinea-Bissau authorities and IMF staff projections.

[2] During consultations under Article 96 of the Cotonou Agreement in March 2011, the authorities and the EU agreed on a matrix of commitments for resuming budget support to Guinea-Bissau, including security sector reform and the appointment of military personnel. But the authorities have yet to implement those commitments.

expenditures. Thus, beginning in 2012, all budgetary assistance will be available to be used to support spending on infrastructure and other investment projects consistent with the goal of raising investment and growth. Some of the key parameters for the budget that will be submitted to the national assembly are fiscal revenues of 12.7 percent of GDP, a domestic primary deficit of 1.6 percent of GDP (Text Table 3), and a general budget reserve allocation of CFAF 1 billion (higher than in previous years). To meet budget objectives, the government reiterated its commitment to reduce spending or recover more revenues, as needed, to make up for financing shortfalls.

13. **The authorities and staff agreed on the need to sustain efforts to further improve fiscal revenue**. The 2012 budget is anchored on revenue raising measures and fiscal revenues are expected to increase by about 2 percentage points of GDP (Text Table 4). Revenue raising measures are expected to contribute 0.6 percentage points of GDP to the revenue target. The government has already taken measures to reinforce fiscal revenues: in June, the reference price for imported diesel was adjusted by 24 percent. In addition, the government has been adjusting domestic fuel prices monthly to allow for a full pass-through of international prices into domestic prices (Figure 3). As part of the 2012 budget, the government plans to raise the reference price of certain imports (rice, flour, sugar, diesel) to market levels, and eliminate exemptions of capital good imports, including fuel, by the government and NGOs. The increase in revenue also reflects higher fishing compensation from the EU due to rephasing of committed funds for 2011. At the same time, the government will continue to strengthen tax and customs administration.

MEFP ¶9–10

Text table 4. Impact of revenue raising measures in 2012
(Percent of GDP)

1.Raising the reference prices of key products	0.6
Fuel	0.2
Rice	0.3
Cashew s, sugar and flour	0.1
2. Elimination of exemptions on capital good imports	0.4
3. Fishing compensation from the EU	0.8
4. Strengthening tax and customs administration	0.3
5. Total (5 = 1+2+3+4)	2.1

Source: Guinea-Bissau authorities and IMF Staff estimates.

B. Structural Reforms and the Poverty Reduction Strategy

Deepening fiscal reform

14. **The authorities plan to deepen fiscal reforms**. Staff underscored that despite recent progress, Guinea-Bissau's fiscal revenue-to-GDP ratio is still low compared with regional peers, and that sustained improvements in tax collection would be necessary to meet the fiscal targets. Staff and the authorities agreed on the importance of further revenue administration reforms. Priorities are to improve capacity and efficiency in customs and revenue administration and further to broaden the tax base. The authorities are advancing in strengthening a legal framework to regulate revenue-sharing agreements among line ministries and completing the audit of large importers' tax liabilities which determines the gap between declared revenue and what should have been paid (all benchmarks for the fourth review). The agenda of fiscal reforms for 2012 was developed in

MEFP ¶13 (i)

close collaboration with a technical assistance mission from FAD, and includes: (i) revamping nontax revenue collection; (ii) reducing the volume of tax-exempted fuel; (iii) tackling tax evasion by enhancing controls on taxpayers that stopped filing; (iv) raising self-assessed filing rates; and (v) extending the ASYCUDA++ to key border posts outside Bissau (all new benchmarks). The authorities are preparing for a transition from the general sales tax to a VAT in line with other WAEMU countries to broaden the tax base in the medium term. In line with the advice from a recent FAD technical assistance mission, staff underscored that the introduction of the VAT, while a sound reform, will require careful preparation in the coming couple of years, and would benefit from technical assistance from development partners.

Improving the business climate

15. **The authorities wish to create an environment that could attract private investment and promote economic diversification**. The government is moving ahead with assistance from donors to address key supply-side constraints and reduce the cost of doing business. The public investment program aims to relieve infrastructure bottlenecks, tackling infrastructure gaps and unreliable electricity supplies that limit private sector expansion and drive up costs. The action plan to remove impediments to private sector development will be submitted to the Council of Ministers for approval in 2012 (new benchmark). A plan to manage the country's natural resources is work in progress (benchmark for the fourth review).

MEFP ¶13 (iii)

16. **Both the authorities and the private sector are exploring ways to promote the industrialization of agricultural products** (Box 1). A new fund, created in partnership with the private sector, is being financed through a new cashew export surcharge (about CFAF 8 billion in 2011, 1.7 percent of GDP). The new fund will finance and guarantee industrialization of agricultural products, a government priority.[3] The government and the private sector (the Chamber of Commerce) agreed that resources would be directly channeled to the fund and would not be included as revenue in the government budget in light of challenges of earmarking revenue. The authorities agreed with staff that they will need to closely monitor operations of the new fund and revisit their policy, including the treatment of resources, in light of experience in the first year. Staff advised that the authorities should set up clear and transparent statutes following best practices, with assistance from the World Bank, and they should secure proper oversight of the fund's operations. The government and the Chamber of Commerce agreed that management and operations of the fund should be transparent and the interests of all stakeholders in the cashew-export chain should be taken into account.

MEFP ¶12

[3] The opportunities and challenges for developing the domestic processing of cashew nuts in Guinea-Bissau was assessed by the World Bank as part of a 2009 Diagnostic Trade Integration Study (DTIS), Report No. 54145-GW.

Box 1. Cashew Export Surcharge

In April 2011 the Ministry of Commerce, in collaboration with the Chamber of Commerce, introduced a new surcharge on cashew exports, and in May 2011 the Council of Ministers issued a decree for a new Fund to promote the industrialization of agricultural products (FUNPI). The funds collected through the surcharge will be managed by a public-private partnership for which the statutes are being drafted. The surcharge is additional to the existing export tax already collected by the Ministry of Finance.

The impact of the cashew surcharge will depend on several considerations. By lowering domestic input prices, export taxes can work as an indirect subsidy to processing industries. They can also lower return on primary commodities and by providing additional tax-generated resources to the processing sector such taxes can increase the relative attractiveness of the sector. In Mozambique, for instance, an IEO report[1] concluded that a phasing-out of the cashew export tax in the 1990s hurt the cashew processing sector. However, the surcharge is likely to reduce cashew producers' income. Given Guinea-Bissau's small share of world cashew production (about 4 percent), the additional cost of the surcharge is expected to be borne by domestic producers through a lower farm gate price. In addition, gains resulting from income redistribution from unskilled workers to a few processors and their more skilled employees could be lower than expected due to domestic market imperfections (i.e., layers to traders) and competition in the international processing industry dominated by India and Viet Nam. Moreover, lower cashew prices may discourage investing in cashew production, which would undermine the future growth potential of the whole industry.

Much will depend on how the FUNPI is implemented to transform the agro-industrial sector, and pressing challenges are: setting up clear and transparent statutes to make best use of resources; and ensuring that the fund is managed professionally so government and private sector objectives are met.

[1] Independent Evaluation Office, IMF (2009), "IMF Involvement in Trade Policy Issues in Low-Income Countries: Seven Case Studies."

Modernizing public administration

MEFP ¶13 (ii)

17. **The authorities are following-up on the action plan to modernize the public administration approved early this year**. The authorities have made further progress in extending the computerized and unified payroll system, and plan to extend it to the ministries of interior and defense by end-March 2012 (rephased benchmark). The personnel management system (SIGRHAP) began operating in November. To maintain momentum on public administration reform, the authorities intend to enforce mandatory retirement and issue management regulations for public employees in 2012 (new benchmark).

MEFP ¶13 (iv)

18. **With the assistance of international partners, the authorities are intensifying efforts to create an enabling environment for security sector reform** (Box 2). The ECOWAS, UN, and bilateral partners are involved in supporting peace building and political stability. Reform initiatives are being processed at different paces. Most advanced are the setting up of the legal framework

restructuring the defense and security sectors, reflected in the approval of several decrees and laws by the National People's Assembly (ANP) by the end of 2010 as well as the professionalization of the forces through training activities deployed by the Angola and Brazilian missions. The ECOWAS is expected to lead the effort on financing the reform, including the pension fund, a pre-requisite for the reform to take place. The government is committed to retiring a first group of the police and the armed forces, once support from development partners becomes available.

Box 2. Update on Security Sector Reform (SSR)

The SSR is underway following agreements between Guinea-Bissau and its partners. Current military personnel number about 4,500 with an inverted pyramid organizational structure, consisting of about 3,100 officers and about 1,400 soldiers. The government wants to streamline the military to a force of about 3,500 through a combination of retirement schemes and demobilization and to remake the structure to no more than 30 percent permanent officers with the rest drafted military personnel. The roadmap for the reform, designed with the assistance of the UN, ECOWAS, and the Community of Portuguese-Speaking Countries (CPLP) lays out a plan to gradually retire up to 2,500 military personnel between 2012 and 2015 by providing an attractive pension scheme.

ECOWAS expressed its intention to help finance the SSR reform with US$65 million, of which US$45 million would be dedicated to the pension fund. A memorandum of understanding between ECOWAS-the CPLP, and the Government of Guinea-Bissau for the implementation of the roadmap and the transfer of funds is currently under negotiation.

Reducing poverty

19. **The government adopted its second five-year PRS in July, prioritizing its development policies**. The PRSP has four pillars: (i) strengthening the rule of law and improving the efficacy of public administration; (ii) guaranteeing macroeconomic stability, consolidating public financial management reforms and fostering robust private sector development; (iii) promoting sustainable, broad-based economic growth; and (iv) enhancing human development. The success of the new PRSP will hinge on prioritizing action plans. Recent improvements in public financial management should help the authorities improve their allocation of resources and enhance the efficiency of expenditure execution.

C. Debt Policies and Financing Assurances

20. **The Paris Club agreed in May to provide extensive debt relief to Guinea-Bissau, further reducing debt vulnerabilities**. The authorities are working on bilateral agreements with Paris Club creditors, intending to finalize them by the end of 2011. The authorities are making best efforts to finalize agreements with the remaining non-Paris club creditors, seeking comparable treatment from remaining creditors; and they are continuing good faith efforts to negotiate with an external private creditor.

MEFP ¶15

21. **An update of the external debt sustainability analysis (DSA) suggests a moderate risk of debt distress**. The net present value of the external debt would remain low and sustainable throughout the projection period. The minimum concessionality requirement for foreign currency borrowing has been lowered to 35 percent from 50 percent, in line with Guinea-Bissau's moderate risk of debt distress. Staff urged the authorities to maintain low debt vulnerability with new external borrowing only on concessional terms to address pressing development needs while avoiding the re-accumulation of unsustainable debt.

22. **The authorities agreed that strengthening debt management capacity remains a priority**. The adoption of the debt management system, SYGADE, remains on track to record, monitor, and manage all public debt, with assistance from the United Nations Conference on Trade and Development (benchmark for the fourth review). The SYGADE would be further extended between the Central Bank of West African States (BCEAO) and the Ministry of Finance in 2012, which would help improve management capacity to monitor domestic debt (new benchmark).

MEFP ¶13 (v)

23. **The authorities reiterated their commitment to implementing their domestic arrears clearance strategy**, by making annual payments within available resources. For debts owed to the BCEAO, the authorities requested a deferral of payment and better terms and are engaging in negotiations with the BCEAO.

MEFP ¶16–17

V. Program Monitoring and Risks

24. **Program performance will be monitored on a semi-annual basis through structural benchmarks and quantitative targets**. Given no significant changes to the macroeconomic outlook, all performance criteria and other quantitative targets for end-December 2011 remain unchanged. The program sets new performance criteria for June and December and quantitative indicative targets for March and September 2012 (Tables 7–8). The fourth and fifth reviews are scheduled for May and December 2012, respectively.

25. **Risks to the IMF's resources are moderate**. The country's capacity to repay the IMF is reasonably sound (Table 9). Risks to IMF resources are mitigated to a significant degree by the BCEAO's role as fiscal agent and its solid track record in making payments to the IMF.

VI. Staff Appraisal

26. **Economic performance has been favorable in 2011, but the economy remains vulnerable**. Economic growth accelerated this year, supported by a good cashew harvest and much better terms of trade. But risks arise from fragile political stability and vulnerability to external shocks, especially given heavy dependence on one export.

27. **The authorities should be commended for satisfactory performance under the program and for maintaining fiscal discipline**. Strict control over current spending will be critical to meeting the fiscal targets for 2011. The tax buoyancy observed in the first nine months of the year is a result of healthy economic activity and improved administration, and should be maintained.

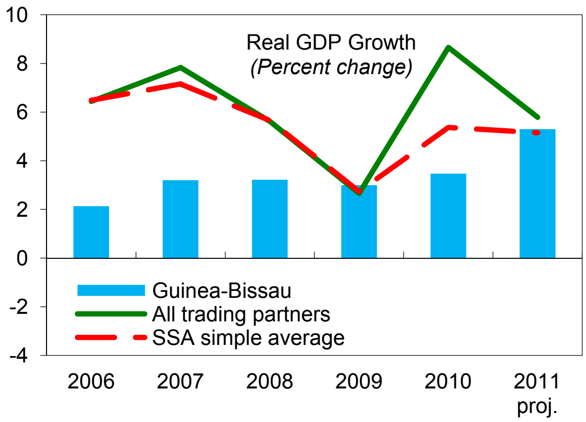
28. **The 2012 budget strikes the right balance between fiscal prudence and large development needs**. The budget is appropriately designed because it keeps spending within available resources; mobilizes more revenue; continues to reduce domestic arrears of previous years; protects priority spending; and preserves resources for contingencies and reforms. The government ability to mobilize sufficient own revenues to cover its current expenditure will make it possible to direct all budgetary assistance for infrastructure and other investment projects.

29. **Staff urges the authorities to stay the course and sustain progress in implementing structural reforms**. The focus on mobilizing more revenue, improving public financial management, and strengthening debt management is appropriate and should allow the government to consolidate gains achieved so far in these areas. Staff supports the authorities' intent to undertake further revenue-raising reforms, particularly through eliminating implicit subsidies, modernizing tax administration, tightening controls in customs, and improving control of large taxpayers. Progress in public administration reform is encouraging, but more needs to be done, and it is crucial to complete the unification of the payroll system. Acceleration of reforms that remove impediments to private sector development and strengthen human capital development is also needed to boost growth and reduce poverty. The authorities' policy to seek industrialization of agricultural products via a new fund created in partnership with the private sector should be revisited, including the treatment of resources, in light of experience in the first year of operations of the new fund.

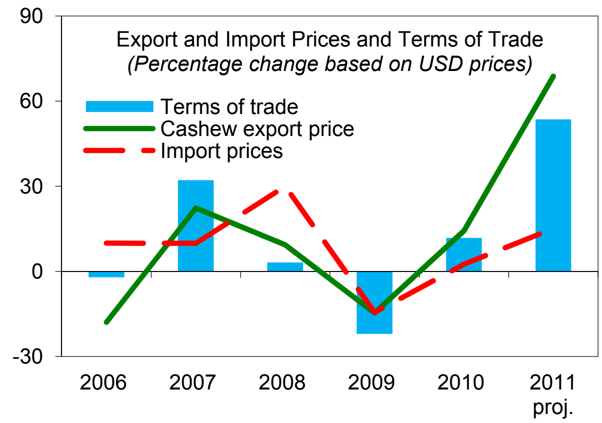
30. **Staff recommends the completion of the third review under the ECF arrangement and the financing assurances review, and supports the authorities' request for the fourth disbursement under the three-year ECF arrangement**. The authorities' satisfactory performance, the significant progress achieved to date, and the demonstrated commitment to achieving the key objectives of the program warrant support from the IMF.

Figure 1. Guinea-Bissau: Macroeconomic Developments, 2006–11

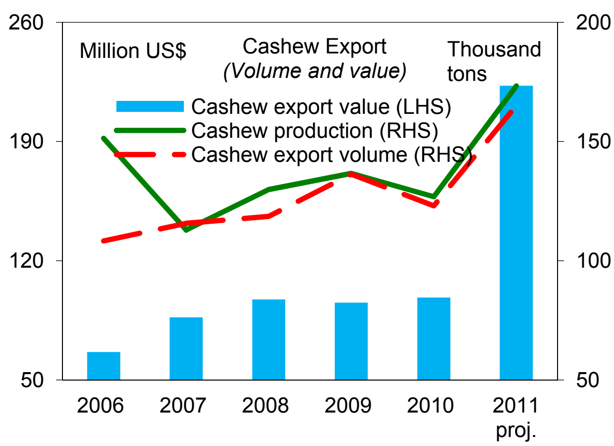
GDP growth accelerated, fueled by …



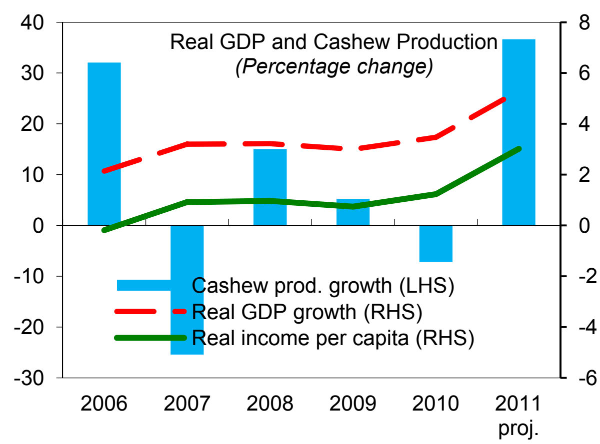
… terms of trade gains due to higher cashew prices.



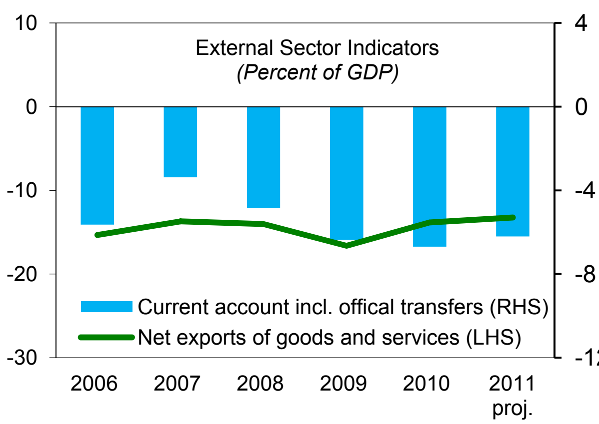
The surge in cashew export receipts…



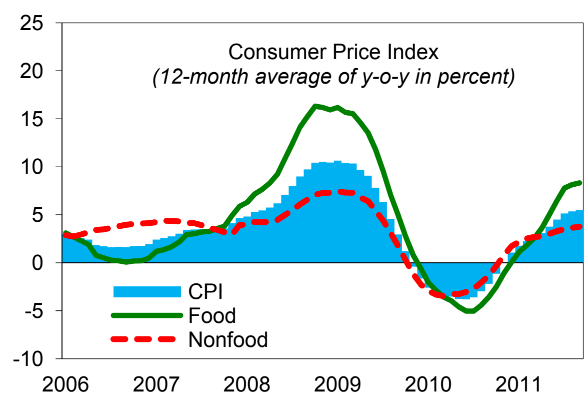
… supported growth in disposable income and domestic demand, and



…contributed to improving the balance of payments.



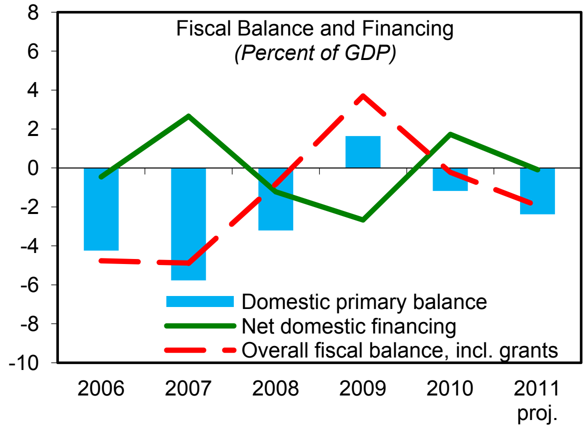
Inflation is rising, but core inflation is moderate.



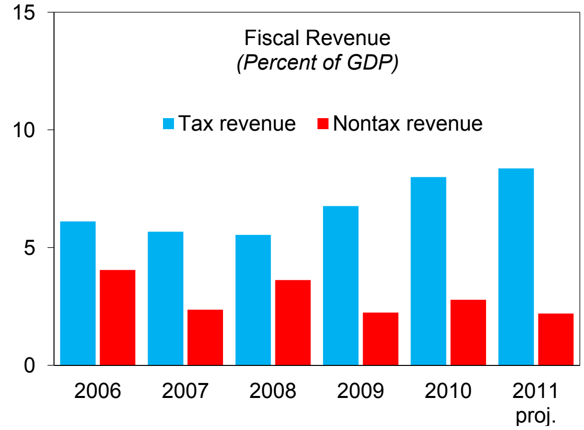
Sources: Guinea-Bissauan authorities and IMF estimates.

Figure 1. Guinea-Bissau: Macroeconomic Developments, 2006–11 (concluded)

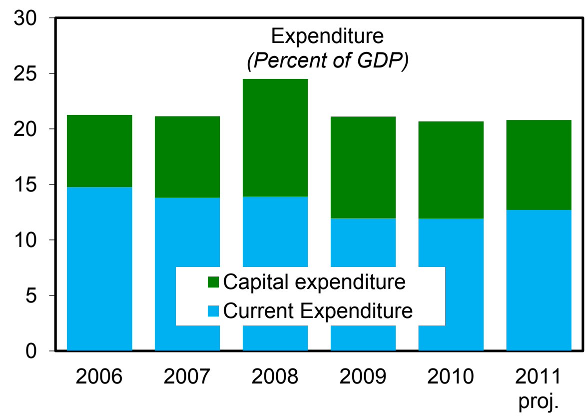
The fiscal deficit continues to be fully financed...



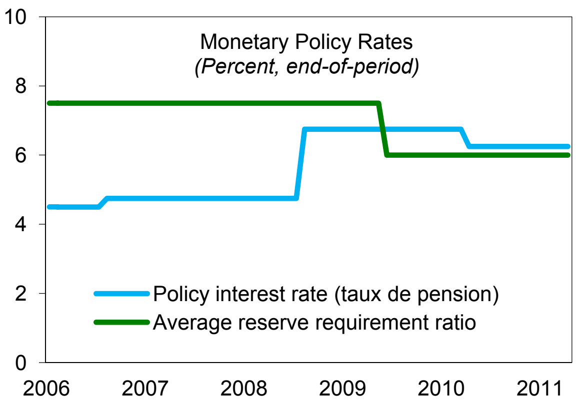
…along with sustained efforts to mobilize revenue…



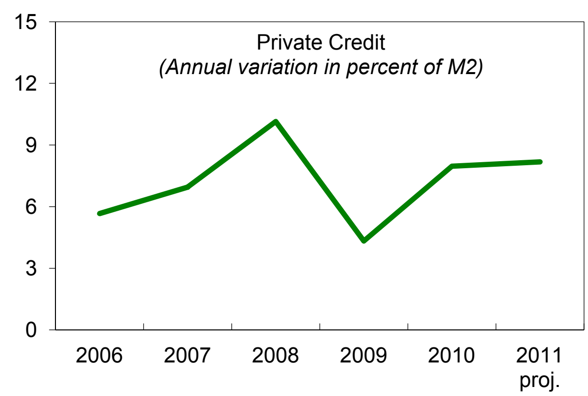
… and to contain spending.



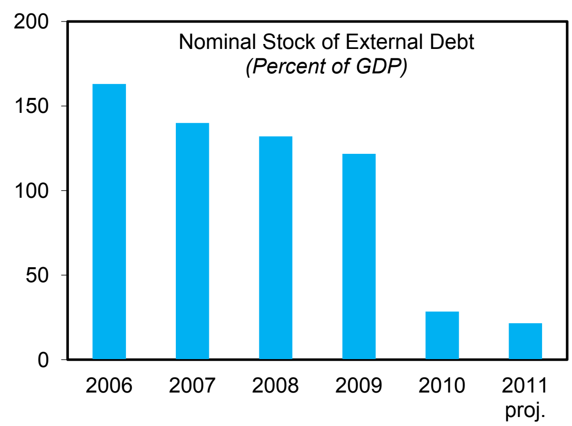
The WAEMU monetary policy stance has been accommodating ...



… and private sector credit growth has been steadily rising since 2009.



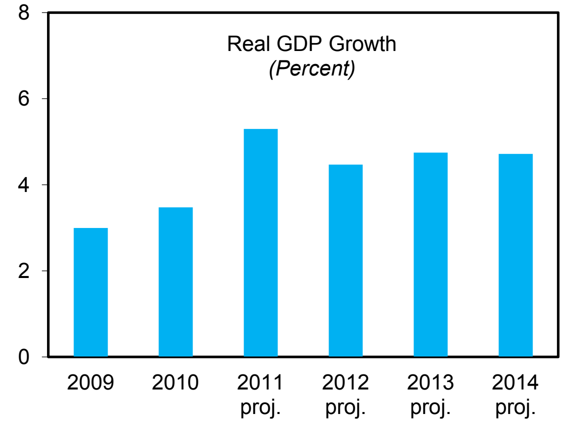
Debt levels fell substantially with debt relief.



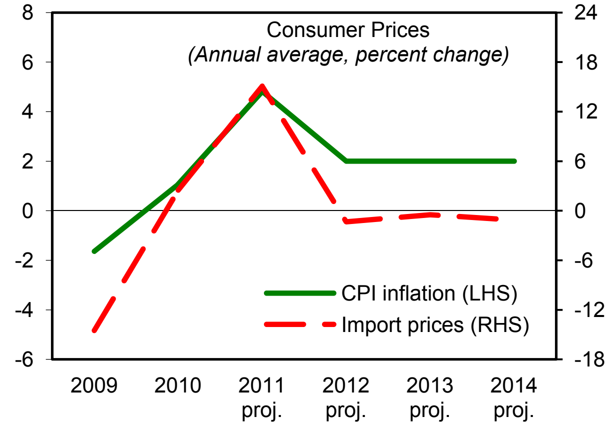
Source: African Department database, BCEAO, Guinea-Bissauan authorities and IMF staff estimates.

Figure 2. Guinea-Bissau: Medium-Term Outlook, 2009–14

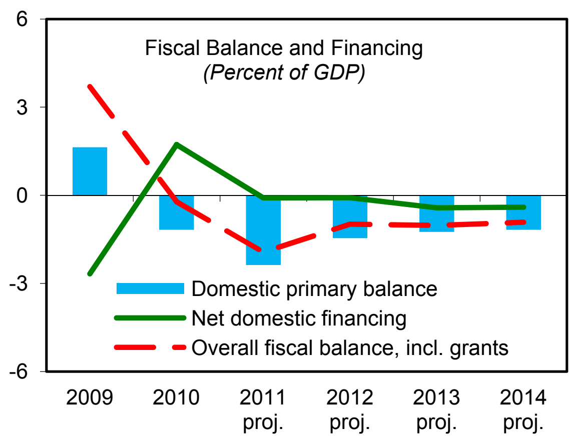
Economic prospects for 2012 remain favorable, …



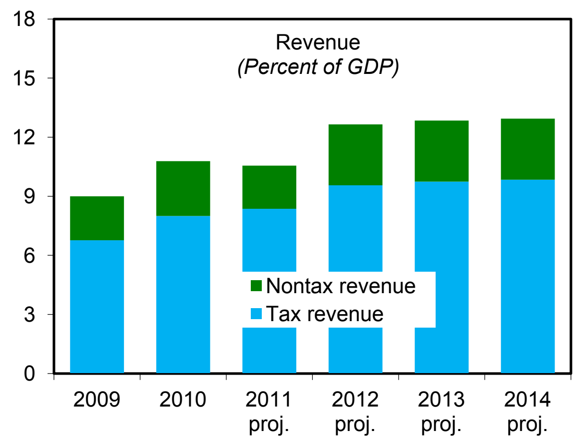
… and inflation is expected to return to the WAEMU target range in 2012.



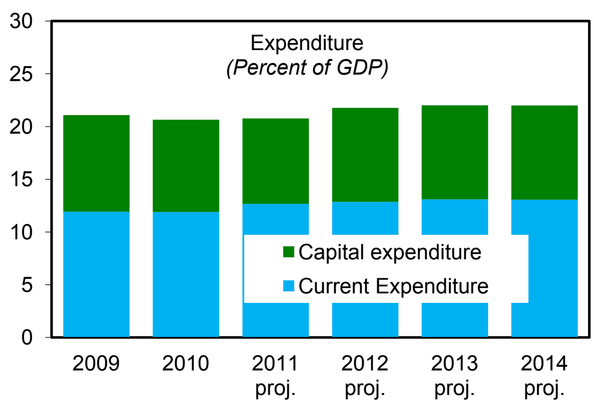
The fiscal program is expected to be fully financed...



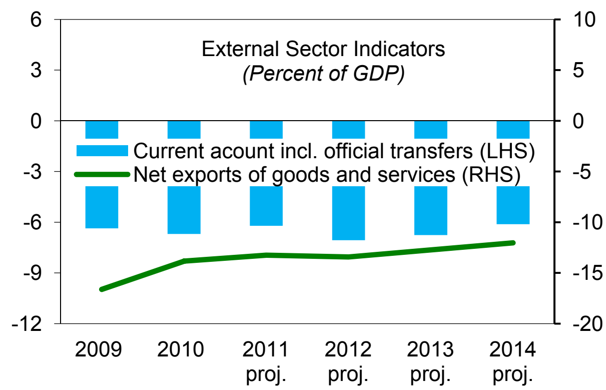
… by increasing revenue collection …



... and containing expenditure within available resources.



The external current account deficit is expected to widen slightly, as cashew export prices revert to their medium-term average.



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

Figure 3. Guinea-Bissau: Consumer Price Inflation and Import Prices

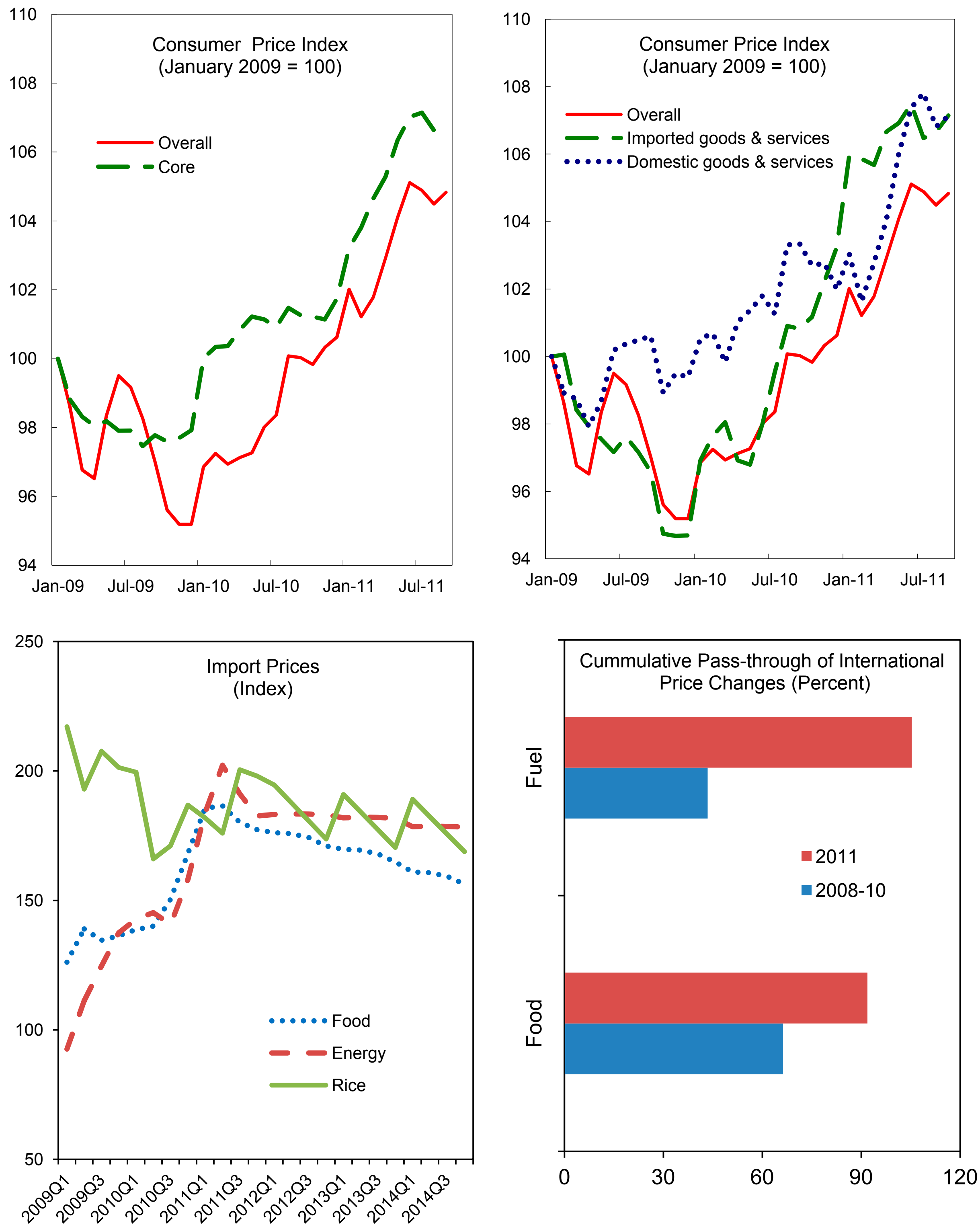


Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 2008–14

	2008	2009	2010	2011		2012	2013	2014
				Proj.[1]	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)							
National accounts and prices								
Real GDP at market prices	3.2	3.0	3.5	4.3	5.3	4.5	4.7	4.7
Real GDP per capita	1.0	0.7	1.2	2.1	3.0	2.2	2.5	2.4
GDP deflator	10.5	1.1	1.7	3.8	5.7	1.8	1.9	2.0
Consumer price index (annual average)	10.4	-1.6	1.1	4.0	4.8	2.0	2.0	2.0
External sector								
Exports, f.o.b. (based on US$ values)	13.1	-3.6	2.1	16.4	106.6	-25.3	3.6	2.7
Imports, f.o.b. (based on US$ values)	18.8	1.5	-2.9	19.9	69.3	-16.7	1.6	0.8
Export volume	2.5	14.9	-9.8	4.5	34.1	-15.2	4.0	4.0
Import volume	-8.6	18.8	-5.3	2.6	47.1	-15.6	2.1	2.0
Terms of trade (deterioration = -)	3.1	-22.1	11.8	-4.5	53.6	-14.9	-0.3	-0.7
Real effective exchange rate (depreciation = -)	7.7	-1.9	-3.0	2.1	2.2	…	…	…
Nominal exchange rate (CFAF per US$; average)	445.7	471.0	494.4	479.2	464.3	…	…	…
Government finances								
Domestic revenue (excluding grants) [2]	30.0	2.3	26.1	11.8	8.7	28.7	8.4	7.7
Total expenditure	31.7	-10.0	2.8	14.4	11.9	11.2	8.8	6.8
Current expenditure	14.2	-9.9	4.4	12.3	17.4	6.8	10.1	6.7
Capital expenditure	64.7	-10.1	0.7	17.4	4.4	17.9	6.9	7.0
Money and credit								
Net domestic assets [3]	8.2	-10.9	10.6	5.4	15.6	6.6	5.4	5.5
Credit to government (net)	-3.1	-13.8	4.7	0.0	-0.3	-0.3	-1.4	-1.3
Credit to the economy	10.1	4.7	13.2	2.1	8.9	6.9	6.8	6.8
Velocity (GDP/broad money)	4.1	4.1	3.3	3.6	3.1	3.1	3.0	3.0
	(Percent of GDP, unless otherwise indicated)							
Investments and savings								
Gross investment	8.7	10.1	9.8	10.9	10.1	10.6	10.5	10.6
Of which: government investment	4.2	5.1	4.8	5.2	4.5	5.0	5.0	5.0
Gross domestic savings	-5.3	-6.6	-4.0	-4.0	-3.1	-2.8	-2.2	-1.4
Of which: government savings	-11.1	-7.1	-5.1	-5.5	-5.8	-4.1	-4.2	-4.1
Gross national savings	3.9	3.7	3.1	3.6	3.9	3.5	3.8	4.5
Government finances								
Budgetary revenue	9.2	9.0	10.8	11.1	10.6	12.8	13.0	13.1
Total domestic primary expenditure	12.4	7.4	12.0	13.8	13.1	14.3	14.3	14.3
Domestic primary balance	-3.2	1.6	-1.2	-2.7	-2.5	-1.5	-1.3	-1.2
Overall balance (commitment basis)								
Including grants	-0.8	3.6	-0.2	-2.0	-2.0	-1.0	-1.1	-1.0
Excluding grants	-15.3	-12.2	-9.9	-10.7	-10.3	-9.1	-9.3	-9.2
External current account (including official current transfers)	-4.9	-6.4	-6.7	-7.3	-6.2	-7.1	-6.8	-6.1
Excluding official transfers	-11.3	-14.4	-10.2	-11.4	-9.9	-10.1	-9.7	-9.1
PV of external debt / exports of goods and services (percent)	364.8	87.8	86.1	91.7	50.4	72.1	72.8	70.1
Nominal stock of public debt, including arrears [4]	167.5	157.9	49.0	47.6	43.7	42.1	39.8	36.7
Of which: external debt, including arrears	132.7	121.9	19.1	20.7	17.5	17.8	17.7	16.6
Of which: arrears	49.6	48.9	0.0	0.0	0.0	0.0	0.0	0.0
	(US$ millions, unless otherwise indicated)							
Memorandum items:								
Current account balance (including official current transfers)	-41.1	-53.1	-56.0	-68.3	-61.5	-74.3	-75.3	-72.3
Overall balance of payments	-16.9	8.8	-926.7	-0.1	-1.2	-1.0	-8.7	-15.4
Nominal GDP at market prices (CFAF billions)	377.5	393.1	413.7	447.9	459.3	488.4	521.4	557.1

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

[1] As of May 2011 (IMF Country Report No. 11/67)

[2] The figure for 2012 reflects the impact of administrative measures to mobilize more revenues.

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

[4] As of end–2010, includes 8.3 percent of GDP in domestic arrears, consisting of pre-1999 arrears (3.3 percent of GDP) and preliminary estimates of the 2000–07 arrears registered at the treasury (5 percent of GDP). It does not include the preliminary estimates of 2000–07 arrears (13.4 percent of GDP) not registered at the treasury.

Table 2. Guinea-Bissau: Monetary Survey, 2008–14

	2008	2009	2010	2011		2012	2013	2014
				Proj.[1]	Proj.	Proj.	Proj.	Proj.
	(CFAF billions, unless otherwise indicated)							
Net foreign assets	66.6	80.6	97.9	80.1	101.3	104.7	108.0	111.3
Central Bank of West African States (BCEAO)	53.0	61.4	64.4	65.2	66.6	68.9	71.0	73.2
Commercial banks	13.6	19.2	28.9	14.9	34.7	35.8	37.0	38.1
Net domestic assets	25.5	15.5	25.7	45.5	45.0	54.7	63.4	72.7
Credit to the government (net)	11.1	-1.6	3.0	16.1	2.6	2.1	-0.1	-2.3
Credit to the private sector	17.4	21.8	34.4	32.5	45.5	55.6	66.5	78.1
Other items (net)	-3.0	-4.7	-6.7	-3.0	-3.0	-3.0	-3.0	-3.0
Money supply (M2)	92.1	96.1	123.6	125.6	146.3	159.4	171.3	184.1
Currency outside banks	56.2	57.1	64.1	76.8	75.8	82.7	88.8	95.5
Bank deposits	35.8	39.0	59.5	48.8	70.4	76.7	82.5	88.6
Base money (M0)	64.7	63.4	75.3	81.0	102.7	112.0	120.4	129.3
Contribution to the growth of broad money								
Money supply (M2)	28.6	4.4	28.6	8.4	18.3	9.0	7.5	7.4
Net foreign assets	20.4	15.2	18.0	3.0	2.7	2.4	2.1	2.0
BCEAO	12.0	9.1	3.1	2.4	1.8	1.5	1.4	1.3
Commercial banks	8.4	6.1	10.0	0.6	4.7	0.8	0.7	0.7
Net domestic assets	8.2	-10.9	10.6	5.4	15.6	6.6	5.4	5.5
Credit to the central government	-3.1	-13.8	4.7	0.0	-0.3	-0.3	-1.4	-1.3
Credit to the private sector	10.1	4.7	13.2	2.1	8.9	6.9	6.8	6.8
Other items net	1.2	-1.8	-2.0	3.3	2.9	0.0	0.0	0.0
Memorandum items:								
Money supply (M2, annual percentage change)	28.6	4.4	28.6	8.4	18.3	9.0	7.5	7.4
Base money (M0, annual percentage change)	21.6	19.2	18.8	8.4	36.4	9.0	7.5	7.4
Credit to the private sector (annual percentage change)	71.5	24.9	58.2	8.3	32.1	22.3	19.6	17.5
Velocity (GDP/M2)	4.1	4.1	3.3	3.6	3.1	3.1	3.0	3.0
Money Multiplier (M2/M0)	1.4	1.5	1.6	1.6	1.4	1.4	1.4	1.4
Currency outside banks / M2 (in percent)	61.1	59.5	51.9	61.2	51.9	51.9	51.9	51.9
Capital Adequacy[2]								
Capital (net worth) in percent of assets[2]	11.7	17.8	25.4	…	…	…	…	…
Asset composition and quality[2]								
Nonperforming loans of total loans (in percent)[2]	5.0	7.2	3.5	…	…	…	…	…
Provisions of nonperforming loans (in percent)[2]	116.9	48.7	16.6	…	…	…	…	…

Sources: BCEAO; and IMF staff estimates and projections.

[1] As of May 2011 (IMF Country Report No. 11/67).

[2] Ratios calculated on the basis of average annual stocks.

Table 3. Guinea-Bissau: Balance of Payments, 2008–14

	2008	2009	2010	2011		2012	2013	2014
				Proj.[1]	Proj.	Proj.	Proj.	Proj.
			(CFAF billions, unless otherwise indicated)					
Goods and services	-53.0	-65.3	-57.3	-67.0	-60.9	-65.5	-66.3	-67.0
Goods	-34.5	-40.0	-37.8	-45.9	-39.2	-42.5	-41.8	-40.8
Exports, f.o.b	54.5	55.5	59.5	67.2	115.5	86.4	90.2	93.4
Of which: cashew nuts	43.3	44.9	48.6	55.4	103.4	73.6	76.5	78.7
Imports, f.o.b.	-89.0	-95.5	-97.3	-113.1	-154.7	-128.9	-132.0	-134.1
Of which: food products	-28.2	-27.5	-27.0	-32.4	-42.3	-34.7	-35.1	-35.3
petroleum products	-21.1	-20.5	-21.1	-26.5	-35.1	-28.9	-29.6	-29.9
Services (net)	-18.5	-25.4	-19.5	-21.1	-21.6	-23.0	-24.6	-26.3
Credit	5.4	5.4	5.7	6.2	6.3	6.7	7.2	7.7
Debit	-23.9	-30.8	-25.2	-27.3	-28.0	-29.7	-31.8	-38.7
Income (interest scheduled)	-6.0	-4.8	-0.5	-0.2	-0.2	-0.2	-1.8	-1.8
Current transfers (net)	40.7	45.1	30.0	34.5	32.5	31.2	32.9	34.7
Official [2]	24.3	31.5	14.5	18.3	16.7	14.6	15.5	16.6
Of which: balance of payments support grants	16.4	28.5	9.4	13.3	12.4	6.2	6.6	7.1
EU fishing compensation	7.9	3.0	5.2	5.0	4.3	8.3	8.9	9.5
Private	16.4	13.7	15.5	16.2	15.8	16.7	17.3	18.0
Of which: remittances	14.8	10.9	12.1	12.8	13.2	13.6	14.1	14.6
license fees	1.4	2.6	3.1	3.1	2.4	2.8	3.0	3.2
Current account								
Including official transfers	-18.3	-25.0	-27.7	-32.7	-28.5	-34.5	-35.2	-34.1
Excluding official transfers	-42.6	-56.5	-42.2	-51.0	-45.3	-49.1	-50.8	-50.7
Excluding official transfers and interest payments	-36.5	-51.7	-41.8	-50.8	-45.1	-48.9	-49.0	-49.0
Capital and financial balance	-0.7	23.2	-427.1	32.7	28.0	34.0	31.2	26.9
Capital account [3]	38.4	34.6	30.8	25.9	25.9	33.8	36.1	38.6
Financial account	-39.0	-11.4	-457.9	6.8	2.1	0.2	-5.0	-11.7
Official medium- and long-term disbursements	0.1	8.5	4.7	9.4	9.4	2.9	3.1	3.3
SDR allocation	0.0	7.5	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	0.1	1.0	4.7	9.4	9.4	2.9	3.1	3.3
Scheduled amortization	-12.8	-4.1	-455.5	-0.4	0.0	-0.1	-1.0	-4.6
Treasury bills and regional financing	0.0	0.0	-6.7	0.0	0.0	0.0	0.0	0.0
Commercial bank net foreign assets	-5.6	-5.9	-9.6	-0.6	-5.8	-1.2	-1.1	-1.1
Private net foreign assets and errors and omissions	-9.2	3.6	5.4	-1.7	-1.5	-1.4	-5.9	-9.3
Overall balance	-7.5	4.2	-458.1	-0.1	-0.6	-0.5	-4.1	-7.3
Financing	7.5	-4.2	458.1	0.1	0.6	0.5	4.1	7.3
Net foreign assets (increase = -)	-8.6	-8.4	4.0	-3.5	-3.3	-3.4	-3.3	-3.4
Debt relief	4.9	0.0	454.1	0.0	0.0	0.0	0.0	0.0
Change in debt-service arrears (decrease = -)	11.2	4.1	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing gap [4]	0.0	0.0	0.0	3.5	3.9	3.9	7.4	10.6
Additional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	3.5	3.9	3.9	7.4	10.6
Memorandum items:								
Export volume of goods (annual percentage change)	3.4	12.9	-10.6	3.6	22.4	-10.8	4.4	4.6
Cashew export prices[5] (US$ per ton)	820.0	700.0	800.0	903.0	1,350.0	1,130.6	1,121.3	1,100.7
Import volume of goods (annual percentage change)	-8.6	18.8	-5.3	2.6	47.1	-15.6	2.1	2.0
Imputed international reserves								
US$ millions[6]	149.4	129.3	125.5	150.5	212.5	177.0	179.7	181.2
As percent of broad money	72.3	63.4	50.2	57.4	67.5	51.6	49.1	46.5
WAEMU gross official reserves (billions US$)	11.3	13.2	12.9	…	…	…	…	…
Scheduled debt service								
Percent of exports and service credits	23.2	26.0	2.9	0.7	0.3	0.7	2.9	6.3
Percent of total government revenue	40.3	44.9	4.2	1.1	0.9	1.1	4.1	8.7
Current account balance (percent of GDP)								
Including official transfers	-4.9	-6.4	-6.7	-7.3	-6.2	-7.1	-6.8	-6.1
Excluding official transfers	-11.3	-14.4	-10.2	-11.4	-9.9	-10.1	-9.7	-9.1
Gross financing gap (percent of GDP)	0.0	0.0	0.0	0.8	0.9	0.8	1.4	1.9

Sources: BCEAO; and IMF staff estimates and projections.

[1] As of May 2011 (IMF Country Report No. 11/67).
[2] Includes food aid and technical assistance to projects.
[3] Excludes the financing gap, which BCEAO includes in the capital account.
[4] Assumed to be filled with IMF resources and additional donor support.
[5] Until 2011, BCEAO average prices. The prices for 2011 and onward are based on the WEO projections for ground nuts' prices
[6] At program exchange rates.

Table 4. Guinea-Bissau: Quantitative Indicators for the ECF Program for 2011
Quarterly Targets[1]
(Cumulative, CFAF millions)

	End-Mar		End-Jun		End-Sep		
	Prog.	Actual	Prog.	Actual	Prog.	Adj. Target	Actual
Performance criteria[2]							
1. Domestic financing of the budget	1,431	-1,733	-520	-4,915	-1,954	-749	-1,070
2. New domestic arrears	0	0	0	0	0	0	0
3. External nonconcessional public borrowing, maturity > 1 year	0	0	0	0	0	0	0
4. External short-term public borrowing	0	0	0	0	0	0	0
5. New external payment arrears	0	0	0	0	0	0	0
Indicative targets[3]							
6. Government tax revenue	6,437	6,958	17,988	20,444	30,506	30,506	30,845
7. Domestic primary balance (commitment basis)	-3,597	-3,320	-5,842	-2,865	-5,911	-8,794	-6,066
8. Nonregularized expenditure (DNTs)	200	252	200	1,235	200	200	315
9. Social and priority spending	2,932	2,294	5,864	6,129	8,795	8,795	8,945

[1] Cumulative from January 1. The definition of the aggregates and adjustors is provided in the Technical Memorandum of Understanding (TMU).
[2] Performance criteria (PC) are defined for June and December. March and September are indicative. All PC are ceillings and PC 3, 4, and 5 apply
[3] At the time of the second ECF review (IMF Country Report No. 11/67) , the indicative targets 6, 7, and 9 were revised compared to program (IMF Country Report No. 10/379) to reflect the higher revenue base from 2010 and the additional budget support.

Table 5. Guinea-Bissau: Structural Benchmarks under the ECF

Category		Structural Benchmarks	Macro Rationale	Delivery Date	Ministry
		Third Review			
Tax reform and strengthening revenue collection	1	Customize and test ASYCUDA ++, and provide training to staff.	To strengthen revenue collection	August 2011	MoF[1]
		Status: (Met) *The system is being tested and running in parallel. Training to staff is ongoing with assistance from donors. The system is in full operation.*			
	2	Conduct a comprehensive review of all customs exemptions to further broaden the customs revenue base and submit report to Council of Ministers.	To strengthen revenue collection	June 2011	MoF
		Status: (Met) *A draft report has been prepared with the ministries of finance, economy, and foreign affairs, and it was submitted to the Council of Ministers.*			
	3	Cross-check ASYCUDA data with tax returns for 300 largest importers in 2009–10.	To strengthen revenue collection	June 2011	MoF
		Status: (Met) *Information from customs was received for the largest importers in 2009–10 and was cross-checked with tax returns for 2009. Cross-checking of tax returns for 2010 was completed in September 2011.*			
Expenditure reforms	4	Extend the computerized and unified payroll and personnel management system to all ministries.	To modernize public administration	August 2011 (Proposed to be rephased to December 2011)	MoF MinLaPS[2]
		Status: (In Progress) *The system has been extended to all line ministries, except the ministries of defense and interior. Work to include the ministry of interior and the ministry of defense is underway.*			
Business environment	5	Prepare an action plan to identify and remove further impediments to private sector development and improve the ease of doing business in Guinea-Bissau.	To improve the ease of doing business	August 2011	MinEcon[3]
		Status: (Met) *An action plan was prepared by the ministry of economy with assistance from the IFC and the World Bank.*			
Public debt management	6	Start producing, on a quarterly basis, electronic reports on public debt (external and domestic).	To improve transparency	June 2011	MoF
		Status: (Met) *The ministry of finance has prepared a report incorporating comments the Fund staff made.*			

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

Table 5. Guinea-Bissau: Structural Benchmarks under the ECF (concluded)

Category		Structural Benchmarks	Macro Rationale	Delivery Date
		Fourth Review		
Public debt management	1	Use SYGADE to record, monitor, and manage all public debt (external and domestic)	Improve debt management	Dec 2011
		Status: (In progress) *SYGADE software was installed and its training started in October. The first report of public debt using SYGADE is expected to be completed by the end of the first quarter of 2012.*		
Tax reform and strengthening revenue collection	2	Audit those importers underreporting their tax liabilities, beginning with largest gaps.	To strengthen revenue collection	Dec 2011
		Status: (In progress) *The auditing has been completed and the underreporting importers have been already identified. A report is under preparation.*		
	3	Review the legal framework that regulates revenue sharing agreements (“restitutions”).	To strengthen revenue collection	Dec 2011
		Status: (In progress) *A draft review of the legal framework has been prepared. It needs improvements.*		
Business environment	4	Prepare a plan to manage the country’s natural resources.	To improve the ease of doing business	Dec 2011
		Status: (In progress) *Preparatory work (e.g., approval of the new mining code by the Council of ministers) has started. An action plan is envisaged to be prepared by the end of the year*		
Expenditure reforms	5	Extend the computerized and unified payroll and personnel management system to all ministries.	To modernize public administration	March 2012 (Proposed to be rephased in the third review)

Table 6. Guinea-Bissau: Central Government Operations, 2008–14
(CFAF billions)

	2008	2009	2010	2011		2012	2013	2014
				Prog.[1]	Proj.	Proj.	Proj.	Proj.
Revenue and grants	89.3	97.5	84.6	88.8	86.6	101.6	109.5	117.6
Revenue	34.6	35.4	44.6	49.9	48.5	61.8	67.0	72.2
Tax revenue [2, 3]	20.9	26.6	33.1	37.9	38.4	46.7	50.8	54.9
Nontax revenue	13.7	8.8	11.5	11.9	10.1	15.1	16.1	17.3
Fishing compensation	7.9	3.0	5.2	5.0	4.3	8.3	8.9	9.5
Grants	54.7	62.1	40.0	38.9	38.1	39.8	42.5	45.4
Budget support	16.4	28.5	9.4	13.3	12.4	6.2	6.6	7.1
Project grants	38.4	33.6	30.6	25.7	25.7	33.6	35.9	38.3
Total expenditure	92.4	83.2	85.5	97.9	95.7	106.4	115.8	123.7
Current expenditure	52.4	47.2	49.3	55.3	57.9	61.8	68.1	72.6
Wages and salaries	20.5	20.5	20.7	23.8	24.2	26.3	28.0	29.7
Goods and services	8.0	6.4	8.6	9.1	9.2	11.0	11.8	12.6
Transfers	10.9	11.0	10.7	12.6	12.1	12.5	13.3	14.5
Other current expenditures	5.7	7.5	8.6	9.0	11.9	11.8	12.6	13.4
Scheduled interest	7.3	1.8	0.7	0.8	0.6	0.3	2.5	2.4
Domestic interest	1.3	0.0	0.2	0.6	0.2	0.1	0.7	0.7
External interest	6.0	1.7	0.5	0.2	0.3	0.1	1.8	1.8
Capital expenditure and net lending	40.0	36.0	36.2	42.5	37.8	44.6	47.7	51.0
Public investment program	39.6	35.7	35.8	41.9	37.3	44.1	47.2	50.5
Domestically financed	1.2	1.0	0.5	6.8	2.2	7.6	8.2	8.8
Foreign financed	38.4	34.6	35.4	35.1	35.1	36.5	39.0	41.7
Other capital expenditure	0.4	0.3	0.4	0.6	0.5	0.5	0.5	0.6
Domestically financed	0.4	0.3	0.4	0.6	0.5	0.5	0.5	0.6
Overall balance, including grants (commitment)	-3.1	14.3	-0.9	-9.1	-9.1	-4.8	-6.3	-6.1
Overall balance, excluding grants (commitment)	-57.8	-47.8	-40.9	-48.0	-47.2	-44.6	-48.8	-51.5
Net domestic arrears	4.8	-4.9	-7.7	-3.5	-3.8	-1.5	-1.5	-1.5
Accumulation current year	10.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years	-5.9	-4.9	-7.7	-3.5	-3.8	-1.5	-1.5	-1.5
External interest arrears current year	5.2	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancies	-0.4	0.0	-1.8	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	6.4	10.7	-10.5	-12.6	-12.9	-6.3	-7.8	-7.6
Financing	-6.4	-10.7	10.5	12.6	12.9	6.3	7.8	7.6
Domestic financing	-4.6	-10.5	7.1	0.0	0.0	0.0	-2.2	-2.3
Bank financing	-4.6	-10.5	7.1	0.0	0.0	0.0	-2.2	-2.3
Of which: Domestic banks	-5.3	-2.5	-3.8	0.0	0.0	0.0	0.0	0.0
Regional (including T-bills)	0.0	0.0	-6.7	0.0	0.0	0.0	0.0	0.0
BCEAO[4]	0.7	-8.0	17.7	0.0	0.0	0.0	-2.2	-2.3
Foreign financing (net)	-1.8	-0.2	3.2	9.1	9.4	2.8	2.1	-1.3
Disbursements	0.1	1.0	4.7	9.4	9.4	2.9	3.1	3.3
Amortization (scheduled and arrears)	-12.8	-4.1	-455.5	-0.4	0.0	-0.1	-1.0	-4.6
External arrears[5]	6.0	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	4.9	0.0	454.1	0.0	0.0	0.0	0.0	0.0
Gross financing gap (+ = financing need)	0.0	0.0	0.1	3.5	3.5	3.5	7.9	11.1
Residual financing gap[6]	0.0	0.0	0.1	3.5	3.5	3.5	7.9	11.1
Domestic primary balance	-12.1	-11.4	-4.9	-12.1	-11.6	-7.8	-7.3	-7.5
Revenue	34.6	35.4	44.6	49.9	48.5	61.8	67.0	72.2
Primary expenditure	46.7	46.8	49.5	61.9	60.0	69.6	74.3	79.6
Current	45.1	45.4	48.6	54.5	57.3	61.5	65.6	70.2
Capital	1.6	1.4	0.9	7.4	2.7	8.1	8.7	9.4
Memorandum items								
Social and priority spending	…	…	9.2	12.2	12.2	15.2	16.7	17.9

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

[1] IMF Country Report No. 11/119

[2] Excludes the cashew export surcharge introduced in April 2011

[3] The figure for 2012 reflects the impact of administrative measures to mobilize more revenues.

[4] Beginning in 2013, assumes payment of scheduled domestic debt owed to the BCEAO and rescheduling of scheduled interest and amortization falling due in 2010 and principal falling due in 2011 and 2012 with terms similar to previous reschedullings.

[5] For 2010 arrears are treated as debt relief at HIPC completion point.

[6] Assumed covered with IMF resources under the ECF arrangement until 2012.

Table 6. Guinea-Bissau: Central Government Operations, 2008–14 (concluded)

(Percent of GDP)

	2008	2009	2010	2011		2012	2013	2014
				Prog.[1]	Proj.	Proj.	Proj.	Proj.
Revenue and grants	23.7	24.8	20.4	19.3	18.8	20.8	21.0	21.1
Revenue	9.2	9.0	10.8	10.9	10.6	12.7	12.8	13.0
Tax revenue [2, 3]	5.5	6.8	8.0	8.3	8.4	9.6	9.7	9.9
Nontax revenue	3.6	2.2	2.8	2.6	2.2	3.1	3.1	3.1
Fishing compensation	2.1	0.8	1.2	1.1	0.9	1.7	1.7	1.7
Grants	14.5	15.8	9.7	8.5	8.3	8.2	8.2	8.2
Budget support	4.3	7.3	2.3	2.9	2.7	1.3	1.3	1.3
Project grants	10.2	8.5	7.4	5.6	5.6	6.9	6.9	6.9
Total expenditure	24.5	21.2	20.7	21.3	20.8	21.8	22.2	22.2
Current expenditure	13.9	12.0	11.9	12.0	12.5	12.7	13.1	13.0
Wages and salaries	5.4	5.2	5.0	5.2	5.3	5.4	5.4	5.3
Goods and services	2.1	1.6	2.1	2.0	2.0	2.3	2.3	2.3
Transfers	2.9	2.8	2.6	2.7	2.6	2.6	2.6	2.6
Other current expenditures	1.5	1.9	2.1	2.0	2.6	2.4	2.4	2.4
Scheduled interest	1.9	0.5	0.2	0.2	0.1	0.1	0.5	0.4
Domestic interest	0.3	0.0	0.1	0.1	0.1	0.0	0.1	0.1
External interest	1.6	0.4	0.1	0.0	0.1	0.0	0.3	0.3
Capital expenditure and net lending	10.6	9.2	8.8	9.3	8.2	9.1	9.1	9.2
Public investment program	10.5	9.1	8.7	9.1	8.1	9.0	9.0	9.1
Domestically financed	0.3	0.3	0.1	1.5	0.5	1.6	1.6	1.6
Foreign financed	10.2	8.8	8.5	7.6	7.6	7.5	7.5	7.5
Other capital expenditure	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Domestically financed	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Overall balance, including grants (commitment)	-0.8	3.6	-0.2	-2.0	-2.0	-1.0	-1.2	-1.1
Overall balance, excluding grants (commitment)	-15.3	-12.2	-9.9	-10.4	-10.3	-9.1	-9.4	-9.2
Net domestic arrears	1.3	-1.2	-1.9	-0.8	-0.8	-0.3	-0.3	-0.3
Accumulation current year	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years	-1.6	-1.2	-1.9	-0.8	-0.8	-0.3	-0.3	-0.3
External interest arrears current year	1.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancies	-0.1	0.0	-0.4	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	1.7	2.7	-2.5	-2.8	-2.8	-1.3	-1.5	-1.4
Financing	-1.7	-2.7	2.5	2.7	2.8	1.3	1.5	1.4
Domestic financing	-1.2	-2.7	1.7	0.0	0.0	0.0	-0.4	-0.4
Bank financing	-1.2	-2.7	1.7	0.0	0.0	0.0	-0.4	-0.4
Of which: Domestic banks	-1.4	-0.6	-0.9	0.0	0.0	0.0	0.0	0.0
Regional (including T-bills)	0.0	0.0	-1.6	0.0	0.0	0.0	0.0	0.0
BCEAO[4]	0.2	-2.0	4.3	0.0	0.0	0.0	-0.4	-0.4
Foreign financing (net)	-0.5	-0.1	0.8	2.0	2.0	0.6	0.4	-0.2
Disbursements	0.0	0.3	1.1	2.0	2.0	0.6	0.6	0.6
Amortization (scheduled and arrears)	-3.4	-1.0	-110.1	-0.1	0.0	0.0	-0.2	-0.8
External arrears[5]	1.6	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	1.3	0.0	109.7	0.0	0.0	0.0	0.0	0.0
Gross financing gap (+ = financing need)	0.0	0.0	0.0	0.8	0.8	0.7	1.5	2.0
Residual financing gap[6]	0.0	0.0	0.0	0.8	0.8	0.7	1.5	2.0
Domestic primary balance	-3.2	-2.9	-1.2	-2.6	-2.5	-1.6	-1.4	-1.3
Revenue	9.2	9.0	10.8	10.9	10.6	12.7	12.8	13.0
Primary expenditure	12.4	11.9	12.0	13.5	13.1	14.3	14.3	14.3
Current	11.9	11.6	11.7	11.9	12.5	12.6	12.6	12.6
Capital	0.4	0.3	0.2	1.6	0.6	1.7	1.7	1.7
Memorandum items								
Social and priority spending	…	…	2.2	2.7	2.7	3.1	3.2	3.2

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

[1] IMF Country Report No. 11/119.

[2] Excludes the cashew export surcharge introduced in April 2011

[3] The figure for 2012 reflects the impact of administrative measures to mobilize more revenues.

[4] Beginning in 2013, assumes payment of scheduled domestic debt owed to the BCEAO and rescheduling of scheduled interest and amortization falling due in 2010 and principal falling due in 2011 and 2012 with terms similar to previous reschedullings.

[5] For 2010 arrears are treated as debt relief at HIPC completion point.

[6] Assumed covered with IMF resources under the ECF arrangement until 2012.

Table 7. Guinea-Bissau: Quantitative Indicators for the ECF Program for 2011–2012
Quarterly Targets[1]
(Cumulative, CFAF millions)

	2011	2012			
	End-Dec	End-Mar	End-Jun	End-Sep	End-Dec
	Prog.	Prog.	Prog.	Prog.	Prog.
Performance criteria[2]					
1. Domestic financing of the budget	0	2,585	115	1,394	0
2. New domestic arrears	0	0	0	0	0
3. External nonconcessional public borrowing, maturity > 1 year	0	0	0	0	0
4. External short-term public borrowing	0	0	0	0	0
5. New external payment arrears	0	0	0	0	0
Indicative targets					
6. Government tax revenue	37,917	7,702	23,246	38,472	46,657
7. Domestic primary balance (commitment basis)	-12,087	-2,491	-1,682	-2,867	-7,846
8. Nonregularized expenditure (DNTs)	200	200	200	200	200
9. Social and priority spending	12,227	4,482	8,128	10,552	15,207

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

[2] Performance criteria (PC) are defined for June and December. March and September are indicative. All PC are ceillings and PC 3, 4, and 5 apply continously.

Table 8. Guinea-Bissau: Structural Benchmarks for 2012

Category		Measures	Macro Rationale	Proposed Delivery Date
		Fifth review		
Revenue mobilization	1	Prepare a comprehensive survey of all non-tax revenues not collected by the Treasury Office to be attached to the annual budget laws.	To strengthen revenue collection	June 2012
Revenue mobilization	2	Adopt indicative ceilings to control volume of exempted fuel.	To strengthen revenue collection	June 2012
Public administration	3	Approve management regulations for public employees (career, performance, licensing, management staff).	To modernize public administration	June 2012
Tax administration	4	Prepare a report on tax stop-filers during the period of 2010-11	To strengthen revenue collection	June 2012
Business environment	5	Submit to the Council of Ministers an action plan to identify and remove impediments to private sector development and improve the ease of doing business in Guinea-Bissau.	To improve the ease of doing business	June 2012
		Sixth review		
Customs administration	6	Setup of SYDONIA ++ in Bafata and Gabu.	To strengthen revenue collection	December 2012
Tax administration	7	Increase filing rate of self-assessed taxes to 80 percent	To strengthen revenue collection	December 2012
Public Debt Management	8	Install debt management software for interface between the BCEAO and the Ministry of Finance.	To improve transparency	December 2012

Table 9. Guinea-Bissau: Indicators of Capacity to Repay the Fund, 2008–18

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
				Projections							
Fund obligations based on existing credit [1]											
(SDR millions)											
Principal	1.3	1.0	14.2	0.0	0.0	0.0	0.0	0.0	0.7	1.0	1.0
Charges and interest [2]	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit [3]											
(SDR millions)											
Principal	1.3	1.0	14.2	0.0	0.0	0.0	0.0	0.0	0.7	1.7	2.7
Charges and interest	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit [3, 5]											
SDR millions	1.4	1.1	14.3	0.0	0.0	0.0	0.0	0.0	0.8	1.7	2.7
CFAF billions	1.0	0.8	10.8	0.0	0.0	0.0	0.0	0.0	0.6	1.3	2.0
Percent government revenue	2.8	2.2	24.1	0.0	0.0	0.0	0.0	0.0	0.7	1.4	2.1
Percent exports of goods and services	1.8	1.4	18.1	0.0	0.0	0.0	0.0	0.0	0.6	1.2	1.7
Percent debt service [4]	4.9	5.0	2.4	0.2	2.8	1.0	0.4	0.4	8.7	29.3	40.2
Percent GDP	0.3	0.2	2.6	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3
Percent quota	9.7	7.7	100.4	0.0	0.2	0.3	0.3	0.3	5.3	12.2	18.8
Percent reserves	1.5	1.3	17.3	0.0	0.0	0.0	0.0	0.0	0.6	1.3	1.9
Outstanding Fund credit [3, 5]											
SDR millions	5.6	6.3	2.4	7.2	12.1	14.5	14.5	14.5	13.8	12.1	9.4
CFAF billions	3.9	4.6	1.8	5.3	8.9	10.8	10.8	10.8	10.3	9.0	7.1
Percent government revenue	11.4	13.0	4.1	11.0	14.3	15.9	14.9	13.9	12.3	10.1	7.4
Percent exports of goods and services	7.2	8.3	3.1	4.6	10.3	12.0	11.6	11.3	10.3	8.2	6.0
Percent debt service [4]	19.9	29.0	0.4	1295.3	1288.4	384.4	170.5	167.8	157.2	204.4	141.5
Percent GDP	1.0	1.2	0.4	1.2	1.8	2.1	1.9	1.8	1.6	1.3	1.0
Percent quota	39.3	44.7	17.0	51.0	85.0	102.0	102.0	102.0	96.9	85.0	66.3
Percent reserves	5.9	7.6	2.9	5.4	10.9	12.8	12.7	12.6	11.7	9.3	6.8
Net use of Fund credit (SDR millions)	2.3	0.8	5.0	4.8	4.8	2.4	0.0	0.0	-0.7	-1.7	-2.7
Disbursements	3.6	1.8	10.3	4.8	4.8	2.4	0.0	0.0	0.0	0.0	0.0
HIPC and MDRI debt relief [5]	0.0	0.0	8.9								
Repayments and repurchases before HIPC and MDRI	1.3	1.0	14.2	0.0	0.0	0.0	0.0	0.0	0.7	1.7	2.7
Repayments and repurchases after HIPC and MDRI	1.3	1.0	5.3	0.0	0.0	0.0	0.0	0.0	0.7	1.7	2.7
					(CFAF billions)						
Memorandum items:											
Charges and interest, after assumed subsidies	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Nominal GDP	377.5	393.1	413.7	459.3	488.4	521.4	557.1	594.8	635.4	677.2	721.9
Exports of goods and services	54.5	55.5	59.5	115.5	86.4	90.2	93.4	96.0	100.3	110.4	117.2
Government revenue	34.6	35.4	44.6	48.5	62.4	67.6	72.8	78.0	83.7	89.5	95.8
Debt service [2, 4]	19.8	15.9	456.0	0.4	0.7	2.8	6.4	6.5	6.6	4.4	5.0
Net Foreign Assets Central Bank	66.6	60.9	62.0	98.7	82.2	84.2	85.5	86.3	88.3	97.2	103.3
CFAF/SDR (period average)	704.6	726.5	754.4	737.6	740.3	744.2	748.8	748.8	748.8	748.8	748.8
Quota (SDR)	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2	14.2

Sources: IMF staff estimates and projections.

[1] Data are actual through end-September 2011 and are projected after that.

[2] Effective on January 7, 2010 interest on ECF credit outstanding would be zero in 2010 and 2011. It is assumed the ECF interest rate would be at 0.25 percent from 2012 and onward. Charges include net SDR charges and SDR assessments.

[3] A new ECF arrangement of 157.5 percent of quota (SDR 22.365 million) was approved in May 2010, of which 37.5 percent of quota (SDR 5.325 million) was used for early repurchase of outstanding EPCA credit.

[4] Total debt service includes IMF repurchases and repayments.

[5] Guinea-Bissau reached the HIPC completion point in December 2010 and received the remaining HIPC assistance on the stock basis.

Table 10. Guinea-Bissau: External Financing Requirements and Sources, 2008–12
(CFAF billions)

				Projections	
	2008	2009	2010	2011	2012
I. Total financing requirement	-52.8	-64.9	-493.8	-48.6	-52.6
Current account (excluding official transfers)	-42.6	-56.5	-42.2	-45.3	-49.1
Debt amortization	-12.8	-4.1	-455.5	0.0	-0.1
NFA	-8.6	-8.4	4.0	-3.3	-3.4
Reduction in arrears	11.2	4.1	0.0	0.0	0.0
II. Total available financing	46.4	64.3	37.9	45.1	49.1
Donor transfers	24.3	31.5	14.5	16.7	14.6
Capital transfers (project grant)	38.4	32.6	19.0	26.3	34.2
Foreign direct investment	2.7	8.3	9.0	10.0	10.6
Official medium- and long-term flows	0.1	8.5	4.7	9.4	2.9
Private Financing	-19.0	-16.7	-9.3	-17.3	-13.2
III. Exceptional Financing	6.4	0.6	455.9	3.5	3.6
IMF	1.5	0.7	1.8	3.5	3.6
Debt Forgiveness	4.9	0.0	454.1	0.0	0.0
IV. Financing Gap	0.0	0.0	0.0	0.0	0.0

Sources: BCEAO; and IMF staff estimates and projections.

Table 11. Guinea-Bissau: Reviews and Disbursements under the Three-Year ECF Arrangement, 2010–13

Actual Disbursement Date / Date of Availability	Test Date	Action	Disbursement	
			% of quota	SDR millions
May 7, 2010		Board approval	55.5[1]	7.881[1]
December 13, 2010	End-June 2010	First review	17	2.414
May 24, 2011	End-December 2010	Second review	17	2.414
November 1, 2011	End-June 2011	Third review	17	2.414
April 1, 2012	End-December 2011	Fourth review	17	2.414
November 1, 2012	End-June 2012	Fifth review	17	2.414
April 1, 2013	End-December 2012	Sixth review	17	2.414
Total			157.5	22.365

Source: IMF estimates.

[1] For the amount approved for disbursement at the time of Board approval of the arrangement, 37.5 percent of quota (SDR 5.325 million), was approved to immediately repurchase previously provided EPCA credit.

APPENDIX I. SUPPLEMENTARY LETTER OF INTENT

Bissau, November 14, 2011

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Ms. Christine Lagarde,

1. This letter of intent and the attached memorandum of economic and financial policies (MEFP) update and supplement our correspondence of April 29, 2011, and describe performance under the government's economic program since then.

2. The government's economic program, supported by a three-year Extended Credit Facility (ECF), is on track. All performance criteria through end-June 2011 have been observed, and all structural benchmarks for the third review were met, except for the unified payroll system which we have extended to most ministries and plan to complete extending it to the ministries of defense and interior by end year. All but one quantitative indicative targets for end-September 2011 were also met (see Tables 1 and 2 of the MEFP). Nonobservance of the indicative target on non-regularized expenditures has been brought below target by end-October.

3. The attached Supplementary MEFP summarizes the substantial progress made in implementing the ECF supported program through June 2011 and outlines our economic and structural policies for 2012. The policies elaborated in the MEFP are adequate to achieve the targets and objectives under the program (performance criteria and structural benchmarks for the 2012 are included in Tables 3, 4, and 5 of the MEFP). However, if necessary, the government will adopt additional measures to achieve these objectives. It will consult with the Fund before adopting such measures or if there are changes in the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

4. In view of the performance under the ECF-supported program and the government commitment to economic reforms as specified in the MEFP attached, the Government of Guinea-Bissau requests completion of the third review and the fourth disbursement under the ECF arrangement of SDR 2.414 million.

5. In line with our commitment to transparency, we request the IMF to publish this letter of intent, the attached MEFP, the Technical Memorandum of Understanding, and the staff report relating to this request.

Sincerely yours,

/s/

José Mario Vaz
Minister of Finance

ATTACHMENT I. SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2011–12

I. INTRODUCTION

1. **This memorandum updates the MEFP of April 29, 2011, summarizes the progress achieved since then, and defines economic policies for 2012**. The program objectives are unchanged: achieving fiscal and external sustainability, reviving economic growth, and making progress toward poverty alleviation. The overarching goal is to improve living conditions for the Guinea-Bissau people, which is essential to maintaining peace and social cohesion.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

A. Macroeconomic Developments

2. **The economy has benefitted from better-than-expected prices for cashews (the predominant export) and a robust cashew harvest**. The increase in terms of trade by about 50 percent has helped sustain incomes and alleviated fiscal and balance of payment pressures. On the inflation front, rising prices of imports of food and fuel pushed average headline inflation up to 5.5 percent through September this year, but core inflation has remained subdued.

3. **Budget execution through September is on track**. Tax revenue reached slightly above the program objective, but nontax revenue was below program due to lower-than-programmed fishing compensation from the EU. As a result, the fiscal revenue was broadly in line with the program. At the same time, higher-than-programmed current spending was offset by lower-than-envisaged domestically financed capital spending due to a delay in the implementation of public investment program. As a result, the domestic primary deficit remained as envisaged in the program.

B. Performance under the ECF Program

4. **Performance under the ECF-supported program has been satisfactory**. All performance criteria for end-June 2011 have been observed. All quantitative targets for end-June 2011 were met, except for the nonregularized expenditures (DNTs) which the government brought in the indicative target by end-October (Table 1).

5. **All structural benchmarks for the third review were met, except for the unified payroll system**. The payroll system has been extended to most ministries. We plan to complete extending the system to the ministries of defense and interior by end-March 2012 (Table 2).The ASYCUDA++ system was satisfactorily implemented, data of largest importers was cross-checked to strengthen revenue collection, and an action plan to remove impediments to private sector development was prepared. A review of all customs

exemptions and the publication of the public debt report have been completed with minor delays. A report on the review of all customs exemptions would be submitted to Council of the Ministers by end-October 2011.

III. Macroeconomic Outlook and Economic Policies

A. Macroeconomic Outlook

6. **The economic outlook is generally positive**. Owing to the good cashew harvest and the large positive terms-of-trade shock, real GDP growth is expected to accelerate to 5.3 percent in 2011. Growth is projected to remain robust in 2012, reflecting expectations of a sustained cashew production, restoration of the public investment program, and buoyant construction activity including on the back of a return of confidence following the HIPC completion point. As imported food and fuel price inflation is projected to be moderate in the second half of this year, headline inflation is likely to decline to 4.8 percent in 2011. Core inflation is expected to remain subdued and headline inflation should come back within the WAEMU's target range of 2(±1) percent in 2012, as international food and fuel prices stabilize. The external current account is expected to improve only slightly in 2011, driven by higher cashew exports largely offset by higher food and fuel imports. Assuming cashew export prices revert to their medium-term average, the current account is estimated to widen slightly in 2012.

B. Fiscal Policy

7. **The government is on track to meet the fiscal program for 2011**. Tax revenue would reach the program objective. Nonetheless, fiscal revenue is expected to be below program by 0.3 percentage point of GDP, due to lower fishing compensation from the EU and fishing license receipts. Also budget support is expected to be 0.2 percentage point lower than programmed, reflecting slightly lower-than-programmed assistance from the World Bank and the AfDB. Current expenditure would be 0.5 percentage point higher than programmed, while capital expenditure is projected to be 1.1 percentage points below program, reflecting the continuing delays in the budget execution of capital projects. This would reduce the expenditure envelope by 0.5 percentage point. The lower-than-programmed expenditure would fully cover the projected shortfall in revenue and grants without recourse to domestic financing.

8. **The budget for 2012 will be submitted to Parliament in December and it is designed to reach several important objectives:** keep spending within available resources without adding to the debt burden; mobilize more revenues largely by reducing implicit customs subsidies (higher reference prices) and exemptions and tightening controls; continue to reduce the large stock of domestic arrears in previous years consistent with the government medium-term plan; protect priority spending; and preserve resources for contingencies and reforms. For the first time in recent years, fiscal revenues in the budget will be sufficient to cover current expenditures. Thus, beginning in 2012, all budgetary

assistance will be available to be used to support spending on infrastructure and other investment projects consistent with the goal of raising investment and growth.

9. **The revenue objective of the 2012 budget is realistic, and anchored on revenue raising measures.** Fiscal revenues are expected to increase by about 2 percentage points of GDP. About half of this increase reflects higher fishing compensation from the EU (0.8 percentage points of GDP) and higher gross revenues due to the recording of exemptions of capital good imports, including fuel, by the government and NGOs (0.4 percentage points of GDP). Revenue raising measures are expected to contribute 0.6 percentage points of GDP to the revenue target next year, in addition to tax and custom administration reforms discussed further below.

10. **To support our revenue objective in the 2012 budget, we will put in place the following measures:**

- Raise customs reference prices for diesel, rice, sugar and flour to market levels by the end of 2011. As of end-August 2011, the reference prices and the market prices for these products are as follows.
    i. Diesel: from CFAF 391 per liter vis-à-vis to CFAF 475.
    ii. Rice: from CFAF 8,000 per bag of 50kg vis-à-vis CFAF 11,000.
    iii. Sugar: from CFAF 16,000 per bag of 50 kg vis-à-vis CFAF 16,500.
    iv. Flour: from CFAF 9,500 per bag of 50 kg vis-à-vis CFAF 10,000.
- Ensure that no customs exemptions will be granted for the importation of any one of these products.
- Maintain reference prices close to market levels during the year, with quarterly reviews of price developments.
- Raise the reference price for cashew exports, to be set at US$ 850 per metric ton.

11. **The 2012 budget will be fully financed with no recourse to domestic borrowing**. Budget support from donors is expected from the AfDB (CFAF 3 billion) and the World Bank (CFAF 3.2 billion). The budget envelope (revenues and budget support) will be sufficient to sustain the same level of current expenditures as a ratio to GDP estimated for this year, and will support an increase in the domestic financed capital expenditure close to 1 percentage point of GDP. Also, we will make a deliberate effort to contain nonwage current spending to help preserve social and other priority spending.

12. **In partnership with the private sector, the government established a fund to promote the industrialization of agricultural products, financed with a surcharge on cashew exports**. The management of the fund and the use of its resources (about CFAF7.2 billion by end-August) will be defined with the assistance from the World Bank.

The government acknowledges the surcharge transfers resources from the private sector and it will be important to set up clear and transparent statutes to make best use of these funds and manage them professionally to prevent the misuse of resources. The government will submit statues of the fund to the Parliament for its appreciation. We will create an oversight commission with participation of members of the Parliament to monitor the fund operation.

C. Structural Reforms

13. **The economic reforms under the ECF supported program are aligned with the objectives under our new 2011–15 poverty reduction strategy approved in July**. With the overriding objective to boost growth and reduce poverty, the focus of the program will continue to be mobilizing more revenue, strengthening public financial management, including tax administration and debt management, improving the business climate and removing impediments to private sector development, and modernizing the public administration and improving public services (Tables 5 and 6).We will renew efforts to consolidate gains and sustain our reform agenda as detailed in the MEFP of April 29, 2011.

(i) **Mobilizing more revenue**. The government is improving substantially the coverage of our current spending with our own revenue. Compared to a ratio of fiscal revenues to current spending of less than 75 percent in 2008, the 2012 budget envisages the full coverage of current spending with fiscal revenues. Revenue mobilization efforts will continue to take place on various fronts including tax administration and customs:

a. On tax administration, the government will prepare a report on tax stop-filers during the period 2010-11 (new structural benchmark-June 2012); and to double the filing rate of self-assessed taxes to 80 percent, which will ensure the effectiveness of tax collection (new structural benchmark-December 2012). The number of contributors from group of large taxpayers (Group A) would be raised to 800.

b. On customs, the government will expand SYDONIA ++ to Bafata and Gabu, (new structural benchmark-December 2012) as well as to reinforce the operations of the customs in SAFIN including the construction of warehouses to inspect trade coming from the sub-region, aiming at strengthening the supervision of land trade.

c. On revenue administration, a comprehensive survey on all nontax revenues not collected by the Treasury will be prepared and attached to the annual laws (new structural benchmark-June 2012). Also public accountants will be appointed to report and verify nontax revenues in each line ministry.

d. Other initiatives to revenue mobilization that will be undertaken in 2012 include: registering at the large taxpayer office all merchants with total annual imports of exports above FCFA 40 million; adopting indicative ceiling to control volume of exempted fuel (new structural benchmark-June 2012).

(ii) **Modernizing public administration and improving public services**. Efforts to revamp the public administration are underway. Personnel management software (SIGRHAP) will start operating in November 2011. To maintain the momentum on the public administration reform, the government will:

a. complete the work of the unified payroll system for ministries of interior and defense by end-March 2012 (rephased benchmark).

b. approve regulations on human resources management for public employees that includes career development, performance and retirement (new structural benchmark-June 2012).

c. enforce retirement and reduce personnel according to the medium-term plan.

d. operationalize the procurement services for public tender with the aim to improve the efficiency of government purchases.

(iii) **Boosting private sector development**. The government wants to create an environment that could attract private investment and promote economic diversification. To achieve this goal, the government will:

a. approve an action plan to identify and remove impediments to private sector development (new structural benchmark-June 2012).

b. submit a new mining code to the parliament setting up regulations loyalties for mining exploration.

c. broaden the One-Stop-Shop will broaden its activities to improve its services to business including training.

(iv) **Keeping up the momentum of security sector reform**. The security sector reform is underway following several agreements between Guinea-Bissau and its partners, including the UN, ECOWAS, and Community of Portuguese Language Countries (CPLP). In 2012, the government will:

a. operationalize the pension fund for the defense and police sectors, including the retirement of the first group of the police and the armed forces, once the support from development partners becomes available.

b. implement the new regulation of the creation of the National Guard in 2012.

(v) **Strengthening debt management**. The government will adopt a debt management system (SYGADE) by end of 2011. In 2012, the government will:

a. strengthen the public debt management unit by improving interface among users, the BCEAO and the Ministry of Finance (new structural benchmark-December 2012).

D. Monetary Policy

14. **Monetary policy will continue to be pursued within the WAEMU framework**. The monetary policy framework has set an inflation objective of 2 (±1) percent over a 24-month horizon.

E. Debt Policies

15. **Efforts are being undertaken to complete the HIPC process with all creditors**. Following the Paris Club agreement in May to provide extensive debt relief to Guinea-Bissau, we are working on bilateral agreements with Paris Club creditors, aiming at finalizing them by the end of 2011, and are seeking comparable treatment from all other creditors.

16. **The government stepped up efforts to clear the long-standing domestic arrears**. The government intends to continue making annual payments consistent with available resources, and will finalize verifying the audit of the 2000–2007 arrears by end-June 2012.

17. **The government has requested a rescheduling of debts owed to the Central Bank of West African States (BCEAO)**. A request for a deferral of payment and better terms on debts owed to the BCEAO was presented to the new BCEAO governor and negotiations are ongoing.

IV. Program Monitoring

18. **The third year of the program covers the 12 months from January 1, 2012, to December 31, 2012**. The program will be monitored using quarterly quantitative indicators and structural benchmarks including 5th and 6th reviews, as well as semiannual reviews and the quantitative performance criteria presented in Table 4. Tables 5 and 6 contain a list of structural measures identified by the government, including the structural benchmarks for the third and fourth review. The definitions of quantitative performance criteria and benchmarks are in the attached TMU. The government expects the fourth review to take place in May 2012 and the fifth review is expected to take place in December 2012.

Table 1. Guinea-Bissau: Quantitative Indicators for the ECF Program for 2011
Quarterly Targets[1]
(Cumulative, CFAF millions)

	End-Mar		End-Jun		End-Sep		
	Prog.	Actual	Prog.	Actual	Prog.	Adj.Target	Actual
Performance criteria[2]							
1. Domestic financing of the budget	1,431	-1,733	-520	-4,915	-1,954	-749	-1,070
2. New domestic arrears	0	0	0	0	0	0	0
3. External nonconcessional public borrowing, maturity > 1 year	0	0	0	0	0	0	0
4. External short-term public borrowing	0	0	0	0	0	0	0
5. New external payment arrears	0	0	0	0	0	0	0
Indicative targets[3]							
6. Government tax revenue	6,437	6,958	17,988	20,444	30,506	30,506	30,845
7. Domestic primary balance (commitment basis)	-3,597	-3,320	-5,842	-2,865	-5,911	-8,794	-6,066
8. Nonregularized expenditure (DNTs)	200	252	200	1,235	200	200	315
9. Social and priority spending	2,932	2,294	5,864	6,129	8,795	8,795	8,945

[1] Cumulative from January 1. The definition of the aggregates and adjustors is provided in the Technical Memorandum of Understanding (TMU).
[2] Performance criteria (PC) are defined for June and December. March and September are indicative. All PC are ceillings and PC 3, 4, and 5 apply
[3] At the time of the second ECF review (IMF Country Report No. 11/67) , the indicative targets 6, 7, and 9 were revised compared to program (IMF Country Report No. 10/379) to reflect the higher revenue base from 2010 and the additional budget support.

Table 2. Guinea-Bissau: Structural Benchmarks Under the ECF

Category		Structural Benchmarks	Macro Rationale	Delivery Date	Ministry	Status
		Third Review				
Tax reform and strengthening revenue collection	1	Customize and test ASYCUDA ++, and provide training to staff.	To strengthen revenue collection	August 2011	MoF[1]	Met
	2	Conduct a comprehensive review of all customs exemptions to further broaden the customs revenue base and submit report to Council of Ministers.	To strengthen revenue collection	June 2011	MoF	Met
	3	Cross-check ASYCUDA data with tax returns for 300 largest importers in 2009–10.	To strengthen revenue collection	June 2011	MoF	Met
Expenditure reforms	4	Extend the computerized and unified payroll and personnel management system to all ministries.	To modernize public administration	August 2011	MoF MinLaPS[2]	Proposed to be rephased to December 2011
Business environment	5	Prepare an action plan to identify and remove further impediments to private sector development and improve the ease of doing business in Guinea-Bissau.	To improve the ease of doing business	August 2011	MinEcon[3]	Met
Public debt management	6	Start producing, on a quarterly basis, electronic reports on public debt (external and domestic).	To improve transparency	June 2011	MoF	Met

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

Table 3. Guinea-Bissau: Structural Benchmarks Under the ECF

Category		Structural Benchmarks	Macro Rationale	Delivery Date	Status
		Fourth Review			
Public debt management	1	Use SYGADE to record, monitor, and manage all public debt (external and domestic)	Improve debt management	Dec 2011	In progress
Tax reform and strengthening revenue collection	2	Audit those importers underreporting their tax liabilities, beginning with largest gaps.	To strengthen revenue collection	Dec 2011	In progress
	3	Review the legal framework that regulates revenue sharing agreements (“restitutions”).	To strengthen revenue collection	Dec 2011	In progress
Business environment	4	Prepare a plan to manage the country’s natural resources.	Improve the ease of doing business	Dec 2011	In progress
Expenditure reforms	5	Extend the computerized and unified payroll and personnel management system to all ministries.	To modernize public administration	March 2012	Proposed to be rephased in the third review

Table 4. Guinea-Bissau: Quantitative Indicators for the ECF Program for 2011–2012
Quarterly Targets[1]
(Cumulative, CFAF millions)

	2011	2012			
	End-Dec	End-Mar	End-Jun	End-Sep	End-Dec
	Prog.	Prog.	Prog.	Prog.	Prog.
Performance criteria[2]					
1. Domestic financing of the budget	0	2,585	115	1,394	0
2. New domestic arrears	0	0	0	0	0
3. External nonconcessional public borrowing, maturity > 1 year	0	0	0	0	0
4. External short-term public borrowing	0	0	0	0	0
5. New external payment arrears	0	0	0	0	0
Indicative targets					
6. Government tax revenue	37,917	7,702	23,246	38,472	46,657
7. Domestic primary balance (commitment basis)	-12,087	-2,491	-1,682	-2,867	-7,846
8. Nonregularized expenditure (DNTs)	200	200	200	200	200
9. Social and priority spending	12,227	4,482	8,128	10,552	15,207

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

[2] Performance criteria (PC) are defined for June and December. March and September are indicative. All PC are ceillings and PC 3, 4, and 5 apply continously.

Table 5. Guinea-Bissau: Structural Benchmarks Under the ECF

Category		Measures	Macro Rationale	Proposed Delivery Date
		Fifth review		
Revenue mobilization	1	Prepare a comprehensive survey of all non-tax revenues not collected by the Treasury Office to be attached to the annual budget laws.	To strengthen revenue collection	June 2012
Revenue mobilization	2	Adopt indicative ceilings to control volume of exempted fuel.	To strengthen revenue collection	June 2012
Public administration	3	Approve management regulations for public employees (career, performance, licensing, management staff).	To modernize public administration	June 2012
Tax administration	4	Prepare a report on tax stop-filers during the period of 2010-11	To strengthen revenue collection	June 2012
Business environment	5	Submit to the Council of Ministers an action plan to identify and remove impediments to private sector development and improve the ease of doing business in Guinea-Bissau.	To improve the ease of doing business	June 2012
		Sixth review		
Customs administration	6	Setup of SYDONIA ++ in Bafata and Gabu.	To strengthen revenue collection	December 2012
Tax administration	7	Increase filing rate of self-assessed taxes to 80 percent	To strengthen revenue collection	December 2012
Public Debt Management	8	Install debt management software for interface between the BCEAO and the Ministry of Finance.	To improve transparency	December 2012

Table 6. Guinea-Bissau: Structural Reform Measures for 2012

Category	Measures	Proposed delivery date
Revenue mobilization	1 Quantify all non-tax revenues not collected by the Treasury Office to be attached to the annual budget laws.	June 2012
	2 Adopt indicative ceilings to control volume of exempted fuel.	June 2012
	3 Use a software interfaced with ASYCUDA++ to authorize and to monitor import exemptions.	June 2012
Revenue management	4 Appoint public accountants to report and verify nontax revenues in each line ministry	June 2012
Tax administration	5 Prepare a report on transfers in 2011 of large taxpayer files from local offices to the Large Taxpayer Office (LTO)	June 2012
	6 Register at the LTO all traders with total annual imports or exports of CFAF 40 million or more	June 2012
	7 Increase filing rate of self-assessed taxes to 80 percent	December 2012
	8 Prepare a report on tax stop-filers during the period of 2010-11	June 2012
	9 Attach to the government budget an estimate of revenue foregone from each type of exemptions or tax incentives	September 2012
	10 Implement the new tax integrated management system (including tax identification number, NIF, and management of revenue collection and arrears), with appropriate software.	December 2012
Customs administration	11 Setup of SYDONIA ++ in Bafata and Gabu.	December 2012
	12 Reinforce the customs of Safim (including the finalization of infrastructure to improve the clearance of imported goods by land.	June 2012
Public administration	13 Approve management regulations for public employees (career, performance, licensing, management staff).	June 2012
	14 Enforce mandatory retirement and remove redundant workers.	2012
	15 Install debt management software for interface between the BCEAO and the Ministry of Finance.	December 2012
	16 Submit to the Council of Ministers an action plan to identify and remove impediments to private sector development and improve the ease of doing business in Guinea-Bissau.	June 2012
Business environment	17 Submit legislation of the new Mining Code to the Parliament	June 2012
	18 Broaden the activities of the One-Stop-Shop to include the assistance and training of companies	December 2012
Public tendering	19 Operationalize the Procurement Services for Public Tenders	December 2012
Security sector reform	20 Implement regulation of the National Guard	March 2012
	21 Operationalize the pension fund for the Defense and Police sectors, including the retirement of the first group of the police and the armed forces.	March 2012

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

Bissau
November 14, 2011

1. **This memorandum updates the Technical Memorandum of Understanding of April 29, 2011 and describes the definitions of the quantitative and structural performance criteria, indicative targets, and structural benchmarks to monitor the program supported by an arrangement under the Extended Credit Facility (ECF)**. It also specifies the agreed periodicity and deadlines for transmission of data to IMF staff for program monitoring.

Quantitative Indicators and Adjustors

A. Quantitative Indicators

2. **The quantitative indicators are as follows:**

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

Quantitative indicators are set for end-March, end-June, end-September, and end-December. Quantitative performance criteria are set for end-June and end-December 2011–12 for indicators (e) through (i). Indicators for new nonconcessional external debt, new external short-term debt, and new external payment arrears are continuous.

Definitions and computation

3. **Government**. Unless otherwise indicated, “Government” means the central administration of the Republic of Guinea-Bissau and does not include any local administration, the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government flow-of-funds table (TOFE).

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

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. 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.

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

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

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

Contracting or Guaranteeing of New Nonconcessional External Debt by the Government.

9. **Definition of debt**. For the purposes of the relevant performance criteria, the definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

a. the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which 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/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

    i. loans, i.e., 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, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii. leases, i.e., arrangements under which property is provided which 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 the purpose 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 payments that cover the operation, repair or maintenance of the property.

b. Under the definition of debt above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under 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.

10. **Debt guarantees**. For the purposes of the relevant performance criteria, the guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

11. **Debt concessionality**. For the purposes of the relevant performance criteria, a debt is considered concessional if it includes a grant element of at least 35 percent;[1] the grant element is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[2] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by OECD.[3] For debt with a maturity of at least 15 years, the ten-year-average CIRR is used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR is used. The margins for differing repayment periods (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more) are added to the ten-year and six-month CIRR averages.

[1] The following reference on the IMF website creates a link to a tool that allows for the calculation of the grant element of a broad range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

[2] The calculation of concessionality will take into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

[3] For debts in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the composite CIRR (weighted average) of the currencies in the SDR basket.

12. **External debt**. For the purposes of the relevant performance criteria, external debt is defined as debt borrowed or serviced in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries.

13. **Debt-related performance criteria**. The relevant performance criteria apply to the contracting and guaranteeing of new nonconcessional external debt by the government. The criteria apply to debt and commitments contracted or guaranteed for which value has not yet been received. The criteria also apply to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the government. The performance criteria are measured on a cumulative basis from the time of approval of the ECF by the Executive Board. PCs will be monitored on a continuous basis. No adjuster will be applied to these criteria.

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

15. **Ceiling on new external payment arrears**. External payment arrears are defined as external payments due but not paid on the due date. In cases where a creditor has granted a grace period after the contractual due date, arrears are incurred following the expiration of the grace period. Under the program, the government undertakes not to accumulate arrears on its external debt, except those arising from government debt that is being renegotiated with creditors, including non-Paris Club bilateral creditors. This performance criterion is monitored on a continuous basis.

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

17. **Social and other priority spending** is defined as total current expenditures in the education, health, and agricultural sector, and domestically financed capital spending.

B. Adjustors

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

i. **The ceiling on domestic financing will be increased for shortfalls in external budget support, and fishing compensation**, by the amount of the shortfall up to CFAF3.5 billion. The program assumes the following path on amounts of external budget support, and fishing compensation.[4]

Cumulative from January 1, 2011:

end-March	end-June	end-September	end-December
0	0	CFAF8.9 billion	CFAF12.5 billon

Cumulative from January 1, 2012:

end-March	end-June	end-September	end-December
CFAF3 billion	CFAF3 billion	CFAF5 billion	CFAF14.2 billon

ii. **The ceiling on domestic financing for March, June, and September will be increased for payment of previous years' arrears** in excess of programmed amounts up to a maximum of CFAF1.85 billion. The program assumes the following path on arrears payments from previous years:

Cumulative from January 1, 2011:

end-March	end-June	end-September	end-December
0	0	0	CFAF1.85 billon

Cumulative from January 1, 2012:

end-March	end-June	end-September	end-December
0	0	0	CFAF1.5 billon

iii. **The ceiling on the domestic primary deficit will be increased in the case of lower than programmed disbursement of fishing compensation**, by the amount of the shortfall up to a maximum of CFAF3 billion. The program assumes the following path on amounts of fishing compensation.

Cumulative from January 1, 2011:

end-March	end-June	end-September	end-December
0	0	CFAF5 billion	CFAF5 billon

Cumulative from January 1, 2012:

end-March	end-June	end-September	end-December
CFAF3 billion	CFAF3 billion	CFAF5 billion	CFAF8.3 billon

[4] For this TMU, the CFAF/euro exchange rate is 655.956 and the CFAF/US$ exchange rate is 464.

INTERNATIONAL MONETARY FUND
AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

GUINEA-BISSAU

Joint IMF/World Bank Debt Sustainability Analysis
Low-Income Country Framework

Prepared by the Staffs of the International Monetary Fund (IMF)
and the International Development Association (IDA)

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Following the Heavily Indebted Poor Countries (HIPC) completion point (including topping-up assistance) and the Multilateral Debt Relief Initiative (MDRI) reached in December 2010, the Paris Club agreed to provide extensive debt relief in May 2011. As a result, Guinea-Bissau's debt outlook has improved considerably. An update of the debt sustainability analysis for low-income countries (LIC DSA) confirms a moderate risk of external debt distress in Guinea-Bissau. Since the 2010 DSA[1] *the minimum concessionality requirement for foreign currency borrowing has been lowered from 50 to 35 percent, reflecting a moderate risk of debt distress. The macroeconomic assumptions underlying the baseline scenario envisage a gradual improvement of the external current account over the medium and long term, backed by sustained growth in the predominant export (cashew) sector. The projected debt indicators under the baseline scenario would remain well below the policy-dependent thresholds, even with a declining grant element. However under the scenario assuming a shock to exports and currency depreciation, all debt indicators deteriorate significantly and the present value (PV) of debt to export ratio breaches the corresponding threshold. The inclusion of domestic public debt confirms the conclusions of the external debt sustainability analysis. To contain debt vulnerability, the authorities should strengthen debt management capacity.*

[1] IMF Country report No. 10/380 and World Bank Report No. 57893-GW.

I. Key Assumptions Under the Baseline Scenario

1. **Guinea-Bissau reached the completion point under the Enhanced HIPC Initiative in December 2010**. All outstanding debt to the IMF at the time of the completion point was cancelled as part of HIPC assistance. Most, but not all, of the debt owed to the World Bank and the African Development Bank was canceled under the HIPC (including

Box 1. Guinea-Bissau: Key Baseline Macroeconomic Assumptions

Real GDP growth is expected to accelerate **significantly** from 3.5 percent in 2010 to about 5.3 percent in 2011, then to stabilize at 4.5 percent in the medium and long term. The stronger economic activity in 2011 has been driven by good cashew harvest and high cashew prices. Over the long term to 2030, growth is also expected to be supported by cashew production, along with a continued stabilization of the political environment and appropriate macroeconomic policies.

Inflation, as measured by the GDP deflator growing at a rate slightly below CPI inflation, is assumed to accelerate in 2011 and to decelerate in 2012 owing to changes in commodities prices. Over the long term, the GDP deflator (and CPI) is projected to return to its historical level of 2 percent.

The **current account deficit** (excluding official transfers) is expected to slightly improve from 10.2 percent in 2010 to around 9.9 percent of GDP in 2011. This evolution reflects an exceptional increase in cashew exports in 2011 driven by high production and cashew export prices, largely offset by higher imports, especially fuel and food. In 2012, cashew export prices are assumed to revert to their medium-term average. After a slight deterioration to 10.1 percent of GDP in 2012 the current account deficit is projected to gradually decline to 7.6 percent in 2030. Over the longer term to 2030, real export volumes are projected to grow at around 6¼ percent a year. Remittances are expected to stabilize at a long-term rate of 6.5 percent.

The **primary fiscal deficit** (defined as revenue and grants less primary non-interest expenditure) is projected to reach 2.6 percent in 2011. Over the medium term, the primary deficit would gradually improve to about 1 percent of GDP in 2015, thanks to increasing revenue collection and sustaining improved public expenditure management. Over the long term, the primary deficit would be widened in average to about 1.8 percent to promote long-term development and growth. **Domestic debt** is projected to gradually decrease in nominal terms in line with the authorities' domestic arrears clearance strategy and with the rescheduling of the debt owed to the BCEAO.

Net aid flows (grants and concessional loans) are expected to stabilize at a moderate level in the long term. Budget support grants are projected to stabilize at about 1.5 percent of GDP over the period of 2011-2020, and to gradually decline to 0.5 percent by 2030. Concessional loans are assumed to be on 0.8 percent interest rate with 40 (IDA) to 50 (AfDB) years maturity and ten-year grace period. Following the *Guidelines for Debt Limits in Fund-Supported Programs*, the post-HIPC improvement of debt outlook lowering risk of debt distress from high to moderate justifies a change in concessionality requirements from 50 to 35 percent. *Per se*, starting in 2012, some new borrowing is expected to be on less concessional terms, resulting in a progressive decrease in the average grant element of new disbursements from 52 to 35 percent. In all, non-concessional borrowing is assumed to remain moderate on the grounds that the country will not have continued access to commercial debt. **Fiscal financing gaps** will therefore have to be filled through grants or highly concessional loans.

topping-up assistance) and MDRI. This led to debt relief amounting US$ 1.2 billion in nominal terms. The Paris Club agreed to forgive nearly all of its claims in May 2011.The authorities are finalizing bilateral agreements with the Paris Club and seeking comparable treatment from remaining creditors.[2]

2. **The DSA assumptions under the baseline scenario are broadly in line with those used in the 2010 DSA** (Box 1). Economic growth is expected to reach 4.5 percent over the medium and long term. This reflects a continued stabilization of the political environment, the government's efforts to raise potential growth of the economy through investments in agriculture and infrastructure, and a continued growth in cashew production. Despite the recent increase, inflation is expected to remain stable at the historical level of 2 percent. New external borrowing is assumed to be on less concessional terms, i.e., a gradual reduction in the average grant element of new disbursements from 52 to around 35 percent during the projection period. This will create more room for external financing to address pressing development needs. The authorities, however, will continue to seek highly concessional terms when borrowing.

3. **Downside risks to the baseline projection arise** from an unfavorable global environment. Lower-than-expected cashew prices and growth in developed economies pose risks for economic growth. In addition, the authorities could face increasing domestic pressures for shifts in economic policies that could undermine fiscal prudence and economic reforms.

II. External Debt Sustainability

Baseline scenario

4. **Following the HIPC completion point, Guinea-Bissau's public and publicly guaranteed (PPG) external debt amounts to US$ 173.7 million (17.5 percent of GDP) at the end of 2011**.[3] Under the assumptions of the baseline scenario and with a three-year average Country Policy and Institutional Assessment (CPIA) rating of 2.67, all debt indicators are expected to remain below their relevant policy-dependent thresholds. The PV of PPG external debt will decline from 13.4 percent of GDP in 2011 to 9.7 percent in 2021, and will remain at around 7.7 percent of GDP up to 2030 (Table 1).

5. **The ratios of PV of debt and debt service to exports and revenue are also projected to remain well below their threshold values throughout the 20-year projection period** (Figure 1, Table 2, and Text Table 1). This suggests that external debt remains sustainable even with a declining grant element.

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[2] Algeria, China and Cuba provided full debt cancellation.

[3] Following debt relief at completion point, PPG external debt decreased from 121.9 percent of GDP in 2009 to 19.1 percent of GDP in 2010.

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

	Threshold[2/]	2011	2021	2030
PV of debt to GDP	30	13.4	9.7	7.7
PV of debt to exports	100	50.4	57.3	46.8
PV of debt to revenue	200	126.6	72.8	56.0
Debt service to exports	15	0.3	4.7	3.6
Debt service to revenue	25	0.8	6.0	4.3

Source: IMF staff estimates.

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

[2/] With an average CPIA rating of 2.67 over 2008–10, Guinea-Bissau is classified as having a weak policy and institutional framework.

Alternative scenarios and stress tests

Although stress tests to the baseline scenario confirm that Guinea-Bissau's external debt position presents low vulnerability to shocks, the most extreme shock scenario[4] shows that some vulnerability persists. Four of five debt indicators remain well below their respective thresholds under stress tests. The PV of debt-to-exports ratio increases (Text Table 2) from 50.4 percent in 2011 to 126.3 percent in 2021 and gradually decreases to 91.6 percent in 2030, thus breaching the corresponding threshold for most of the projection period. The remaining ratios are also sensitive to the above-mentioned shock, but remain well below their threshold values.[5] In all, this alternative scenario indicates that Guinea-Bissau would be still vulnerable to a shock from a sharp fall in exports or currency depreciation.

Text Table 2. Summary of External Debt Sustainability Indicators Under the Most Extreme Shock Scenario[1/]

	Threshold[4/]	2011	2021	2030
PV of debt to GDP	30	13.4	14.0	9.9
PV of debt to exports[2/]	100	50.4	126.3	91.6
PV of debt to revenue[3/]	200	126.6	103.3	79.3
Debt service to exports[2/]	15	0.3	8.4	7.1
Debt service to revenue[3/]	25	0.9	8.5	6.1

Source: IMF staff estimates.

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

[2/] Two standard deviations shock in 2012-2013 to historical average export growth.

[3/] One-time 30 percent nominal depreciation relative to the baseline in 2012.

[4/] Threshold over which countries with weak policy and institutional frameworks would have at least a 25 percent chance of having a prolonged debt distress episode in the coming year. With an average CPIA rating of 2.67 over 2008–10, Guinea-Bissau is classified as having a weak policy and institutional framework.

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[4] The most extreme shock is calibrated as export value growth at historical average minus two standard deviations in 2012-2013 or as a one-time 30 percent nominal currency depreciation relative to the baseline in 2012.

[5] The results under the historical scenario (where key variables are held constant at their 10-year historical level) show much more rapid decrease in debt indicators than in other scenarios. However, these results are subject to considerable uncertainty, because the underlying data come from the post-conflict period and are not reliable.

III. Public Debt Sustainability

Baseline scenario

6. **Following debt relief at completion point and the Paris Club agreement in May 2011, total public debt as a percent of GDP declined from 157.9 percent in 2009, to 49 percent in 2010, and is projected to fall further to 43.7 percent in 2011** (Table 3). Domestic debt is projected to gradually decrease in nominal terms in line with the authorities' domestic arrears clearance strategy and with the rescheduling of the debt owed to the BCEAO. Under the assumptions of the baseline scenario total public debt (domestic and external) would decline steadily thereafter to reach 16.7 percent of GDP in 2030. The PV of total public debt to GDP follows a similar pattern, falling from 39.5 percent in 2011 to 20.2 percent in 2021 and 12.5 percent at the end of the projection period.

Alternative scenarios and stress tests

7. **Alternative scenarios and stress tests show that public debt indicators continue to decline, however, this decline would be more gradual** (Figure 2 and Table 4). Under the historical scenario assuming that real GDP growth and the primary deficit are held constant at their historical averages, i.e. at 2.3 and 3 percent respectively, the PV of public sector debt to GDP would decline from 39.4 percent in 2011 to 29.2 percent in 2030. The PV of public sector debt to revenue would follow a similar trend, falling from 209.5 percent in 2011 percent to 124.4 percent at the end of the projection period. The PV of debt service-to-revenue ratio would hover around 10 percent until 2030.

8. **Under the scenario assuming the most extreme shock[6], public debt indicators would worsen considerably**. The PV of debt-to-GDP ratio increases to 43.2 percent in 2013 and starts to decline steadily to 23.1 percent in 2030. Similarly, the PV of debt-to-revenue ratio declines from 200.9 percent in 2013 to 112 percent at the end of the projection period. The PV of debt service-to-revenue follows more irregular pattern reaching 8.6 percent at the end of the projection period.

IV. Conclusion

9. **Following the debt relief at the HIPC completion point, Guinea-Bissau's debt outlook has considerably improved, and the LIC DSA suggests that the country faces a moderate risk of debt distress**. Although under the baseline scenario all debt indicators remain well below the relevant thresholds, alternative scenarios and stress tests indicate vulnerability to export shocks. The inclusion of domestic public debt confirms the conclusions of the external DSA. The authorities share the staffs' assessment on the DSA.

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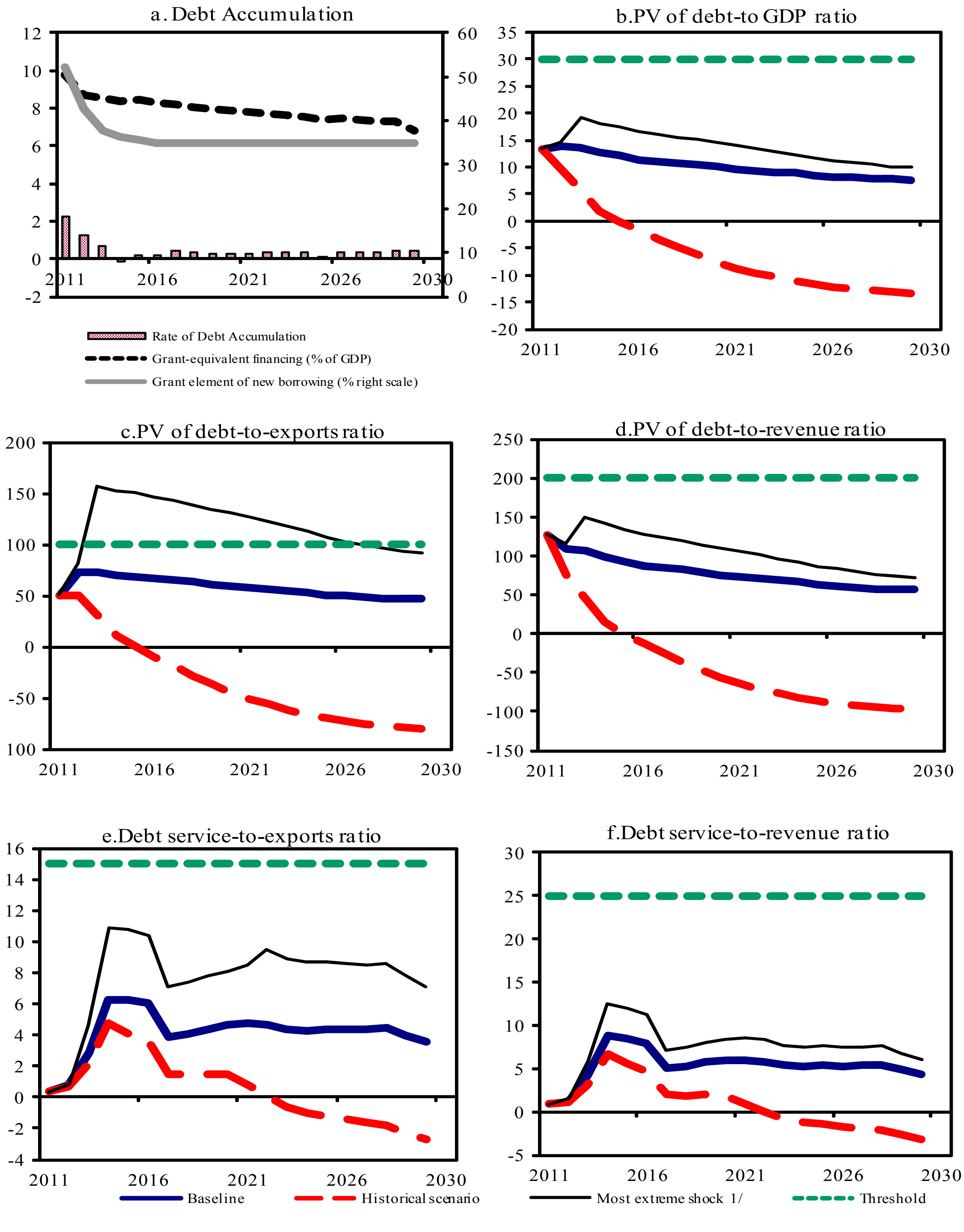
[6] Shock is calibrated as real GDP growth and the primary balance at their historical averages minus one half standard deviations.

10. **Guinea-Bissau needs to undertake further actions to reduce its external vulnerabilities**. The country should continue to rely on grants and concessional borrowing to meet its financing needs for the foreseeable future, despite the improved post-HIPC debt outlook. The authorities' commitments under the current Extended Credit Facility to boost their debt management capacity are crucial to containing debt vulnerabilities. It includes strengthening debt management capacity, making progress on structural reforms, diversifying the export base, and mobilizing domestic revenue to reduce reliance on external financing.

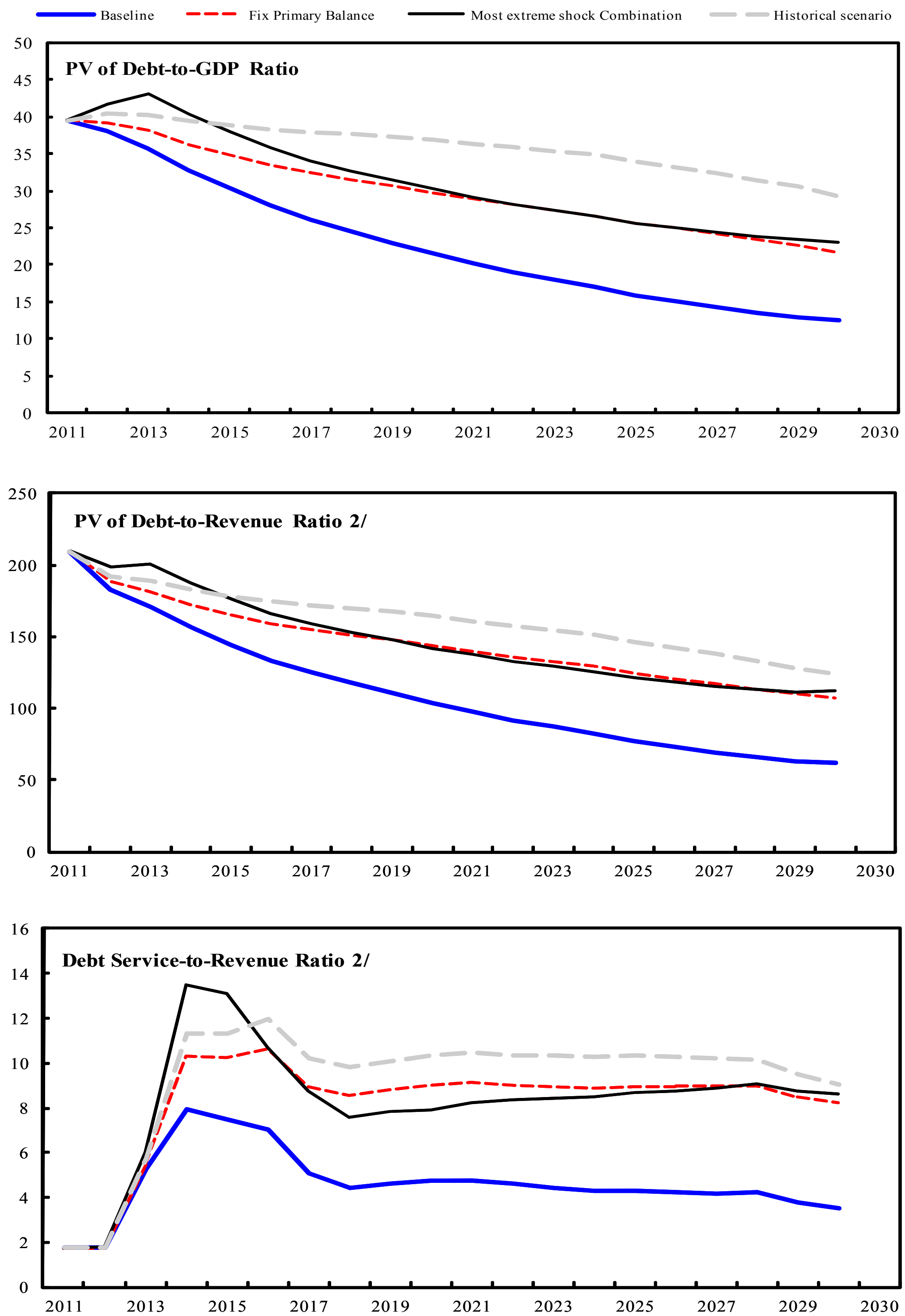
Figure 1. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios 1/, 2011-2030



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Guinea-Bissau: Indicators of Public Debt under Alternatives Scenarios 1/, 2011-2030



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2021.
2/ Revenues are defined inclusive of grants.

Table 1: Guinea-Bissau: External Debt Sustainability Framework, Baseline Scenario, 2008-2030[1]/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2030	2017-2030 Average
External debt (nominal) 1/	**132.7**	**121.9**	**19.1**			**17.5**	**17.8**	**17.7**	**16.6**	**16.0**	**15.3**		**13.5**	**11.9**	
o/w public and publicly guaranteed (PPG)	132.7	121.9	19.1			17.5	17.8	17.7	16.6	16.0	15.3		13.5	11.9	
Change in external debt	-7.5	-10.8	-102.8			-1.6	0.3	-0.1	-1.0	-0.7	-0.6		-0.3	0.0	
Identified net debt-creating flows	-21.6	6.2	4.2			3.2	4.2	3.8	3.2	1.4	1.1		1.4	1.3	
Non-interest current account deficit	**3.3**	**5.9**	**6.6**	**1.2**	**4.0**	**6.2**	**7.0**	**6.4**	**5.8**	**4.0**	**3.7**		**4.0**	**4.0**	4.0
Deficit in balance of goods and services	14.0	16.6	13.8			13.3	13.4	12.7	12.0	11.3	10.7		10.6	10.5	
Exports	15.9	15.5	15.8			26.5	19.1	18.7	18.1	17.5	17.2		16.9	16.5	
Imports	29.9	32.1	29.6			39.8	32.5	31.4	30.2	28.8	27.9		27.5	26.9	
Net current transfers (negative = inflow)	-10.8	-11.5	-7.3	-9.8	1.6	-7.1	-6.4	-6.3	-6.2	-7.3	-7.0		-6.6	-6.4	-6.5
o/w official	-6.4	-8.0	-3.5			-3.6	-3.0	-3.0	-3.0	-4.2	-4.0		-3.6	-3.3	
Other current account flows (negative = net inflow)	0.1	0.8	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Net FDI (negative = inflow)	**-0.7**	**-2.1**	**-2.2**	**-1.5**	**1.0**	**-2.2**	**-2.2**	**-2.2**	**-2.2**	**-2.2**	**-2.2**		**-2.3**	**-2.5**	-2.3
Endogenous debt dynamics 2/	**-24.3**	**2.4**	**-0.2**			**-0.8**	**-0.7**	**-0.5**	**-0.5**	**-0.4**	**-0.4**		**-0.3**	**-0.3**	
Contribution from nominal interest rate	1.4	0.5	0.1			0.0	0.0	0.3	0.3	0.3	0.3		0.3	0.2	
Contribution from real GDP growth	-3.7	-4.0	-4.2			-0.9	-0.7	-0.8	-0.8	-0.7	-0.7		-0.6	-0.5	
Contribution from price and exchange rate changes	-22.0	6.0	3.9			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**14.2**	**-17.0**	**-107.0**			**-4.8**	**-3.8**	**-3.9**	**-4.2**	**-2.1**	**-1.8**		**-1.7**	**-1.3**	
o/w exceptional financing	-4.3	-1.1	-109.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	13.6			13.4	13.7	13.6	12.7	12.1	11.4		9.7	7.7	
In percent of exports	...	...	86.1			50.4	72.1	72.8	70.1	68.8	66.6		57.3	46.8	
PV of PPG external debt	**...**	**...**	**13.6**			**13.4**	**13.7**	**13.6**	**12.7**	**12.1**	**11.4**		**9.7**	**7.7**	
In percent of exports			**86.1**			**50.4**	**72.1**	**72.8**	**70.1**	**68.8**	**66.6**		**57.3**	**46.8**	
In percent of government revenues	**...**	**...**	**126.0**			**126.6**	**108.7**	**105.9**	**98.3**	**92.8**	**87.7**		**72.8**	**56.0**	
PPG debt service-to-exports ratio (in percent)	**32.4**	**15.9**	**8.5**			**0.3**	**0.7**	**2.9**	**6.3**	**6.2**	**6.0**		**4.7**	**3.6**	
PPG debt service-to-revenue ratio (in percent)	**56.2**	**27.3**	**12.4**			**0.8**	**1.1**	**4.2**	**8.8**	**8.4**	**7.9**		**6.0**	**4.3**	
Total gross financing need (Millions of U.S. dollars)	65.8	52.5	48.0			40.4	52.4	53.2	56.3	37.0	34.5		46.9	71.9	
Non-interest current account deficit that stabilizes debt ratio	10.8	16.7	109.4			7.8	6.7	6.6	6.8	4.7	4.4		4.3	4.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.2	3.0	3.5	2.3	1.7	5.3	4.5	4.7	4.7	4.7	4.7	4.8	4.5	4.5	4.5
GDP deflator in US dollar terms (change in percent)	18.6	-4.3	-3.1	6.5	8.0	12.3	1.7	1.1	1.2	2.0	2.0	3.4	2.0	2.0	2.0
Effective interest rate (percent) 5/	1.2	0.3	0.1	1.0	0.6	0.3	0.3	2.0	1.9	1.9	1.9	1.4	2.1	1.8	2.0
Growth of exports of G&S (US dollar terms, in percent)	12.6	-3.8	1.9	5.6	18.0	98.9	-23.6	3.7	2.9	3.1	4.7	14.9	6.3	6.3	6.3
Growth of imports of G&S (US dollar terms, in percent)	18.2	5.8	-7.6	10.5	12.0	58.8	-13.2	2.4	1.8	2.1	3.3	9.2	6.3	6.3	6.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	52.3	42.6	37.9	36.2	35.5	34.8	39.9	35.0	35.0	35.0
Government revenues (excluding grants, in percent of GDP)	9.2	9.0	10.8			10.6	12.7	12.8	12.9	13.0	13.0		13.3	13.8	13.4
Aid flows (in Millions of US dollars) 7/	122.9	134.0	91.0			102.3	91.9	97.1	102.5	112.4	117.7		152.3	239.0	
o/w Grants	122.8	131.9	80.9			82.0	85.7	90.5	95.5	101.6	106.8		138.0	211.7	
o/w Concessional loans	0.1	2.1	10.0			20.3	6.2	6.6	7.0	10.8	10.9		14.3	27.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			9.8	8.7	8.5	8.4	8.5	8.3		7.8	6.8	7.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			87.9	92.0	93.0	94.2	91.8	91.9		91.8	90.2	91.7
Memorandum items:															
Nominal GDP (Millions of US dollars)	846.9	834.7	836.9			989.4	1050.9	1113.3	1179.9	1259.7	1345.7		1851.6	3288.4	
Nominal dollar GDP growth	22.4	-1.4	0.3			18.2	6.2	5.9	6.0	6.8	6.8	8.3	6.6	6.6	6.6
PV of PPG external debt (in Millions of US dollars)			113.7			132.2	144.5	151.4	150.0	151.9	153.9		179.2	253.3	
(PVt-PVt-1)/GDPt-1 (in percent)						2.2	1.2	0.7	-0.1	0.2	0.2	0.7	0.3	0.5	0.3
Gross workers' remittances (Millions of US dollars)	33.2	23.0	24.5			28.3	29.3	30.0	30.9	31.8	32.8		45.1	80.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.2			13.0	13.4	13.2	12.4	11.8	11.2		9.5	7.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	72.6			45.5	62.9	63.6	61.3	60.2	58.4		50.1	40.8	
Debt service of PPG external debt (in percent of exports + remittances)	26.0	13.5	7.1			0.3	0.6	2.5	5.5	5.4	5.3		4.1	3.1	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 2: Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2030 (In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2030
PV of debt-to GDP ratio								
Baseline	13	14	14	13	12	11	10	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	13	9	6	2	0	-2	-9	-13
A2. New public sector loans on less favorable terms in 2011-2031 2	13	14	14	13	13	13	13	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	13	14	15	14	13	12	10	8
B2. Export value growth at historical average minus two standard deviation in 2012-2013	13	15	19	18	17	17	14	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	13	14	14	13	13	12	10	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	13	14	13	12	12	11	9	8
B5. Combination of B1-B4 using one-half standard deviation shocks	13	9	6	5	5	4	4	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	13	20	19	18	17	16	14	11
PV of debt-to-exports ratio								
Baseline	50	72	73	70	69	67	57	47
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	50	50	31	10	-1	-10	-51	-81
A2. New public sector loans on less favorable terms in 2011-2031 2	50	73	75	74	75	76	77	86
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	50	72	73	70	69	67	57	47
B2. Export value growth at historical average minus two standard deviation in 2012-2013	50	81	157	153	151	147	126	92
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	50	72	73	70	69	67	57	47
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	50	71	71	68	67	64	55	46
B5. Combination of B1-B4 using one-half standard deviation shocks	50	37	25	23	21	20	18	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	50	72	73	70	69	67	57	47
PV of debt-to-revenue ratio								
Baseline	127	109	106	98	93	88	73	56
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	127	75	44	14	-1	-13	-65	-96
A2. New public sector loans on less favorable terms in 2011-2031 2	127	111	110	104	102	100	98	103
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	127	113	114	106	100	95	79	60
B2. Export value growth at historical average minus two standard deviation in 2012-2013	127	115	150	141	134	127	106	72
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	127	112	112	104	98	93	77	59
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	127	107	103	95	90	85	70	55
B5. Combination of B1-B4 using one-half standard deviation shocks	127	72	44	39	35	32	27	34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	127	154	150	139	132	124	103	79

Table 2: Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2030 (concluded)
(In percent)

Debt service-to-exports ratio								
Baseline	0	1	3	6	6	6	5	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	0	1	2	5	4	4	1	-3
A2. New public sector loans on less favorable terms in 2011-2031 2	0	1	3	6	6	6	4	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	0	1	3	6	6	6	5	4
B2. Export value growth at historical average minus two standard deviation in 2012-2013	0	1	5	11	11	10	8	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	0	1	3	6	6	6	5	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	0	1	3	6	6	6	5	4
B5. Combination of B1-B4 using one-half standard deviation shocks	0	1	2	4	4	4	2	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	0	1	3	6	6	6	5	4
Debt service-to-revenue ratio								
Baseline	1	1	4	9	8	8	6	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	1	1	3	7	6	5	1	-3
A2. New public sector loans on less favorable terms in 2011-2031 2	1	1	4	9	9	8	5	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	1	1	5	10	9	9	6	5
B2. Export value growth at historical average minus two standard deviation in 2012-2013	1	1	4	10	10	9	7	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	1	1	4	9	9	8	6	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	1	1	4	9	8	8	6	4
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	3	7	7	7	4	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	1	2	6	13	12	11	9	6
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	24	24

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after 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.

Table 3: Guinea-Bissau: Public Debt Sustainability Framework, Baseline Scenario, 2011-2030
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate					Projections				
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2030	2017-30 Average
Public sector debt 1/	167.5	157.9	49.0			43.7	42.1	39.8	36.7	34.2	31.9		24.0	16.7	
o/w foreign-currency denominated	132.7	121.9	19.1			17.5	17.8	17.7	16.6	16.0	15.3		13.5	11.9	
Change in public sector debt	-11.0	-9.6	-108.8			-5.4	-1.5	-2.3	-3.0	-2.5	-2.4		-1.3	-0.4	
Identified debt-creating flows	-12.2	-19.1	-103.4			-3.2	-1.2	-1.0	-1.0	-1.0	-0.8		0.2	1.9	
Primary deficit	0.8	-2.9	1.8	3.0	2.9	2.6	1.1	1.0	1.0	1.0	1.0	1.3	1.5	2.7	1.8
Revenue and grants	23.7	24.8	20.4			18.8	20.8	21.0	21.0	21.1	21.0		20.7	20.2	
of which: grants	14.5	15.8	9.7			8.3	8.2	8.1	8.1	8.1	7.9		7.5	6.4	
Primary (noninterest) expenditure	24.5	21.9	22.3			21.5	21.9	22.0	22.0	22.0	22.0		22.3	22.9	
Automatic debt dynamics	-11.6	-14.7	4.5			-5.9	-2.3	-2.1	-2.0	-1.9	-1.8		-1.3	-0.8	
Contribution from interest rate/growth differential	-20.4	-6.2	-7.6			-4.7	-2.4	-2.2	-2.1	-1.9	-1.8		-1.3	-0.8	
of which: contribution from average real interest rate	-14.8	-1.3	-2.3			-2.2	-0.6	-0.3	-0.3	-0.3	-0.3		-0.2	0.0	
of which: contribution from real GDP growth	-5.6	-4.9	-5.3			-2.5	-1.9	-1.9	-1.8	-1.6	-1.5		-1.1	-0.7	
Contribution from real exchange rate depreciation	8.7	-8.6	12.1			-1.2	0.2	0.1	0.1	0.0	0.0		...	...	
Other identified debt-creating flows	-1.4	-1.5	-109.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-1.4	-1.5	-109.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.1	9.5	-5.4			-2.1	-0.4	-1.3	-2.1	-1.6	-1.6		-1.6	-2.4	
Other Sustainability Indicators															
PV of public sector debt	34.8	36.0	43.6			39.5	38.1	35.8	32.9	30.3	28.0		20.2	12.5	
o/w foreign-currency denominated	0.0	0.0	13.6			13.3	13.8	13.7	12.8	12.1	11.5		9.7	7.7	
o/w external	...	...	13.6			13.3	13.8	13.7	12.8	12.1	11.5		9.7	7.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	19.4	13.7	16.2			10.4	7.8	7.7	7.6	6.9	6.4		4.5	3.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	147.1	145.0	213.0			209.5	183.2	170.6	156.2	144.1	133.5		97.5	61.9	
PV of public sector debt-to-revenue ratio (in percent)	379.8	399.6	404.1			374.1	301.2	278.6	253.9	233.6	214.8		152.2	90.9	
o/w external 3/	…	…	126.5			126.1	109.1	106.3	98.6	93.2	88.0		73.1	56.2	
Debt service-to-revenue and grants ratio (in percent) 4/	22.5	10.6	7.9			1.7	1.7	5.2	7.9	7.5	7.0		4.8	3.5	
Debt service-to-revenue ratio (in percent) 4/	58.0	29.2	15.0			3.1	2.9	8.6	12.9	12.1	11.3		7.4	5.1	
Primary deficit that stabilizes the debt-to-GDP ratio	11.8	6.7	110.7			8.0	2.7	3.4	4.0	3.5	3.4		2.8	3.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.2	3.0	3.5	2.3	1.7	5.3	4.5	4.7	4.7	4.7	4.7	4.8	4.5	4.5	4.5
Average nominal interest rate on forex debt (in percent)	1.2	0.3	0.1	1.0	0.6	0.3	0.3	2.0	1.9	1.9	1.9	1.4	2.1	1.8	2.0
Average real interest rate on domestic debt (in percent)	-9.3	-0.9	-1.2	-1.7	4.6	-4.9	-1.3	-1.3	-1.4	-1.4	-1.5	-2.0	-1.7	-1.8	-0.8
Real exchange rate depreciation (in percent, + indicates depreciation)	7.0	-6.7	10.4	-3.3	10.4	-7.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	10.5	1.1	1.7	2.6	4.6	5.7	1.8	1.9	2.0	2.0	2.0	2.6	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	-0.1	0.1	0.0	0.2	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	52.3	42.6	37.8	36.2	35.5	34.8	39.9	35.0	35.0	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

Table 4: Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public Debt, 2011-2030

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2030
PV of Debt-to-GDP Ratio								
Baseline	39	38	36	33	30	28	20	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	39	40	40	39	39	38	36	29
A2. Primary balance is unchanged from 2011	39	39	38	36	35	33	29	22
A3. Permanently lower GDP growth 1/	39	38	36	33	31	29	23	19
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	39	40	40	37	35	33	28	24
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	39	42	43	40	37	34	25	16
B3. Combination of B1-B2 using one half standard deviation shocks	39	42	43	40	38	36	29	23
B4. One-time 30 percent real depreciation in 2012	39	44	41	38	35	32	23	14
B5. 10 percent of GDP increase in other debt-creating flows in 2012	39	46	43	39	37	34	25	16
PV of Debt-to-Revenue Ratio 2/								
Baseline	210	183	171	156	144	134	97	62
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	210	192	189	183	178	174	161	124
A2. Primary balance is unchanged from 2011	210	189	182	173	165	159	139	125
A3. Permanently lower GDP growth 1/	210	184	172	158	147	137	108	91
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	210	189	184	172	163	155	131	114
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	210	201	205	189	174	162	121	78
B3. Combination of B1-B2 using one half standard deviation shocks	210	198	201	187	176	167	137	112
B4. One-time 30 percent real depreciation in 2012	210	210	195	179	165	153	111	68
B5. 10 percent of GDP increase in other debt-creating flows in 2012	210	220	206	188	174	162	121	78
Debt Service-to-Revenue Ratio 2/								
Baseline	2	2	5	8	7	7	5	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	2	2	6	11	11	12	10	9
A2. Primary balance is unchanged from 2011	2	2	5	10	10	11	9	8
A3. Permanently lower GDP growth 1/	2	2	5	8	8	7	6	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	2	2	6	9	9	9	8	9
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	2	2	6	16	15	10	6	5
B3. Combination of B1-B2 using one half standard deviation shocks	2	2	6	14	13	11	8	9
B4. One-time 30 percent real depreciation in 2012	2	2	6	10	10	10	7	6
B5. 10 percent of GDP increase in other debt-creating flows in 2012	2	2	7	22	9	12	7	5

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

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

Third Review Under the Three-Year Arrangement Under the Extended Credit Facility and Financing Assurances Review—Informational Annex

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

November 15, 2011

Contents Page

Guinea-Bissau: Financial Position in the Fund
(as of October 31, 2011)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	14.20	100.00
Fund holdings of currency (Exchange Rate)	13.99	98.54
Reserve Tranche Position	0.21	1.48

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	13.60	100.00
Holdings	12.39	91.06

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	4.83	34.00

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	May 07, 2010	May 06, 2013	22.37	12.71
ECF [1/]	Dec 15, 2000	Dec 14, 2003	14.20	5.08
ECF [1/]	Jan 18, 1995	Jul 24, 1998	10.50	10.50

[1/] Formerly PRGF.

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

	Forthcoming				
	2011	2012	2013	2014	2015
Principal					
Charges/Interest	0.00	0.02	0.02	0.02	0.02
Total	0.00	0.02	0.02	0.02	0.02

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

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed	
by all creditors (US$ Million) [1/]	421.70
Of which: IMF assistance (US$ million)	11.91
(SDR equivalent in millions)	9.20
Completion point date	Dec 2010

II. Disbursement of IMF assistance (SDR Million)

Assistance disbursed to the member	9.20
Interim assistance	1.56
Completion point balance	7.64
Additional disbursement of interest income [2/]	0.23
Total disbursements	9.43

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

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

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1/]	0.51
Financed by: MDRI Trust	0.00
Remaining HIPC resources	0.51

II. Debt Relief by Facility (SDR Million)

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

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

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

X. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAEMU). The most recent safeguards assessment of the BCEAO was completed on March 1, 2010. The 2010 update assessment found that the BCEAO continues to have controls in place at the operational level. The overall governance framework needed nonetheless to be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. The Institutional Reform of the WAEMU and the BCEAO completed after the approval of the safeguards report stipulated creation of the Audit Committee, which should now start working. Efforts to implement fully the International Financial Reporting Standards reporting framework should also be pursued.

XI. Exchange System and Exchange Rate Arrangement

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

XII. Article IV Consultation

Guinea-Bissau is on the 24-month consultation cycle. The last Article IV consultation discussions with Guinea-Bissau were held in Bissau January 12–26, 2010. The staff report (EBS/10/56) was discussed by the Executive Board on May 7, 2010.

XIII. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
MAE	Expert	March 1994	Assisting in banking supervision
MAE	Expert	June 1994	Assisting in monetary policy
MAE	Expert	June 1995	Advising on bank accounting
STA	Staff	March 1996	Assessing the quality of monetary, balance of payments, and government statistics
FAD	Staff	September 1996	Advising on tax administration and tax policy
FAD	Staff	March, 1997	Advising on import tariff reform and the design of a general sales tax (GST)
MAE	Expert	June 1997	Assisting in the transformation of the central bank into a branch of the BCEAO
FAD	Expert	September 1997	Assisting in the design and implementation of GST and in strengthening fiscal control
FAD	Expert	October 1998	Assisting in GST implementation
FAD	Expert	June 1998	Assisting in GST implementation
FAD	Expert	January 1999	Tax administration advisor
FAD	Expert	April 1999	Tax administration advisor
FAD	Staff	July 1999	Assessing budget management and the tax system
FAD	Expert	January 2000	Tax administration advisor

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Expert	January 2001	Tax administration advisor
FAD	Expert	February 2001	Peripatetic public expenditure management advisor
FAD	Expert	July 2001	Peripatetic public expenditure management advisor
FAD	Staff	April 2003	Expenditure management
FAD	Staff	April 2003	Revenue administration
STA	Expert	March 2003	GDDS—Real sector statistics
STA	Expert	May 2003	GDDS—Fiscal statistics
West AFRITAC	Resident Advisor	November 2003	Public expenditure management
West AFRITAC	Resident Advisor	February 2004	Tax administration
West AFRITAC	Resident Advisor	March 2004	Customs administration
West AFRITAC	Expert	May 2004	Tax administration
West AFRITAC	Resident Advisor	May 2004	Public debt management
West AFRITAC	Resident Advisor	June 2004	Budget preparation and execution
West AFRITAC	Resident Advisor	August 2004	Assessing the priority needs for technical assistance and assisting the authorities in preparing a work plan to improve balance of payments
West AFRITAC	Resident Advisor; Short-Term Expert	August 2004	Government finance statistics
West AFRITAC	Short-Term Expert	September 2004	Government finance statistics
West AFRITAC	Short-Term Expert	October 2004	Customs administration
West AFRITAC	Resident Advisor	November 2004	Public expenditure management
West AFRITAC	Resident Advisor; Short-Term Expert	November 2004	Tax administration
West AFRITAC	Resident Advisor; Short-Term Expert	January 2005	Government finance statistics
West AFRITAC	Resident Advisor; Short-Term Expert	February 2005	Tax administration
West AFRITAC	Resident Advisor; Short-Term Expert	March 2005	Public expenditure management
West AFRITAC	Resident Advisor; Short-Term Expert	April 2005	Customs administration
West AFRITAC	Resident Advisor; Short-Term Expert	May 2005	Tax administration
West AFRITAC	Resident Advisor	June 2005	Microfinance supervision
West AFRITAC	Resident Advisor	June 2005	Microfinance supervision
West AFRITAC	Resident Advisor	October 2005	Government finance statistics
West AFRITAC	Resident Advisor; Short-Term Expert	November 2005	Customs administration
West AFRITAC	Resident Advisor; Short-Term expert	November 2005	Tax administration
West AFRITAC	Resident Advisor; Short-Term Expert	November 2005	Public expenditure management/accounting
West AFRITAC	Resident Advisor; Short-Term Expert	January 2006	Tax administration

Department	Type of Assistance	Time of Delivery	Purpose
West AFRITAC	Short-Term Expert	March 2006	Public expenditure management/accounting
West AFRITAC	Resident Advisor	March 2006	Real sector statistics
West AFRITAC	Short-term expert	July 2006	Government finance statistics
West AFRITAC	Resident Advisor	July 2006	Tax administration
West AFRITAC	Short-term expert	July 2006	Customs administration
West AFRITAC	Resident Advisor	December 2006	Public debt management
West AFRITAC	Short-term expert	January 2007	Government finance statistics
West AFRITAC	Resident Advisor	January 2007	Customs administration
West AFRITAC	Resident Advisor	February 2007	Tax administration
West AFRITAC	Resident Advisor	March 2007	Public finance management
West AFRITAC	Short-term expert	June 2008	Customs administration
West AFRITAC	Short-term expert	June 2008	Public Expenditure management
STA	Expert	June 2008	Balance of Payment Statistics
West AFRITAC	Short-term expert	July 2008	Government finance statistics
West AFRITAC	Short-term expert	August 2008	Multisector Statistics
West AFRITAC	Short-term expert	September 2008	Real sector Statistics
West AFRITAC	Short-term expert	May 2009	National Accounts
West AFRITAC	Long-term expert	June 2009	National Accounts
West AFRITAC	Short-term expert	June 2009	Public Expenditure management
West AFRITAC	Short-term expert	June 2009	Public Debt management
West AFRITAC	Short-term expert	June 2009	Bank Supervision
West AFRITAC	Short-term expert	June 2009	Public Finance management
West AFRITAC	Short-term expert	September 2009	Tax administration
West AFRITAC	Short-term expert	September 2009	Customs administration
West AFRITAC	Short-term expert	November 2009	Public Debt management
West AFRITAC	Short-term expert	November 2009	Real Sector Statistics
West AFRITAC	Short-term expert	March 2010	Government Finance Statistics
FAD	Staff	September 2010	Tax Revenue and Customs Administration
West AFRITAC	Short-term expert	September 2010	Expenditure management
West AFRITAC	Short-term expert	September 2010	National Accounts
West AFRITAC	Short-term expert	February 2011	Tax Administration
West AFRITAC	Short-term expert	March 2011	Government Finance Statistics
West AFRITAC	Short-term expert	April 2011	Public Debt Management
West AFRITAC	Short-term expert	April 2011	Public Expenditure Management
West AFRITAC	Short-term expert	June 2011	Government Finance Statistics
FAD	Staff	September 2011	Tax Reform Strategy, Modernization of the DGCI and Revenue Mobilization
West AFRITAC	Short-term expert	September 2011	Customs Administration
West AFRITAC	Short-term expert	October 2011	Tax Administration
West AFRITAC	Short-term expert	October 2011	Modernization of the DGCI

XIV. Resident Representative

The Resident Representative in Senegal also covered Guinea-Bissau from September 1997 through July 2007. The Resident Representative Office in Guinea-Bissau was reopened in June 2011 and Mr. Torrez assumed the position.

Table 1: Guinea-Bissau—Arrangements with the IMF, 1984–2010

Arrangement	Date Approved	Amount Approved	Remarks
First credit tranche purchase	August 27, 1984	SDR 1.875 million	
Structural Adjustment Facility	October 14, 1987	SDR 5.25 million	2nd annual arrangement delayed; no 3rd annual arrangement.
Enhanced Structural Adjustment Facility	January 18, 1995	SDR 10.5 million	Arrangement increased by SDR 1.05 million (10 percent of quota) with 3rd annual arrangement.
Emergency post-conflict assistance	September 14, 1999	SDR 2.13 million	
Emergency post-conflict assistance	January 7, 2000	SDR 1.42 million	
Poverty Reduction and Growth Facility	December 15, 2000	SDR 14.2 million	PRGF expired without completion of a review.
Emergency post-conflict assistance	January 10, 2008	SDR 1.77 million	
Emergency post-conflict assistance	May 20, 2009	SDR 1.77 million	
Extended Credit Facility	May 7, 2010	SDR 22.365 million	

Guinea-Bissau: Relations with the World Bank Group

As of October 10, 2011

1. As of September 30, 2011, IDA had approved altogether 35 credits and grants for Guinea-Bissau for a total value of commitments of US$374 million equivalent. The most important sectors, so far, have been the following: Transport/Infrastructure/Energy (nine operations, total commitments: US$ 123.7 million), Structural Adjustment/Development Policy Operations (budget support, four operations approved in 1987-2000, and three since 2008, of which one exclusively for the payment of primary teachers' salaries; total commitments: US$93.8 million) and Social Sectors, including Health and Education (eight operations and US$55.5 million of total commitments). Two operations were implemented to support private sector development (overall commitment: US$ 41million), and three to provide technical assistance for economic management (overall commitment: US$ 22.9 million). Two IDA-funded credits supported the extractive industry sector, i.e., petrol exploration, in the 1980s with total commitments of US$19.9 million, and four IDA-funded projects have been supporting agriculture/natural resources management (including one new regional Fisheries Project), so far, with total commitments of 14.6 million, respectively, for this area of intervention.

Budget Support Operations

2. Since 2008, (after a period of discontinuation of budget support due to political instability), the Bank initiated new budget support operations to Guinea-Bissau, first with an emergency economic rehabilitation operation approved in 2008 that provided funds exclusively for the payment of primary teachers' salaries, and then with a series of three programmatic Development Policy Grants, of which the first one was approved in June 2009 and disbursed in early September (US$8 million), the second one approved in June 2010 and disbursed in December 2010 (US$6 million), and a third one approved in June 2011 (US$6.4 million).

Lending program

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

4. The current IDA Portfolio is composed of seven active operations with a total commitment of US$49.2 million, including a Multi-Sector Infrastructure Rehabilitation Project (US$15 million) supplemented by a new Emergency Electricity & Water Rehabilitation Project (US$12.7million) and an additional financing operation (US$2.2 million), a Development Policy Operation (US$6.4 million), a Community-Driven

Development Project (US$5 million), a new Biodiversity Conservation Project (US$1.9 million), the Guinea-Bissau component of a regional West Africa Fisheries Program (US$6 million) As of October 10, 2011, the IDA undisbursed balance was US$48.6 million.

5. The currently active Trust Fund portfolio implemented by the World Bank amounts to a total sum of about US$21 million. It includes an Emergency Food Security Support operation funded through the Food Price Crisis Response Trust Fund with contributions by the EU. One component of this project (school feeding, food for work for rural infrastructure) is implemented by the World Food Program. Further, the IDA-funded Community-Driven Development operation is complemented by a similar Participatory Rural Development operation of US$5 million, funded from the State and Peace Building (SPF) Trust Fund window for fragile states. The SPF also provides funding for Technical Assistance to the Ministry of Finance on Economic Management, complementing the IDA budget support, an operation to support the implementation of the National Health Development Plan and a recently approved project to strengthen regulatory and technical capacity to manage the emerging extractive industries (EI) sectors in Guinea-Bissau. Further complementary (co-) funding is provided by the Global Environment Facility (GEF) to the Biodiversity Conservation Project. An important multi-donor Education sector operation is currently under preparation in close cooperation with other donors, i.e. UNICEF, and has been envisaged to be submitted to the Education for All-Fast-Track Initiative (EFA-FTI) in October 2011; however, due to less than expected resource allocation of the EFA-FTI Catalytic Fund, the approval of the operation might be delayed for several months.

Non-lending Program

6. On December 14, 2010, the IDA Board of Executive Directors approved the achievement of the HIPC Completion Point for Guinea-Bissau. IDA provided MDRI debt forgiveness by irrevocably canceling Guinea-Bissau's debt service obligations for credits disbursed before December 31, 2003, and still outstanding at December 31, 2010, after the application of HIPC assistance and topping up. In March 21, 2011, the IDA Board of Executive Directors approved the topping-up additional debt relief. IDA debt service reduction under the enhanced HIPC initiative, MDRI and topping-up assistance at Completion Point amounts US$263.7 million.

7. The Bank team completed a Country Economic Memorandum in June 2011 which will identify key drivers for transformative growth in preparation of the upcoming Country Assistance Strategy for the period of 2011-2014. The team is also preparing a Capacity Development Action Plan to be annexed to the CAS. Technical assistance is currently provided in the area of Economic Governance, and prepared for Extractive Industries Value Chain Management in view of the government's request to join the EITI. Further, IDA is preparing technical assistance for the establishment of a Global Development Learning Center for which funding options are being explored with the government of Brazil or possible other donors.

Guinea-Bissau: Relations with the African Development Bank Group

As of September 30, 2011

1. By September 2011, the AfDB had approved 38 operations for Guinea-Bissau, excluding multinational projects. These include 24 projects, 3 studies and 7 institutional supports, 3 special relief fund operations and 1 line of credit representing a net commitment of UA 188.08 millions. 31.2% of these operations have been in the social sector, 21% in the multi-sector, 19.4% in agriculture/fisheries, 18.4% in transport and 10% in infrastructure equipment. A total of UA 161.29 millions representing 85.8% have been disbursed. As of September 2011, the active portfolio comprises six ongoing projects representing a total net amount of UA 46.75 million and a disbursed amount of UA 24.01 million.

Structural adjustment credits

2. AfDB has approved a total of UA 22.8 million for structural adjustment operations. These include two structural adjustment credits (SACs), one supplementary SAC, and one economic rehabilitation and recovery credit (ERRC). The SACs supported the government's program in the areas of economic liberalization and reform of the public administration and public enterprise sectors and the ERRC supports peace building following the political unrest, promotes the revival of the economy and encourages the pursuit of reforms.

Lending Program

3. During the period January 2008-September 2011, AfDB approved an interim HIPC debt release (US$17.48 million, a Fragile State Facility grant (UA2 million), a fish sector support grant (UA2 million), a health sector grant (UA6 million), an emergency support grant to cholera (UA0.33 million), a capacity building grant to public administration (UA7.86 million) and an emergency budget support to budgetary reforms (UA5.7 million). The Bank has prepared this year another Budget Support (UA 8 million) and a capacity building project (UA 2.5 million) expected to be approved Mid December 2011 or early 2012.

Nonlending Program

4. The Bank undertook a portfolio review in 2008, a mid-term review of its Country Strategy Paper (CSP) in 2009 as well as a combined portfolio review and completion report of its CSP 2005-2010, in October 2010. The Bank also participated in a Public Expenditure Management and Financial Accountability Review (PEMFAR) in 2009 in collaboration with the World Bank and the European Commission. The Bank is currently preparing 2011 portfolio review and a new CSP 2011-2015 expected to be approved Mid December 2011 or early 2012.

Guinea Bissau—Statistical Issues

As of November 1, 2011

I. Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in the national accounts and balance of payments. Data compilation was impaired during the 1998–99 civil conflict. The authorities have improved their data compilation in the recent years, with technical assistance from international and regional institutions.
National Accounts: Guinea-Bissau made progress on national account statistics in 2009. The National Institute of Statistics and Censuses (INEC) published in the second quarter of 2010 revised national account data for 2003–08, based on the *System of National Accounts 1993*. The new data have a broader coverage of all sectors of the economy, and as a result, the GDP level has doubled. The new data provides GDP in both current and constant (2003) prices, and GDP deflators.
Price statistics: Since July 2002, a harmonized consumer price index (CPI) has been compiled, based on the same structure as in other West African Economic and Monetary Union (WAEMU) countries. Price data are collected only for the capital city, Bissau.
Government finance statistics: Government finance statistics missions contributed to: (1) training on the methodology for Guinean officials, (2) implementation of a budgetary data collection program, and (3) setting up a source database and a worksheet table for the State Financial Operations (TOFE). Since 2007, the monthly TOFE is compiled on a regular basis and used as a basic tool for monitoring the program by the IMF. In March 2010, a government finance statistics (GFS) mission from West AFRITAC provided technical assistance to the authorities in compiling and disseminating GFS and implementing action plans designed to improve the GFS data dissemination to users.
Monetary statistics: Monetary and financial statistics, compiled and disseminated by the regional Central Bank of West African States (BCEAO), are broadly adequate, and their institutional coverage is comprehensive. Accuracy is somewhat hampered by the use of outdated sorting coefficients to estimate cross border amounts of banknotes among BCEAO countries, which in turn are used to estimate currency in circulation and to adjust the net foreign assets of each member country.

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

II. Data Standards and Quality	
Guinea-Bissau participates in the GDDS since November 2001. Metadata for all data categories and plans for improvement need to be updated.	No data ROSC is available.

III. Reporting to STA
Currently no monthly, quarterly or annual government finance data is submitted for reporting in the *International Financial Statistics (IFS)* or the *Government Finance Statistics Yearbook*. Monthly data on monetary statistics for Guinea Bissau are reported on a regular basis for publication in the *IFS* with some delays. Guinea-Bissau reports balance of payments and international investment position statistics to STA on an annual basis with considerable delays.

Guinea-Bissau: Table of Common Indicators Required for Surveillance
(As of September 30, 2011)

	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]
Exchange rates	Current	Current	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	Jul. 2011	Oct. 2011	M	M	M
Reserve/base money	Jul. 2011	Oct. 2011	M	M	M
Broad money	Jul. 2011	Oct. 2011	M	M	M
Central bank balance sheet	Jul. 2011	Oct. 2011	M	M	M
Consolidated balance sheet of the banking system	Jul. 2011	Oct. 2011	M	M	M
Interest rates[2]	Sep. 2011	Oct. 2011	M	M	M
Consumer price index	Aug. 2011	Sep. 2011	M	M	M
Revenue, expenditure, balance and composition of financing[3] – general government[4]					
Revenue, expenditure, balance and composition of financing[3]– central government	Dec. 2010	Mar. 2011	M	Q	Q
Stocks of central government and central government-guaranteed debt[5]	Dec. 2010	Sep. 2011	A	I	I
External current account balance	2010	Sep. 2011	A	I	I
Exports and imports of goods and services	2010	Sep. 2011	A	I	I
GDP/GNP	2010	Forthcoming	A	I	I
Gross external debt	2010	Sep. 2011	A	I	I
International Investment Position[6]	2009	Mar. 2011	A	I	I

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

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 11/438
FOR IMMEDIATE RELEASE
December 5, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third and Financing Assurances Review Under ECF with Guinea-Bissau and Approves US$3.77 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed on December 2 the third and financing assurances review of Guinea-Bissau's economic performance under a program supported by the Extended Credit Facility (ECF). The Board's decision enables the immediate disbursement of an amount equivalent to SDR 2.414 million (about US$3.77 million), bringing total disbursements under the arrangement to an amount equal to SDR 15.123 million (about US$23.6 million).

The three-year Extended Credit Facility for Guinea-Bissau in the amount of SDR 22.365 million was originally approved by the IMF Executive Board in May 2010 (see Press Release No. 10/185). The authorities' economic program aims at helping the country move towards fiscal and debt sustainability, as well as achieving stronger economic growth and poverty alleviation.

Following the Executive Board's approval of the arrangement with Guinea-Bissau, Mr. Min Zhu, Deputy Managing Director and Acting Chair, issued the following statement:

"Guinea-Bissau authorities are to be commended for their satisfactory performance under the Extended Credit Facility-supported program. Economic growth has been buoyant, benefitting from a good cashew harvest and strong terms of trade, and backed by continued prudent macroeconomic policies and implementation of structural reforms. The economic outlook for 2012 is broadly positive, but the economy remains vulnerable. Uncertainties in advanced economies pose risks, and domestically, sustaining growth will require continued political stability, effective governance, and further progress in structural reforms.

"Achieving Guinea-Bissau's economic objectives calls for a prudent fiscal policy that keeps spending within available resources, mobilizes more revenues, protects priority spending, and preserves resources for contingencies. To ensure adequate budget execution, it will be critical that the authorities follow through with revenue-enhancing measures, particularly through eliminating implicit subsidies, modernizing tax administration, and tightening controls in customs. For the first time in recent years, fiscal revenues in the 2012 budget will be sufficient to cover current expenditures, so all budgetary assistance can be used to support spending on infrastructure and other capital investments.

"Going forward, it will be important that the authorities accelerate broad-based economic reforms aimed at fostering confidence and facilitating macroeconomic management. The authorities' new poverty reduction strategy is appropriately ambitious. This will require careful project selection, program prioritization, and broad support from development partners. The program of economic reforms for 2012 is aligned with the strategy, and in the area of public financial management it focuses on improving revenue mobilization, strengthening customs administration, and putting in place better debt management capacity.

"Guinea-Bissau's external position has improved markedly following the Heavily Indebted Poor Countries' Initiative completion point. Strengthening debt management capacity as well as limiting recourse to external financing to concessional loans will help safeguard this gain," added Mr. Zhu.

Statement by Kossi Assimaidou, Executive Director for Guinea-Bissau

November 29, 2011

We thank staff and management for the close policy dialogue with Guinea-Bissau, and express the authorities' appreciation for the candid and constructive discussions held in Washington during the visit of Guinea-Bissau's Prime Minister, HEM Carlos Gomes Junior, and in Bissau during the ECF review mission. There is broad agreement between staff and the authorities on the appraisal of economic conditions, and key challenges facing the economy.

Guinea-Bissau continued to register a strong economic growth rate owing to improved terms of trade and larger cashew production. The authorities capitalized on these favorable economic developments, and a stabilized security environment, to forcefully implement their ECF-supported program, with the ultimate goal of consolidating macroeconomic stability, and reducing poverty.

The ECF program implementation has been strong. All performance criteria for end-June 2011 have been met. All quantitative targets except the indicative target on non-regularized expenditure were met. All structural benchmarks were met as well except for the unified payroll system. Substantial progress was made towards meeting the remaining targets.

Looking forward, Guinea Bissau continues to face difficult challenges, particularly in reducing poverty and achieving the millennium development goals, and in broadening the economy's base. The poverty rate has increased to 69.3 percent between 2002 and 2010, with extreme poverty rising by 58 percent to impact a third of the population, reflecting the impact of the global economic downturn, food and fuel prices increases, and socio-political instability. To face these daunting challenges the government recently adopted a new Poverty Reduction Strategy Paper (PRSP-II), following broad consultations with development partners, and domestic stakeholders.

As noted in the Joint Staff Advisory Note (JSAN), the PRSP-II represents a substantial improvement over its predecessor. It includes measures aimed at strengthening public institutions, consolidating macroeconomic stability, and creating and expanding new sources of growth.

I. Recent Economic Developments

Despite a difficult global economic environment, Guinea-Bissau's economy registered a strong growth rate in 2011 due to an increase in the price and volume of cashew exports. The current account position improved while headline inflation spiked to 5.5 percent, driven by higher imported food and oil prices.

The authorities' fiscal policies aimed at mobilizing and reallocating resources towards priority expenditures. To that purpose, they implemented measures designed to increase revenue collection, including by removing domestic fuel prices subsidies, and customs administration reforms. While their tax revenue objectives were comfortably met, non-fiscal revenues underperformed due to lower than expected fishing compensation from the European Union (EU). On expenditures, they made progress in their efforts to control spending, including by extending the payroll system to most ministries, while increasing priority spending thereby meeting their social spending targets.

After reaching the completion point of the HIPC Initiative, the authorities also sought additional debt restructuring from both domestic and bilateral creditors, which will enable them to allocate more resources to priority sectors, while ensuring debt sustainability. They were thus able to finalize substantial debt relief from Paris Club creditors, and made keen efforts towards obtaining comparable terms from the remaining creditors.

On structural reforms, the authorities are implementing measures aimed at modernizing public administration, and improving the business climate, including by preparing an action plan to identify and remove impediments to private sector development.

They also finalized the new five-year Poverty Reduction Strategy, PRSP-II, which rests on four pillars: i) Strengthening the rule of law and public administration; ii) Consolidating macroeconomic stability, pursuing public financial management reforms and fostering the development of the private sector; iii) Promoting sustainable, inclusive and broad-based economic growth; and iv) Enhancing human development, particularly through investments in the health and education sectors. However, to achieve the PRSP's objectives, a scaled-up assistance from the international community, including the IMF, will be required.

II. Economic Policies going forward

The economic program going forward will be underpinned by the new PRSP-II. The reform agenda for 2012 rests on the assumption of a continued benign economic outlook, with growth expected to remain strong, driven by recovering public investments, and sustained cashew harvests. Inflation is expected to decline, with core inflation returning within the regional target band.

Against this background, the authorities will pursue policies and intensify reforms aimed at achieving their poverty reduction and growth objectives.

Fiscal Policy

On fiscal policy, the authorities will aim at the consolidation of macroeconomic stability, and mobilizing the resources needed to support their development agenda, while preserving debt sustainability. To achieve their objectives, they will seek to increase revenues, constrain spending within available resources, and improve public financial management. On revenue collection, the authorities are committed to increasing fiscal revenues by 2 percent of GDP, including by ending subsidies and customs exemptions, and through tax and custom administration reforms. Current spending will be constrained to current revenues and hence additional resources, including development assistance, will be directed towards spending in priority sectors such as health, education and public investment in support of poverty reduction and growth objectives.

As regards debt policies, the authorities are committed to preserve the hard-achieved post-HIPC debt sustainability. They will refrain from domestic borrowing and will move forward with their plans to gradually clear long-standing domestic arrears. External borrowing will be only on concessional terms. My authorities will furthermore make good faith efforts to secure the participation of the remaining creditors to the debt relief effort for Guinea-Bissau on terms comparable to the HIPC's. They would appreciate continued Fund's assistance in that endeavor.

To further reduce the country's debt vulnerabilities, the authorities' plan to intensify efforts towards the diversification of exports, and to strengthen their debt management capabilities, including by using the debt management system (SYGADE) to produce quarterly public debt reports.

Structural Reforms

The authorities' structural reforms agenda aims at continuing implementing measures to remove impediments to growth, and at diversifying the economy's base. To achieve these objectives, they plan to foster private sector development including through measures aimed at improving the business environment, modernizing public administration, intensifying security sector reforms, and directing public investments towards removing the infrastructure bottlenecks, and the promotion of agriculture and exports.

The authorities are working closely with the World Bank and other development partners, in order to improve the business climate, and to develop new sources of growth. Among others, they plan to broaden the scope of the activities of the one-stop shop window for businesses, and adopt an action plan to identify and remove obstacles to private sector development.

In light of the increasing share of the extractive sectors in the economy, with notably the discovery of new minerals and oil, they plan to improve the governance of the mining sector by adopting a new mining code in line with international standards.

With respect to the security sector reforms—a key pillar of the poverty reduction strategy—the authorities are appreciative of the assistance provided by the international community, particularly Angola, ECOWAS, and the EU. They plan to implement the reforms agreed upon, including the installment of the pension fund for the defense and police personnel. They are also committed to forcefully combat drug trafficking and illegal arms trade, and to strengthen the rule of law through governance reforms.

III. Conclusion

Guinea-Bissau realized a strong performance under the ECF program, reflecting the authorities' program ownership, and their commitment to implement sound policies in order to make progress towards achieving the millennium development goals. In light of the challenging economic environment, significant development needs, and the authorities' commitment to further reforms efforts, I call on Directors to support the completion of the third review of the ECF-supported program.