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GUINEA-BISSAU

Staff Report for the 2013 Article IV Consultation; Debt Sustainability Analysis; Informational Annex; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Guinea-Bissau

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2013 Article IV Consultation with Guinea-Bissau, the following documents have been released and are included in this package:

- **Staff Report** for the 2013 Article IV Consultation prepared by a staff team of the IMF, following discussions that ended on May 10, 2013, 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 June 05, 2013. 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.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its June 21, 2013 discussion of the staff report that concluded the Article IV Consultation.
- **Statement by the Executive Director** for Guinea-Bissau.

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

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

June 5, 2013

KEY ISSUES

Context: Guinea-Bissau is a fragile state. The military coup d'état in April 2012 was a significant set-back to the progress achieved in previous years toward improved macroeconomic policies and prospects. The associated political crisis has negatively affected economic developments, including through a reduction in traditional donors' support. In addition, Guinea-Bissau suffered a severe terms-of-trade shock as prices of cashew nuts, its primary export product, fell sharply in 2012. The economy is expected to recover somewhat in 2013, but remains highly vulnerable to political and cashew exports developments. Achieving high and sustained economic growth will require political stability and a resumption of structural reform efforts. The three year ECF-supported program, approved in May 2010, went off-track after the coup and expired in May 2013.

Focus: The challenges are to navigate through near-term uncertainties and accelerate growth over the medium term. Discussions focused on short-term challenges to restore macroeconomic stability and the medium-term macroeconomic agenda, including revenue mobilization, competitiveness and external sustainability, and reform priorities.

Outlook and risks: In the short term, the main risks relate to the international environment, including a possible intensification of the euro area crisis, which could affect exports, remittances, and official development assistance. Over the medium term, resolution of the political crisis and the associated restoration of external financial support are critical to end the vicious cycle of poverty, weak institutions, and large physical and human capital gaps.

Recommendations: The authorities should adopt and implement a prudent budget for 2013 grounded on realistic revenue and financing estimates so as to avoid running further arrears, while avoiding non-regularized payments. In the medium term, policies should aim to create fiscal space by raising more tax revenues through tax policy and administration reforms, increase infrastructure investment in a sustainable way, and strengthen debt management. Structural reforms should focus on improving the business environment, promoting economic diversification, and increasing access to financial services.

Approved By
Roger Nord and Peter Allum

Discussions took place in Bissau from April 29–May 10, 2012. The staff team comprised Messrs. Villafuerte (head), Shapiro and Yoon, and Ms. Zdzienicka (all AFR), and Mr. Torrez (resident representative). Mr. Bah (Senior Advisor to Executive Director) participated in some of the discussions. Mr. Fonseca (local economist of the IMF office in Bissau) provided assistance to the mission. The team met with interim President Serifo Nhamadjo, Prime Minister Rui Duarte Barros, Minister of Finance Abubacar Dahaba, Minister of Economy Jose Biai, National Director of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) João Fadia, other senior officials, and private sector representatives.

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LIST OF ACRONYMS

AfDB	African Development Bank
AML/CFT	Anti-money laundering/Combating the Financing of Terrorism
ASYCUDA	Automated Systems for Customs Data
BCEAO	Central Bank of West African States
BOAD	*Banque Ouest Africaine de Développement*
CPLP	Community of Portuguese-Speaking Countries
DSA	Debt sustainability analysis
DSSRP	Defense Security Sector Reform Program
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EU	European Union
FUNPI	Fund to promote the industrialization of agricultural products
GDP	Gross domestic product
HIPC	Highly Indebted Poor Countries
IGV	Impuesto general a las ventas (general sales tax)
MFI	Micro finance institution
NGO	Non-government organization
NPL	Non-performing loan
PFM	Public financial management
PIP	Public investment program
PRSP	Poverty Reduction Strategy Paper
SIGRHAP	Personnel Management System
SSA	Sub-Saharan Africa
SSR	Security sector reform
SYGADE	Debt Management System
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
VAT	Value added tax
WAEMU	West African Economic and Monetary Union

POLITICAL SITUATION

1. **Security conditions remain calm, albeit fragile, while the political situation remains fluid**. A military coup d'état took place in April 2012 in the midst of presidential elections. An interim government was formed to manage a transitional period leading to new elections, but its legitimacy has been questioned by part of the international community. In late April 2013, increased pressure from the international community forced the interim government to reach a broad agreement to form an inclusive transitional government and to conduct elections in November 2013. However, negotiations on the specifics of that agreement have been protracted. Against this background, the UN extended its mandate of peace building operation in Guinea-Bissau to May 2014, and the international community has expressed its commitment to cover the costs of the elections.

2. **Most development partners maintain limited working relations with the interim government**. The World Bank has limited its support to pre-existing projects under the Bank's policy concerning *de facto* governments, as well as the AfDB. The EU is not expected to resume its official support until a democratically-elected government is put in place. In contrast, the regional partners, i.e., ECOWAS, WAEMU, and BOAD, have stepped up their financial support to Guinea-Bissau.

RECENT ECONOMIC DEVELOPMENTS

3. **The political crisis has negatively affected economic developments**. The coup led to a disruption in cashew exports and a suspension of traditional donors' aid was only partially offset by increased budget support from the region. As a result, the economy contracted by 1½ percent in 2012. Despite some upward pressures on prices driven by food and fuel shortages, the impact on headline inflation was muted in light of low domestic demand pressures. 12 month inflation was about 2 percent at end-2012. The external current account deficit (including transfers) deteriorated to 6.5 percent of GDP in 2012 from 1.2 percent in 2011, reflecting also a fall in cashew export prices (Figure 1 and Tables 1–3).

4. **The resulting sizeable reduction in fiscal revenues led to a deterioration in spending composition and fiscal control and to a further accumulation of domestic arrears in 2012**. Total revenue (excluding project grants) fell short of the budgetary target by about 3 percent of GDP. In response, the government completely cut domestically-financed capital spending. A loss of fiscal control amid rising defense-related expenditure, which increased by about 1 percent of GDP, led to a substantial increase in non-regularized payments.[1] The overall fiscal deficit was financed partially by depleting the treasury deposits and by transfers from the FUNPI. The remaining financing gap translated into an accumulation of domestic arrears (about 1 percent of GDP). For the first quarter of 2013, treasury deposits remained low notwithstanding some budget

[1] These are payments made by the Treasury that are not recorded in the budget execution reports.

support from Nigeria. Despite the government's efforts to cut the current expenditure against lower-than-expected revenue, the government ran domestic arrears of 0.3 percent of GDP (Figure 2 and Tables 4a–4d).

Box 1. Guinea-Bissau: Implementation of the 2010 Article IV Recommendations

Mobilizing fiscal revenue: Staff called for stepping up revenue mobilization as a step toward attaining a sustainable fiscal position over the medium term. The government raised customs reference prices of key imports toward market levels, launched the ASYCUDA++ in Bissau's port, and reduced some exemptions. A substantial increase in tax revenue allowed the government to cover three quarters of current expenditure in 2011, up from only one third in 2008; and better expenditure control created space for increased social spending. The revenue-raising measures agreed during the third ECF review in December 2011 experienced a set-back in 2012 when implementation stalled in the context of the political crisis.

Strengthening PFM: Measures recommended in this area focused on (i) unifying and computerizing payroll management and (ii) firming up expenditure control. The unified payroll system has been extended to all ministries, except for the Ministry of Defense. The personnel management system, SIGRHAP began operating in 2011, which helped tighten expenditure control.

Improving the business environment: Staff advised that the authorities prepare a plan to clear domestic arrears as a way to help restore the credibility of government policies and to speed up efforts to simplify administrative procedures. The authorities reduced domestic arrears consistent with their medium-term strategy in 2010–11, but accumulated domestic arrears again in 2012 amid the political crisis. The government prepared an action plan to identify and remove impediments to private sector development in 2011.

Securing debt sustainability: Staff recommended that the authorities take the necessary policy actions ("triggers") under the Enhanced HIPC Initiative: implement a national poverty reduction strategy; maintain macroeconomic stability; strengthen public expenditure management; and demobilize former combatants. Guinea-Bissau reached the completion point in December 2010 and received debt relief of US$1.2 billion in nominal terms.

RESTORING MACROECONOMIC STABILITY

Near-term economic prospects remain difficult due to political uncertainties. Maintaining a prudent fiscal policy is crucial to restoring macroeconomic stability.

A. Near-term Economic Outlook

5. **Despite a partial economic recovery in 2013, income levels will remain depressed**. The staff baseline assumes that political uncertainties continue through 2013, and that stability is only gradually restored from 2014 onwards. With an assumed robust recovery in cashew exports, and continued support from regional partners, real GDP could increase by about 3½ percent in 2013. However, activity would remain constrained by weak domestic demand, including low investment, on account of lingering concerns about instability. Inflationary pressures are projected to remain moderate. The current account deficit (including transfers) is projected to fall relative to 2012, owing to the recovery of cashew export earnings (Figure 3).

6. **The economic outlook is subject to external and domestic risks** (see Risk Assessment Matrix, Table 5). If Guinea-Bissau fails to achieve even the gradual political stabilization envisaged in the baseline, there would be further downside risks to external financing, which could intensify fiscal pressures and further undercut economic growth. A delayed cashew export campaign, associated with financing constraints and uncertainty about the FUNPI contribution and the prices for exporters and producers, also poses a downside risk. The main risks related to the international environment include a possible intensification of the euro area crisis, which could affect exports, remittances, and official assistance.

B. Fiscal Policy

7. **Lingering political uncertainty is expected to lead to a tight budget constraint in the context of suspended aid by traditional donors and spending pressures including from the defense sector.** The 2013 budget has not been approved by Parliament yet and the fiscal outlook is marked by a tight revenue envelope (Text Table 1). Fiscal revenue, the sum of tax and nontax revenues, would rise by 0.8 percent of GDP thanks to recovery in cashew exports and the implementation of revenue measures, including an increase of the sales tax (IGV) rate, the lifting of some fuel tax exemptions, and the raising of reference prices of rice and fuel toward market levels.[2] This would be partially offset by the suspension of the EU fishing compensation. Grants would decrease by 1 percent of GDP, with falling project grants partially offsetting continued regional budgetary support. The tight revenue and grants envelope, together with limited financing options, have forced the authorities to commit to cutting current spending by 2.1 percent of GDP. The sharp adjustment of current spending poses a risk of a surge in arrears if not strictly enforced.

Text Table 1. Guinea-Bissau: Fiscal Operations, 2011–13
(Percent of GDP)

	2011	2012	2013
Revenue and grants	19.1	16.9	16.9
Fiscal revenue	11.5	11.0	11.8
Tax revenue	8.8	9.3	10.3
Nontax revenue	2.7	1.7	1.5
Grants	7.5	6.0	5.1
Budget support	1.9	2.2	2.7
Project grants	5.6	3.8	2.3
Expenditure	20.5	20.0	16.9
Current spending	12.3	14.8	12.7
Capital spending	8.1	5.2	4.2
Foreign-financed projects	7.7	5.0	3.5
Overall balance (commitment basis)	-1.4	-3.1	-0.1
Accumulation of arrears	-0.7	0.7	0.0
Float and statistical discrepancies	0.1	-1.0	0.0
Overall Balance (cash basis)	-2.0	-3.3	-0.1
Financing	2.0	3.3	-0.1
Domestic Financing	0.0	2.1	-1.0
Foreing Financing	2.1	1.2	1.1

Sources: GNB authorities and IMF staff estimates and projections.

8. **The tight fiscal situation in 2013 poses concerns about fiscal slippages and accumulation of arrears**. Revenue projections might be affected by a delayed approval of the budget, while available financing sources remain almost nonexistent. This leads a need to reduce

[2] The increase in the IGV rate and the lifting of fuel tax exemptions would yield 0.3 percent of GDP each. The increase in reference prices and the recovery in cashew exports would increase tax revenue by 0.2 percent of GDP each.

recurrent spending. At the same time, there is a need to rebuild Treasury deposits (at least up to one month of the wage bill) to facilitate a policy response in the face of potential negative shocks. Implementation of a tight current expenditure envelope hinges on strengthened fiscal control, particularly to avoid non-regularized payments, a mechanism that has been used to bypass budgetary limits on certain expenditure items (particularly related to the defense sector). In addition, implementation of the budget needs to be supported by monthly treasury cash management plans to minimize the risk of running arrears.

9. **A contingency plan is required to face the highly likely emergence of a financing gap**. For instance, if the committed budgetary support does not materialize and/or the authorities fail to contain recurrent spending, the authorities would be unable to timely pay salaries after the cashew campaign season ends in late September. Given limited financing options, the contingency plan should focus on cutting domestically financed capital expenditure and defense-related outlays, while protecting social expenditures.

10. **The recovery of cashew exports this year would be helped by a suspension of the FUNPI contributions**. The contribution to FUNPI complicates the financial position of cashew producers and exporters (particularly the former) under uncertain market conditions. Furthermore, delays in setting up transparent statutes to make best use of FUNPI resources undermine the growth potential of the cashew processing industry. The government raised 2.1 percent of GDP for the FUNPI in 2011–12 through a cashew export surcharge, but none of the FUNPI resources have been used for developing the sector.

Authorities' views

11. **The authorities acknowledged the need for an approved 2013 budget and stronger fiscal controls**. They agreed that priority should be given to legislative approval of a prudent 2013 budget and rapid implementation of the revenue measures envisaged in the budget. The authorities highlighted some recent measures that were adopted with the aim of mobilizing tax revenue and strengthening fiscal control: collection of tax revenue and payment of civil servants' salaries via the banking system; and implementation of a fuel marking program to limit the fiscal costs of fuel tax exemptions. In addition, they noted that ASYCUDA++ is being gradually expanded to three border posts to strengthen customs administration and that the treasury account is being more closely monitored by the court of audit (*cour de comptes*). The government committed to record FUNPI operations in the national budget as a way to ensure its transparent management and operation.

BUILDING THE FOUNDATIONS FOR INCLUSIVE GROWTH

Guinea-Bissau's medium-term challenges are to diversify its economy, reduce widespread poverty, and generate employment opportunities. That requires continued focus on policies to create an enabling environment for private sector-led growth and to relax structural constraints.

A. Medium-term Outlook and Context

12. **Medium-term growth prospects critically depend on a stabilization of the political environment and increased support by traditional development partners** (Text Table 2). Recurrent internal conflicts have negatively affected economic growth, poverty reduction, and social advancement in Guinea-Bissau (Appendix I: Civil Conflicts and Inequality). Over the coming years, economic performance will depend critically on establishing a visibly inclusive political process while moving toward demobilization and professionalization of the military forces (Box 2). In the baseline, uncertainties about implementation of those conditions suggest scope for only a slow and weak recovery, leaving real per capita incomes below 2011 levels until at least 2016. In this environment, and with depressed external financing, public spending would remain constrained, leaving the economy locked in a vicious cycle of poverty, weak institutions, and large physical and human capital gaps. In contrast, should political stabilization gain momentum more rapidly, a strengthened political mandate could be used to boost revenue collections, mobilize additional foreign financing, and finance growth-promoting public investments (Text table 2).

Text Table 2. Guinea-Bissau: Medium-term Projections

	2013	2014	2015	2016	2017	2018
Baseline						
Real GDP growth (%)	3.5	2.7	2.8	3.1	3.3	3.7
Real per capita income growth (%)	1.4	0.6	0.7	1.0	1.2	1.5
Grant and external loan financing (% of GDP)	6.2	4.4	4.5	4.6	5.0	5.1
Fiscal revenue (% of GDP)	11.8	12.1	12.4	12.5	12.6	12.6
Public investment (% of GDP)	4.2	4.2	4.2	4.3	4.3	4.3
Alternative Scenario (with political stabilization and enhanced donor support)						
Real GDP growth (%)	4.2	7.0	5.7	5.0	4.5	4.5
Real per capita income growth (%)	2.1	4.8	3.5	2.8	2.4	2.4
Grant and external loan financing (% of GDP)	8.6	7.9	8.0	8.0	8.4	8.4
Fiscal revenue (% of GDP)	12.0	12.4	12.8	13.0	13.2	13.3
Public investment (% of GDP)	6.7	7.7	7.8	7.9	8.2	8.2

Source: IMF staff estimates.

B. Increasing Fiscal Space

13. **Guinea-Bissau's medium-term fiscal program should focus on mobilizing more fiscal revenues**. Guinea-Bissau's tax performance is the lowest relative to regional peers, i.e., WAEMU countries, and staff's analysis suggests that Guinea-Bissau's actual tax-to-GDP ratio falls short of its potential by as much as 12 percent of GDP (Box 3). An increase in tax revenues can be achieved by broadening the tax base, including through a rationalization of existing tax exemptions, and by strengthening tax and customs administrations over the medium-term.

Box 2. Guinea-Bissau: Progress of the Security Sector Reform and its Prospects

Successful implementation of a SSR is critical for political stability and economic development. Guinea-Bissau's history has been characterized by recurrent military coup attempts. This has in turn translated into an inability to implement economic programs and reforms. In that context, a reform of the SSR has been identified as a cornerstone reform. Such reform would create a virtuous cycle of stability and growth, and help restore budget and project support from traditional donors.

A roadmap to modernize and restructure the security sector was prepared in 2010 with assistance by international partners, CPLP, ECOWAS and UN. The roadmap involved the gradual reduction of military forces from about 4,500, to 3,500 and reversing an inverted pyramid organizational structure of the military through a combination of retirement schemes and professionalization.

Several development partners have pledged financing to implement the reform. ECOWAS has committed up to US$63 million, of which 60 percent would be used for a military pension fund and 40 percent for rehabilitation of military barracks. In March 2012, ECOWAS set up a scheme to disburse a first tranche of US$23 million. Angola dispatched their military personnel from early 2011 through April 2012. Other partners (EU and UN) also committed financing to the SSR.

Amid disagreements between international partners regarding the implementation of the SSR roadmap, the April 2012 coup d'état has stalled the SSR. The coup stopped the cooperation with CPLP, and ECOWAS repatriated the first tranche of committed funds. Since then, no progress has been made in reaching an agreement between ECOWAS, the CPLP, and the Government of Guinea-Bissau for the implementation of the roadmap.

The February 2013 ECOWAS summit renewed the calls for implementation of the DSSRP. The DSSRP, bilateral agreement signed in November 2012 between ECOWAS and the government of Guinea-Bissau, replaced the SSR, conceived as a tripartite agreement including the CPLP. The summit instructed the initiation of the DSSRP by March 2013 and confirmed ECOWAS' financial pledge.

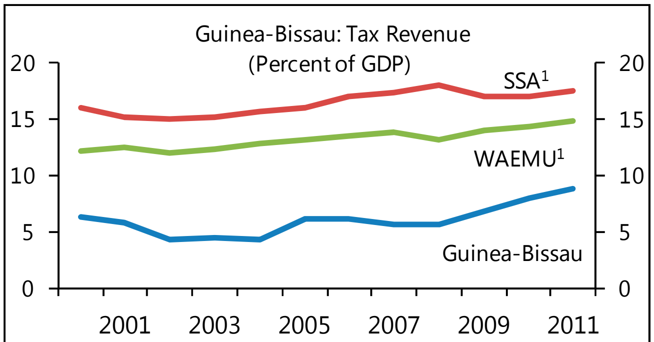
14. **Technical assistance by the Fund and other partners should help create fiscal space** Targeted Fund technical assistance would support the authorities' reform programs and capacity building efforts, particularly in the areas of tax and customs administration. For instance, Guinea-Bissau benefits from a multi-year program to modernize tax administration under a dedicated topical trust fund (TTF–TPA). Since expenditure restraint is essential to reestablish macroeconomic stability until revenue performance improves, some technical assistance will be geared toward the implementation of PFM reforms aimed at reinforcing fiscal control and improving cash management to better allocate scarce budgetary resources.

Authorities' views

15. **The authorities hope to increase fiscal space by making good use of Fund technical assistance for enhancing tax revenue**. The authorities intend to establish a reform coordination and fiscal modernization unit to consolidate their fiscal reform efforts and to move toward the adoption of a value added tax to broaden the tax base. They also expressed a commitment to review the pension system for public employees to help limit the transfers of the government.

Box 3. Guinea-Bissau: Enhancing Tax Revenue–Tax Potential and Tax Effort

Despite a significant rise in tax-to-GDP ratios in Guinea-Bissau in recent years, there is a significant untapped potential. In 2011, Guinea-Bissau collected tax revenue equivalent to 8 percent of GDP, the lowest ratio among all countries in SSA. A low per capita income, an agricultural-based economy, a poorly structured tax system, and weak tax and customs administrations all contribute to difficulties in raising tax revenue. As a result, weak revenue mobilization is the root cause of Guinea Bissau's fiscal imbalances.

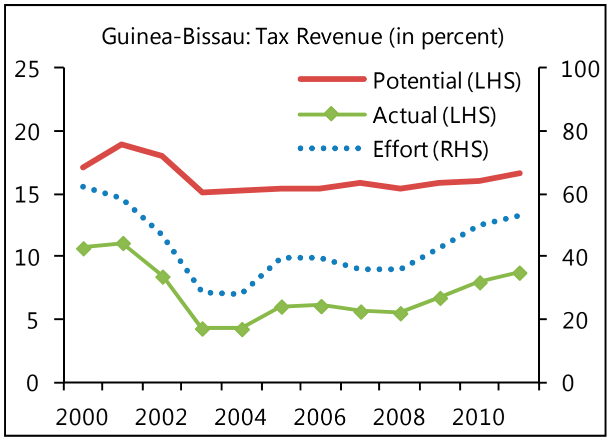


1. Simple average of each countries' tax revenue-GDP-ratio.

Guinea-Bissau's tax buoyancy, defined as the elasticity of tax revenue with respect to nominal GDP, remains low compared with other SSA countries, suggesting another explanatory factor for its low tax-to-GDP ratio. Guinea-Bissau's tax revenue has not kept up pace with economic growth. The country has revenue buoyancies that are below unity and similar to SSA fragile states, but below all WAEMU and SSA averages for all three categories of taxes.

Tax Revenue Buoyancy, 2000-11			
Guinea-Bissau	WAEMU	SSA	SSA Fragile*
0.73	0.76	0.84	0.80
* BDR, CAR, CMR, DRC, CIV, ERT, GAM, GIN, GNB, LBR, STP, SLE, TGO, and ZWE			

A cross-country econometric analysis[1] suggests that the tax gap between tax potential and actual tax collection in Guinea-Bissau is substantial. The tax gap would have been as much as 12 percent of GDP in 2011. The tax effort (i.e., the actual tax collection relative to the taxable capacity) increased from 21 percent in 2004 to 37 percent in 2010. This implies that the recent improvements in tax revenue are mainly due to an improved tax administration rather than to an increase in the "broadly-defined" tax potential itself.



Significant additional revenue can be generated by implementation of best practices in a sequence consistent with the country's circumstances. Quick wins can be made by enhancing the collaboration between the tax and customs administrations and implementation of a large-taxpayer unit with proper responsibilities and staffing. The tax base can be broadened by, for example, streamlining exemptions and taxing imports on the basis of actual values.

1. See the details in Table B2 of Appendix II.

Source: IMF Staff estimates.

C. Improving Competitiveness and the Business Environment

16. **External price-competitiveness appears to be broadly in line with fundamentals**. Staff's analysis indicates no significant misalignment of the real effective exchange rate. However, many factors, including insufficient infrastructure, lack of qualified labor force, and high transportation and communication costs affect negatively the economy's overall competitiveness (Box 4).

17. **Despite recent improvements, business climate indicators point to significant challenges for the creation of a competitive and diversified economy**. Despite a low overall ranking, the country had made a significant progress in improving its business environment for 2005–11.[3] A number of weaknesses on the quality and reliability of institutions, labor force quality, and some business practices explain Guinea-Bissau's weak competitiveness performance and its last place ranking among WAEMU countries. Moreover, some of the earlier progress is likely to have been reversed following the 2012 coup.

18. **There has been limited progress in the implementation of structural reforms**. The authorities need to step up the efforts, as committed in their second PRSP, to implement an action plan for removing impediments to private sector development. In this context, the government has recently taken steps to reactivate the one-stop shop which had been introduced in 2011 to simplify registration of private enterprises. The ongoing strengthening of the anti-money laundering regime should contribute to improve governance and transparency, and strengthen anti-corruption efforts. The implementation of 2012 AML/CFT law would benefit, among others, from making the financial intelligence unit operational, and ensuring that AML/CFT supervision of financial institution takes place.

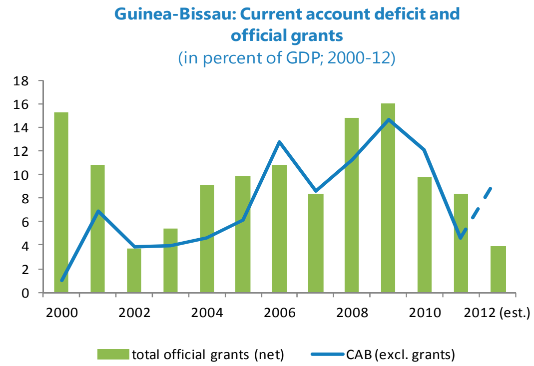
Authorities' views

19. **The authorities acknowledge the need to further improve the business environment to help diversify the economy**. They intend to establish a natural resource management framework to guide the concession of development licenses and enhance the institutional capacity of the natural resources sector with technical assistance from development partners. The authorities are reviewing the labor law with the aim of promoting the absorption of the unskilled, young, and under-employed labor force.

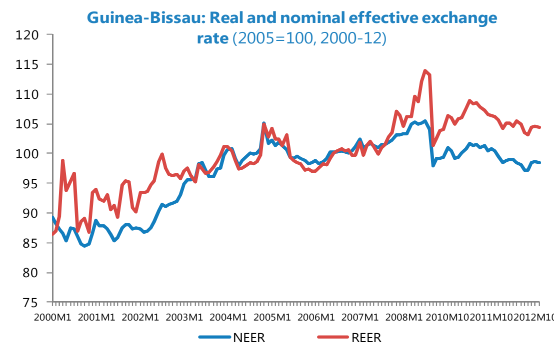
[3] The 2012/13 World Bank Doing Business Report

Box 4. Guinea-Bissau: External Stability Assessment

Guinea-Bissau's current account deficit has been hovering around 6 percent on average since 2000. Following a weakening in 2010–11, the current account deficit (excluding grants) widened in 2012 reflecting the political crisis and a disruption in cashew export activities. The current account deficit has been financed mainly through official aid, while FDI inflows have been low but stable sources of financing. Pooled reserves of WAEMU members decreased to CFAF 6.8 trillion (US$ 13 billion) at the end–2012, but remain adequate according to reserve metrics.[1]



The real exchange rate remains broadly in line with the country's fundamentals. The real and nominal exchange rates had a gradual appreciation trend over the last decade. Despite sensitivity to methodological differences, none of results show significant exchange rate deviations, in line with the assessment made for the WAEMU region.



Despite progress in recent years, survey-based indicators point to low structural competitiveness, thus strengthening legal institutions and procedures will be key. Before the political crisis, Guinea-Bissau had improved its business environment. The recent World Bank's Doing Business Report places the country among the best performers in terms of improvements since 2005, despite a low overall ranking. Nonetheless, progress has been limited, particularly in issues linked to the reliability of institutions such as enforcement of contracts or protection of investors.

Guinea-Bissau: Model-Based Approach Results

	CAB/GDP		REER[1]
	Norm	Underlying	
Macro-Balance	-3.9	-4.6	4.3
ERER	…	…	-6.1
Ext. Sustainability	-5.1	-4.6	-3.2

[1] "-" indicates undervaluation
Source: IMF staff estimates.

WAEMU: Doing Business Indicators

	2010*	2011*	2012*	2013
Benin	172	173	176	175
Burkina Faso	154	151	149	153
Cote d'Ivoire	168	170	177	177
Guinea-Bissau	175	181	178	179
Mali	155	148	145	151
Niger	171	172	175	176
Senegal	151	157	162	166
Togo	162	158	161	156
Average	**164**	**164**	**165**	**167**
Total of countries	*183*	*183*	*183*	*185*

* Adjusted for data corrections and comparability.
Source: World Bank, Doing Business Indicators, 2010-13.

Sources: IMF Staff estimates; Guinea-Bissau authorities; and 2013 Doing Business.

[1] WAEMU Staff Report on Common Policies for Member Countries (IMF report no. 13/92).

D. Increasing Access to Finance and Strengthening Financial Stability

20. **The financial sector is not yet in a position to support growth**. The financial system in Guinea-Bissau is shallow—with a few commercial banks—and financial intermediation remains the lowest in the WAEMU. Microfinance is almost non-existent. Weak physical infrastructure impedes the expansion of the banking system and limits the range of financial services. Rudimentary payment and settlement systems limit the benefits of using the banking system. No meaningful progress has been made in the financial sector from poor initial conditions, and the banking system is burdened by large NPLs (Box 5). There is a need to encourage a broader range of financial services, to support increased access to finance, and to enhance the monitoring of the banking system.

Authorities' Views

21. **The authorities share the staff's assessment on the development of the financial sector**. The authorities intend to revise the national strategy document for the microfinance sector by consolidating the existing initiatives and by signing a partnership agreement with the African Microfinance Network to energize the underdeveloped sector.

E. Maintaining Debt Sustainability

22. **Guinea-Bissau has limited space to borrow**. A debt sustainability analysis (DSA) suggests that the country's debt outlook has worsened considerably, but risks of debt distress remain moderate (See Supplement I). Such an assessment critically depends on a post-crisis recovery and on the assumption that the authorities resume prudent fiscal and debt management policies. Without tight limits on new borrowing and efforts to improve exports, revenue and growth performance, the country might face a high risk of debt distress. The immediate resumption of publication of quarterly reports on the total public debt will help strengthen sound debt management. Extending the debt management system (SYGADE) to the BCEAO would improve debt monitoring capacity. Since the Paris Club agreement of May 2011, most of the debt owed to multilaterals and official bilateral creditors has been canceled, while about half of the remaining debt owed to non-Paris Club creditors is subject to rescheduling.

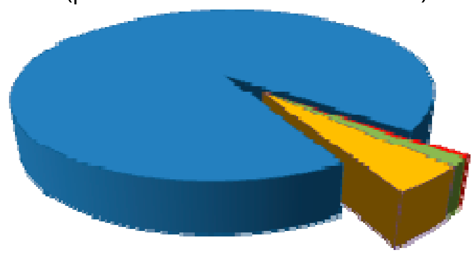
Authorities' views

23. **The authorities concur with the staff's assessment and intend to pursue a prudent borrowing strategy focused on concessional financing terms**. As regards the progress of post-HIPC implementation, the authorities are making efforts to finalize agreements with remaining official creditors.

Box 5. Guinea-Bissau: Financial System's Structure and Performance

The financial system in Guinea-Bissau is mostly limited to the banking sector. The banking sector, composed of 4 commercial banks, holds about 94 percent of the financial system's assets. Only five MFIs provide limited financial services and most of their activity is concentrated in Bissau, the country's capital.

Guinea-Bissau: Financial System Structure
(percent of total assets in 2012)



Source: BCEAO and IMF staff estimates.

Financial deepening has improved recently, but still lags behind WAEMU countries. The M2 to GDP ratio, a a proxy of financial intermediation, increased from about 24 percent in 2009 to 38 percent in 2012, but still below the WAEMU average. Only about one percent of the population holds bank accounts. The number of bank accounts per thousand adults (35 in 2011) is well below other WAEMU countries (about 45). A sizable cash-based informal sector, relatively high interest margins, scarce access to financing, insufficient collateral, and poor financial accounting practices pose significant obstacles to the development of the financial system. Moreover, weak infrastructure, a rudimentary payments system, weak legal and judicial systems, lack of a credit reference system and political instability hinder the financial sector's ability to provide adequate support for the private sector.

The banking system appears to be relatively robust, but lending concentration to the cashew sector poses risks. The financial soundness indicators suggest that the banking system is broadly sound. At end–2012, banks were well capitalized, relatively profitable, and somewhat liquid, while asset quality has deteriorated. The high NPLs are mainly due to a rise in unpaid loans of cashew exporters following the fall in cashew export prices in 2012. Loans to the cashew sector represent about 25 percent of total loans.

Guinea-Bissau: Financial Soundness Indicators for the Banking Sector, 2007-12

	2007	2008	2009	2010	2011	2012
	(in percent)					
Capital to risk-weighted assets	27.3	24.2	21.9	28.5	22.3	19.9
NPLs to total loans	6.6	7.2	8.5	9.8	6.5	9.7
Return on assets	...	...	...	1.1	2.5	2.6
Return on equity	-15.1	-3.6	-2.5	6.2	17.7	18.0
Liquid assets to total assets	23.3	31.9	34.9	22.2	30.0	44.6
Liquid assets to short term liabilities	81.4	88.2	90.9	89.7	90.8	84.1

Source: BCEAO and IMF staff estimates.

The microfinance sector is still very small. The stock of credit by MFIs, mostly funded by NGOs grant financing, represented less than 1 percent of bank credit in 2012. Although the first MFIs were established in mid–1990s, only 5 licensed institutions were operating at end-2012. NPLs were about 51 percent at end–2012. Moreover, data and financial statements from the MFIs are unreliable and do not comply with WAEMU regulations.

CAPACITY DEVELOPMENT AND STATISTICAL ISSUES

24. **Capacity building is needed to complement fiscal reforms and ensure their effectiveness and sustainability**. Guinea-Bissau is characterized by weak government institutions. Development partners have actively provided technical assistance in various areas, with an emphasis on training. Efforts have been made to identify key priorities (Box 6). The Fund is providing technical support in public financial management, revenue administration, and national accounts statistics.

25. **Weaknesses in the national accounts and the balance of payments statistics hamper surveillance**. These issues are discussed in the Informational Annex (See Supplement II). Several development partners are providing technical assistance in macroeconomic statistics. A strategic plan for development of statistics is being prepared, aiming at improving the quality of statistics.

Box 6. Guinea-Bissau: Technical Assistance Priorities over 2013–14

The priorities remain on strengthening tax and customs administration, deepening PFM reform, and improving debt management. It is expected that FAD, MCM, and STA will be involved in providing TA, supported by AFRITAC West. Training should focus in the tax and customs administration areas. Capacity constraints and the ongoing political fragility could limit progress. The following priorities have been identified by the authorities:

Revenue administration: Under the multi-year TPA-TTF, the objective is to (i) accurately register the large and medium-sized taxpayer population by the Tax Department; (ii) establish a relevant auditing framework including institutional auditing responsibilities and procedures; (iii) improve large taxpayers' filing rate; and (iv) reorganize the Tax Department.

Customs administration: The goal is to strengthen computerized customs procedures through continued implementation of ASYCUDA++ and to reinforce controls by ensuring proper valuation of goods. In this context, the focus would be on (i) expanding the ASYCUDA++ to key border posts, (ii) professionalizing checks at the customs clearance, including import value and exemptions; and to (iii) developing post-clearance audit and enhancing collection of information on fraud.

Tax policy: The short-term goal is to broaden the tax base, including by closing tax loopholes, and to consolidate and rationalize tax exemptions, while a medium-term goal is to implement a VAT system.

Public financial management: The objective is to enhance budget preparation and control in budget execution; to strengthen accounting, recording, and reporting procedures; and to reinforce internal and external controls.

Debt management: The focus would be on enhancing debt management capacity and regular reporting on all public debt through the SYGADE.

Statistics: The goal is to timely produce the national accounts under 1993 System of National Accounts.

STAFF APPRAISAL

26. **The combined impact of the domestic political crisis and the deterioration in terms of trade was severe**. During 2012, economic activity declined, partly on account of sharp cuts in public investment in response to a sizeable reduction in fiscal revenues and deterioration in government's spending composition. Also, the implementation of structural reform stalled.

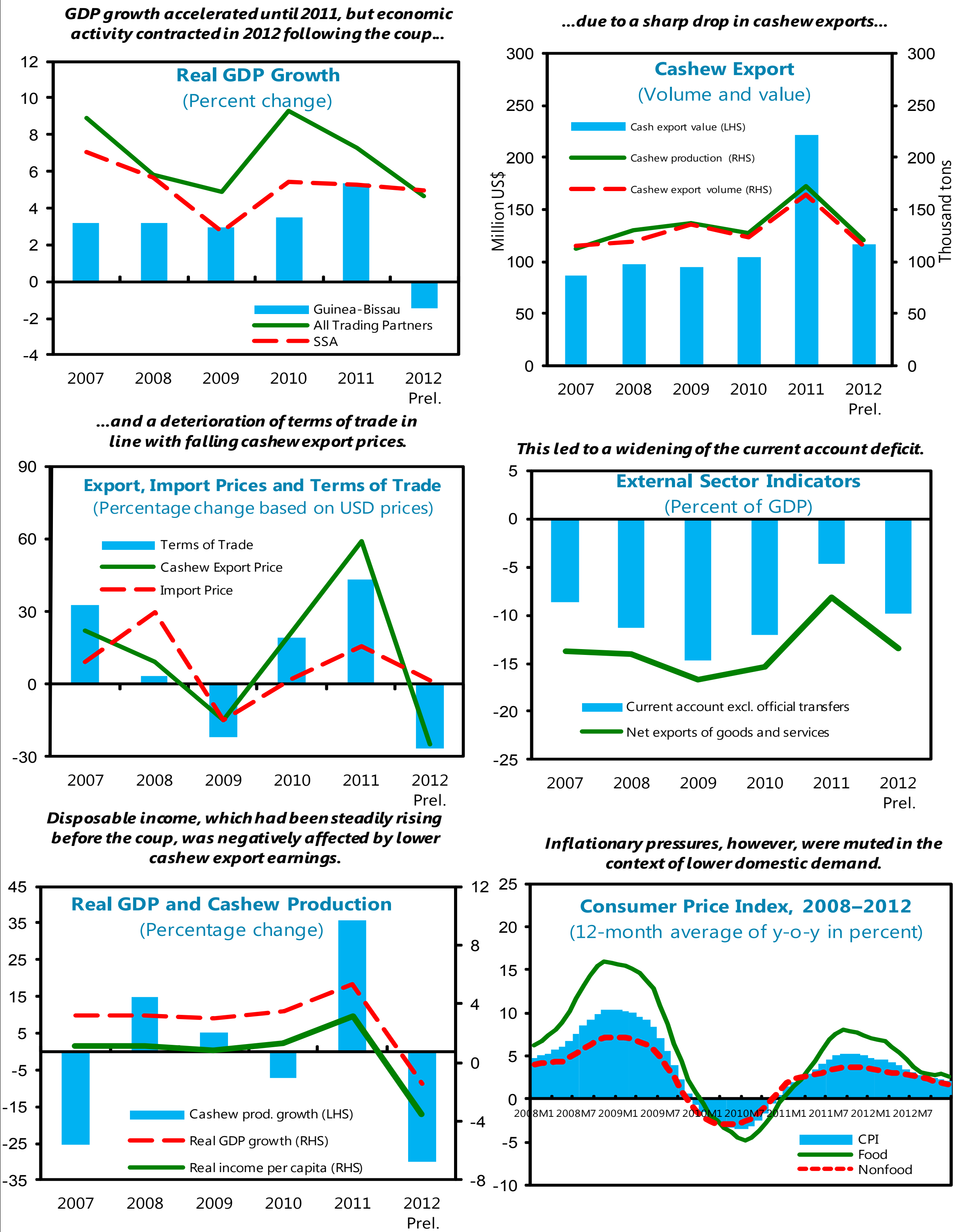
27. **Macroeconomic stability needs to be re-established in the context of difficult (and uncertain) short-term prospects**. Achieving macroeconomic stability is crucial for a successful political transition process. The limited levels of projected revenue and grants, together with limited financing options, warrant a tight expenditure envelope and strict fiscal controls to avoid further domestic arrears, while protecting social and priority spending. A prudent 2013 budget needs to be speedily approved, while contingency plans need to be formulated for eventual shortfalls in revenue collection. In addition, liquidity buffers need to be reconstituted and non-regularized payment procedures brought under control. The authorities should consider suspending FUNPI contributions as a mechanism to improve the prospects of the 2013 cashew export campaign and to support cashew producers' income.

28. **The achievement of sustained and inclusive growth hinges critically on political stability, support by (traditional) donors, and structural reforms.** Restoring political stability and implementing a security sector reform are pre-conditions for investors' confidence and the reengagement of development partners. Otherwise, the country might be locked in a vicious cycle of sluggish income growth, underinvestment, and poverty. Support by development partners is essential since financing needs for sustained growth and poverty reduction are large and it will take time to substantially increase tax revenue. In addition, structural reforms will need to be accelerated, particularly to lower the cost of doing business and to enhance competiveness. In this regard, staff welcomes the authorities' intentions to enhance revenue administration, to gear PFM reforms towards an improved composition of public spending, and to improve the business climate. The authorities' plans to develop the financial markets and improve access to credit, especially for the financially neglected groups, are also welcome.

29. **The authorities need to urgently tackle structural deficiencies in the provision of macroeconomic statistics.** Gaps in macroeconomic data provision complicate Guinea-Bissau's public policy-making and Fund surveillance. This requires immediate reform and strengthening of the national statistical agencies.

30. **Staff recommends that the next Article IV consultation with Guinea-Bissau be held on a 12-month cycle, in accordance with the decision on Article IV Consultation cycles**.

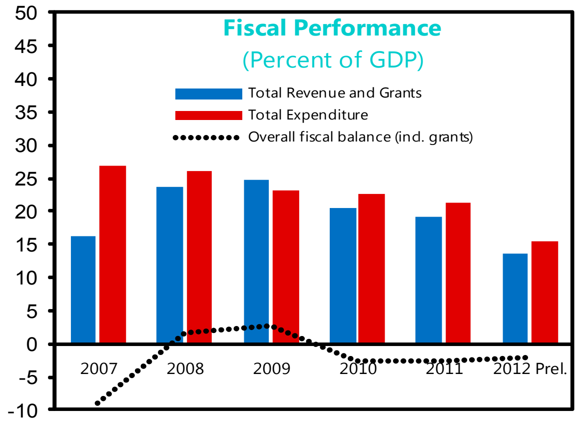
Figure 1. Guinea-Bissau: Economic Developments, 2007–12



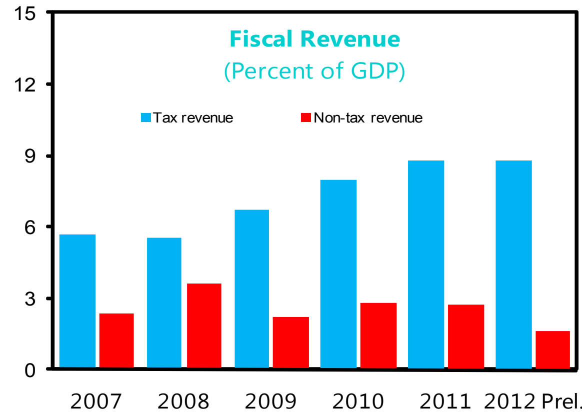
Sources: Guinea-Bissau's authorities and IMF staff estimates.

Figure 2. Guinea-Bissau: Additional Economic Developments, 2007–12

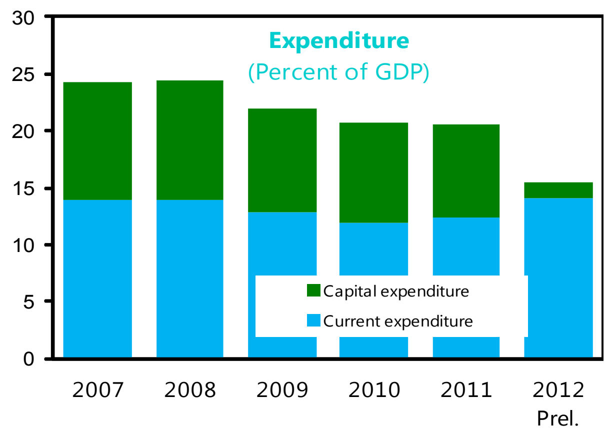
The government had to adjust government spending…



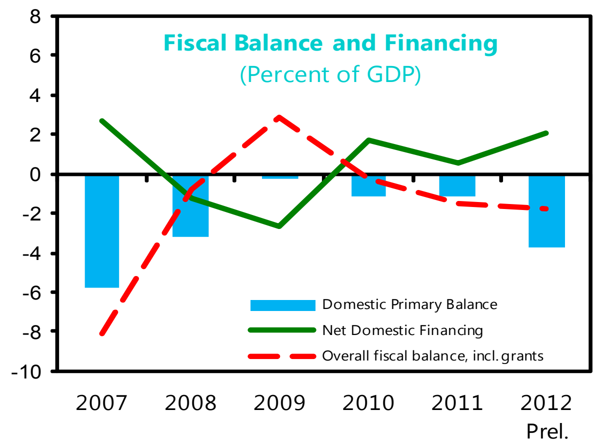
…in response to lower-than-budgeted revenue collection.



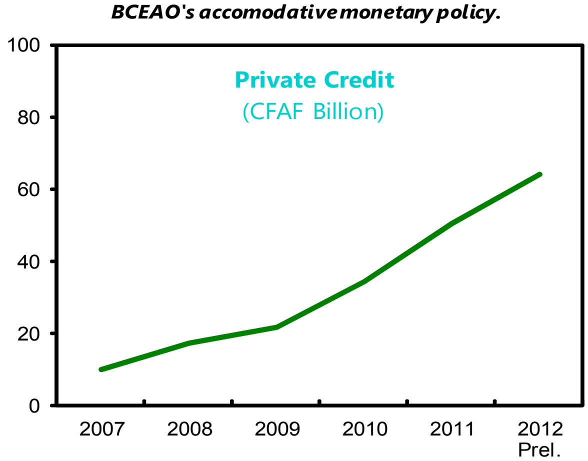
This led to a substantial cut in capital spending.



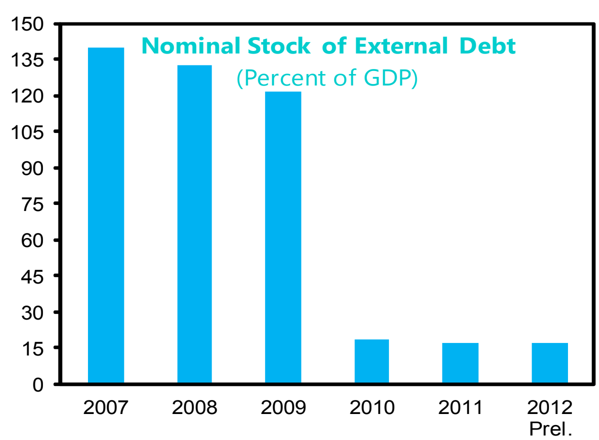
Fiscal performance, which had improved until 2011, has deteriorated.



Private sector credit has been modestly rising in light of the BCEAO's accomodative monetary policy.

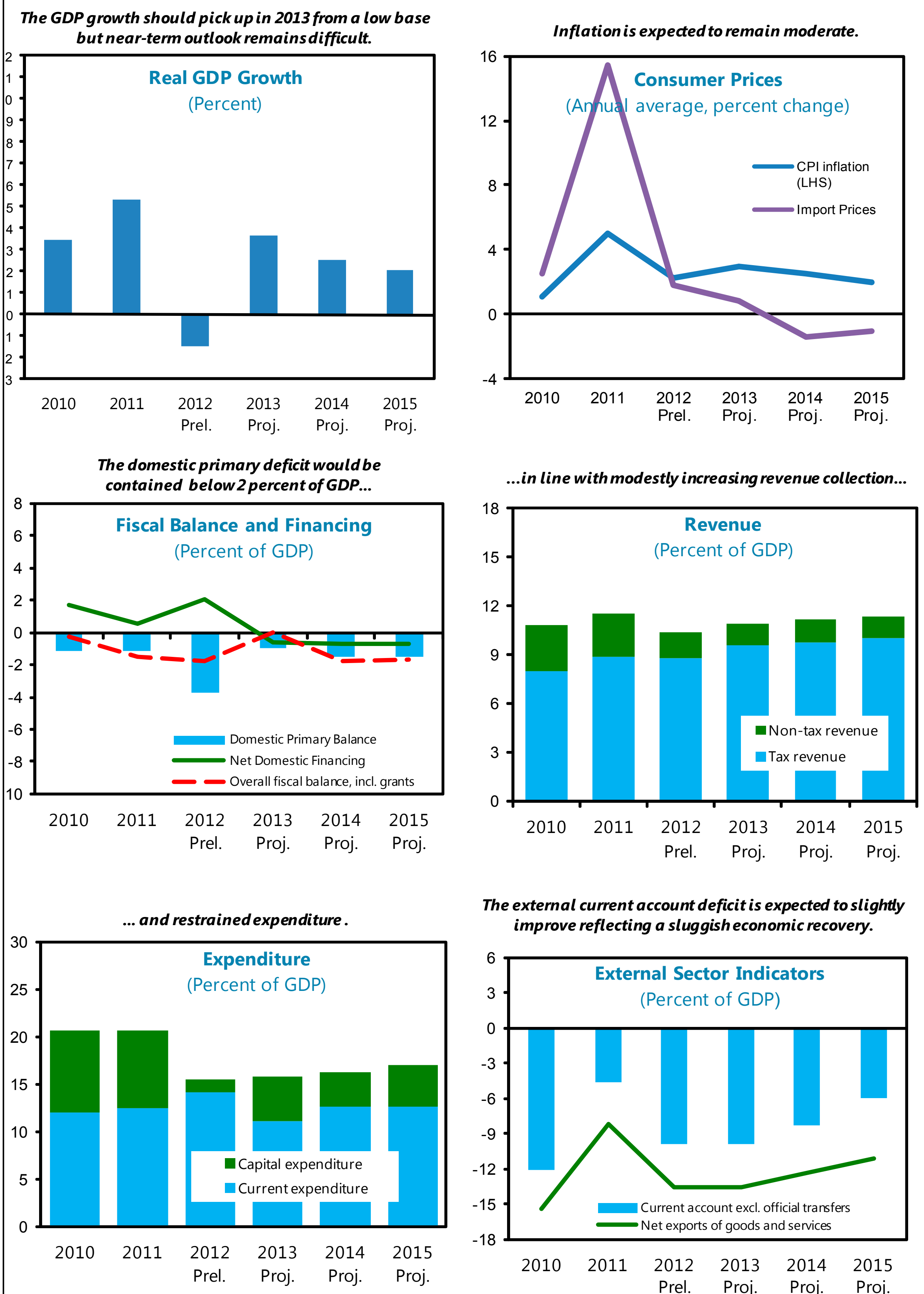


External debt levels remain low after a debt relief in 2010.



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

Figure 3. Guinea-Bissau: Medium-Term Outlook, 2010–15



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

Table 1. Guinea-Bissau: Selected Economic and Social Indicators, 2011–18

	2011	2012		2013	2014	2015	2016	2017	2018
		Proj.[1]	Prel.			Proj.			
	(Annual percentage change, unless otherwise indicated)								
National accounts and prices									
Real GDP at market prices	5.3	4.5	-1.5	3.5	2.7	2.8	3.1	3.3	3.7
Real GDP per capita	3.2	2.2	-3.5	1.4	0.6	0.7	1.0	1.2	1.5
GDP deflator	4.8	1.8	-6.7	0.7	1.1	0.9	1.5	1.0	1.0
Consumer price index (annual average)	5.1	2.0	2.1	2.6	2.5	2.0	2.0	2.0	2.0
External sector									
Exports, f.o.b. (based on US$ values)	91.3	-25.3	-47.1	25.5	15.8	6.8	6.7	8.4	13.8
Imports, f.o.b. (based on US$ values)	29.0	-16.7	-25.2	19.3	5.8	3.3	3.0	9.8	8.7
Export volume	33.3	-15.2	-30.1	22.1	18.6	8.4	6.7	8.4	12.6
Import volume	11.8	-15.6	-26.5	18.3	7.2	4.4	4.5	5.2	3.0
Terms of trade (deterioration = -)	43.4	-14.9	-26.7	-8.1	-0.4	-0.5	1.4	-4.3	-4.4
Real effective exchange rate (depreciation = -)	2.4	...	0.1	...	...	...	...	...	...
Nominal exchange rate (CFAF per US$; average)	471.4	...	510.0	...	...	...	...	...	...
Government finances									
Domestic revenue (excluding grants)	18.0	28.7	-12.5	12.3	6.2	6.4	5.9	4.6	5.0
Total expenditure	9.4	11.2	-10.3	-11.7	11.1	4.6	5.4	3.8	4.3
Current expenditure	14.8	6.8	10.1	-10.8	12.6	4.9	5.5	3.6	4.0
Capital expenditure	2.1	17.9	-41.5	-14.3	6.6	3.8	5.0	4.8	5.2
Money and credit									
Net domestic assets [2]	16.9	6.6	14.9	4.7	7.4	8.1	7.5	6.5	10.3
Credit to government (net)	6.6	-0.3	5.9	-1.1	-2.0	-2.0	-1.7	-1.5	-0.9
Credit to the economy	12.9	6.9	8.0	5.8	3.5	4.5	5.0	5.5	6.5
Velocity (GDP/broad money)	2.7	3.1	2.6	2.6	2.6	2.5	2.4	2.4	2.3
	(Percent of GDP, unless otherwise indicated)								
Investments and savings									
Gross investment	10.1	10.6	7.5	7.7	9.1	8.5	8.7	9.7	9.7
Of which: government investment	4.5	5.0	2.3	2.4	2.4	2.4	2.4	2.4	2.4
Gross domestic savings	2.0	-2.8	-6.8	-6.5	-3.6	-3.5	-2.4	-1.9	-1.1
Of which: government savings	-4.5	-4.1	-6.7	-2.8	-3.7	-3.5	-3.5	-3.4	-3.3
Gross national savings	9.0	3.5	1.0	1.7	4.1	3.7	5.3	6.6	6.9
Government finances									
Budgetary revenue	11.5	12.8	11.0	11.8	12.1	12.4	12.5	12.6	12.6
Total domestic primary expenditure	12.7	14.3	14.9	13.4	13.8	14.0	14.2	14.2	14.3
Domestic primary balance	-1.2	-1.5	-4.0	-1.6	-1.7	-1.6	-1.7	-1.7	-1.6
Overall balance (commitment basis)									
Including grants	-1.4	-1.0	-3.1	-0.1	-1.3	-1.1	-1.0	-0.8	-0.7
Excluding grants	-9.0	-9.1	-9.0	-5.1	-6.0	-5.9	-5.9	-5.7	-5.6
External current account (including official current transfers)	-1.2	-7.1	-6.5	-6.0	-5.0	-4.8	-3.4	-3.1	-2.8
Excluding official transfers	-4.6	-10.1	-10.3	-10.3	-8.3	-6.6	-5.4	-5.0	-4.7
PV of external debt / exports of goods and services (percent)	135.6	...	141.9	121.6	108.1	104.0	101.9	98.4	90.0
Nominal stock of public debt, including arrears[3]	49.3	42.1	58.4	59.2	57.6	53.1	50.8	48.7	46.6
Of which: external debt, including arrears	23.0	17.8	27.5	27.0	26.7	26.5	26.5	26.5	26.3
Memorandum item:									
Nominal GDP at market prices (CFAF billions)	456.7	488.4	419.8	437.6	454.0	471.4	493.1	514.5	538.4

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

[1] IMF Country Report No. 11/353 (3rd ECF Review).

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

[3] 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: Balance of Payments, 2011–18

	2011	2012		2013	2014	2015	2016	2017	2018
		Proj. [1]	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(CFAF billions, unless otherwise indicated)								
Goods and services	-37.4	-65.5	-60.0	-62.1	-57.3	-56.3	-54.9	-58.6	-56.6
Goods	-5.5	-42.5	-31.6	-32.5	-26.6	-24.5	-21.6	-24.6	-21.0
Exports, f.o.b	114.2	86.4	65.3	79.4	92.6	99.6	106.3	112.5	128.0
Of which: cashew nuts	104.4	73.6	59.3	65.0	76.2	78.6	81.0	81.4	85.6
Imports, f.o.b.	-119.7	-128.9	-96.9	-111.8	-119.2	-124.1	-127.8	-137.1	-149.0
Of which: food products	-32.0	-34.7	-29.0	-33.8	-37.7	-45.1	-49.8	-51.2	-60.2
petroleum products	-31.0	-28.9	-23.5	-29.5	-31.3	-31.9	-29.2	-35.4	-38.0
Services (net)	-31.9	-23.0	-28.4	-29.6	-30.7	-31.9	-33.4	-34.0	-35.6
Credit	6.7	6.7	7.4	7.7	8.0	8.3	8.7	8.8	9.2
Debit	-38.6	-29.7	-35.8	-37.3	-42.0	-42.8	-44.8	-47.3	-49.9
Income (interest scheduled)	-0.3	-0.2	-0.4	-0.4	-2.1	-1.9	-1.8	-1.7	-1.6
Current transfers (net)	32.4	31.2	33.0	36.3	36.9	35.9	39.8	44.7	43.6
Official [2]	15.8	14.6	15.9	18.9	15.4	8.8	9.6	9.8	10.2
Of which: balance of payments support grants	8.7	6.2	9.1	12.0	7.8	8.5	9.3	9.5	10.0
EU fishing compensation	7.1	8.3	0.0	0.0	0.2	0.2	0.3	0.3	0.3
others	0.0	0.0	6.9	6.9	7.3	4.8	3.1	2.0	1.3
Private	16.6	16.7	17.0	17.3	21.5	27.1	30.2	34.9	33.3
Of which: remittances	11.2	13.6	11.8	12.1	12.6	13.0	13.4	13.7	14.3
license fees	1.7	2.8	2.4	2.4	2.6	2.8	2.9	3.0	3.1
Current account									
Including official transfers	-5.3	-34.5	-27.4	-26.3	-22.5	-22.4	-17.0	-15.6	-14.6
Excluding official transfers	-21.1	-49.1	-43.4	-45.2	-37.8	-31.1	-26.6	-25.3	-24.8
Excluding official transfers and interest payments	-20.8	-48.9	-42.9	-44.7	-35.8	-29.2	-24.8	-23.6	-23.2
Capital and financial balance	22.1	34.4	-3.0	24.3	20.7	20.9	16.1	15.1	14.4
Capital account [3]	26.0	33.8	16.2	8.0	10.5	3.5	0.2	-1.7	-1.9
Financial account	-3.9	0.6	-19.2	16.3	10.3	17.4	15.9	16.8	16.3
Official medium- and long-term disbursements	9.4	2.9	5.1	5.0	2.0	2.1	2.2	2.2	2.3
Project loans	9.4	2.9	5.1	5.0	2.0	2.1	2.2	2.2	2.4
Scheduled amortization	0.0	-0.1	-0.2	-0.3	-3.2	-3.3	-3.4	-1.8	-1.5
Treasury bills and regional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial bank net foreign assets	4.7	-1.2	4.4	0.4	0.6	0.5	0.3	0.4	0.4
Private net foreign assets and errors and omissions	-3.8	-1.0	-28.6	11.2	10.9	18.2	16.9	16.0	15.1
Overall balance	31.0	-0.1	-30.4	-2.0	-1.7	-1.5	-0.9	-0.4	-0.2
Financing	-31.0	0.1	30.4	2.0	1.7	1.5	0.9	0.4	0.2
Net foreign assets (increase = -)	-31.0	0.1	30.4	2.0	1.7	1.5	0.9	0.4	0.2
Memorandum items:									
Export volume of goods (annual percentage change)	20.5	-10.8	-29.6	35.4	17.9	8.4	6.7	8.4	12.6
Cashew export prices[4](US$ per ton)	1350	1131	1015	940	923	909	909	909	919
Import volume of goods (annual percentage change)	11.8	-15.6	-26.5	18.3	7.2	4.4	4.5	5.2	3.0
Imputed international reserves									
US$ millions	192.9	175.0	172.2	...	...	...	...	...	...
As percent of broad money	52.9	56.5	50.6	...	...	...	...	...	...
WAEMU gross official reserves (billions US$)	15.8	15.2	12.9	...	...	...	...	...	...
Percent of broad money	58.0	56.2	54.1	...	...	...	...	...	...
WAEMU gross official reserves (months of WAEMU imports)	5.9	6.0	5.2	...	...	...	...	...	...
Scheduled debt service									
Percent of exports and service credits	0.6	0.7	1.7	1.7	5.2	4.9	4.6	2.9	2.2
Percent of total government revenue	1.4	1.1	2.6	2.9	9.6	9.0	8.5	5.5	4.7
Current account balance (percent of GDP)									
Including official transfers	-1.2	-7.1	-6.5	-6.0	-5.0	-4.8	-3.4	-3.1	-2.8
Excluding official transfers	-4.6	-10.1	-10.3	-10.3	-8.3	-6.6	-5.4	-5.0	-4.7

Sources: BCEAO; and IMF staff estimates and projections.

[1] IMF Country Report No. 11/353 (3rd ECF Review)

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

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

[4] Until 2011, BCEAO average prices. The prices for 2011 and onward are based on the WEO projections for ground nut prices.

Table 3. Guinea-Bissau: Monetary Survey, 2011–18

	2011	2012		2013	2014	2015	2016	2017	2018
		Proj.[1]	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(CFAF billions, unless otherwise indicated)								
Net foreign assets	119.3	96.8	84.5	82.1	79.8	77.7	76.5	75.8	75.2
Central Bank of West African States (BCEAO)	95.4	61.5	65.0	63.0	61.3	59.8	58.9	58.5	58.3
Commercial banks	23.9	35.3	19.5	19.1	18.5	18.0	17.7	17.3	16.9
Net domestic assets	52.4	43.5	78.1	85.7	98.1	112.6	126.8	139.9	162.1
Credit to the government (net)	11.2	8.0	21.4	19.6	16.1	12.7	9.3	6.2	4.3
Credit to the private sector	50.5	38.5	64.2	73.6	79.5	87.4	97.0	108.2	122.3
Other items (net)	-9.3	-3.0	-7.5	-7.5	2.5	12.5	20.5	25.5	35.5
Money supply (M2)	171.7	140.3	162.6	167.8	177.8	190.3	203.3	215.7	237.3
Currency outside banks	88.3	72.8	83.6	86.3	91.5	97.9	104.6	110.9	122.1
Bank deposits	83.4	67.6	79.0	81.5	86.4	92.4	98.7	104.7	115.2
Base money (M0)	120.6	98.6	114.2	117.9	124.9	133.7	142.8	151.5	166.7
	(change in percent of beginning-of-period broad money)								
Contribution to the growth of broad money									
Money supply (M2)	37.8	-5.8	-5.3	3.2	6.0	7.0	6.8	6.1	10.0
Net foreign assets	20.9	-3.0	-20.2	-1.5	-1.4	-1.1	-0.6	-0.4	-0.3
BCEAO	24.9	-3.5	-17.7	-1.2	-1.0	-0.8	-0.5	-0.2	-0.1
Commercial banks	-4.0	0.4	-2.5	-0.3	-0.4	-0.3	-0.2	-0.2	-0.2
Net domestic assets	16.9	-2.8	14.9	4.7	7.4	8.1	7.5	6.5	10.3
Credit to the central government	6.6	1.7	5.9	-1.1	-2.0	-2.0	-1.7	-1.5	-0.9
Credit to the private sector	12.9	-4.5	8.0	5.8	3.5	4.5	5.0	5.5	6.5
Other items net	-2.3	0.0	1.0	0.0	6.0	5.6	4.2	2.5	4.6
Memorandum items:									
Money supply (M2, annual percentage change)	37.8	-5.8	-5.3	3.2	6.0	7.0	6.8	6.1	10.0
Base money (M0, annual percentage change)	60.2	-5.8	-5.3	3.2	6.0	7.0	6.8	6.1	10.0
Credit to the private sector (annual percentage change)	46.7	-14.7	27.2	14.6	7.9	10.0	10.9	11.6	13.0
Velocity (GDP/M2)	2.7	3.3	2.6	2.6	2.6	2.5	2.4	2.4	2.3
Money Multiplier (M2/M0)	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Capital Adequacy[2]									
Capital to risk-weighted assets	22.3		19.9						
Capital (net worth) in percent of assets	11.8	...	11.9	...	...	...	...	...	...
Asset composition and quality[2] (in percent)									
Nonperforming loans of total loans	6.5	...	9.7	...	...	...	...	...	...
Nonperforming loans to total credits (net of	3.3	...	3.9	...	...	...	...	...	...
Provisions of nonperforming loans	51.8	...	59.0	...	...	...	...	...	...
Earnings and profitability									
Return on assets (ROA)	2.5	...	2.6	...	...	...	...	...	...
Return on equity (ROE)	17.7	...	18.0	...	...	...	...	...	...

Sources: BCEAO; and IMF staff estimates and projections.

[1] Projected at the September 2012 WEO.

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

Table 4a. Guinea-Bissau: Central Government Operations, 2011–18

(CFAF billions)

	2011	2012		2013	2014	2015	2016	2017	2018
		Prog.[1]	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	87.0	101.7	71.0	73.8	76.4	81.1	86.0	90.0	94.4
Revenue	52.6	61.8	46.0	51.7	54.9	58.4	61.9	64.7	67.9
Tax revenue [2, 3]	40.3	46.7	38.9	45.2	47.9	50.9	54.0	56.6	59.4
Direct taxes	11.9	13.3	12.4	13.8	14.6	15.5	16.3	17.1	18.0
Indirect taxes	28.4	33.4	26.5	31.4	33.3	35.4	37.7	39.4	41.4
Nontax revenue	12.3	15.2	7.1	6.5	7.0	7.5	7.8	8.2	8.5
Fishing compensation	7.1	8.3	0.2	0.1	0.2	0.2	0.3	0.3	0.3
Grants	34.4	39.8	25.0	22.1	21.5	22.7	24.2	25.2	26.4
Budget support	8.7	6.2	9.1	12.0	7.8	8.5	9.3	9.7	10.2
Project grants	25.7	33.6	15.9	10.1	13.7	14.2	14.9	15.5	16.2
Total expenditure	93.6	106.5	83.9	74.1	82.3	86.1	90.8	94.3	98.3
Current expenditure	56.6	61.8	62.3	55.5	62.6	65.6	69.2	71.7	74.6
Wages and salaries	23.6	26.3	25.1	25.6	26.5	27.6	28.8	30.1	31.5
Goods and services	7.6	11.0	12.8	8.1	9.2	10.6	12.1	12.7	13.3
Transfers	11.8	12.5	12.8	11.7	12.1	12.6	13.2	13.8	14.4
Other current expenditures	12.9	11.8	11.4	9.6	10.5	10.9	11.4	11.9	12.5
Scheduled interest	0.6	0.3	0.1	0.5	4.1	4.0	3.6	3.3	3.0
Domestic interest	0.2	0.1	0.0	0.0	2.1	2.0	1.8	1.5	1.3
External interest	0.3	0.1	0.1	0.5	2.1	1.9	1.8	1.7	1.7
Capital expenditure and net lending	37.0	44.6	21.6	18.5	19.8	20.5	21.6	22.6	23.8
Public investment program	36.9	44.1	21.6	18.5	19.2	20.0	21.0	22.0	23.1
Domestically financed	1.8	7.6	0.6	3.4	3.6	3.7	4.0	4.2	4.6
Foreign financed	35.1	36.5	21.1	15.1	15.7	16.3	17.0	17.7	18.6
Other capital expenditure	0.1	0.5	0.0	0.0	0.5	0.6	0.6	0.6	0.6
Domestically financed	0.1	0.5	0.0	0.0	0.5	0.6	0.6	0.6	0.6
Overall balance, including grants (commitment)	-6.5	-4.8	-12.9	-0.3	-6.0	-5.0	-4.7	-4.3	-4.0
Overall balance, excluding grants (commitment)	-41.0	-44.6	-37.9	-22.4	-27.4	-27.7	-28.9	-29.5	-30.4
Net domestic arrears[4]	-3.2	-1.5	2.9	0.0	-1.5	-1.5	-1.5	-1.5	-1.5
Accumulation current year	0.0	0.0	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years	-3.2	-1.5	0.0	0.0	-1.5	-1.5	-1.5	-1.5	-1.5
Float and statistical discrepancies	0.4	0.0	-4.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-9.3	-6.3	-14.0	-0.3	-7.5	-6.5	-6.2	-5.8	-5.5
Financing	9.3	6.3	14.0	0.3	7.5	6.5	6.2	5.8	5.5
Domestic financing	-0.2	0.0	9.0	-4.4	-3.4	-3.5	-3.3	-3.1	-1.9
Bank financing	-0.2	0.0	9.0	-4.4	-3.4	-3.5	-3.3	-3.1	-1.9
Of which: Domestic banks[5]	4.6	-3.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO credit	0.0	0.0	0.0	-1.8	-3.4	-3.5	-3.3	-3.1	-1.9
Use of deposit at BCEAO	-4.8	3.0	9.3	-2.6	0.0	0.0	0.0	0.0	0.0
Foreign financing (net)	9.4	2.8	5.0	4.7	-1.2	-1.3	-1.3	0.4	0.9
Disbursements	9.4	2.9	5.1	5.0	2.0	2.1	2.2	2.2	2.4
Projects	9.4	2.9	5.1	5.0	2.0	2.1	2.2	2.2	2.4
Amortization (scheduled and arrears)	0.0	-0.1	-0.2	-0.3	-3.2	-3.3	-3.4	-1.8	-1.5
Gross financing gap (+ = financing need)	0.1	3.5	0.0	0.0	12.1	11.3	10.8	8.5	6.5

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

[1] IMF Country Report No. 11/353 (3rd ECF Review).

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

[5] Including transfers from FUNPI.

Table 4b. Guinea-Bissau: Central Government Operations, 2011–18
(Percent of GDP)

	2011	2012		2013	2014	2015	2016	2017	2018
		Prog.[1]	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	19.1	24.2	16.9	16.9	16.8	17.2	17.4	17.5	17.5
Revenue	11.5	14.7	11.0	11.8	12.1	12.4	12.5	12.6	12.6
Tax revenue [2, 3]	8.8	11.1	9.3	10.3	10.6	10.8	11.0	11.0	11.0
Direct taxes	2.6	3.2	3.0	3.1	3.2	3.3	3.3	3.3	3.4
Indirect taxes	6.2	7.9	6.3	7.2	7.3	7.5	7.6	7.7	7.7
Nontax revenue	2.7	3.6	1.7	1.5	1.5	1.6	1.6	1.6	1.6
Fishing compensation	1.6	2.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Grants	7.5	9.5	6.0	5.1	4.7	4.8	4.9	4.9	4.9
Budget support	1.9	1.5	2.2	2.7	1.7	1.8	1.9	1.9	1.9
Project grants	5.6	8.0	3.8	2.3	3.0	3.0	3.0	3.0	3.0
Total expenditure	20.5	25.4	20.0	16.9	18.1	18.3	18.4	18.3	18.3
Current expenditure	12.3	14.7	14.8	12.7	13.8	13.9	14.0	13.9	13.8
Wages and salaries	5.2	6.3	6.0	5.8	5.8	5.8	5.8	5.8	5.8
Goods and services	1.7	2.6	3.1	1.9	2.0	2.2	2.5	2.5	2.5
Transfers	2.6	3.0	3.0	2.7	2.7	2.7	2.7	2.7	2.7
Other current expenditures	2.8	2.8	2.7	2.2	2.3	2.3	2.3	2.3	2.3
Scheduled interest	0.1	0.1	0.0	0.1	0.9	0.8	0.7	0.6	0.6
Domestic interest	0.1	0.0	0.0	0.0	0.5	0.4	0.4	0.3	0.2
External interest	0.1	0.0	0.0	0.1	0.5	0.4	0.4	0.3	0.3
Capital expenditure and net lending	8.1	10.6	5.2	4.2	4.4	4.4	4.4	4.4	4.4
Public investment program	8.1	10.5	5.2	4.2	4.2	4.2	4.3	4.3	4.3
Domestically financed	0.4	1.8	0.1	0.8	0.8	0.8	0.8	0.8	0.8
Foreign financed	7.7	8.7	5.0	3.5	3.4	3.4	3.4	3.4	3.4
Other capital expenditure	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Domestically financed	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Overall balance, including grants (commitment)	-1.4	-1.1	-3.1	-0.1	-1.3	-1.1	-1.0	-0.8	-0.7
Overall balance, excluding grants (commitment)	-9.0	-10.6	-9.0	-5.1	-6.0	-5.9	-5.9	-5.7	-5.6
Net domestic arrears[4]	-0.7	-0.4	0.7	0.0	-0.3	-0.3	-0.3	-0.3	-0.3
Accumulation current year	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years	-0.7	-0.4	0.0	0.0	-0.3	-0.3	-0.3	-0.3	-0.3
External interest arrears current year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancies	0.1	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (cash)	-2.0	-1.5	-3.3	-0.1	-1.6	-1.4	-1.3	-1.1	-1.0
Financing	2.0	1.5	3.3	0.1	1.6	1.4	1.3	1.1	1.0
Domestic financing	0.0	0.0	2.1	-1.0	-0.8	-0.7	-0.7	-0.6	-0.3
Bank financing	0.0	0.0	2.1	-1.0	-0.8	-0.7	-0.7	-0.6	-0.3
Of which: Domestic banks[5]	1.0	-0.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	0.0	0.0	0.0	-0.4	-0.8	-0.7	-0.7	-0.6	-0.3
Use of deposit at BCEAO	-1.1	0.7	2.2	-0.6	0.0	0.0	0.0	0.0	0.0
Foreign financing (net)	2.1	0.7	1.2	1.1	-0.3	-0.3	-0.3	0.1	0.2
Disbursements	2.1	0.7	1.2	1.1	0.4	0.4	0.4	0.4	0.4
Amortization (scheduled and arrears)	0.0	0.0	0.0	-0.1	-0.7	-0.7	-0.7	-0.4	-0.3
Gross financing gap (+ = financing need)	0.0	0.8	0.0	0.0	2.7	2.4	2.2	1.6	1.2

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

[1] IMF Country Report No. 11/353 (3rd ECF Review).

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

[5] Including transfers from FUNPI.

Table 4c. Guinea-Bissau: Central Government Operations (GFSM01 presentation), 2011–18

(CFAF billions)

	2011	2012		2013	2014	2015	2016	2017	2018
		Prog.[1]	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	87.0	101.7	71.0	73.8	76.4	81.1	86.0	90.0	94.4
Taxes	40.3	46.7	38.9	45.2	47.9	50.9	54.0	56.6	59.4
Taxes on income, profit, and capital gains[2,3]	10.2	11.6	10.8	11.6	12.3	12.9	13.6	14.3	15.0
Taxes on property	1.4	1.5	1.2	1.7	1.6	1.7	1.8	1.9	2.0
Taxes on goods and services	15.3	18.8	14.2	17.5	18.6	19.9	21.2	22.1	23.2
Taxes on international trade and transactions	10.3	11.9	9.7	11.3	11.8	12.5	13.2	13.9	14.7
Other taxes	2.9	2.8	3.0	3.1	3.5	6.1	7.2	7.7	8.3
Grants	34.4	39.8	25.0	22.1	21.5	22.7	24.2	25.2	26.4
From foreign governments	5.8	0	0	0	0	0	0	0	0
From international organizations	28.7	39.8	25.0	22.1	21.5	22.7	24.2	25.2	26.4
Other revenue	12.3	15.2	7.1	6.5	7.0	7.5	7.8	8.2	8.5
Expenditure	93.6	106.5	83.9	74.1	82.3	86.1	90.8	94.3	98.3
Expense	56.6	61.8	62.3	55.5	62.6	65.6	69.2	71.7	74.6
Compensation of employees	23.6	26.3	25.1	25.6	26.5	27.6	28.8	30.1	31.5
Use of goods and services	7.6	11.0	12.8	8.1	9.2	10.6	12.1	12.7	13.3
Interest	0.6	0.1	0.1	0.5	4.1	4.0	3.6	3.3	3.0
To nonresidents	0.3	0.0	0.1	0.5	2.1	1.9	1.8	1.7	1.7
To residents other than general government	0.2	0.1	0.0	0.0	2.1	2.0	1.8	1.5	1.3
Social Benefits	11.8	12.5	12.8	11.7	12.1	12.6	13.2	13.8	14.4
Other expense	12.9	11.8	11.4	9.6	10.5	10.9	11.4	11.9	12.5
Net acquisition of nonfinancial assets	37.0	44.6	21.6	18.5	19.8	20.5	21.6	22.6	23.8
Domestically financed	1.9	8.1	0.6	3.4	4.1	4.3	4.5	4.8	5.2
Externally financed	35.1	36.5	21.1	15.1	15.7	16.3	17.0	17.7	18.6
Gross/Net Operating Balance	30.5	39.9	8.7	18.3	13.8	15.5	16.8	18.3	19.8
Net Lending/Borrowing (overall balance, including grants, commitment basis)	-6.5	-4.8	-12.9	-0.3	-6.0	-5.0	-4.7	-4.3	-4.0
Net Lending/Borrowing (overall balance, excluding grants, commitment basis)	-41.0	-44.6	-37.9	-22.4	-27.4	-27.7	-28.9	-29.5	-30.4
Net Lending/Borrowing (overall balance, including grants, cash basis)	-9.3	-6.3	-14.0	-0.3	-7.5	-6.5	-6.2	-5.8	-5.5
Net financial transactions	9.3	6.3	14.0	0.3	7.5	6.5	6.2	5.8	5.5
Net incurrence of liabilities	9.3	6.3	14.0	0.3	7.5	6.5	6.2	5.8	5.5
Domestic	-0.2	0.0	9.0	-4.4	-3.4	-3.5	-3.3	-3.1	-1.9
Bank Financing	-0.2	0.0	9.0	-4.4	-3.4	-3.5	-3.3	-3.1	-1.9
Of which: Domestic Banks[4]	4.6	-3.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO credit	0.0	0.0	0.0	-1.8	-3.4	-3.5	-3.3	-3.1	-1.9
Use of deposit at BCEAO	-4.8	3.0	9.3	-2.6	0.0	0.0	0.0	0.0	0.0
Foreign	9.4	2.8	5.0	4.7	-1.2	-1.3	-1.3	0.4	0.9
Disbursements	9.4	2.9	5.1	5.0	2.0	2.1	2.2	2.2	2.4
Amortization (scheduled and arrears)	0.0	-0.1	-0.2	-0.3	-3.2	-3.3	-3.4	-1.8	-1.5
Memorandum items:									
Net Domestic Arrears[5]	-3.2	-1.5	2.9	0.0	-1.5	-1.5	-1.5	-1.5	-1.5
Accumulation current year	0.0	0.0	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years	-3.2	-1.5	0.0	0.0	-1.5	-1.5	-1.5	-1.5	-1.5
Float and statistical discrepancies	0.4	0.0	-4.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing gap (+ = financing need)	0.1	3.5	0.0	0.0	12.1	11.3	10.8	8.5	6.5

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

[1] IMF Country Report No. 11/353 (3rd ECF Review).

[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] Including transfers from FUNPI.

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

Table 4d. Guinea-Bissau: Central Government Operations (GFSM01 presentation), 2011–18

(Percent of GDP)

	2011	2012		2013	2014	2015	2016	2017	2018
		Prog.[1]	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	19.1	24.2	16.9	16.9	16.8	17.2	17.4	17.5	17.5
Taxes	8.8	11.1	9.3	10.3	10.6	10.8	11.0	11.0	11.0
Taxes on income, profit, and capital gains[2,3]	2.2	2.8	2.6	2.7	2.7	2.7	2.8	2.8	2.8
Taxes on property	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Taxes on goods and services	3.4	4.5	3.4	4.0	4.1	4.2	4.3	4.3	4.3
Taxes on international trade and transactions	2.3	2.8	2.3	2.6	2.6	2.6	2.7	2.7	2.7
Other taxes	0.6	0.7	0.7	0.7	0.8	1.3	1.5	1.5	1.5
Grants	7.5	9.5	6.0	5.1	4.7	4.8	4.9	4.9	4.9
From foreign governments	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
From international organizations	6.3	9.5	6.0	5.1	4.7	4.8	4.9	4.9	4.9
Other revenue	2.7	3.6	1.7	1.5	1.5	1.6	1.6	1.6	1.6
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	20.5	25.4	20.0	16.9	18.1	18.3	18.4	18.3	18.3
Expense	12.4	14.7	14.8	12.7	13.8	13.9	14.0	13.9	13.8
Compensation of employees	5.2	6.3	6.0	5.8	5.8	5.8	5.8	5.8	5.8
Use of goods and services	1.7	2.6	3.1	1.9	2.0	2.2	2.5	2.5	2.5
Interest	0.1	0.0	0.0	0.1	0.9	0.8	0.7	0.6	0.6
To nonresidents	0.1	0.0	0.0	0.1	0.5	0.4	0.4	0.3	0.3
To residents other than general government	0.1	0.0	0.0	0.0	0.5	0.4	0.4	0.3	0.2
Social Benefits	2.6	3.0	3.0	2.7	2.7	2.7	2.7	2.7	2.7
Other expense	2.8	2.8	2.7	2.2	2.3	2.3	2.3	2.3	2.3
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	8.1	10.6	5.2	4.2	4.4	4.4	4.4	4.4	4.4
Domestically financed	0.4	1.9	0.1	0.8	0.9	0.9	0.9	0.9	1.0
Externally financed	7.7	8.7	5.0	3.5	3.4	3.4	3.4	3.4	3.4
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross/Net Operating Balance	6.7	9.5	2.1	4.2	3.0	3.3	3.4	3.6	3.7
Net Lending/Borrowing (overall balance, including grants, commitment basis)	-1.4	-1.1	-3.1	-0.1	-1.3	-1.1	-1.0	-0.8	-0.7
Net Lending/Borrowing (overall balance, excluding grants, commitment basis)	-9.0	-10.6	-9.0	-5.1	-6.0	-5.9	-5.9	-5.7	-5.6
Net Lending/Borrowing (overall balance, including grants, cash basis)	-2.0	-1.5	-3.3	-0.1	-1.6	-1.4	-1.3	-1.1	-1.0
Net financial transactions	2.0	1.5	3.3	0.1	1.6	1.4	1.3	1.1	1.0
Net acquisition of financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	2.0	1.5	3.3	0.1	1.6	1.4	1.3	1.1	1.0
Domestic	0.0	0.0	2.1	-1.0	-0.8	-0.7	-0.7	-0.6	-0.3
Bank Financing	0.0	0.0	2.1	-1.0	-0.8	-0.7	-0.7	-0.6	-0.3
Of which: Domestic Banks[4]	1.0	-0.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO credit	0.0	0.0	0.0	-0.4	-0.8	-0.7	-0.7	-0.6	-0.3
Use of deposit at BCEAO	-1.1	0.7	2.2	-0.6	0.0	0.0	0.0	0.0	0.0
Foreign	2.1	0.7	1.2	1.1	-0.3	-0.3	-0.3	0.1	0.2
Disbursements	2.1	0.7	1.2	1.1	0.4	0.4	0.4	0.4	0.4
Amortization (scheduled and arrears)	0.0	0.0	0.0	-0.1	-0.7	-0.7	-0.7	-0.4	-0.3
Memorandum items:									
Net Domestic Arrears[5]	-0.7	-0.4	0.7	0.0	-0.3	-0.3	-0.3	-0.3	-0.3
Accumulation current year	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Payment previous years	-0.7	-0.4	0.0	0.0	-0.3	-0.3	-0.3	-0.3	-0.3
Float and statistical discrepancies	0.1	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing gap (+ = financing need)	0.0	0.8	0.0	0.0	2.7	2.4	2.2	1.6	1.2

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

[1] IMF Country Report No. 11/353 (3rd ECF Review).

[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] Including transfers from FUNPI.

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

Table 5. Guinea-Bissau: Risk Assessment Matrix [1]

Source of Risks	Likelihood	Potential Impact/Policy Recommendation
Stalled or incomplete delivery of Euro area policy commitments (financial stress re-emerges and bank-sovereign links re-intensify)	M*	**Impact**: Medium. Despite weak financial linkages to Europe, rising unemployment rates in the Euro area would have a negative impact on remittances and domestic demand. **Policy recommendation**: Increase social spending targeted to vulnerable groups. Secure more external financing to cover financing gap.
Deeper than expected slowdown in emerging markets (synchronized growth shock triggered by financial sector stresses or setbacks in fiscal and structural reforms)	M*	**Impact:** Medium. Cashew nuts account for about 90 percent of total exports and most are exported to India. The impact of the emerging market hard landing would negatively affect economic growth and import compression. **Policy recommendation**: Same as above
Global oil price shock triggered by geopolitical events (driving oil prices to $140 per barrel)	L*	**Impact:** Medium. Given fuel imports accounting for about a quarter of the total import bill, the shock would have an impact on current account and inflation. **Policy recommendation**: Allow for full pass-through onto domestic prices and focus on second round effects on inflation. Increase social spending to vulnerable groups.
Deterioration in the political and security situation (escalating domestic social and political tensions)	M	**Impact**: High. A political transition process is proceeding but remains fragile. A deterioration in the political and security situation and a rise in uncertainty would lead to disruptions in economic activity. **Policy recommendation**: Present a credible roadmap to manage the transition period, which would help normalize the relationship with international organizations and bilateral donors.
Food security issues (due to periodic droughts in the Sahel region affecting prices for locally produced food)	L	**Impact**: Medium. Food insecurity for vulnerable people would increase need for international humanitarian assistance. Support may be needed from the authorities, deteriorating the fiscal position. **Policy recommendation.** Assist most vulnerable people through targeted transfers.
Sharp reversal of the terms of trade due to falling cashew export prices	L	**Impact:** High. A 10 percent drop in cashew export prices would decrease GDP growth rate by about 0.2 percentage points. **Policy recommendation**: Increase social spending targeted to the vulnerable group. Secure more external financing to cover financing gap. Diversify exports.
Spillovers from continued instability in the region (the fragility in Mali could affect the perception of insecurity in the region)	L	**Impact**: Low. The security situation would deteriorate leading to economic paralysis, widespread conflicts, and supply chain and trade disruptions. **Policy recommendation**: Security-related expenditure may need to be accommodated and financed through savings on non-priority expenditure.

[1] The Risk Assessment Matrix (RAM) shows probability events that could materially alter the baseline path, which is the scenario most likely to materialize in the view of the staff. Staff's subjective assessment of the relative likelihood among those low probability events is noted in the matrix (ranging from "low" to "high").

* Taken from Global Risk Assessment Matrix

Appendix I: Civil Conflicts and Inequality[1]

This note analyzes the role of social conflicts on income inequality in Guinea-Bissau. The results from country-specific analysis and panel data of Sub-Saharan Africa (SSA) and developing countries suggest that social conflicts have significant and persistent effects in terms of increasing inequality. Pursuing policies and actions that mitigate the risks of conflict outbreak are keys to foster inclusive growth.

Introduction

1. **Inequality in Guinea-Bissau has decreased considerably over the last two decades, and growth has been broadly inclusive.** The inclusive growth indicators[2] in Guinea-Bissau show visible progress, especially when compared to its peers (Figure A1 C). For instance, income inequality has significantly declined and extreme poverty has been reduced (Figure A1 A); employment and participation rates have remained stable; and health and education outcome indicators have markedly increased (Figure A1 B). The decline in inequality, however, has not been smooth. Inequality (proxied by the Gini coefficient) in Guinea-Bissau has declined from about 53.4 in 1991 to 35.6 in 2002 and increased subsequently to 38.7 in 2005. Interestingly, inequality has declined on average during peaceful periods and seems to have increased in the aftermath of social conflict episodes (Figure A1 D).

2. **Social conflicts may have a significant distributive impact.** From a theoretical point of view, inequality and social conflicts are interrelated. On the one hand, social conflicts have detrimental and long-lasting effects on investment. Therefore, inequality increases owing to deterred investment in physical capital and the loss of human capital due to migration, lower school enrollment, reduction in life expectancy, higher mortality, and reduced social spending in health and education (Kim and Conceicao, 2009). On the other hand, high degrees of inequality may damage people's current and future expectations and lead in turn to social unrests and conflicts (Campante and Chor, 2012).

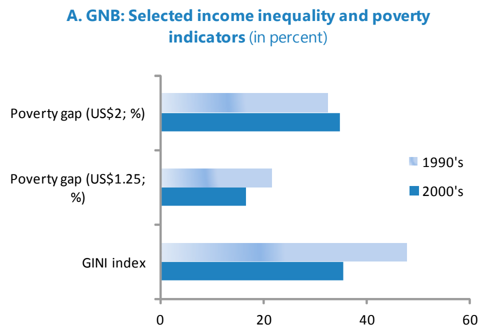
3. **This note analyses the role of social conflicts on inequality** through a country-specific and a panel of Sub-Saharan countries analyses. It also proposes policies and actions that mitigate the risks of conflict outbreak and are keys to foster inclusive growth.

[1] Prepared by Aleksandra Zdzienicka.

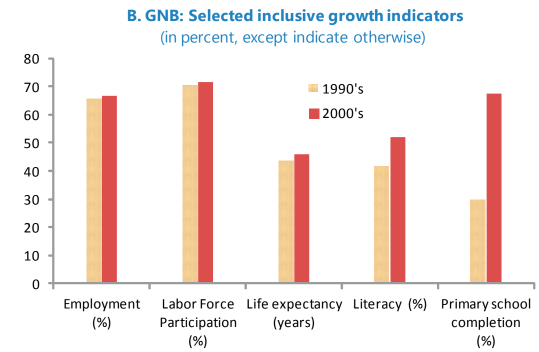
[2] Unless indicated otherwise, inclusive growth indicators are taken from the World Bank Development Indicators Database to ensure comparability over a longer time horizon.

Figure A1. Inequality in Guinea-Bissau and peer countries

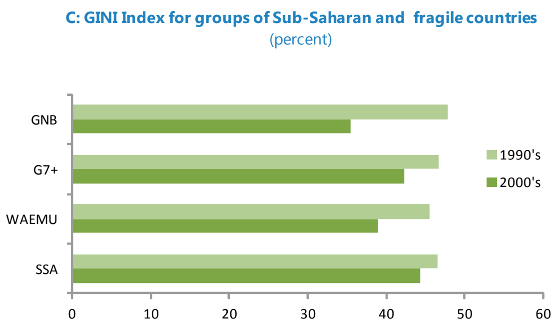
Inequality and extreme poverty in Guinea-Bissau have declined over the last two decades...



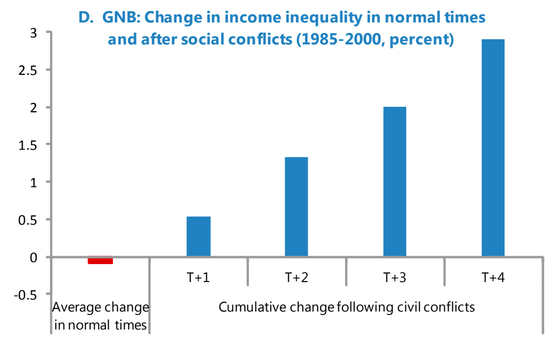
... and inclusive growth indicators have improved.



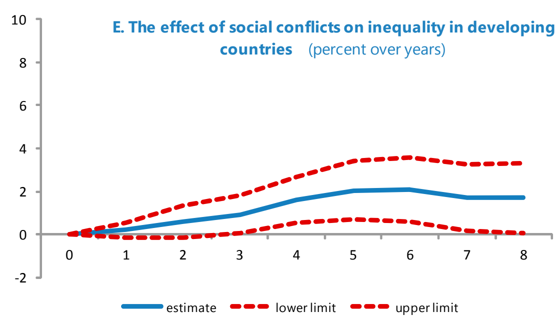
The decline in inequality has been more important in Guinea-Bissau than in peer countries ...



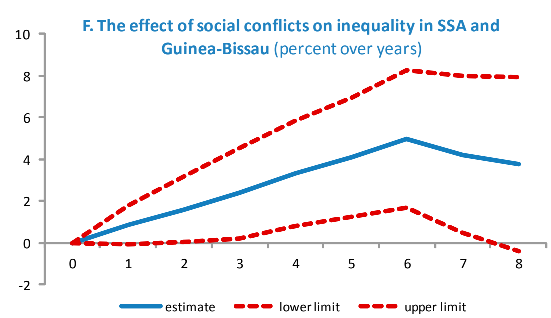
... but it has not been smooth, as inequality has increased in the aftermath of social conflicts.



Social conflicts have been found to have a detrimental and long-lasting impact on inequality



These distributive consequences have been particularly high in Sub-Saharan countries and Guinea-Bissau.



Source: World Bank Development, IMF staff calculations

Distributive consequences of social conflicts

4. **Episodes of civil conflicts are typically widespread around the world, but they are recurrent in many SSA countries.** Table A1, based on the Cross-National Time-Series Data Archive (CNTS)[3], provides an overview of civil conflicts' occurrence over the world in the last three decades. That table shows that, while social conflicts typically occurred in all developing countries, they were much more recurrent in Sub-Saharan Africa. In this context, Guinea-Bissau constitutes a particular case, recording 10 episodes of civil conflicts over the last 20 years.

Table A1. Episodes of social conflicts around the World (1970-2010)

World	EAP	ECA	LAC	MENA	NA	SA	SSA	GNB
1209	149	147	232	128	0	122	431	10

Note: EAP=East Asia and Pacific; ECA=Europe and Central Asia; LAC=Latin America and Caribbean; NA=North America; SA=south Asia, SSA=Sub-Saharan Africa; GNB-Guinea-Bissau.
Source: CNTS, Staff computation

5. **Civil conflicts usually lead to a robust, significant, and persistent effect on inequality** (Figure A1 E). The methodology used to assess this effect is detailed in Box A1. Civil conflict episodes are found to have long-lasting effects on income inequality. In particular, the estimates suggest that the occurrence of an episode of social unrest typically increases the Gini index by about 0.2 percentage points in the very short term — 1 year after the civil conflict —, and by about 1.7 percentage points over the medium term — 8 years after the conflict. The effect reaches a peak of about 2.1 percentage points around the sixth year following the conflict episode.[4]

6. **The effect of social conflicts on inequality is particularly high in SSA and Guinea-Bissau** (Figure A1 F). The effect of social conflicts on inequality varies markedly across regions, with the largest effect found in East Asia and Pacific and in SSA.[5] In particular, the results for SSA suggest that episodes of social conflicts are associated with a short-term effect of about 0.8 percent and a medium-term impact of about 3.8 percentage points. The peak effect is about 5.0 percentage points and occurs around the sixth year following the conflict episode. Interestingly, the short and medium-term effects for a panel of SSA are very close to those found

[3] The social and political instabilities listed there include conflicts such as: (i) guerrilla warfare, defined as any armed activity, sabotage, or bombings carried on by independent bands of citizens or irregular forces and aimed at the overthrow of the present regime; and (ii) revolutions, defined as any illegal or forced change in the top government elite, any attempt at such a change, or any successful or unsuccessful armed rebellion whose aim is independence from the central government.

[4] The results are robust to several checks, such as controlling for endogeneity, different lag-parameterizations, and the inclusion of macroeconomic and political controls which may affect both inequality and the probability of the occurrence of a civil conflict episode. See Zdzienicka (2013) for details.

[5] The results are available upon request.

for Guinea-Bissau in a bi-variate framework,[6] suggesting that the empirical evidence for SSA can be used as a reference for the effect of social conflicts on inequality in Guinea-Bissau.

Box A1. Estimating the dynamic impact of social conflicts on inequality

The medium-term dynamic impact of social conflicts on inequality is assessed following a two-step approach. In the first step, a composite measure of civil conflicts is computed using principal component analysis and CNTS conflict indicators on guerrilla warfare and revolutions. In the second step, impulse response functions (IRFs) are estimated from local projections, following a method proposed by Jorda (2005). In detail, for each future period *k* the following equation has been estimated on annual data:

$$y_{i,t+k} - y_{i,t} = \alpha_i^k + Time_{it}^k + \sum_{j=1}^{l} \gamma_j^k \Delta y_{i,t-j} + \beta_k S_{it} + \varepsilon_{i,t}^k \qquad (1) \text{ with } k = 1,\dots,8.$$

Where $y_{i,t}$ is the log of the Gini, *S* is a dummy variable that takes value 1 for the occurrence of civil conflict episodes and zero otherwise, α_i^k are country fixed effects, and $Time_{it}$ are country-specific time trends. β_k measures the impact of social instability on the change of (the log of) the Gini for each future period *k*. Since fixed effects are included in the regression, the dynamic impact should be interpreted as changes in inequality compared to a baseline country-specific trend. The number of lags (*l*) has been chosen to be equal to two, even if the results are extremely robust to different number of lags included in the specification. Impulse response functions are then obtained by plotting the estimated β_k for *k*= 0,1,…,8, with 95 percent confidence bands for the estimated IRFs being computed using the standard deviations associated with the estimated coefficients β_k. Reverse causality is addressed by estimating changes in inequality in the years that *follow* a social conflict.

To overcome data limitation in terms of poor reliability, coverage, and inconsistent methodology, the Standardized World Income Inequality Database is used. The database combines information from the United Nations' World Income Database and the Luxembourg Income Study, and provides comparable estimates of the Gini indices for 173 countries for as many years as possible from 1960 to 2010.[1]

[1] See Solt (2009, 2011) for details on the methodology.

Policy Actions

7. **Pursuing policies that mitigate the risk of conflict outbreaks is key to fostering inclusive growth in fragile countries**. Empirical evidence in the literature suggests that social conflicts may have long-lasting effect on output (Cerra and Saxena, 2008; Bernal-Verdugo et al. 2013). In addition, the results presented in this note suggest that social conflicts may have significant and long-lasting distributive consequences. Therefore, pursuing policies that mitigate

[6] The simple regression of medium-term changes in the Gini coefficient and episodes of social conflicts provides similar findings: the occurrence of a social conflict episode in Guinea-Bissau tends to be associated with a medium-term increase in inequality of about 3 percentage points.

the risks of conflict outbreak are key to fostering inclusive growth, particularly in fragile countries. In this context, international efforts on peacekeeping can play significant role in reducing the risk of civil conflicts (Doyle and Sambanis,2006; Fotna, 2008). Foreign aid and development support can also have an impact in reducing the risk of civil war. Collier and Hoeffler (2002) suggest that aid and policy do not have direct effects upon conflict risk, but both directly affect the economic growth rate and the extent of dependence upon primary commodity exports, and these in turn affect the risk of conflict. Collier and Hoeffler (2004) also find that policies aimed at improving educational outcomes are closely linked with the outbreak of conflicts. Finally, reforms aimed at improving the level of governance play a significant role in reducing the probability of civil conflict and shape its macroeconomic consequences (Bernal-Verdugo et al. 2013). In the case of Guinea-Bissau, a security sector reform would be a specific policy action to foster inclusive growth over the medium- to long-terms.

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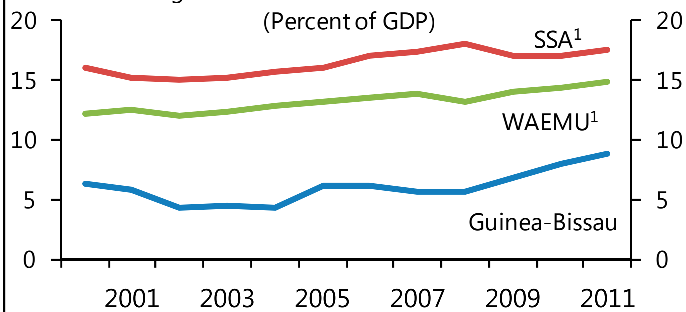
Appendix II: Enhancing Tax Revenue–
Tax Potential and Tax Effort

Introduction

1. **Strengthening tax revenue collection has long been a concern in many sub-Saharan African (SSA) low-income countries (LICs) and Guinea-Bissau is not an exception**. Despite a significant rise in tax-to-GDP ratios in Guinea-Bissau in recent years, there still remains room to enhance domestic tax revenue through improvements in tax policy and administration. In 2011, Guinea-Bissau collected 8 percent of GDP in tax revenue, the lowest ratio among all countries in SSA. Low per capita income, an agricultural-based economy, poorly structured tax systems, and weak tax and customs administrations all contribute to difficulties in raising tax revenue. Notably, weak revenue mobilization is the root cause of Guinea Bissau's fiscal imbalances. It explains the dependence on budget support and the lack of space to increase priority spending. In this context, a better understanding of the tax gap that currently exists in Guinea-Bissau – the difference between potential tax revenue and actual collection – will help assess prospects for tax revenue over the medium term and identify areas for further improvements.

Figure B1. Guinea-Bissau: Tax Revenue
(Percent of GDP)



1. Simple average of each countries' tax revenue-GDP-ratio.

Source: IMF Staff estimates.

Tax Buoyancy[1]

2. **Guinea-Bissau's tax buoyancy remains low compared with other SSA countries, suggesting another explanatory factor for its low tax-to-GDP ratio**. Guinea-Bissau's tax revenue has not kept up pace with economic growth. Table B1 reports revenue buoyancy for three types of taxes (total, direct, and indirect) for Guinea-Bissau and other peer group (WAEMU, SSA countries, and SSA fragile states) over the 2000–11 period. Guinea-Bissau's record on tax buoyancy is poor, as reflected in those observations. Guinea-Bissau has revenue buoyancies that are below unity and similar to SSA fragile states, but below all WAEMU and SSA averages for all three categories of taxes. Indirect taxes have the highest buoyancy, followed by total taxes and direct taxes (Table B1).

[1] Tax buoyancy is defined as the elasticity of tax revenue with respect to nominal GDP. A buoyancy of 1 means, for example, that if GDP increases by 1 percent, taxes increase by 1 percent, which results in a neutral impact to the tax-to-GDP ratio.

Table B1. Guinea-Bissau: Tax Revenue Buoyancy[1], 2000-11			
	Total taxes	Direct taxes	Indirect taxes
Guinea-Bissau	0.73	0.56	0.74
Mean			
WAEMU countries	0.76	0.65	0.78
SSA countries	0.84	0.73	0.86
SSA fragile states[2]	0.80	0.64	0.77
Median			
WAEMU countries	0.78	0.60	0.76
SSA countries	0.83	0.72	0.84
SSA fragile states[2]	0.74	0.64	0.72

Source: IMF staff estimates
1. Each entry denotes elasticity of a revenue category with respect to nominal GDP.
2. Burundi, Central African Republic, Comoros, Democratic Republic of Congo, Cote d'Ivoire, Eritrea, The Gambia, Guinea, Guinea-Bissau, Liberia, Sao Tome and Principe, Sierra Leone, Togo, Zimbabwe

Tax Potential vis-à-vis Tax Effort

3. **This study uses a stochastic time-varying tax frontier**. This approach measures taxable capacity by regressing the tax revenue to GDP ratio for sample countries on explanatory variables that serve as proxies for possible tax bases and other factors that might affect a country's ability to raise tax revenue. Following the literature, a stochastic frontier estimation model is defined with a reduced form equation for a cross-country panel regression (Coondo *et al.*, 2003, Varsano, 2006). The predicted tax ratio from such a regression is considered a measure of taxable capacity, i.e., tax revenue potential, while the ratio of the actual to the predicted tax ratio is then computed and used as an index of tax effort. The model is specified as follows:

$$\tau_{it} = F(x_{it};\beta)\cdot \exp(v_{it} - u_{it})$$, where *i* = countries, *t* = year, and *u* is nonnegative.

The actual tax revenue in percent of GDP for country *i* at year *t* (τ_{it}) is bounded above by a stochastic quantity, $F(x_{it};\beta)\cdot \exp(v_{it})$, where v_{it} is a random error with zero mean, reflecting random factors such as terms of trade shocks and weather. Then the estimated potential tax revenue (τ^*_{it}) is $F(x_{it};\hat{\beta})\cdot \exp(0)$, and the estimated tax effort is $\frac{\tau_{it}}{\tau^*_{it}}$.[2]

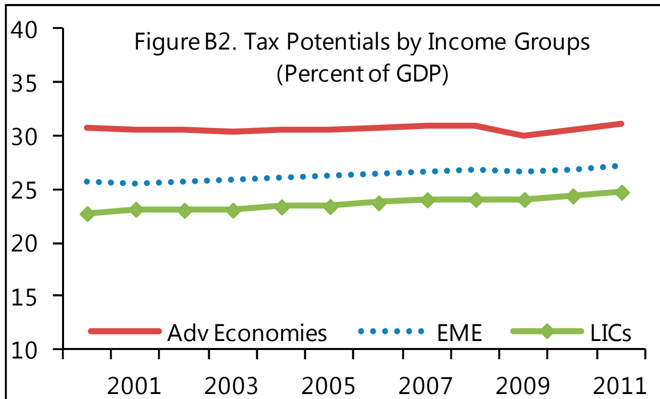
4. **Following the literature, economic and socio-political variables are used to explain the potential tax revenue in sample countries**. The estimation uses a panel dataset that covers 173 countries over the period 1995–2011, where 39 SSA countries are included. The estimated coefficients (Table B2) indicate that higher potential tax revenue is associated with variables that capture higher population, larger share of economically active population whose age is between 15 and 64, higher GDP per capita, higher degree of trade openness, non-oil exporters, less agricultural value added, the degree of financial deepening, and high quality of institutional factors.

[2] We assume that v_{it} is independently and identically distributed random variable with N(0, σ_v^2), and it is also independent of u_{it}. We also assume that u_{it} follows non-negative truncated normal distribution, N(0, σ_u^2).

Table B2. Parameters of the Stochastic Frontier Tax Function				
Variable	Coefficient	t-ratio		Std. Error
Log population	0.8216	2.20	**	0.3727
Log population share of age 15-64	0.1614	2.48	**	0.0651
Log GDP per capita	1.7087	2.65	***	0.6454
CPI inflation (%)	-0.0395	-3.90	***	0.0101
Trade openness (Trade/GDP, %)	0.0512	9.86	***	0.0051
Oil exporter dummy	-4.2850	-2.88	***	1.4860
Agriculture value added (% of GDP)	-0.0403	-1.67	*	0.0241
Financial deepening (M2/GDP, %)	0.0241	2.40	**	0.0100
Political stability (0-100)	0.0125	1.45		0.0086
Control of corruption (0-100)	0.0347	3.49	***	0.0099
Constant	-12.9218	-1.31		9.8339
Number of observations: 1,195, *** p < 0.01, ** p < 0.05, * p < 0.1				

Figure B2 depicts actual and potential tax-to-GDP ratios by income groups.[3] The advanced country group has the highest tax revenue potential, while the LIC group has the lowest. Agricultural value added, inflation, openness, financial deepening as a proxy the informal sector, and institutional capacity consistently accounts for different levels of tax potential across countries by income group (Table B3).

Figure B2. Tax Potentials by Income Groups
(Percent of GDP)



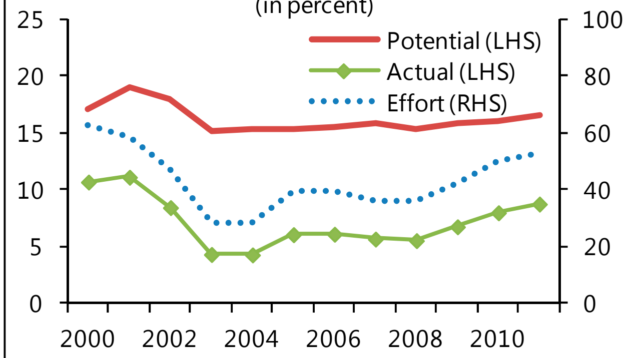
Source: IMF Staff estimates.

Table B3. Tax Potential Determinants (Simple mean in 2010)					
	Advanced Economies	Emerging Economies	LIC	SSA	Guinea-Bissau
Agricultural value added	2.5	11.2	31.5	25.1	57.2
CPI inflation	2.0	4.8	6.2	5.4	2.5
Trade openness	112.0	93.6	79.4	85.8	46.3
Financial deepening	154.5	59.7	30.8	35.4	28.6
Political stability	72.6	43.0	28.4	36.1	25.0
Corruption	84.3	44.2	26.3	33.5	13.3
Number of countries	25	73	33	41	..

[3] The usual caveat applies, because the gap between the potential and the actual might arise from omitted explanatory variables in the stochastic frontier model.

5. **The estimation results reveal that the tax gap in Guinea-Bissau has narrowed since mid-2000s** (Figure B3). The tax gap, which is estimated to be close to 16 percent of GDP in 2004, declined to 12 percent of GDP in 2011. The tax effort, which indicates that the actual tax collection in 2004 was only 21 percent of the taxable capacity, is estimated to improve to 37 percent in 2010. This implies that the recent improvements in tax revenue were mainly given by improved tax administration rather than by an increase in the "broadly-defined" tax potential itself.

Figure B3. Guinea-Bissau: Tax Revenue
(in percent)



Source: IMF Staff estimates.

6. **Scope for further improvements in Guinea-Bissau remains substantial**. Guinea-Bissau's tax performance and its associated potential revenue are estimated at the lowest in the WAEMU countries (Table B4). Noting that Guinea-Bissau's tax rates are already broadly in line with those in the rest of the WAEMU region except for the value added tax,[4] the lowest tax revenue performance would be mainly due to limited administrative capacity. Many WAEMU countries widened the tax base by limiting tax exemptions and strengthening tax and customs administration**.** Reforms focused on measures to strengthen auditing, control exemptions, and combat fraud, and to improve taxpayers' compliance.

Table B4. WAEMU Countries: Actual vis-à-vis Potential Tax Revenue in 2011

Country	Tax Revenue (A, % of GDP)	Estimated Potential Tax Revenue (B, % of GDP)	Tax Gap (A-B, % of GDP)	Tax Effort (A/B, %)
Benin	15.53	24.19	8.66	64.18
Burkina Faso	14.47	24.29	9.81	59.57
Cote d'Ivoire	13.14	25.14	12.00	52.27
Guinea-Bissau	8.76	20.69	11.93	42.34
Mali	14.87	23.32	8.45	63.75
Niger	14.07	22.60	8.52	62.27
Senegal	19.08	25.71	6.62	74.21
Togo	17.18	23.90	6.72	71.87
WAEMU[1]	14.63	23.73	9.08	61.30

1/ Simple mean of eight WAEMU countries

Concluding Remarks

7. **Significant additional revenue can be raised in Guinea-Bissau by implementation of best practices in a sequence consistent with the country's circumstances**. More progress might have been possible by enhancing the collaboration between the tax and customs administrations, including systematic exchanges of data and more joint controls. Looking ahead,

[4] The country is the only member of the WAEMU that has not fulfilled the obligation to adopt the VAT.

efforts should focus on measures that will deliver the biggest revenue impact. In particular, the tax administration needs to be made more efficient, supported by a broadening of the tax base and actions to combat tax evasion. Key measures for consideration include:

- Broadening the tax base by establishing broad-based competitive tax rates consistent with regional standards and implementing simple but coherent regimes for taxing smaller businesses, particularly the informal sector;
- Building administrations that effectively limit incentives and opportunities for rent seeking and inappropriate behavior which would help enhance tax compliance;
- Adopting and making readily available clear laws and regulations and streamlining tax exemptions;
- Stepping up the implementation of recommendations from the IMF tax policy and tax administration technical assistance missions under the multi-year program (TTF-TPA), which includes operationalizing the large taxpayer office, introducing the single taxpayer identification number, taxing imports on the basis of actual values, strengthening control of taxpayers that have stopped filing tax returns, and strengthening tax audits; and;
- Implementing prerequisite steps to move toward a VAT.

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Appendix III: Financial System's Structure and Performance[1]

Overview

1. **The financial system in Guinea-Bissau is mostly limited to the banking sector**. It is composed of 4 commercial banks, but only two have branches outside the capital city. Banks make up about 94 percent of the financial system (Table C1). There are just five micro finance institutions (MFIs) providing limited financial services to lower income households. MFIs cover both urban and rural regions; nonetheless, more than three quarters of the sector's activity is concentrated in Bissau. Private insurance companies (3) and a semiautonomous public pension fund (National Institute of Social Security) account for most of the remainder of the domestic financial system. Local institutions, including the government, have capacity constraints to access funding from the regional securities and equity markets.

Table C1. Guinea-Bissau: Financial System Structure, end-2012

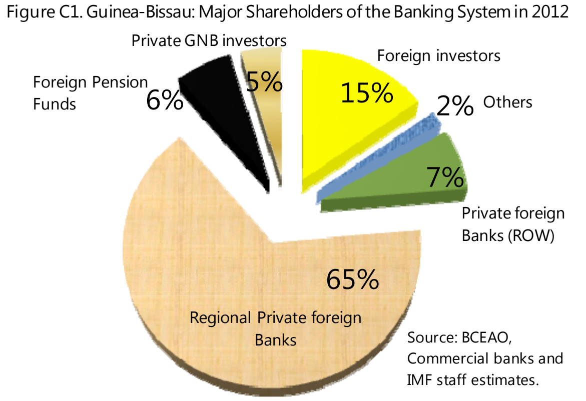
	Total Assets		
	Amount (CFAF bil.)	(% of total)	(% of GDP)
Banks	136.3	93.5	30.7
Microfinance Insititutions	0.4	0.3	0.09
Non-Deposit Taking Financial Institutions	9.0	6.2	2.0
(of which) Insurance	2.1	1.4	0.5
Total Financial System (excluding BCEAO)	145.7	100.0	32.8

Source: BCEAO, Commercial Banks, INPS, Insurance Cias., IMF staff estimates.

Banking System

2. **Foreign nationals and banks account for a large part of the ownership of the banking sector shares**. The system is dominated by subsidiaries of pan-African banks and non-residents' stakes in majority private-owned banks. The two largest banks account for 66 percent of assets and collect 67 percent of deposits. One bank is a BCEAO-sponsored bank that provides services to small businesses in

Figure C1. Guinea-Bissau: Major Shareholders of the Banking System in 2012



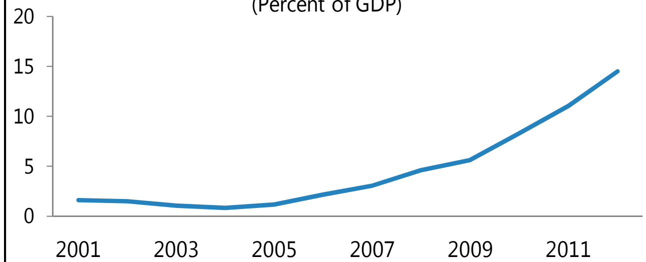
Source: BCEAO, Commercial banks and IMF staff estimates.

[1] Prepared by Alfredo Torrez.

addition to its retail business. Only about one percent of the population holds bank accounts, with bank deposits amounting to about 18 percent of GDP. There is no interbank market: banks recur directly to the BCEAO for liquidity needs, if any. Banks usually have excess reserves with only a limited amount of liquidity traded among them.

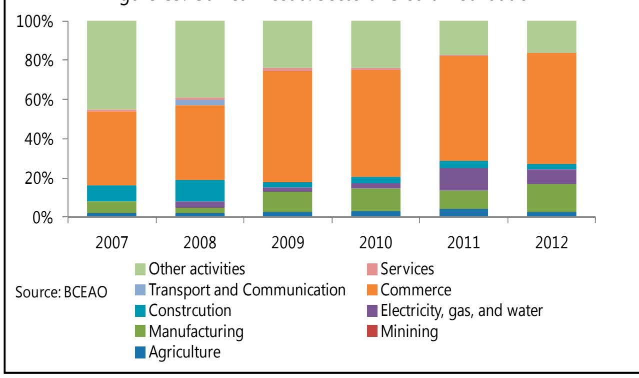
3. **The banking sector has expanded its operations in recent years.** In 2012, bank credit increased by 27 percent. Overall bank credit to the economy in terms of GDP is about 15 percent. This represents an increase of six percentage points of GDP in just three years. Short-term credit to the cashew nuts' sector has been particularly buoyant, but credit to construction and tourism has also increased. However, non-performing loans recorded a major increased in 2012 due to a bad cashew campaign, affected by external and internal shocks. Banks' core business consists of collecting deposits, lending to medium-size firms, and dealing with government securities. One bank (BRS) has been lending to microfinance activities, but at very limited levels. No new bank has entered into the Guinea-Bissau market since 2007 when ECOBANK, a regional African banking group, started operations in Bissau. Bank loans are expensive and there are few clients. Thus, banking penetration is very low: less than 1 percent of the population. Recently, the authorities tried to foster an increase in the number of bank accounts by obligating civil servants to open a bank account in which their salaries would be deposited. Nonetheless, the low level of income of most public servants would not allow them to hold balances in those accounts. Political instability and unfavorable external conditions for the main export product resulted in a substantial decline of banking operations in 2012.

Figure C2. Guinea-Bissau Domestic Credit from the Banking Sector
(Percent of GDP)



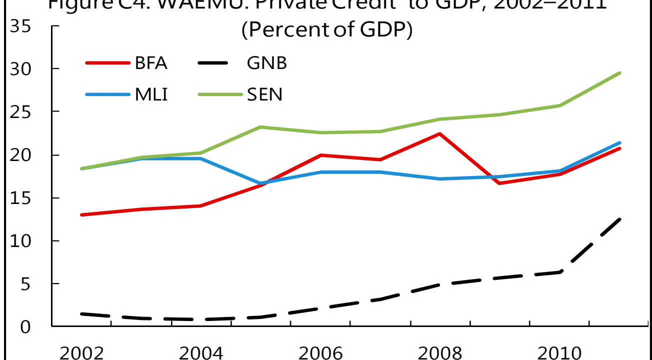
Source: BCEAO, Commercial banks, IMF staff estimates.

Figure C3. Guinea-Bissau: Sectoral Credit Distribution



Source: BCEAO

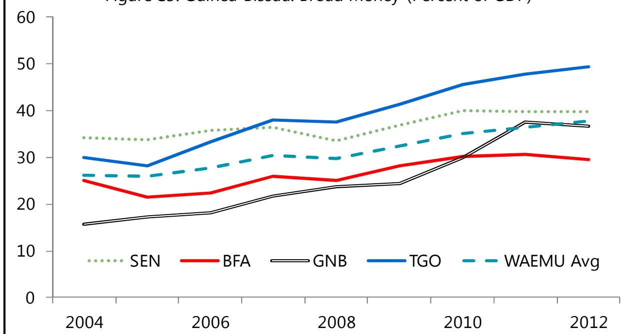
Figure C4. WAEMU: Private Credit to GDP, 2002–2011
(Percent of GDP)



Source: BCEAO, IMF Staff estimates

4. **Financial sector deepening has improved during the last five years, but still lags behind neighboring countries and WAEMU**. Financial liabilities included in M2 increased from about 24 percent of GDP in 2009 to 38 percent of GDP in 2012. This was in part motivated by increased competition that pushed banks to offer improved financing options and expand their branch network. However, the M2 to GDP ratio is still lower than the WAEMU average. Bank deposits have also increased substantially through 2012, but they are lower than in neighboring countries. Moreover, the ratio of credit to deposits is lower than one, indicating that banks are liquid and do not have much investment opportunities.

Figure C5. Guinea-Bissau: Broad Money (Percent of GDP)



Source: BCEAO, IMF staff estimates

5. **The banking system appears to be relatively robust**, **with concentration of lending being the main risk**. Financial indicators show that capital adequacy decreased to 20 percent at end–2012, but it is still largely above the regulatory minimum of 8 percent. Profitability remains also adequate. Nonetheless, the main risk comes from credit concentration (just one sector, commerce and retail trade absorbs 50 percent of loans), as reflected by the large increase in non-performing loans to 9.7 from 6.5 in 2011 due mostly by the accumulation of arrears by cashew exporters. Other risks, including liquidity risks, seem not to be overriding given that banks are highly liquid (due to the lack of profitable projects and the absence of a developed interbank market).

6. **The international financial crisis and the slowdown in emerging markets affected Guinea-Bissau's banks through delays in export trade receipts and lower remittances**. However, the impact has been rather limited because banks do not have access to European lines of credit: most banks are funded locally. This also increased the opportunity for African banking groups to expand in the region, counterbalancing some of the negative effects of the global crisis.

Microfinance

7. **Microfinance (MFI) activities are negligible within the Guinea-Bissau financial system**. They focus on basic sector services, such as savings accounts and micro-credit. The activities of MFIs are not well understood and not many people have accounts there. MFIs' loans amount to less than 1 percent of bank credit (CFAF 340 million). Some MFIs are operated by NGOs and have a social mandate, e.g., to lend to women and farmers in remote regions, but they do not report their operations. Moreover, since the initial MFIs were established by NGOs based on grant-financing, there has been an entrenched concept that MFIs should provide loans without the need to repay back. This has negatively contributed to a high level of NPL and, eventually, the disappearance of a large number of MFIs. The two largest MFIs make up around 90 percent of their operations.

8. **The sector has experienced a significant drop in the number of active MFIs**. Although the first MFIs were established in 1997, as of end–2012 there were only 5 licensed institutions, falling from 18 at end–2011. A low loan repayment rate, weak contracts' enforcement, high administrative costs, and depleted cash balances caused the closing of most MFIs. Currently there are more than 10,000 registered members in the microfinance sector. Political instability and a slowdown in economic activity have significantly affected the sector, with loans declining to just CFA 219 million (less than 0.1 percent of GDP). Credit is mostly allocated to micro businesses such as female merchants, fishermen and horticulturists.

Table C2. Guinea-Bissau: Microfinance Finance Institutions 1/

	2009	2010	2011	2012
Members	8,316	8,607	9,063	10,934
Deposits (CFA millions)	170.2	176.1	185.5	288.7
Loans (CFA millions)	314.1	325.1	342.3	219.1
Outstanding	234.0	242.2	255.0	107.0
NPLS	80.1	82.9	87.3	112.1
NPLs as percent of loans	25	25	25	51
Depositors	4,521	4,679	4,927	7,455

Source: BCEAO, CADESP and Fund staff estimates
1/ only 4 microfinance insitutions in operation.

9. **Despite an improvement in 2011, the quality of MFIs portfolios appears to have deteriorated more recently**. NPLs were about 25 percent of total loans during 2011 and reached 51 percent of the MFIs portfolio at end–2012. Moreover, data and financial statements from the MFI's are unreliable and are not produced within the timeframe mandated by the WAEMU regulations. The sector is in need of capacity improvements. Additionally, the supervision activities provided by the ministry of finance need to be strengthened. Financing from both local and international sources to the MFIs has also plummeted substantially. Thus, Guinea-Bissau's microfinance sector continues to be the least developed in the WAEMU region. For instance, in Senegal the MFIs provide services to about 20 percent of the population and about 10 percent of bank credit.

10. **The legislation that deals with microfinance was set up in 2008**. Under the current legislation, the Ministry of Finance through a specialized unit (CADESP) is in charge of authorizing the opening of MFIs, as well as their supervision. The ministry also handles the promotion activities, while the BCEAO contributes to inspection and supervision activities. However, the legislation presents some handicaps to facilitate the proper functioning of MFIs. The government, with assistance from the UNDP, produced in 2008 a comprehensive diagnostic of the sector and remedial actions (e.g. focusing the role of the ministry of finance to authorization and inspection and the one of the ministry of economy to promotion). Nonetheless, the associated legislation has yet to be approved.

11. **The NFIs sector suffers from a large drop of membership, lack of financial resources, and a high level of NPLs**. The sector is in need of a comprehensive overhaul. The government has initiated this with a change of leadership at the CADESP level. UNDP and other donors appear willing to cooperate once the proper regulations are in place, so that the MFIs can

accomplish their main objective of providing financing to the large low-income segment of the population, as a way to reduce poverty.

Conclusions

12. **Fragile states at initial stages of financial development, like Guinea-Bissau, can benefit from financial deepening**. Financial deepening has a positive effect on growth if done properly, i.e., accompanied by appropriate policies for financial sector reform and regulation. The literature shows that countries with higher levels of financial development tend to have higher growth rates than those with lower levels of financial development. However, rapid and excessive deepening, as manifested in a credit boom, can be problematic for the banks and macroeconomic policy management.

13. **There are several factors that impede the growth of financial intermediation in Guinea-Bissau**. A sizable informal sector; where transactions are in cash-basis, insufficient collateral, and poor financial accounting practices in the business sector, pose significant obstacles to the development of the financial system and translate into relatively high credit costs.[2] Moreover, a weak infrastructure, a rudimentary payments system, weak legal and judicial systems, the lack of a credit reference system, and political instability hinder the financial sector's ability to provide adequate support for the private sector.

14. **Some key recommendations to improve the role of the MFIs could include:** strengthening the promotion, authorization and inspection, and supervision of the MFIs, by the ministries of economy, finance and the BCEAO, respectively; strengthening capacity building and training of MFIs; mobilize financial resources from domestic and international resources, and wholesale such resources to MFIs on a competitive basis; establishing a credit guarantee fund that would make it possible for MFIs to lend without significant collateral requirements; supervise MFIs in accordance with international best practices; and create a bureau of credit and risk similar to the BCEAO's one for banks.

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[2] High interest rate margin (lending minus deposit), which are the highest in the region, above 9 percent

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITYANALYSIS

June 5, 2013

Approved By
Roger Nord and Peter Allum (IMF) and Marcelo Giugale and Jeffrey Lewis (World Bank- IDA)

Prepared by the Staff of the International Monetary Fund (IMF) and the International Development Association (IDA).[1]

This debt sustainability analysis for low-income countries (DSA) confirms[2] a moderate risk of debt distress for Guinea-Bissau. Despite a more challenging (especially domestic) environment, and worsening debt outlook, the projected external debt indicators show a moderate vulnerability to shocks. The inclusion of domestic public debt into the analysis confirms the conclusions of the external DSA. Overall, however, risks have increased substantially. Therefore, the current assessment critically depends on the post-crisis recovery and on the assumption that the authorities will reestablish prudent fiscal and debt management policies, implement structural reforms, and have access to concessional borrowing.

[1] The DSA was prepared jointly by Bank and Fund staff, in consultation with the Debt Management Unit of the Bissau-Guinean Ministry of Finance. The fiscal year for Guinea-Bissau is January 1- December 31.

[2] The previous DSA was prepared in December 2011 (IMF Country Report No. 11/355).

BACKGROUND

1. **Overall, Guinea-Bissau's debt outlook improved considerably since the country benefited from a substantial debt relief, but it has worsened recently due to a more challenging environment.** Following the implementation of the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative in December 2010 and the Multilateral Debt Relief Initiative (MDRI) in May 2011, the ratio of public and publicly guaranteed (PPG) external debt to GDP decreased from 122 percent (US$1,066.7 million) at end 2009 to 27.5 percent (US$232.4 million) at end-2012 (Text Table 1). Most of the debt owed to multilaterals and official bilateral creditors was canceled, while 53 percent of the remaining debt owed to non-Paris Club creditors is subject to rescheduling.[3] Since then, domestic political instability has led to some deterioration of Guinea-Bissau's debt outlook. The economy experienced a recession in 2012 while development partners, except regional ones, have reduced their support to the country.

Text Table 1. Guinea-Bissau: Nominal external debt stock, 2009-12

	2009	2010	2011	2012	2012
	USD million				*Percent of total debt*
Total	1,066.7	189.3	210.9	232.4	100.0
Multilateral creditors	529.9	95.7	117.3	138.8	59.7
of which					
IMF	9.9	2.1	9.6	13.3	5.7
IDA	303.8	34.5	34.1	33.5	14.4
AfDB	153.5	11.1	11.1	11.2	4.8
BOAD	1.6	15.4	30.0	48.5	20.9
Bilateral creditors	536.5	93.6	93.6	93.6	40.3
Paris Club	241.5	2.7	2.7	2.7	1.1
Non-Paris Club	295.1	90.9	90.9	90.9	39.1
Commercial	0.3	0.0	0.0	0.0	0.0

Source: Guinea-Bissau authorities and staff estimates

2. **Limited access to official external financing has forced the authorities to rely on less concessional regional borrowing.** Since 2010, the authorities have resorted, mainly if not only, to borrowing at less favorable terms from the regional development bank (the BOAD) to finance their public investment projects in road construction and rehabilitation, rice production and food security support. Therefore, the share of the BOAD debt in total debt has increased from 0.1 to about 21 percent within the last 3 years and may increase even more as the authorities continue their investment effort and official external financing remains limited in the near future. For the debt sustainability analysis, BOAD debt is treated as external based on residency basis.[4]

[3] The government recently signed bilateral agreement with France and Belgium and concluded rescheduling agreements with the Arab Bank for Economic Development in Africa, the Islamic Development Bank, Kuwait and Saudi Arabia. The authorities continue to work on finalizing bilateral agreement with remaining creditors.

[4] According to the Technical Memorandum of Understanding of the program supported by a recent arrangement under the Extended Credit Facility (ECF), the CFAF-denominated debt is considered domestic for debt limits policy purposes (IMF Country Report No. 11/335).

3. **Public domestic debt decreased in recent years, but may increase quickly again given limited access to external financing.** The ratio of domestic debt to GDP decreased from 36 percent at end–2009 to 26.3 percent at end–2011 thanks to the authorities' domestic arrears clearance strategy. However, funding constraints have resulted in a recent increase in domestic arrears and the suspension of the domestic arrears' clearance strategy. In addition, preliminary information of contingent liabilities suggests that there is a recent explicit government guarantee of an electricity company loan from regional commercial banks and that the authorities have started to rely on financing from regional commercial banks to finance their investment projects. Therefore, the ratio of public domestic debt to GDP has increased to above 30 percent at end-2012 and may increase further in the future.

UNDERLYING ASSUMPTIONS

4. **The macroeconomic outlook has been revised to reflect the impact of a double political and economic shock that occurred in 2012.** Going forward, the baseline scenario assumes that near-term economic recovery will be affected by uncertain political environment and delays in restoring traditional development partners' support; in the medium term, however, a more stable political situation should bring positive returns in terms of macroeconomic stabilization and economic growth (Text Table 2; Box 1). In particular, compared to the previous DSA assumptions:

Text Table 2. Guinea-Bissau: Evolution of selected macroeconomic indicators

	2011	2012	2013	Long-term1/
Real GDP growth (percent)				
Previous DSA	5.3	4.5	4.7	4.5
Current DSA	5.3	-1.5	3.5	4.0
Primary fiscal balance (percent of GDP)				
Previous DSA	-2.6	-1.1	-1.0	-1.8
Current DSA	-1.9	-2.8	0.8	-0.2
Non-interest current account deficit (percent of GDP)				
Previous DSA	6.2	7.0	6.4	4.0
Current DSA	1.1	6.5	5.5	2.4
Growth of exports (percent)				
Previous DSA	98.9	-23.6	2.4	6.3
Current DSA	85.6	-44.4	23.7	6.3

Sources: Guinea-Bissau authorties; IMF staff estimates.

1/ Long-term value of the indicator is defined as an average over the last 15 years of the projections.

- The near-term growth is expected to be lower and long-term growth is projected to increase only to 4 percent. This assumes the implementation of sound macroeconomic policies and structural reforms and the authorities' continued investment effort, although constrained by limited resources.
- The primary fiscal balance is projected to improve, turning into a surplus in 2013 and remaining in deficit at around 0.2 percent of GDP in the long term, reflecting the authorities' efforts to build fiscal space in the context of limited access to borrowing.

- The non-interest external current account deficit is expected to improve in the long term reflecting an upward revision in the fiscal balance and a slightly lower growth in imports.

Box 1. Macroeconomic Assumptions

In the medium term (2013-18), projections are consistent with the macroeconomic framework of the 2013 Article IV Consultation. **Long-term (2019-33)** projections assume a more stable political environment, continued growth in cashew exports, and positive returns in terms of macroeconomic stabilization and economic growth from increased public investments and policies implemented in previous years.

Real GDP growth is projected to recover from -1.5 percent in 2012 to 3.5 percent in 2013, fall to about 3 percent in the medium term, and stabilize at about 4 percent over the long run. Medium-term economic activity would be affected by the fragile political situation, but, over the long term, benefit from the implementation of investment projects in agriculture and infrastructure and structural reforms aimed at increasing efficiency and competitiveness and improving the business climate.

Inflation (measured by the GDP deflator) is projected to stabilize over the medium term at around 1.3 percent. Over the long term, inflation is projected to increase to about 2.3 percent.

The primary fiscal deficit is assumed to slightly improve over the medium term from 2.8 percent of GDP in 2012 to 0.3 percent in the medium term, owing to improvements in public fiscal management and efforts to contain recurrent expenditures. Over the long run, the primary fiscal balance is projected to remain at about 0.2 percent of GDP. Over the near-term, **government's domestic debt** is projected to slightly increase from 30.9 percent in 2012 to 32.2 percent in 2013. In the long term, domestic debt is expected to decrease to about 5 percent reflecting the authorities' commitment to a prudent borrowing strategy and a regular repayment of outstanding arrears.

The non-interest external current account deficit is projected to narrow from 5.5 percent of GDP in 2013 to 2.4 percent of GDP in 2018. In the long term, the current account deficit would stabilize at about 2.4 percent, reflecting improved export and fiscal performance.

Net foreign direct investment is projected to decrease in the medium term to about 0.6 percent per year and increase to about 1.3 percent of GDP per year, owing to the stabilization of the political situation, a more favorable business climate, and improved infrastructure.

Net aid flows (official grants and concessional loans) are expected to decrease to about 6 percent of GDP in the medium- and long-runs reflecting some limited development partners' support[1] to Guinea-Bissau infrastructure development and reform efforts. Concessional loans are assumed to be at standard terms, i.e. on 0.25 percent interest rate with 40 (IDA) and 50 (AFDB) years maturity and ten-year grace period. Over the medium term, some new external borrowing is assumed to be on less-concessional terms, and this borrowing is expected to increase moderately as access to concessional financing remains limited. Over the medium- and long-terms, however, the DSA assumes that the authorities will benefit from some concessional borrowing mainly from multilaterals and will have only temporary access to commercial debt. In this context, the average grant element of new disbursements is expected to increase from 21 percent in 2013 to about 30 percent in the long run. The baseline debt scenario assumes that all creditors will provide HIPC debt relief and topping-up assistance, and remaining debt will be rescheduled (Text Table 1).

[1] Some development partners are expected to channel their aid through non-governmental organizations. Therefore, private aid flows are projected to increase from about 1 percent of GDP in 2012 to 3 percent of GDP over the medium term.

5. **The present value of external debt has increased following the revision of the discount rate used in the DSA template.** The discount rate was adjusted from 4 percent to 3 percent in 2012 to reflect the evolution of its reference rate, i.e., the long-term U.S dollar commercial interest rate (CIRR). Therefore, Guinea-Bissau's debt indicators in PV terms have been revised upward and the debt outlook worsened. For instance, *ceteris paribus*, a one percentage point decrease in the

discount rate increases the PV of the Guinea-Bissau's debt-to-GDP ratio by about 2 percentage points.

6. **New risks to the baseline scenario have emerged.** Domestically, a prolonged period of political instability could undermine the population's, development and trading partners' confidence and lead to a slowdown in economic recovery and lower-than-expected exports. In contrast, a successful transition period and political stabilization would speed up the economic recovery. Overall, however, much will also depend on the availability of concessional external financing as well as on the authorities' debt management capacity and ability to implement investment projects and structural reforms. Externally, a weakening external environment could result in lower-than-expected exports and remittances.[5]

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

7. **All but one debt indicators are expected to remain below their thresholds[6] in the baseline scenario, but the most extreme shock[7] leads to a significant breach of three of them** (Figure 1, Tables 1 and 2). In the baseline scenario, one debt burden indicator – the PV of debt-to-export – breaches by a limited margin its respective threshold at the beginning of the projection period. On this basis, Guinea-Bissau could be classified as a high risk country, but the breach is projected to be temporary as exports are expected to healthily increase over the medium-term due to improved road infrastructure and some product diversification. In addition, the recent increase in debt-financed investments took place in the context of a restriction in project grants that is expected to be lifted over the medium-term. Stress tests indicate, however, that the economy remains vulnerable to a fall in exports and a one-time currency depreciation shock. The PV of debt-to-export ratio would increase significantly from about 122 percent in 2013 to 306 percent in 2015 and remain well above the relative threshold for the whole projection period. The PV of debt-to GDP and revenue ratios would breach the relative thresholds in the first half of the projection period. Other indicators are also sensitive to the most extreme shock scenario, but do not breach their corresponding thresholds.

8. **The current assessment presents a considerably worse debt outlook than the previous DSA.** Compared to the previous DSA, the three debt burden indicators have deteriorated significantly on account of a less favorable macroeconomic framework. At the same time, the two debt service-related indicators show less favorable debt service trends than the last DSA for the period beyond 2020, reflecting

[5] The inclusion of remittances in the analysis, accounting on average for 2.5 percent of GDP, results in only minor changes of debt burden indicators.

[6] Debt sustainability thresholds are determined by the three-year (2009–11) average of the Country Policy and Institutional Assessment (CPIA) rating (2.7), which classifies Guinea-Bissau as having low-quality policies and institutional frameworks.

[7] The most extreme shock is calibrated as an export shock in 2014–2015 equal to the historical average (2003–2012) of export growth minus one standard deviation (in the same period), or a one-time, 30-percent nominal currency depreciation.

the conclusion of less beneficial than originally expected debt rescheduling agreements with the non-Paris club creditors.

B. Public Debt Sustainability Analysis

9. **Total (external and domestic) public debt indicators are projected to decline gradually** (Figure 2, Tables 3 and 4). In the baseline scenario, the PV of debt-to-GDP ratio is expected to decrease from about 56 percent in 2013 to 16 percent in 2033, the PV of debt-to-revenue ratio is projected to decline from 334 percent to 90 percent, and the debt service-to-revenue ratio would fall from 11 percent in 2013 to 5 percent at the end of the projection period. These indicators are projected to increase initially when compared to the previous DSA, reflecting a deterioration of economic environment and the signing of less favorable than expected debt rescheduling agreements, but the authorities' prudent borrowing strategy and a limited access to external financing would result in their more gradual decrease afterwards.

10. **Moderate risks to the baseline may occur if key macroeconomic variables remain unchanged at historical levels.**[8] Under the historical scenario, the PV of debt-to-GDP and revenue ratios would decline slightly and remain at around 53 and 275 percent in 2033, respectively. The debt service-to-revenue ratio is expected to grow and remain at around 11 percent after 2026. Other stress tests do not point to significant vulnerability. The risks posed by contingent liabilities, which can be approximated by a 20 percent of GDP increase in other debt creating flows, appear contained as well.

CONCLUSION

11. **In the staff's view, Guinea-Bissau continues to face a moderate risk of debt distress under the assumptions of medium-term gradual economic recovery, sound policies, and continued structural reforms**. Although, the external debt outlook worsened compared to the previous assessment, the baseline scenario indicates a limited small and temporary breach of one indicative threshold at the beginning of the projection period, while the stress tests result in the breach of three of them. The breach in the debt-to-export threshold in the baseline scenario is due to ongoing investment efforts to improve the country's infrastructure and its export base. This justifies maintaining a moderate risk of debt distress for the moment. The inclusion of domestic public debt in the analysis confirms that the country's debt position presents a moderate vulnerability to shocks for now. Nevertheless, risks have increased substantially and the debt sustainability critically depends on the normalization of the political situation and sound macroeconomic and debt management policies in the context of limited access to borrowing.

12. **The authorities broadly agree with the staff conclusions and policy recommendations.** The authorities concur that debt sustainability depends critically on the ability to access concessional financing, improvements in potential economic growth, and sound macroeconomic and prudent debt management policies. However, the authorities noted that if concessional financing is difficult to access, the country may need to borrow at less concessional terms to finance structural reforms and investment projects.

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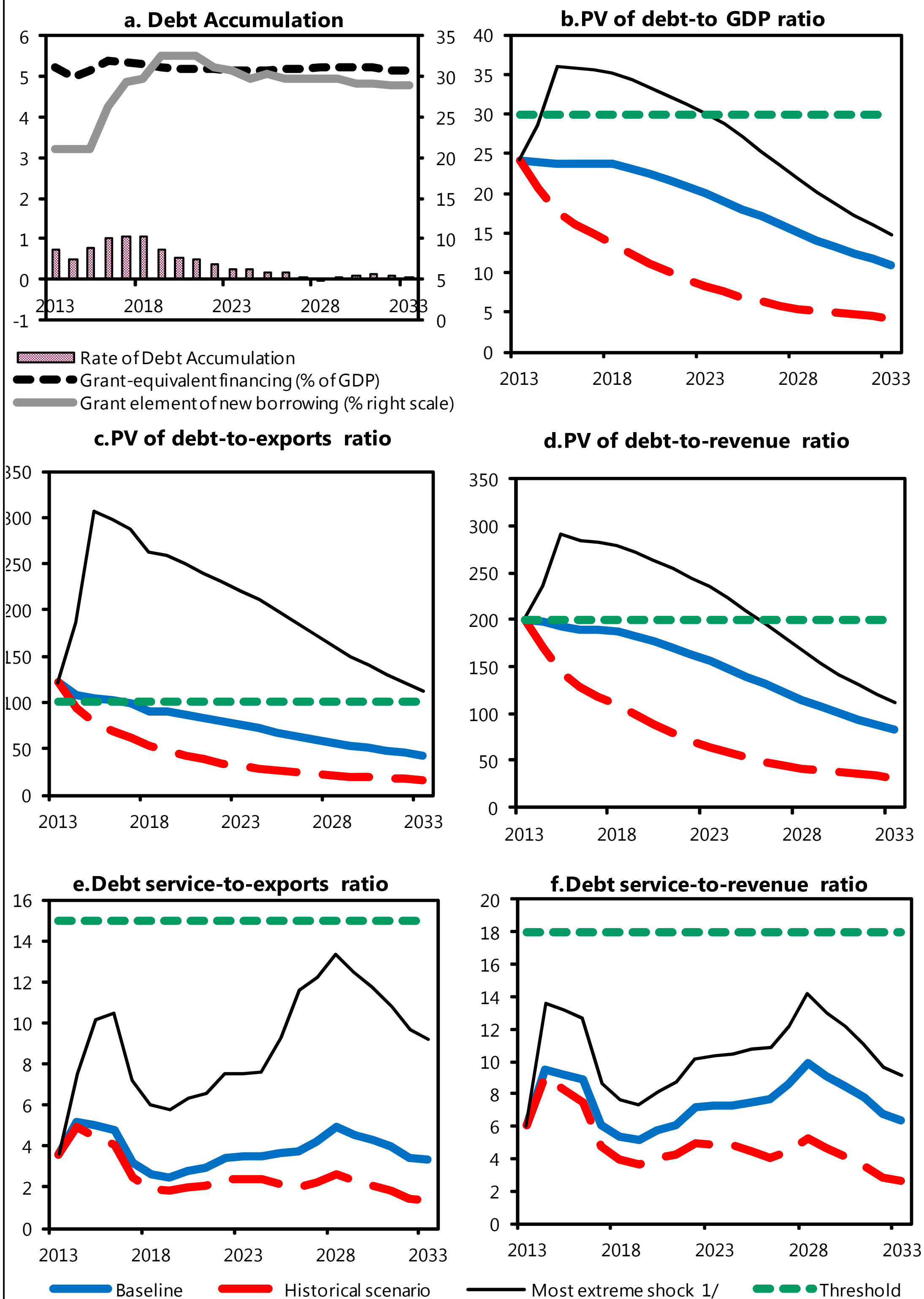
[8] Real GDP growth and the primary fiscal balance (in percent of GDP) would remain at their 10-year averages, i.e. at 2.6 percent and -3.5 percent, respectively.

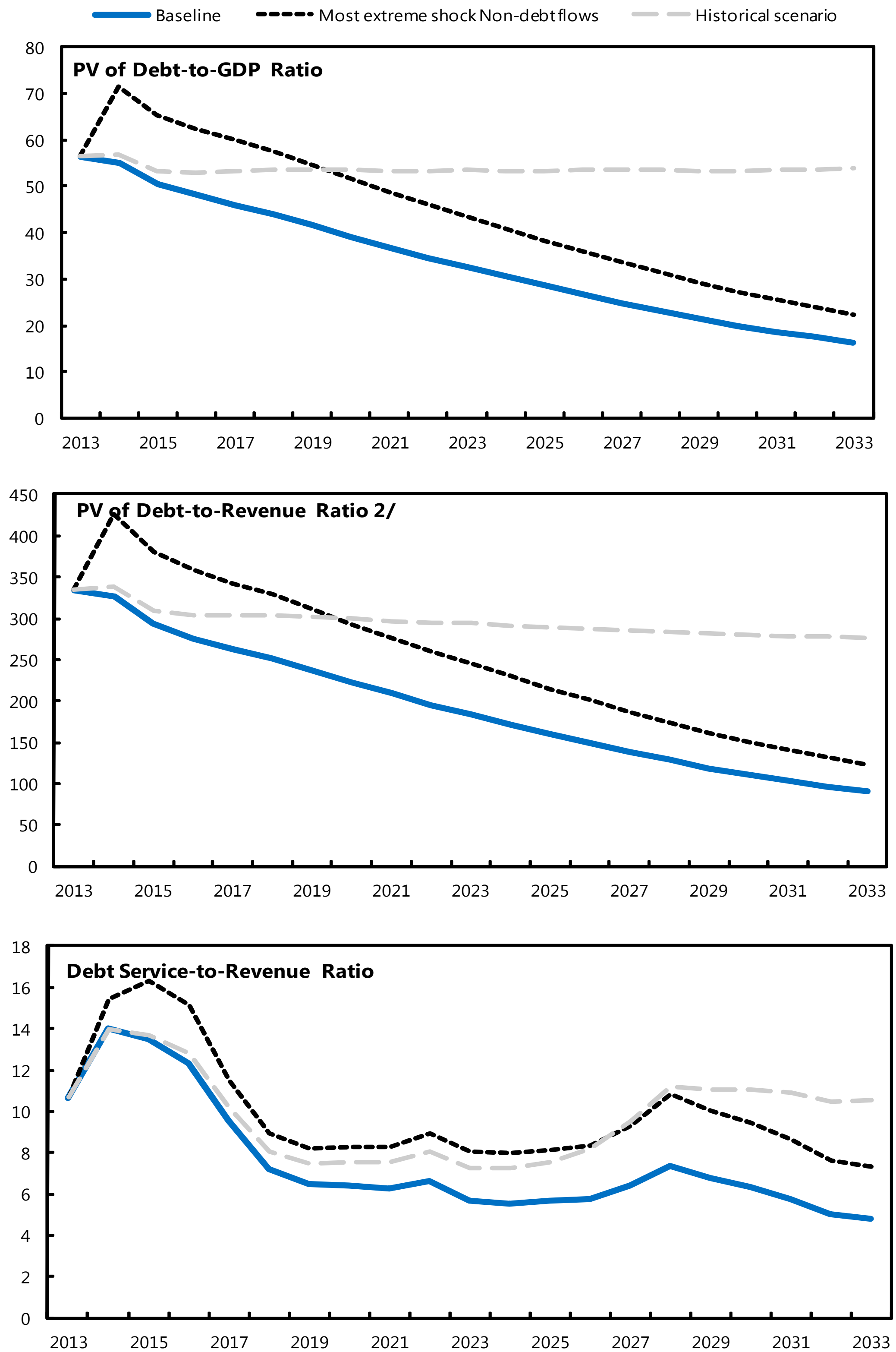
Figure 1. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. 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 Alternative Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

Table 1.: External Debt Sustainability Framework, Baseline Scenario, 2010-2033 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard 6/ Deviation	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	22.7	23.0	27.5			27.0	26.7	26.5	26.5	26.5	26.3		21.4	13.0	
of which: public and publicly guaranteed (PPG)	22.7	23.0	27.5			27.0	26.7	26.5	26.5	26.5	26.3		21.4	13.0	
Change in external debt	-99.2	0.3	4.5			-0.6	-0.3	-0.2	0.1	0.0	-0.3		-1.0	-0.7	
Identified net debt-creating flows	4.9	-4.6	9.9			4.4	3.8	3.5	2.2	1.7	1.2		0.5	0.8	
Non-interest current account deficit	8.5	1.1	6.5	2.7	3.8	5.5	4.5	4.3	3.0	2.8	2.6	3.8	2.5	2.5	2.4
Deficit in balance of goods and services	15.4	8.2	14.3			14.2	12.6	12.0	11.1	11.7	10.8		8.1	7.9	
Exports	16.5	26.5	17.3			19.9	22.2	22.9	23.3	24.2	26.1		26.6	25.6	
Imports	31.9	34.7	31.6			34.1	34.8	34.8	34.4	35.8	36.9		34.7	33.6	
Net current transfers (negative = inflow)	-6.9	-7.1	-7.9	-9.5	1.8	-8.3	-8.1	-7.6	-8.1	-8.9	-8.3		-8.3	-7.9	-8.2
of which: official	-3.5	-3.5	-3.8			-4.3	-3.4	-1.9	-1.9	-1.9	-1.9		-1.9	-1.6	
Other current account flows (negative = net inflow)	0.0	0.0	0.1			-0.4	0.0	0.0	-0.1	0.0	0.1		2.6	2.5	
Net FDI (negative = inflow)	-3.3	-2.6	-0.7	-1.9	1.0	-0.7	-0.5	-0.5	-0.5	-0.5	-0.6		-1.4	-1.5	-1.3
Endogenous debt dynamics 2/	-0.2	-3.0	4.1			-0.4	-0.2	-0.3	-0.3	-0.5	-0.7		-0.6	-0.2	
Contribution from nominal interest rate	0.1	0.1	0.0			0.5	0.5	0.4	0.4	0.3	0.2		0.3	0.3	
Contribution from real GDP growth	-4.2	-1.0	0.4			-0.9	-0.7	-0.7	-0.8	-0.8	-0.9		-0.8	-0.5	
Contribution from price and exchange rate changes	3.9	-2.0	3.7			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	-104.1	4.9	-5.3			-4.9	-4.1	-3.7	-2.1	-1.8	-1.5		-1.5	-1.5	
of which: exceptional financing	-106.6	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	35.9	24.6			24.2	24.0	23.8	23.7	23.8	23.7		20.1	11.0	
In percent of exports	...	135.6	141.9			121.6	108.1	104.0	101.9	98.4	90.8		75.4	42.7	
PV of PPG external debt	...	35.9	24.6			24.2	24.0	23.8	23.7	23.8	23.7		20.1	11.0	
In percent of exports	...	135.6	141.9			121.6	108.1	104.0	101.9	98.4	90.8		75.4	42.7	
In percent of government revenues	...	...	224.2			200.4	198.2	192.2	189.3	188.9	187.8		156.6	82.5	
Debt service-to-exports ratio (in percent)	8.0	0.6	1.2			3.6	5.2	5.0	4.8	3.2	2.6		3.5	3.3	
PPG debt service-to-exports ratio (in percent)	8.0	0.6	1.2			3.6	5.2	5.0	4.8	3.2	2.6		3.5	3.3	
PPG debt service-to-revenue ratio (in percent)	12.3	1.3	1.9			6.0	9.5	9.2	8.9	6.1	5.4		7.2	6.4	
Total gross financing need (Millions of U.S. dollars)	54.1	-13.6	49.4			48.9	47.1	46.6	35.8	31.2	28.4		27.8	51.3	
Non-interest current account deficit that stabilizes debt ratio	107.7	0.8	2.0			6.1	4.8	4.5	3.0	2.8	2.8		3.4	3.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.5	5.3	-1.5	2.6	1.9	3.5	2.7	2.8	3.1	3.3	3.7	3.2	4.0	4.0	4.0
GDP deflator in US dollar terms (change in percent)	-3.1	9.9	-13.8	5.0	10.3	4.0	0.3	0.2	1.5	1.0	1.0	1.3	1.5	3.0	2.3
Effective interest rate (percent) 5/	0.1	0.3	0.1	0.7	0.5	1.9	1.7	1.7	1.7	1.2	0.8	1.5	1.4	2.0	1.7
Growth of exports of G&S (US dollar terms, in percent)	6.7	85.6	-44.4	13.1	34.0	23.7	14.7	6.5	6.5	8.1	13.2	12.1	6.3	6.6	6.3
Growth of imports of G&S (US dollar terms, in percent)	-0.4	25.7	-22.5	12.4	14.6	16.1	5.1	3.3	3.4	8.5	7.8	7.4	6.1	6.6	5.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	21.2	21.2	21.2	26.4	29.4	29.7	24.8	30.8	29.0	30.4
Government revenues (excluding grants, in percent of GDP)	10.8	11.5	11.0			11.8	12.1	12.4	12.5	12.6	12.6		12.8	13.3	13.0
Aid flows (in Millions of US dollars) 7/	90.3	93.0	49.3			44.9	43.2	45.3	51.7	54.9	57.2		73.1	140.2	
of which: Grants	80.9	73.0	49.0			44.9	43.2	45.3	48.3	50.4	52.7		69.1	134.2	
of which: Concessional loans	9.4	20.0	0.2			0.0	0.0	0.0	3.4	4.6	4.5		4.0	6.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.2	5.0	5.1	5.4	5.4	5.3		5.2	5.1	5.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			88.4	84.2	81.3	79.3	83.1	84.4		89.8	90.0	88.7
Memorandum items:															
Nominal GDP (Millions of US dollars)	836.9	968.6	823.2			886.5	912.6	940.8	984.3	1026.9	1074.7	971.0	1408.5	2734.7	1791.8
Nominal dollar GDP growth	0.3	15.7	-15.0			7.7	2.9	3.1	4.6	4.3	4.7	4.6	5.6	7.1	6.4
PV of PPG external debt (in Millions of US dollars)			207.5			213.6	218.0	224.9	234.6	245.0	255.7		283.7	300.8	
(PVt-PVt-1)/GDPt-1 (in percent)						0.7	0.5	0.8	1.0	1.1	1.0	0.9	0.3	0.1	0.2
Gross workers' remittances (Millions of US dollars)	21.7	23.8	23.2			24.6	25.2	26.0	26.8	27.9	29.2		38.3	74.4	
PV of PPG external debt (in percent of GDP + remittances)	...	35.9	23.9			23.5	23.3	23.2	23.1	23.1	23.1		19.5	10.7	
PV of PPG external debt (in percent of exports + remittances)	...	135.6	122.0			106.7	96.1	92.8	91.2	88.4	82.2		68.4	38.6	
Debt service of PPG external debt (in percent of exports + remittances)	...	35.9	1.0			3.2	4.6	4.5	4.3	2.8	2.3		3.2	3.0	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; 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, 2013-2033
(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of debt-to GDP ratio								
Baseline	24	24	24	24	24	24	20	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	24	21	18	16	15	14	8	4
A2. New public sector loans on less favorable terms in 2013-2033 2	24	24	25	25	26	26	23	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	24	24	25	25	25	25	21	11
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	24	29	36	36	36	35	30	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	24	25	27	27	27	27	23	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	24	24	24	24	24	23	20	11
B5. Combination of B1-B4 using one-half standard deviation shocks	24	26	29	29	29	29	24	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	24	34	34	34	34	34	29	16
PV of debt-to-exports ratio								
Baseline	122	108	104	102	98	91	75	43
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	122	93	77	69	61	52	31	16
A2. New public sector loans on less favorable terms in 2013-2033 2	122	109	108	108	106	100	87	58
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	122	108	104	102	99	91	76	43
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	122	186	306	299	287	263	220	112
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	122	108	104	102	99	91	76	43
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	122	108	103	101	98	90	75	43
B5. Combination of B1-B4 using one-half standard deviation shocks	122	137	162	159	153	141	117	64
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	122	108	104	102	99	91	76	43
PV of debt-to-revenue ratio								
Baseline	200	198	192	189	189	188	157	82
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	200	171	143	128	117	108	64	31
A2. New public sector loans on less favorable terms in 2013-2033 2	200	200	199	201	204	206	182	113
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	200	201	201	198	197	196	164	86
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	200	236	291	285	282	279	235	111
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	200	209	216	213	213	211	176	93
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	200	198	190	188	187	186	155	82
B5. Combination of B1-B4 using one-half standard deviation shocks	200	214	234	230	229	227	190	96
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	200	282	275	271	271	269	224	118

Table 2.Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033 (continued)
(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
Debt service-to-exports ratio								
Baseline	4	5	5	5	3	3	3	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	4	5	4	4	2	2	2	1
A2. New public sector loans on less favorable terms in 2013-2033 2	4	5	5	5	3	3	4	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	4	5	5	5	3	3	3	3
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	4	8	10	10	7	6	8	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	4	5	5	5	3	3	3	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	4	5	5	5	3	3	3	3
B5. Combination of B1-B4 using one-half standard deviation shocks	4	6	7	7	4	4	5	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	4	5	5	5	3	3	3	3
Debt service-to-revenue ratio								
Baseline	6	10	9	9	6	5	7	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	6	9	8	8	5	4	5	3
A2. New public sector loans on less favorable terms in 2013-2033 2	6	10	9	9	7	6	9	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	6	10	10	9	6	6	8	7
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	6	10	10	10	7	6	8	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	6	10	10	10	7	6	8	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	6	10	9	9	6	5	7	6
B5. Combination of B1-B4 using one-half standard deviation shocks	6	10	10	10	7	6	8	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	6	14	13	13	9	8	10	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	33	33	33	33	33	33	33	33

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 Sector Debt Sustainability Framework, Baseline Scenario, 2010-33
(In percent of GDP, unless otherwise indicated)

	Actual						Standard	Estimate	Projections								2019-33
	2008	2009	2010	2011	2012	Average 5/	Deviation6/	2013	2014	2015	2016	2017	2018	Average	2023	2033	Average
Public sector debt 1/	167.5	157.9	52.6	49.3	58.4			59.2	57.6	53.1	50.8	48.7	46.6		34.0	18.3	
of which: foreign-currency denominated	132.7	121.9	22.7	23.0	27.5			27.0	26.7	26.5	26.5	26.5	26.3		21.4	13.0	
Change in public sector debt	-11.0	-9.6	-105.3	-3.3	9.1			0.8	-1.5	-4.5	-2.3	-2.1	-2.1		-2.1	-1.1	
Identified debt-creating flows	-12.1	-18.3	-100.3	-2.7	7.4			-2.4	-0.3	0.5	-1.1	-1.0	-1.2		-1.3	-1.1	
Primary deficit	0.8	-3.0	1.8	1.9	2.8	3.5	3.5	-0.8	0.7	0.5	0.5	0.5	0.6	0.3	0.3	0.0	0.18
Revenue and grants	23.7	24.8	20.4	19.1	16.9			16.9	16.8	17.2	17.4	17.5	17.5		17.7	18.2	
of which: grants	14.5	15.8	9.7	7.5	6.0			5.1	4.7	4.8	4.9	4.9	4.9		4.9	4.9	
Primary (noninterest) expenditure	24.5	21.8	22.3	21.0	19.7			16.1	17.6	17.7	17.9	18.0	18.1		18.0	18.1	
Automatic debt dynamics	-11.7	-13.9	4.5	-4.7	4.6			-1.6	-1.1	...	-1.6	-1.5	-1.7		-1.6	-1.0	
Contribution from interest rate/growth differential	-20.4	-5.3	-7.6	-4.7	4.6			-1.5	-1.2	-1.2	-1.6	-1.5	-1.7		-1.6	-1.0	
of which: contribution from average real interest rate	-14.8	-0.4	-2.3	-2.1	3.9			0.5	0.3	0.4	0.0	0.1	0.0		-0.2	-0.3	
of which: contribution from real GDP growth	-5.6	-4.9	-5.3	-2.7	0.7			-2.0	-1.5	-1.6	-1.6	-1.6	-1.7		-1.4	-0.7	
Contribution from real exchange rate depreciation	8.7	-8.6	12.1	0.1	0.0			-0.1	0.2	0.0	0.0	0.0	0.0	...	...		
Other identified debt-creating flows	-1.3	-1.4	-106.6	0.0	0.0			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		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		0.0	0.0	
Debt relief (HIPC and other)	-1.3	-1.4	-106.6	0.0	0.0			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		0.0	0.0	
Residual, including asset changes	1.1	8.7	-5.0	-0.6	1.7			3.2	-1.2	-5.0	-1.2	-1.1	-0.9		-0.9	0.0	
Other Sustainability Indicators																	
PV of public sector debt	...	...	...	...	55.4			56.4	55.0	50.5	48.0	45.9	44.1		32.6	16.3	
of which: foreign-currency denominated	...	...	...	...	24.6			24.2	24.0	23.8	23.7	23.8	23.7		20.1	11.0	
of which: external	...	...	...	...	24.6			24.2	24.0	23.8	23.7	23.8	23.7		20.1	11.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	19.5	15.3	16.2	9.8	10.8			7.7	9.2	8.4	7.6	6.7	5.9		3.3	0.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	...	...	505.8			477.5	454.6	407.3	383.0	365.2	349.1		254.3	122.9	
of which: external 3/	...	...	...	...	224.2			200.4	198.2	192.2	189.3	188.9	187.8		156.6	82.5	
Debt service-to-revenue and grants ratio (in percent) 4/	22.4	17.3	7.8	2.0	4.2			10.7	14.0	13.5	12.4	9.5	7.2		5.7	4.8	
Debt service-to-revenue ratio (in percent) 4/	57.8	47.6	14.8	3.3	6.5			15.2	19.5	18.7	17.2	13.2	10.0		7.8	6.5	
Primary deficit that stabilizes the debt-to-GDP ratio			107.1	5.2	-6.3			-1.6	2.2	5.0	2.8	2.7	2.6		2.4	1.0	
Key macroeconomic and fiscal assumptions																	
Real GDP growth (in percent)	3.2	3.0	3.5	5.3	-1.5	2.6	1.9	3.5	2.7	2.8	3.1	3.3	3.7	3.2	4.0	4.0	4.0
Average nominal interest rate on forex debt (in percent)	1.2	1.0	0.1	0.3	0.1	0.7	0.5	1.9	1.7	1.7	1.7	1.2	0.8	1.5	1.4	2.0	1.6
Average real interest rate on domestic debt (in percent)	-9.3	-0.9	-1.2	-4.1	8.2	-0.7	5.4	0.7	0.4	0.5	-0.1	0.3	0.2	0.3	-1.2	-2.8	-2.0
Real exchange rate depreciation (in percent, + indicates depreciation)	7.0	-6.7	10.4	0.3	-0.1	-2.1	9.9	-0.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	10.5	1.1	1.7	4.8	-6.7	1.5	5.3	0.7	1.1	0.9	1.5	1.0	1.0	1.0	1.5	3.0	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	-0.1	0.1	0.0	-0.1	0.1	0.2	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	...	...	21.2	21.2	21.2	26.4	29.4	29.7	24.8	30.8	29.0	...

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 2013-2033
(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	56	55	50	48	46	44	33	16
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	56	57	53	53	53	54	53	54
A2. Primary balance is unchanged from 2013	56	54	47	44	41	39	24	6
A3. Permanently lower GDP growth 1/	56	55	50	48	46	44	35	23
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	56	56	52	50	48	46	36	21
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	56	59	58	55	53	51	39	20
B3. Combination of B1-B2 using one half standard deviation shocks	56	59	56	54	52	50	39	22
B4. One-time 30 percent real depreciation in 2014	56	65	59	56	54	52	39	19
B5. 20 percent of GDP increase in other debt-creating flows in 2014	56	72	65	62	60	58	44	22
PV of Debt-to-Revenue Ratio 2/								
Baseline	334	327	293	275	263	251	184	90
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	334	338	309	303	303	304	294	277
A2. Primary balance is unchanged from 2013	334	321	275	253	236	220	135	35
A3. Permanently lower GDP growth 1/	334	328	288	272	261	252	195	126
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	334	332	297	281	270	261	201	116
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	334	352	336	316	303	291	219	110
B3. Combination of B1-B2 using one half standard deviation shocks	334	347	326	308	296	285	218	118
B4. One-time 30 percent real depreciation in 2014	334	389	344	323	308	295	219	106
B5. 20 percent of GDP increase in other debt-creating flows in 2014	334	426	380	358	343	329	246	123
Debt Service-to-Revenue Ratio 2/								
Baseline	11	14	13	12	10	7	6	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	14	14	13	10	8	7	11
A2. Primary balance is unchanged from 2013	11	14	13	12	9	7	5	3
A3. Permanently lower GDP growth 1/	11	14	14	12	10	7	6	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	11	14	14	13	10	8	6	6
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	11	14	14	13	10	8	6	6
B3. Combination of B1-B2 using one half standard deviation shocks	11	14	14	13	10	8	6	6
B4. One-time 30 percent real depreciation in 2014	11	15	16	15	11	9	8	7
B5. 20 percent of GDP increase in other debt-creating flows in 2014	11	14	14	13	10	8	6	6

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

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 5, 2013

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

CONTENTS

FUND RELATIONS

(As of April 30, 2013)

Membership Status

Joined: March 24, 1977; Article VIII

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	14.20	100.00
Fund holdings of currency (Exchange Rate)	13.96	98.31
Reserve Tranche Position	0.25	1.79

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	13.60	100.00
Holdings	12.39	91.04

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
ECF Arrangements	7.24	51.00

Latest Financial Arrangements:

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

Projected Payments to Fund [2]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2013	2014	2015	2016	2017
Principal				0.72	1.45
Charges/Interest	0.00	0.00	0.02	0.02	0.02
Total	0.00	0.00	0.02	0.74	1.46

[1] Formerly PRGF.

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

Implementation of HIPC Initiative:

	Enhanced
I. Commitment of HIPC assistance	Framework
Decision point date	Dec 2000
Assistance committed by all creditors (US$ Million) [3]	421.70
Of which: IMF assistance (US$ million)	11.91
(SDR equivalent in millions)	9.20
Completion point date	Dec 2010
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 [4]	0.23
Total disbursements	9.43

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[5]	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

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

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

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

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

Safeguards Assessments:

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (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. Such committee was established after the completion of the assessment following the Institutional Reform of the WAMU and the BCEAO. Efforts to implement fully the International Financial Reporting Standards should also be pursued. An update assessment was initiated in February 2013.

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 655.957. On April 30, 2013, the rate of the CFA franc in terms of the SDR was CFAF 757.217=SDR 1. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus reflects only a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members.

Article IV Consultation

Guinea-Bissau 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 (Country Report No. 10/117) was discussed by the Executive Board on May 7, 2010.

Technical Assistance (2008–13)

Department	Type of Assistance	Time of Delivery	Purpose
West AFRITAC	Short-term expert	June 2008	Customs administration
West AFRITAC	Short-term expert	June 2008	Public Expenditure management
STA	Expert	June 2008	Balance of Payment Statistics
West AFRITAC	Short-term expert	July 2008	Government finance statistics
West AFRITAC	Short-term expert	August 2008	Multisector Statistics
West AFRITAC	Short-term expert	September 2008	Real sector Statistics

Department	Type of Assistance	Time of Delivery	Purpose
West AFRITAC	Short-term expert	May 2009	National Accounts
West AFRITAC	Long-term expert	June 2009	National Accounts
West AFRITAC	Short-term expert	June 2009	Public Expenditure management
West AFRITAC	Short-term expert	June 2009	Public Debt management
West AFRITAC	Short-term expert	June 2009	Bank Supervision
West AFRITAC	Short-term expert	September 2009	Customs administration
West AFRITAC	Short-term expert	November 2009	Public Debt management
West AFRITAC	Short-term expert	November 2009	Real Sector Statistics
West AFRITAC	Short-term expert	February 2010	Public Debt Management
West AFRITAC	Short-term expert	February 2010	Government Finance Statistics
West AFRITAC	Short-term expert	May 2010	Revenue administration
West AFRITAC	Short-term expert	July 2010	National Accounts
FAD	Staff	September 2010	Tax Revenue and Customs Administration
West AFRITAC	Short-term expert	September 2010	Expenditure management
West AFRITAC	Short-term expert	September 2010	National Accounts
West AFRITAC	Short-term expert	February 2011	Tax Administration
West AFRITAC	Short-term expert	February 2011	Government Finance Statistics
West AFRITAC	Short-term expert	March 2011	Government Finance Statistics
West AFRITAC	Short-term expert	April 2011	Public Debt Management
West AFRITAC	Short-term expert	April 2011	Public Financial Management,
West AFRITAC	Short-term expert	April 2011	Public Financial Management
West AFRITAC	Short-term expert	April 2011	Real Sector Statistics
West AFRITAC	Short-term expert	June 2011	Government Finance Statistics
FAD	Staff	September 2011	Tax Reform Strategy, Modernization of the DGCI and Revenue Mobilization
FAD	Staff	September 2011	Customs Administration
FAD	Short-term expert	October 2011	Tax Administration
West AFRITAC	Short-term expert	October 2011	Modernization of the DGCI
West AFRITAC	Short-term expert	October 2011	Real Sector Statistics, National Accounts
West AFRITAC	Short-term expert	January 2012	Public Financial Management, Accounting
West AFRITAC	Short-term expert	January 2012	Public Financial Management
FAD	Short-term expert	February 2012	Tax Administration
West AFRITAC	Short-term expert	February 2012	Public Financial Management
West AFRITAC	Short-term expert	February 2012	Real Sector Statistics
FAD	Short-term expert	March 2012	Tax Administration
West AFRITAC	Short-term expert	March 2012	Customs Administration
West AFRITAC	Short-term expert	February 2013	Public Financial Management
West AFRITAC	Short-term expert	April 2013	Public Financial Management
West AFRITAC	Short-term expert	April 2013	National Accounts
FAD	Staff	April 2013	Revenue Administration

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, 1984–2013

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	The arrangement expired on May 6, 2013.

WORLD BANK GROUP RELATIONS

1. **Guinea-Bissau joined the World Bank three years after independence in 1977. The International Development Association (IDA) has approved 44 projects (including trust funded projects) for Guinea-Bissau, totaling commitments of US$383 million**. As a grant recipient, Guinea-Bissau has 4 current grants from the IDA as of April 23, 2013. The current portfolio consists of IDA lending operations and Trust Funds. IDA-funded projects amount US$42.85 million. They include multi-sector infrastructure rehabilitation, emergency electricity

and water rehabilitation, bio-diversity conservation, community-driven development, and regional fisheries. Trust-funded grants - drawing on European Union funds, the State and Peace-Building Fund, and the Global Environmental Facility - provide an additional US$12.45 million for emergency food security, including rice production and school feeding/food-for-work programs in collaboration with the World Food Program (WFP), as well as coastal and biodiversity management, participatory rural development, and to provide technical assistance to the emerging extractive industries sectors.

The sixteenth replenishment of IDA's resources (IDA16) yielded an allocation of SDR 16.3 million (about US $26.3 million) for Guinea-Bissau for the period of July 2011 through July 2014. The country still has an IDA16 allocation of about SDR 12.7 that might be to use if full re-engagement takes place. As of April 23, 2013, Guinea-Bissau had 6 credits from the IDA. As a borrower, based on an original principle of US$ 84 million, US$88.6 million has been disbursed. Guinea-Bissau's borrower's obligation is US$55.2 million.

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 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). At time of publication, one project has been approved since mid-2011, US$3.2 million for Extractive Industries Sectors Technical Assistance in October 2011.

Lending Program

3. **In June 2009, the Bank approved an Interim Strategy Note (ISN) 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.** The ISN bridged the time until Guinea-Bissau reached HIPC completion point (December 2010), and a second Poverty Reduction Strategy Paper (PRSP II in September 2011) was prepared. A new 4-year Country Assistance Strategy paper's preparation was suspended following the April 2012 coup. A new ISN is currently being prepared, expected to be released in 2014.

4. **There are eleven actively funded World Bank projections or operations in Guinea-Bissau.** The current IDA Portfolio is composed of six active operations with a total commitment of about US$42.85 million. The focus has been on a Multi-Sector Infrastructure Rehabilitation project (US$15 million), along with an Emergency Electricity & Water Rehabilitation Project (US$12.7 million). Other projects include a Rural Community Developmental Project (US$5 million), a Participatory Rural Development Project

(US$5 million), Additional Financing for an Emergency Electricity and Water Rehabilitation Project (US$2.2 million), and a Biodiversity Conservation Project (US$.95 million). As of April 1, 2013, the IDA undisbursed balance was US$15.7 million.

5. **Trust-funded grants provide an additional US$20 million for emergency food security, including rice production and school feeding/food-for-work programs in collaboration with the United Nations World Food Program (WFP).** These trust-funded grants also go toward coastal and biodiversity management, and technical assistance for economic management, for extractive industries, and for the health sector. The trust-funded grants draw on the Global Environmental Facility (which helps supports the Biodiversity Conservation Project), the State Peace-Building (SPF) Trust Fund (Participatory Rural Development, Technical Assistance to the Ministry of Finance on Economic Management, Extractive Industries Sectors Technical Assistance) and European Union funds. In December 2012, the Bank's Food Crisis Response Program (US$5 million) recommended the resumption of disbursements to existing operations, extending the closing date of the program to June 30, 2013. However, at the end of March, 2013, the WFP's Global Food Crisis Response Program lacked additional financing, requiring US$7.1 million to carry out food assistance activities through the end 2013.

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 to US$263.7 million.

7. **The Joint Staff Advisory Note on the PRSP II was completed in September 2011.** Covering the period from 2011–2015, the objectives of the PRSP II are to significantly reduce poverty, create and expand income-generation opportunities, and improve access to public services in the context of strengthened public institutions and an enhanced rule of law. Linking its strategy explicitly to Millennium Development Goals (MDG) outcomes, the PRSP II represents a comprehensive development strategy based on 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.

AFRICAN DEVELOPMENT BANK GROUP RELATIONS

8. **As of April 2013, the AFDB had approved 39 operations for Guinea-Bissau, excluding multinational projects.** These include 24 projects, 3 studies and 8 institutional supports, 3 emergency assistance operations and 1 line of credit representing a net commitment of UA 186.69 million (about CFAF 139 billions). 30.4 percent of these operations have been in the social sector, 22.1 percent in agriculture, 18.9 percent in the multi-sector, 18.6 percent in transport and 10 percent in public utilities. A total of UA 164.09 millions representing 87.9 percent of net commitments have been disbursed. As of April 2013, the active portfolio comprises five ongoing projects representing a total net amount of UA 28.76 million and a disbursed amount of UA 9.95 million.

Lending Program

9. **During the period January 2008–April 2013, AFDB approved an interim HIPC debt release (US$17.48 million), a Fragile State Facility grant (UA 2 million), a fish sector support grant (UA 2 million), a health sector grant (UA 6 million), an emergency support grant to cholera (UA 0.33 million), a capacity building grant to public administration (UA 7.86 million) and an emergency budget support to budgetary reforms (UA 5.7 million).**

Non-lending Program

10. **The AFDB undertook 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 AFDB has more recently released a CSP for 2012–2016 in November 2011. A Regional Integration Strategy Paper for West Africa for 2011–2015 was released in March 2011. Africa-wide Country Performance Assessment (CPA), Country Governance Rating (CGR), Country Policy and Institutional Assessment (CPIA), Country Portfolio Performance Assessment (PPA) all which included Guinea-Bissau, were released in March 2013.

STATISTICAL ISSUES

Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in the national accounts and balance of payments. Data compilation was impaired during the 1998–99 civil conflict. Given weak capacity and outdated practices, the authorities have improved their data compilation in the recent years, with technical assistance from international and regional institutions.
National Accounts: In the second quarter of 2010, the National Institute of Statistics (INE) published revised national accounts data for 2003–08, based on the *System of National Accounts 1993*. Since then, the INE has continued to release annual national accounts data. The new data have a broader coverage of all sectors of the economy, and as a result, the GDP level has doubled. The new data provides GDP in both current and constant (2003) prices, and GDP deflators.
Price statistics: Since July 2002, a harmonized consumer price index (CPI) has been compiled, based on the same methodology as in other West African Economic and Monetary Union (WAEMU) countries. The CPI was updated in 2010 (new base year 2008–2009, improvement in compilation techniques, extended coverage of products and increase in outlets). Price data are collected only for the capital city, Bissau.
Government finance statistics: Since 2007, the monthly worksheet table for the State Financial Operations is compiled on a regular basis and used as a basic tool for monitoring the program by the IMF. In March 2010, a government finance statistics (GFS) mission from West AFRITAC provided technical assistance to the authorities in compiling and disseminating GFS and implementing action plans designed to improve the GFS data dissemination to users. Under the West AFRITAC work program, a government finance statistics technical assistance mission is planned to take place in the second half of 2013.
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. 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.	
Data Standards and Quality	
Guinea-Bissau has participated in the General Data Dissemination System since November 2001. Metadata for all data categories and plans for improvement need to be updated.	No data ROSC is available.
Reporting to STA	
Currently no monthly, quarterly or annual government finance data is submitted for reporting in the *International Financial Statistics (IFS)* or the *Government Finance Statistics Yearbook*. Monthly data on monetary statistics for Guinea Bissau are reported on a regular basis for publication in the *IFS* with some delays. Guinea-Bissau 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

	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]
Exchange rates	Current	Current	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	Mar. 2013	Apr. 2013	M	M	M
Reserve/base money	Mar. 2013	Apr. 2013	M	M	M
Broad money	Mar. 2013	Apr. 2013	M	M	M
Central bank balance sheet	Mar. 2013	Apr. 2013	M	M	M
Consolidated balance sheet of the banking system	Mar. 2013	Apr. 2013	M	M	M
Interest rates[2]	Apr. 2013	May. 2013	M	M	M
Consumer price index	Mar. 2013	May. 2013	M	M	M
Revenue, expenditure, balance and composition of financing[3] – general government[4]	Mar. 2013	Mar. 2013	M	Q	Q
Revenue, expenditure, balance and composition of financing[3]– central government	Mar. 2013	Mar. 2013	M	Q	Q
Stocks of central government and central government-guaranteed debt[5]	Dec. 2011	Apr. 2013	A	I	I
External current account balance	Feb. 2013	Apr. 2013	A	I	I
Exports and imports of goods and services	Feb. 2013	Apr. 2013	A	I	I
GDP	2012	Apr. 2013	A	I	I
Gross external debt	2012	Apr. 2013	A	I	I
International Investment Position[6]	2010	Jan. 2012	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
Public Information Notice
COMMUNICATIONS DEPARTMENT

Public Information Notice (PIN) No. 13/73
FOR IMMEDIATE RELEASE
June 27, 2013

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation with Guinea-Bissau

On June 21, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guinea-Bissau.[1]

Background

A military coup d'état in April 2012 set back some progress achieved in previous years toward improved macroeconomic policies. The coup led to a sharp drop in cashew nut export volumes and a suspension of traditional donors' aid that was only partially offset by increased budget support from region. As a result, the economy contracted by 1½ percent in 2012. Despite some upward pressures on prices driven by food and fuel shortages, the impact on headline inflation was muted in light of low domestic demand pressures. Twelve-month inflation was about 2 percent at end-2012. The external current account deficit deteriorated, reflecting also a fall in cashew export prices. The resulting sizeable reduction in fiscal revenues led to a deterioration in spending composition and fiscal control. Some domestic arrears were accumulated in 2012, although the government completely cut domestically-financed capital spending.

Economic growth will recover somewhat in 2013, but overall prospects remain difficult. Assuming a recovery in cashew exports and continued support from regional partners, real gross domestic product (GDP) could increase by about 3½ percent in 2013. But the near-term outlook hinges on a rapid resolution of the current political crisis. Most development partners maintain only limited working relations with the interim government. Until the political situation is normalized and development partners resume their full financial support, the economy will

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

remain highly vulnerable and social conditions would likely deteriorate. Inflationary pressures are projected to remain moderate. The current account deficit is projected to fall relative to 2012, owing to the recovery of cashew export earnings.

The economic outlook is subject to external and domestic risks. The persistent political crisis is likely to continue to compromise external financing flows, which could result in fiscal slippages and a slowdown in economic growth. A delayed cashew export campaign also poses a downside risk. On the other hand, rising unemployment rates in the Euro area can have a negative impact on remittances and domestic demand.

Executive Board Assessment

Executive Directors noted Guinea-Bissau's fragile economic conditions amid a difficult political situation, weak donor support, and downside risks to the external sector. While the economy is expected to rebound in 2013, re-establishment of macroeconomic stability, normalization of the political situation, restoration of donor and investor confidence, and acceleration of structural reforms will be needed to reduce vulnerabilities and ensure sustainable and inclusive growth.

Directors stressed the importance of timely approval of a prudent 2013 budget based on realistic revenue projections and a tight expenditure envelope. Given limited financing options, strict fiscal controls and contingency planning should help protect social expenditures and avoid a surge in arrears. Directors welcomed the authorities' intention to improve transparency in the management of the fund to promote the industrialization of agricultural products (FUNPI).

For the medium term, Directors stressed the importance of building fiscal space. Efforts, supported by continued technical assistance, should focus on increasing tax revenues by broadening the tax base and strengthening tax and customs administration and enhancing public financial management. Directors emphasized that prudent fiscal and debt management policies will be critical to maintain debt sustainability.

Directors underscored the importance of structural reforms to boost competitiveness and achieve inclusive and diversified growth, which will also be essential to reduce vulnerability to shocks. Priority should be given to enhancing the business environment and improving physical infrastructure and access to financial services. Directors welcomed the authorities' plans to improve access to credit for financially neglected groups and to review the labor law to promote employment.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Guinea-Bissau: Selected Economic Indicators, 2008–13

	2008	2009	2010	2011	2012	2013
					Prel.	Proj.
	(Annual percentage change, unless otherwise indicated)					
National accounts and prices						
Real GDP at market prices	3.2	3.0	3.5	5.3	-1.5	3.5
Real GDP per capita	1.1	0.9	1.3	3.2	-3.5	1.4
GDP deflator	10.5	1.1	1.7	4.8	-6.7	0.7
Consumer price index (annual average)	10.4	-1.6	1.1	5.1	2.1	2.6
External sector						
Exports, f.o.b. (based on US$ values)	13.1	-3.6	7.4	91.3	-47.1	25.5
Imports, f.o.b. (based on US$ values)	18.8	1.5	-2.9	29.0	-25.2	19.3
Export volume	2.5	14.9	-9.8	33.3	-30.1	22.1
Import volume	-8.4	18.8	-5.3	11.8	-26.5	18.3
Terms of trade (deterioration = -)	3.5	-22.1	18.9	43.4	-26.7	-8.1
Real effective exchange rate (depreciation = -)	7.7	-1.9	-3.0	2.4	0.1	…
Nominal exchange rate (CFAF per US$; average)	445.7	471.0	494.4	471.4	510.0	…
Government finances						
Domestic revenue (excluding grants)	30.0	2.3	26.1	18.0	-12.5	12.3
Total expenditure	15.0	-6.7	-0.9	9.4	-10.3	-11.7
Current expenditure	14.0	-4.0	-2.0	14.8	10.1	-10.8
Capital expenditure	16.4	-10.1	0.7	2.1	-41.5	-14.3
Money and credit						
Net domestic assets [2]	8.2	-10.9	16.5	16.9	14.9	4.7
Credit to government (net)	-3.1	-13.8	4.7	6.6	5.9	-1.1
Credit to the economy	10.1	4.7	13.2	12.9	8.0	5.8
Velocity (GDP/broad money)	4.1	4.1	3.3	2.7	2.6	2.6
	(Percent of GDP, unless otherwise indicated)					
Investments and savings						
Gross investment	8.7	10.1	9.8	10.1	7.5	7.7
Of which: government investment	4.2	5.1	4.8	4.5	2.3	2.4
Gross domestic savings	-5.3	-6.6	-5.6	2.0	-6.8	-6.5
Of which: government savings	-11.1	-7.9	-5.1	-4.5	-6.7	-2.8
Gross national savings	3.9	3.4	1.3	9.0	1.0	1.7
Government finances						
Budgetary revenue	9.2	9.0	10.8	11.5	11.0	11.8
Total domestic primary expenditure	12.4	9.5	12.0	12.7	14.9	13.4
Domestic primary balance	-3.2	-0.5	-1.2	-1.2	-4.0	-1.6
Overall balance (commitment basis)						
Including grants	-0.8	2.9	-0.2	-1.4	-3.1	-0.1
Excluding grants	-15.3	-12.9	-9.9	-9.0	-9.0	-5.1
External current account (including official current transfers)	-4.9	-6.7	-8.6	-1.2	-6.5	-6.0
Excluding official transfers	-11.3	-14.7	-12.1	-4.6	-10.3	-10.3
PV of external debt / exports of goods and services (percent)	…	…	…	135.6	141.9	121.6
Nominal stock of public debt, including arrears[3]	167.5	157.9	52.6	49.3	58.4	59.2
Of which: external debt, including arrears	132.7	121.9	22.7	23.0	27.5	27.0
Memorandum item:						
Nominal GDP at market prices (CFAF billions)	377.5	393.1	413.7	456.7	419.8	437.6

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

[1] IMF Country Report No. 11/353 (3rd ECF Review).

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

[3] 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.

Statement by Mr. Kossi Assimaidou, Executive Director for Guinea-Bissau

June 21, 2013

Introduction

My Bissau-Guinean authorities thank the Executive Board, Management and Staff for the support they are receiving from the Fund since the resumption of the cooperation early this year. They are appreciative of the policy dialogue held with staff under the 2013 Article IV consultation held in May in Bissau. My authorities broadly agree with staff's analysis and recommendations which they fully take into account in their efforts to address the challenges facing Guinea-Bissau.

Following the *coup d'état* that occurred in April 2012, Guinea-Bissau is experiencing a difficult economic and political situation aggravated by the suspension of support from its main development partners. Given the daunting development challenges, my authorities look forward to Fund technical and financial assistance. It is their view that Fund support under an ECF will help them develop and implement a medium-term program of economic reform and macroeconomic stabilization, as well as being a catalyst for additional assistance from development partners.

In this regard, the presidential elections are scheduled to take place in November 2013. In the meantime, an inclusive government made up of all political stakeholders has been formed on June 12, 2013 to implement the measures required to the holding of these elections with the technical and financial assistance of the international community. In addition, the efforts of this inclusive government will be devoted to reverse the economic situation through the restoration of good governance and macroeconomic stability.

Economic Developments in 2012

The lack of financial support from the main development partners added to the disruption in cashew exports led to a significant deterioration of the macroeconomic situation. In particular, economic growth contracted by 1.5 percent in 2012 and government revenue fell significantly leading to a further accumulation of domestic arrears and a large overall fiscal deficit. Moreover, the external current account deficit reached 6.5 percent of GDP in 2012 against 1.2 percent in 2011. However, inflation remained low at about 2.1 percent. Guinea-Bissau, is a member of WAEMU, and follows a regional monetary policy. Guinea-Bissau's membership in the common monetary zone has served the country well. Its real exchange rate is in line with the country's fundamentals.

Policy Measures for Near and Medium-Terms

My Bissau- Guinean authorities are of the view that diversifying the economy, reducing the widespread poverty and creating employment opportunities will help root-out the main causes of instability experienced by the country over the past years. They are committed to implement economic policies and reforms geared at preserving macroeconomic stability and creating an enabling environment for private sector-led growth. In particular their efforts will be focused on increasing the fiscal space, strengthening the financial sector, maintain debt sustainability and improving the business environment.

1. Fiscal Policy

The authorities' fiscal measures are aimed at restoring fiscal discipline to enhance the restoration of macroeconomic stability. The implementation of envisaged measures under the interim period will help increase the fiscal revenue, exercise strict fiscal controls to avoid further domestic arrears and protect priority spending.

For 2013, with a view to encourage cashew production and exports, the authorities are in the process of reviewing the export tax and the floor price on cashew. In addition, they are also committed to record in the national budget the operations of the fund to promote the industrialization of agricultural products (FUNPI) to ensure its transparent management and operation.

The authorities also envisage implementing a medium-term fiscal program designed to help increase the country's tax performance at the regional level. In this respect, they are of the view that measures to increase revenue should include a rationalization of existing tax exemptions and strengthening of tax and customs administrations. Moreover they intend to establish a reform coordination and fiscal modernization unit with a view to further strengthen the fiscal reforms. The pension system for public employees will be reviewed to ensure a strict control on government's transfers. With the assistance of the international community, the authorities will pursue their efforts towards the demobilization and professionalization of the military forces.

2. Debt Sustainability

The authorities welcome the Staff recent DSA and agree on the need to preserve the country's debt sustainability. In this regard, they will continue to implement sound macroeconomic and prudent debt management policies. Borrowing will be further improved and more focused on concessional financing notably in favor of development projects. Moreover, the authorities plan to resume the publication of quarterly reports on the total public debt and extend to the central bank (BCEAO) the debt management system (SYGADE) with a view to further improve the debt monitoring capacity. They will also pursue their efforts to finalize, under the post-HIPC context, agreements with the remaining official creditors

3. Financial Sector

The authorities will pursue efforts to improve the contribution of the financial sector to the country's economic development. In this regard, they will enhance the steps aimed at encouraging payment via the banking system of tax collection and public salaries. They intend also to consolidate the existing initiatives in the microfinance sector by revising the national strategy document and signing a partnership agreement with the African Microfinance. The banking supervision will be further enhanced to reduce the high levels of NPLs due mostly to the rise in unpaid loans of cashew exporters.

In addition, the authorities' efforts to strengthen the anti-money laundering will be further pursued with the implementation of the 2012 AML/CFT law. The financial intelligence will be operational as well as the AML/CFT supervision of financial institutions with the support from external assistance.

4. Structural Reforms

The Bissau-Guinean authorities are determined to improve the climate for business and investment by removing impediments to the promotion of a dynamic private sector. The one-stop shop established in 2011 has been reactivated to simplify registration of private enterprises.

The authorities plan also to improve the country's human and institutional capacities which are essential to promote transparency and good governance. In this context, the labor law is under review. A new natural resource management framework will be issued to enhance the institutional capacity of the natural resources sector.

Conclusion

Guinea Bissau's economy has been severely affected by recent events. However, it is the intention of the authorities to reverse the situation, but given the magnitude of the challenges they will require the strong support of the international community in this endeavor. Already, they have taken steps in this direction and economic performance in 2013 will be much improved from 2012. However, the country needs to embark on a medium term program of reforms and adjustment to address the vulnerabilities and put the economy on a sustainable growth path.

The authorities have already shown their determination to take the necessary measures. Elections will be held before the end of the year and presently all major political stake holders are cooperating in this effort and in implementing prudent economic and financial policies. My authorities are hopeful that the country will benefit from stronger Fund assistance in the form of a Fund-supported program, as well as additional technical assistance. It is their hope that donors and development partners will also support Guinea-Bissau in their development efforts to raise growth and reduce poverty.