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FIRST AND SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR REPHASING OF DISBURSEMENTS, MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA-BISSAU

In the context of the first and second reviews under the Extended Credit Facility Arrangement, request for rephasing of disbursements, modification of performance criteria and financing assurances review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 2, 2016, following discussions that ended on September 26, 2016, with the officials of Guinea-Bissau on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 10, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Guinea-Bissau.

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

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

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

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December 2, 2016

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IMF Executive Board Completes First and Second Reviews of Guinea-Bissau's Arrangement Under the Extended Credit Facility, and Approves US$6.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first and second reviews of Guinea-Bissau's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement.[1] Completion of the reviews enables the disbursement of SDR 5.112 million (about US$6.9 million), bringing total disbursements under the arrangement to SDR 7.952 million (about US$ 10.8 million). The Executive Board also approved the authorities' request for rephasing of the remaining reviews and associated disbursements under the arrangement.

Guinea-Bissau's three-year arrangement for SDR 17.04 million (about US$23.1 million or 60 percent of quota at the time of approval of the arrangement) was approved on July 10, 2015 (see Press Release No. 15/331). The ECF-supported program aims to restore macroeconomic stability and efficiency in public service delivery to foster inclusive growth, while protecting poverty-reducing infrastructure and social spending.

Following the Executive Board discussion on Guinea-Bissau, Mr. David Lipton, First Deputy Managing Director and Acting Chair, issued the following statement:

"Performance under the Extended Credit Facility (ECF)-supported program has been broadly satisfactory highlighted by strong economic growth in spite of political uncertainties. However, continuing political tensions pose downside risks to the outlook. The authorities are requesting revisions to the timing of the structural reform agenda and a re-phasing of the remaining reviews and disbursements. They are also requesting modification of PCs for the third and subsequent reviews, in view of changes to the technical memorandum of understanding to clarify the assessment of these criteria.

"The authorities' resolute stance in unwinding the bank bailouts is welcome. Following through all steps until the bailouts are irreversibly unwound will be important to safeguard

[1]/ The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems.

public finance. To strengthen the banking sector, it will also be necessary to implement remedial actions as they are being elaborated by the regional banking supervision and to enforce existing prudential norms.

"In light of the tight fiscal situation and still limited external budget support, fiscal discipline and accelerated structural reforms to create fiscal space for priority spending remain the centerpieces of the ECF-supported program. The strengthening of public finance management through an increased role played by the treasury committee and improved tax administration are welcome and necessary to regain confidence of private investors and development partners. To reduce the heavy cost to the budget, plans to make the water and electricity company (EAGB) financially transparent ahead of more far-reaching reforms in the medium term are also welcome.

"Stepped up efforts are needed to reduce corruption, including by strengthening the legal framework to address money laundering and the financing of terrorism. The improvements in the compilation of statistics is welcomed but needs to be sustained through adequate resourcing."

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

November 10, 2016

FIRST AND SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR REPHASING OF DISBURSEMENTS, MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Extended Credit Facility (ECF) Arrangement. The three-year arrangement was approved on July 10, 2015. Guinea-Bissau obtained only the primary disbursement of SDR 2.84 million (10 percent of quota) at the approval of the arrangement. The equivalent of SDR 5.112 million (18 percent of quota) will be made available upon Executive Board completion of the first and second reviews under the arrangement.

Context: Economic recovery is under way but remains fragile. Since the approval of the ECF arrangement Guinea-Bissau has endured a deep political crisis with three consecutive Governments. Political tension has eased recently with the adoption of an ECOWAS-brokered six-point roadmap for an inclusive government and constitutional reform. The government declared null and void the expensive bank bailout that derailed the ECF-supported program and held up the reviews. However, the frequent changes in government amidst lingering capacity constraints delayed key structural reform measures and weakened public financial management (PFM).

Program performance: All performance criteria (PCs) for the first and second review were met. Staff discussions with the authorities focused on measures to fill the 2016 financing gap that resulted from the loss of budget support, and steps to re-ignite structural reforms. The authorities undertook remedial measures, including the null-and-void declaration of the bank bailout operation and measures to address PFM weaknesses. In view of the delays, the authorities are requesting revisions to the timing of the structural reform agenda and for a rephasing of the remaining reviews and disbursements. They are also requesting modification of PCs for the third and subsequent reviews, in view of changes to the technical memorandum of understanding (TMU) to clarify the assessment of these criteria.

Staff supports completion of the first and second reviews under the ECF arrangement and the authorities' requests for modification of PCs and rephasing of disbursements.

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

Discussions took place in Bissau during March 28–April 8, 2016 and September 13–26, 2016; the latter mission updated economic developments in the aftermath of the 2015–16 political crises that delayed the first review. The staff team for the second mission comprised Messrs. Felix Fischer (head), Francis Kumah, Alexander Nuetah, and Torsten Wezel (second mission), and Mss. Farayi Gwenhamo (first mission), Cristina Cheptea (second mission) (all AFR), Mr. Olamide Harrison (FAD), and Mr. Oscar Melhado (IMF Resident Representative in Bissau). Mr. Gaston Fonseca and Ms. Gemilia Pereira (both of the IMF Res Rep office in Bissau) assisted the mission. Mr. Roger Nord, Deputy Director of the African Department, also participated in some of the meetings during the second mission. The team met with His Excellences, the President of Guinea-Bissau, José Mário Vaz; the President of the National Assembly Cipriano Cassamá (during the second mission); Prime Minister Baciro Djá (during the second mission); the ex-Finance Minister of Economy and Finance, Geraldo Martins (during the first mission) and Finance Minister Henrique dos Santos (during the second mission), the National Director of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), João Fadia, the Attorney General, António Sedja Mam (during the second mission), other senior officials, and representatives of the private sector, civil society and development partners.

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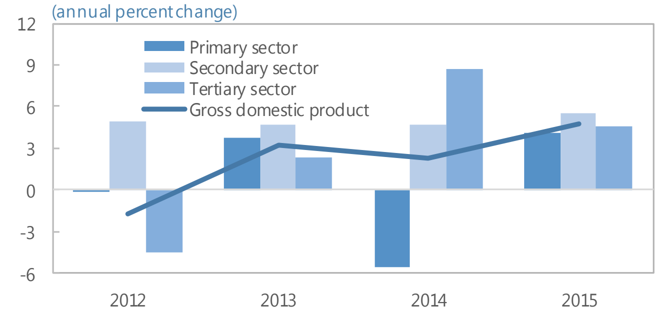
BACKGROUND AND RECENT ECONOMIC DEVELOPMENTS

1. **Political uncertainties between late 2015 and early 2016 eased with the recent Economic Community of West African States (ECOWAS) brokered adoption of a six-point roadmap for an inclusive government and constitutional reform.** After a difficult resolution of a two-month political impasse triggered by the dismissal by President Vaz of Prime Minister Pereira and his government in mid-August 2015, the country was rocked by yet another impasse in early 2016. The latter was initiated by the expulsion in mid-January this year of fifteen ruling PAIGC party members of parliament (MPs) for voting against PM Correia's government program, and thus inhibiting its parliamentary approval. The expulsion of the parliamentarians was declared unconstitutional by the Supreme Court and the MPs were reinstated, but PM Correia and his government fell over lack of transparency in the management of public finances. In June 2016, President Vaz appointed a new PM, Mr. Baciro Djá, who subsequently formed a government. Key political stakeholders of Guinea-Bissau signed in September 2016 an ECOWAS brokered six-point roadmap for an inclusive government and constitutional reform as a way to end the political crisis. Furthermore, although the security sector reform has stalled mainly due to lack of funding, the security situation remains calm and the government is operational. Nonetheless, in the context of administrative constraints, the political crises complicated program implementation and delayed key structural measures.

2. **Economic activity strengthened further in 2015, reflecting benign domestic and external factors** (**Text Figure, Text Table, and Tables 1–8).** Buoyed by a positive trend in the international cashew price, the authorities increased the reference price for cashew nuts at the beginning of the harvest season[1], which moderated the smuggling and boosted formal exports. Overall agricultural production increased by 4½ percent. At the same time, the secondary and tertiary sectors grew by an estimated 5.5 and 4.8 percent, respectively, helped by enhanced supply of electricity and water. Reflecting these developments, real GDP grew by an estimated 4.8 percent in 2015, compared with a 2.3 percent in 2014. These economic developments helped strengthen external balances, increasing their contribution to growth, while the drag of

Real GDP Growth by Sector
(annual percent change)



Sources: INE; MEF; and IMF staff calculations.

[1] At the beginning of the cashew nut season, the government consults with stakeholders and agrees a reference domestic sales price (for taxation purposes and to protect farmers) taking into account international prices and the need to reduce smuggling of the produce and to maximize revenue intake. For 2015 and 2016 seasons, the prices were set at US$ 900/ton and US$ 950/ton, respectively

public consumption on growth declined relative to 2014. Consumer price inflation remains low, averaging 1½ percent in 2015.

Guinea-Bissau: Key Economic Indicators

	2012	2013	2014	2015		2016		2017	2018
				EBS/15/72	Prel.	EBS/15/72	Proj.	Projections	
	(precent of GDP, unless otherwise indicated)								
Real GDP growth (percent)	-1.7	3.3	2.3	4.7	4.8	4.8	4.8	5.0	5.0
Consumer price index (annual average)	2.1	0.8	-1.0	1.3	1.5	2.3	2.4	2.6	2.8
Revenue [1]	9.1	7.9	12.6	12.6	14.1	14.0	13.2	12.8	13.1
of which : Tax revenue	7.7	6.8	8.5	9.2	10.3	10.2	9.3	9.7	10.1
Grants	2.4	3.4	9.5	6.0	6.7	6.0	4.6	5.1	5.6
Total expenditure and net lending [2]	13.8	13.1	24.3	20.9	23.8	22.0	22.4	19.8	20.8
Domestic primary balance	-3.3	-1.6	-3.7	-1.1	-1.5	-0.4	-1.7	0.3	0.1
Overall balance (commitment basis)	-2.3	-1.8	-2.3	-2.3	-2.6	-2.1	-4.2	-1.7	-2.1
External current account (including official current transfers)	-11.9	-7.2	-3.5	-3.6	-1.1	-4.7	-2.2	-3.1	-3.8
Total public debt	56.0	50.1	48.0	50.9	46.7	49.5	47.5	45.8	43.1

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

[1] One-off revenues amounted to 0.9 percent of GDP in 2014 (due to FUNPI's proceeds being transferred to the Treasury) and are expected to account for 0.9 percent of GDP in 2015 (due mostly to the selling of 3G licenses) and 1.3 percent of GDP in 2016 (mostly due to revenue from the selling of seized illegal wood and the collection of associated taxes).

[2] Total expenditure and net lending adjusted to reflect non-regularized spending.

3. **Tax revenues substantially exceeded expectations under the program, reflecting several measures initiated during 2015.** The government improved tax compliance by large taxpayers and stepped up custom controls to contain fraud and under-invoicing by importers. Combined with stepped-up vigilance of tax administration and burgeoning economic activity, these measures boosted tax collection to CFAF 31.7 billion at end-June (some 21 percent above the program target) and CFAF 61.9 billion at end-December (10 percent of GDP, and 10 percent above the end-year PC floor).

4. **At the same time, expenditures substantially exceeded the budget and weakened the fiscal stance in 2015.** Non-wage expenditures increased during the year, driven mostly by increases in other current expenditures, pushing current expenditure some 0.9 percent of GDP above the program expectation, despite a reduction in fuel subsidies to the military. On the other hand, capital spending exceeded expectation by 0.8 percent of GDP on account of higher-than-programmed project grants for public investment. As a result of these developments, the domestic primary deficit exceeded both its mid-year and year-end targets (the latter target was set at 1.1 percent of GDP). However, the increase in expenditure was offset by the strong revenue performance, yielding a mildly higher-than-anticipated domestic primary deficit of 1½ percent of GDP.

5. **The authorities decided to take over non-performing loans (NPLs) from two commercial banks in July and November 2015.** In an attempt to clean banks' balance sheets and to kick-start private sector credit, the authorities took over CFAF 34.2 billion (5½ percent of GDP) of NPLs at face value from two commercial banks. The operation was financed through credit lines at the respective banks (Box 1). The scheme lacked transparency and raised serious governance concerns.

6. **The political crisis and loss of budget support from development partners over the bank bailout (see Box 1) heightened fiscal challenges in 2016 that forced revenue measures and expenditure adjustment to bring the fiscal deficit to a sustainable level.** The draft 2016 budget incorporates costs related to realizations of contingent liabilities with respect to loan guarantees for the publicly-owned Guinea Telecom (about 1½ percent of GDP) and to the state electricity and water company (EAGB) (0.8 percent of GDP), a significant loss of budget support (2.6 percent of GDP) from development partners over the bank bailout (MEFP ¶18 and Text Table) and a significant slowdown in revenue growth compared to 2015. End-June tax revenue in 2016 is estimated at 4.7 percent of GDP, a fall of 0.6 percent relative to the same period in 2015, hindered by the political crisis and resulting slowdown in tax administration advances despite economic growth. Similarly, non-tax revenue (excluding one-offs) in the first half of 2016 is estimated at 1.3 percent of GDP compared with 1.5 percent of GDP over the same period last year. The budget thus features expenditure reductions in wages, goods and services, and domestically financed investment which also negatively impacted social and priority sectors. A number of revenue boosting measures thus became necessary, including the accelerated sale of seized illegally cut timber. These adjustments were also necessary, in view of lapses in expenditure management resulting in high levels of non-regularized spending (1.1 percent of GDP by end-August) and a recurrence of domestic arrears (1.0 percent of GDP). As a result, 3 out of 4 indicative 2016 quarterly targets were missed (Table 8a).

Box 1. Guinea-Bissau: Unwinding The Bank Bailout Scheme

The authorities decided to bail out two problem banks by taking over NPLs from their books at face value. The stated objective at the time was to clean the balance sheets of the banks and thereby enable fresh lending, in part, however, to the same delinquent clients. The scheme was financed through credit lines with a ten-year tenor opened at the beneficiary banks—CFAF 26.3 billion and CFAF 7.9 billion for a total of CFAF 34.2 billion (5½ percent of GDP)—with interest (6 percent and 1.5 percent, respectively) and management fees. The loans could be converted into treasury bills upon five years.

The bailouts raised serious governance concerns. They were carried out in secret, without any cabinet or Parliamentary scrutiny and the cost and risks of the bailout were shifted entirely to the government. The scheme did not address the root problems of the high level of NPLs: it did not include measures to address management weaknesses in the banks or causes behind the deficient contract enforcement, nor did it require the shareholders to recapitalize the banks (despite an earlier agreed recapitalization plan of the larger of the two banks). As the NPLs were acquired at face value rather than market, the transaction implied a sizable windfall to the shareholders of the two banks (about CFAF 15 billion according to the banks' auditors). Also, the first contract carried an interest rate above the yield of Bissau-Guinean government bonds. In addition, there were concerns about the selection of NPLs to be included in the bailouts.

Staff estimated that the economic costs of the bailouts would be large. The direct cost of the debt associated with the bailout is in sharp contrast to actual priority spending. In 2015, domestically financed social and priority spending is estimated at CFAF 14.8 billion (2.5 percent of GDP) and domestically financed investment estimated at CFAF 4.9 billion (0.8 percent of GDP). This compares to the bailout amount of CFAF 34 billion (5.5 percent of 2015 GDP).

7. The external current account deficit narrowed considerably in 2015, helped by a positive terms-of-trade shock. As global oil prices declined along with non-fuel prices, while the price of the country's main export product, cashew nuts, increased by a fifth, the terms of trade increased by 44 percent (Table 1 and Figure 1). As a result, export values increased and import values declined, reducing the current account deficit by a third to 1.1 percent of GDP. Consequently, and supported by a pickup in commercial banks' net foreign assets and other private net assets, the overall balance of payments strengthened.

PROGRAM PERFORMANCE

8. The decision to bail out two banks led to protracted discussions on the first program review. The significant fiscal costs implied a large deviation fiscal targets under the ECF program. Moreover, the structure of the bailouts raised governance concerns that would jeopardize the objective under the program to foster the development of a sound banking system.

9. In an effort to bring the ECF program back on track, the government took decisive actions. In June 2016, the government declared the bailout contracts null and void, citing a lack of legally required signatures by the Attorney General and the internal auditor. After the banks refused the voiding of the bailout, the government, in September, effectuated a court injunction staying the effects of the bailout contracts (i.e. payment of interest) until the final court ruling on the legality of the contracts. It also filed a criminal lawsuit against the signatories of the bailout contracts.

10. In light of the voiding of the bank bailouts, program performance in 2015 was satisfactory. All quantitative performance criteria (PC) for both the first review (end-June 2015) and, after correcting for the bank bailout, the second review (end-December 2015) have been met. The floor on domestic revenue mobilization was exceeded at both test dates with sizeable margins due to stronger-than-expected expansion in economic activity and a vigilant tax administration. The ceiling on net domestic bank credit to the central government (NCG) was met comfortably at end-June after adjusting for excess domestic arrears clearance, while the adjusted ceiling for end-December was narrowly met after adjusting for shortfalls in budget support and after correcting for the bank bailout. Consistent with the respective zero-ceilings under the program, there was no new external borrowing on non-concessional terms and short-term external borrowing or guaranteeing. In addition, all external debt service obligations were honored and the government continues to seek restructuring and/or outright cancellation of debts currently under discussion with its bilateral creditors. With the exception of social expenditures, the end-December 2015 indicative targets were missed for the build-up of new arrears, the domestic primary balance and the level of non-regularized spending (DNTs).

11. Implementation of structural measures was mixed (Tables 9a and 9b). Four of the nine benchmarks set for implementation by end-2015 were met, while five were unmet. Of these five unmet structural benchmarks, two were implemented with delay and one only partially. The measures related to the intra-trade post in SAFIM to reconcile invoices with actual cargo, the treasury's monthly cash-flow projection, and the quarterly reports on execution of the public investment plan (PIP) and external debt commitments, agreements and disbursements were implemented as envisaged. The unmet measures (both earmarked for end-December) relate to the implementation of a small taxpayer regime and the drawing up of a strategic plan for improving the working conditions of officials of the domestic tax and customs administration. Delays occurred with (i) the audit of the Fund for Industrialization of Agricultural Products (FUNPI), publication of which is expected after parliamentary approval; (ii) salary payments through the banking system for all public servants; and (iii) the re-installation of the debt management IT system. The latter now needs to be upgraded as the software provider has issued a new version and ceased to support the old one. The structural benchmarks on the preparation of an audit plan for all SOEs and autonomous funds and designing a strategy to promote cashew production and transformation based on results of the FUNPI audit set for March 2016 and June 2016 respectively have not been met and are being rescheduled.

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

(billions CFAF, unless otherwise indicated)

	2015			
	June		Dec.	
	Prog.	Act.	Prog.	Act.
Performance criteria				
Total domestic tax revenue (floor)	26.2	31.7	53.3	61.9
Net domestic bank credit to the central government (ceiling)[1]	10.2	9.2	11.5	11.5
Indicative targets				
New domestic arrears (ceiling)	0.0	0.2	0.0	1.3
Social and priority spending (floor)	12.9	20.0	25.8	36.5
Domestic primary balance (commitment basis, floor)	-2.6	-2.9	-6.5	-9.3
Non regularized expenditures (DNTs, ceiling)	0.4	4.8	0.8	2.7
Memorandum items:				
Clearance of domestic payment arrears	4.3	6.6	8.10	7.4

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

[1] Programmed values include adjustors for excess clearance of domestic arrears (June) and shortfalls in budget support (December).

12. **The political stalemate, the associated intermittent absence of a government between late 2015 and early 2016 and the time needed to unwind the bank bailouts delayed the first and second reviews of the ECF arrangement and prompted the authorities to request a rephasing of disbursements under the ECF arrangement**. As a result, one review would be dropped access redistributed over the three remaining reviews; and end-December 2016 test dates will be the basis for the third review.

ECONOMIC OUTLOOK, POLICY MEASURES, AND RISKS

13. Guinea-Bissau's development strategy focuses on an efficient public sector, growth-conducive business environment, and poverty reduction (MEFP ¶¶14–15). The government's development strategy (2014–18), supported by the ECF arrangement, focuses at strengthening fiscal consolidation through effective public financial management (PFM), tax reforms and vigilant tax administration; stepping up implementation of structural reforms to improve the business environment; enhancing human capital development by improving the quality of public service and access to education and health, while mindful of debt sustainability. Although budget support is expected to resume only gradually, the country's main development partners pledge to continue to support this strategy (Text Table).

14. The economic recovery since the downturn in 2012–13 is expected to continue in 2016–17 (Text Table and Tables 1–4). Real GDP is projected to expand by 4.8 percent per year in 2016–17. The government has realigned incentives for a good agricultural harvest, including the supply of tractors and other inputs to farmers at subsidized rates, which should translate into a good agricultural performance. Growth in the secondary and tertiary sectors should accelerate on the back of an improved water and electricity supply, business confidence following donor reengagement (particularly in 2017) and resolution of the political impasse. Further, the start in 2017 of the construction phase of a foreign financed phosphate project is expected to help the recovery of the tertiary sector. Inflation should increase to about 2.3 percent in 2016 reflecting increasing private demand, and remain below 3 percent—the WAEMU ceiling—in the medium term. Buoyed by benign increases in the terms of trade and a favorable domestic reference price, cashew nut exports are expected to increase, helping keep the external current account deficit under 3 percent of GDP and bolstering international reserves. These projections factor in the expected start of phosphate project in 2017, which would increase FDI related import of machinery and related construction equipment.

15. Fiscal prudence and accelerating structural reforms to create fiscal space for priority infrastructure and social spending remain the centerpiece of the ECF-supported program (MEFP ¶14). To this end, the authorities aim to strengthen PFM and tax administration, which should help improve the quality of spending and increase fiscal space. A number of corrective measures were required to boost revenue performance for 2016 in order to align with program objectives. These include collection on tax arrears (0.2 percent of GDP) owed by public companies like airport, the port authority, and the introduction of a communication gateway to improve tax compliance in the Telecom industry (0.2 percent of GDP) which in total should increase tax revenues in 2017 by 1.8 percent of GDP. As a result, the domestic primary deficit is expected to decline from 1.7 percent of GDP in 2016 to an average of 0.2 percent per year in 2017–18, implying overall fiscal balances consistent with debt sustainability (Tables 1, 2a, b, and Annex II). This tightening of the fiscal stance is expected to yield a net accumulation of deposits in 2017 with an NCG of 0.5 percent of GDP, partially compensating for the debt accumulation in 2015 and 2016 that resulted from budget support shortfalls. Beyond this, higher than programmed domestic and external revenues would be used primarily for the clearance of domestic arrears accumulated in 2016. The current plan envisages a clearance of CFA 2.6 billion (0.4 percent of GDP) in 2017 with the balance of the newly accumulated arrears fully repaid in 2018. These government fiscal operations consistent with the ECF-supported program will be accounted for in the 2017 budget which the authorities plan to submit by mid-December 2016.

16. **Adverse weather conditions, legal uncertainties related to the unwinding of the bailout, and political uncertainty pose the main risks to the outlook.** Agricultural output remains vulnerable to adverse weather conditions. Also, the fiscal outlook could deteriorate if the courts were to rule the bank bailout contracts legal.[2] Additional downside risks include heightened political tensions with disruptive government changes impacting fiscal discipline and weakening development partners' external support.

Guinea-Bissau: Official Financial Assistance[1]

	2015 Prog.	2015 Est.	2016	2017	2018	Cumul. Total
			Projections			
Total	53.9	52.4	50.1	53.9	58.9	215.3
Grants	36.8	40.1	30.9	36.4	42.3	149.7
Budget	10.7	5.6	1.0	3.3	3.5	13.4
Project	26.1	34.5	29.9	33.1	38.8	136.3
Loans	17.1	12.3	19.2	17.5	16.7	65.6
Budget[2]	4.6	2.3	4.2	2.5	0.7	9.7
Project	12.5	10.0	14.9	14.9	16.0	55.9
			(Millions of US dollars)			
Total	91.1	88.6	84.9	91.5	100.3	
Grants	62.2	67.8	52.4	61.8	71.9	
Loans	28.9	20.8	32.5	29.7	28.4	
			(Percent of GDP)			
Total	8.9	8.4	7.3	7.4	7.5	
Grants	6.0	6.4	4.5	5.0	5.4	
Loans	2.8	2.0	2.8	2.4	2.1	
Miscellaneous items:						
Nominal GDP (US $ million)	1,029	1,056	1,168	1,239	1,332	

Source: Bissau-Guinean authorities.
1 Includes only aid to the government sector (about 85-90 percent of total); the remainder goes to ultimate beneficiaries and non-governmental organizations.
[2] ECF financing.

(billions of CFAF, unless otherwise indicated)

[2] In this case, the authorities would invoke the cancellation clause, implying cancellation fees and penalties amounting to about 0.7 percent of GDP. Banks then could appeal the cancellation in the OHADA courts.

A. Improving Fiscal Management

Increasing Tax Revenue

17. Measures to expand the tax base and strengthen tax administration aim at boosting domestic revenue mobilization (MEFP 22). The implementation of the new uniform sales invoice with the taxpayer's identification number will begin with large companies in December 2016, and be gradually extended to other enterprises by June 2017. In parallel, the new gateway system for communication networks will facilitate control and monitoring of corporate and sales taxes in the communication industry. Furthermore, to ensure compliance with tax obligations, the authorities plan to implement the tax certification clearance requirement (as established by law) in all contracts and payments made by the government.

18. The authorities are reducing the administrative burden on taxpayers, while boosting the tax base and yield (MEFP ¶¶ 21–22). Under the leadership of a specially created committee measures include: establishing—with the assistance of Fund TA—a new tax regime for small taxpayers (structural benchmark; Table 9b); encouraging voluntary tax compliance by large taxpayers, and improving infrastructure and working conditions of the tax authority, including for the 94 tax recruits recently hired through a competitive process; strengthening the one-stop-shop for cashew nut exports and associated tax payments; and identifying and quantifying all non-tax and tax levies and charges—own-source revenues—not collected by the tax authorities (proposed structural benchmark for December 2016). Furthermore, the authorities will—with Fund technical assistance—draw up an operational plan for tax administration in 2016–18 aimed at providing a strategic framework and outlook for core tax administration functions and procedures.

Strengthening Fiscal Transparency, Expenditure and Treasury Management

19. The authorities are accelerating implementation of PFM reforms to strengthen fiscal institutions and expenditure management and transparency (MEFP ¶¶18–20, Table 9). The authorities are standardizing the weekly Treasury committee assessments, aligning expenditures with available resources (re-prioritizing spending, if needed), and monitoring compliance with PFM rules. Several additional measures aim at limiting the use of DNTs and the accumulation of arrears to domestic suppliers and contractors, including the use of SIGFIP (an integrated system of public finances) to automatically register DNT payments with the Budget department. Finally, the authorities will prepare quarterly reports on budget execution with ministry level detail to ensure that it is guided by expenditure plans and that social and priority spending is protected (structural benchmark). **The submission of the 2016 draft budget for parliamentary scrutiny (a prior action for the first and second reviews, MEFP Table 4 and Table 9) is a first step in these directions.**

20. Treasury management is expected to improve mainly through a better adherence to existing accounting procedures and application of software. The authorities identified weaknesses in the application of accounting rules which they plan to overcome by rigorously following existing accounting procedures, their double-entry accounting system, and use of the accounting module of the SIGFIP. They are also strengthening their budgetary control system using the expenditure and procurement plans drawn up *ex ante* based on the annual budget. As a precursor to the planned Treasury single account (TSA), the authorities are in the process of identifying all government accounts with commercial banks and are taking inventory of own-source revenues collected by ministries, departments and agencies (structural benchmark, MEFP ¶29 and Table 9b).

21. The government will aim to reduce fiscal costs for the public electricity company through financial transparency in the short run, while designing more fundamental reforms for the longer run (MEFP ¶30). In the short run, EAGB is required to report monthly on its income and expenses (structural benchmark). A comprehensive electricity sector strategy that will include the expansion of electricity supply, distribution, and a restructuring of EAGB will be designed with the assistance of development partners that have substantial electricity sector projects, including the World Bank and the African Development Bank. Instead of increasing the already high electricity tariffs the immediate focus has shifted to minimizing electricity losses by increasingly relying on pre-paid meters.

Adhering to Prudent Debt Strategy

22. The risks of debt distress remain moderate, and the authorities plan to continue to meet external financing needs by contracting mostly concessional loans (MEFP ¶¶23-25). The updated debt sustainability analysis (DSA) indicates that the risk of debt distress remains moderate—unchanged from the previous full DSA (Annex II). Nonetheless, the Bissau-Guinean economy remains vulnerable to adverse shocks to exports, which could be amplified by worsening terms of trade, a decline in (or non-realization of projected) foreign direct investment, or renewed disruptive government changes. Considering these risks and cognizant of their absorption capacity constraints, the authorities will limit their external financing to grants and concessional loans and avoid the contracting and guaranteeing of short-term external debt (performance criterion; MEFP Tables 1-3, and Text Table). They also intend to contract only highly subsidized local currency loans from the West African Development Bank (BOAD), and will ensure that such loans are reflected transparently in the annual borrowing plans and budgets.

Guinea-Bissau: External Borrowing Plan, 2016–18

PPG debt contracted or guaranteed[1]	Volume of new debt (CFAF billion)	Volume of new debt (US$ million)	Present value of new debt (US$ million)
Sources of debt financing	32.2	54.6	44.8
External			
Concessional debt	7.4	12.6	6.1
of which			
Multilateral	7.4	12.6	6.1
AfDB	0.8	1.4	0.7
IDA	1.4	2.4	1.1
IMF	4.2	7.1	3.2
Other Multilaterals	1.0	1.6	1.1
Non-concessional debt			
Domestic			
Non-concessional debt	24.8	42.0	38.7
of which			
BOAD	11.8	20.0	16.0
Other Regional Institutions (Tbills)	13.0	22.1	22.7
Uses of debt financing	32.2	54.6	
Infrastructure	11.2	19.0	
Budget financing [2]	17.2	29.2	
Other	3.7	6.3	
Memorandum item: Indicative projections			
2017	19.9	33.8	
2018	18.5	31.4	

Source: Guinea-Bissau authorities.

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

[2] ECF and regional T-Bill financing.

23. To limit contingent liabilities, the authorities are strengthening checks and balances for contracting domestic Government debt (MEFP ¶¶24 and 26). The authorities compiled an inventory of all government guarantees to the banking system. Furthermore, in line with the WAEMU debt management regulation (Regulation 09/2007/CM/UEMOA), the authorities drafted a decree for cabinet approval that regulates debt issuance authority and transparency, the procedure for issuance of government guarantees, and the assumption of large liabilities outside the budgetary system.

B. Promoting Sound Financial Intermediation

24. Financial intermediation remains low, and the banking system will continue to be plagued by high NPLs after reversal of the bailout. Banking system credit to the private sector has picked up recently post-bailout (18 percent at an annualized rate) but the level remains low (at 11 percent of GDP, compared with 25 percent in the WAEMU and 28 percent in sub-Saharan Africa). The bank bailout resulted in NPLs declining to 7.5 percent by end-June 2016 (compared to

25.7 percent at end-2014, Table 5), but will revert to the previous high level upon full unwinding of the bailout. Most banks are barely profitable or even loss-making when excluding the bailout benefits, which suggests the presence of underlying structural issues that need to be addressed.

25. To avoid a recurrence of problematic bank bailout schemes the regional banking supervision, the authorities, and the commercial banks are striving to bring banks into regulatory compliance and improving contract enforcement (MEFP ¶¶26-28).

- The WAEMU Banking Commission will strictly enforce prudential norms, particularly in the context of the fallout from the recent unwinding of the 2015 bank bailout operation.[3] The WAEMU Banking Commission has conducted an on-site inspection of the affected banks to assess scenarios of the required provisions, capital increases and other possible corrective actions required to bring banks into full compliance with regulatory norms in light of the ongoing unwinding of the bailout. This will inform an action plan for the two banks (SB, April 15, 2017) that will be communicated to the banks and Guinea Bissau government. Furthermore, plans for a regional deposit guarantee scheme are being drawn up, and a comprehensive credit registry has reached an advanced stage of implementation.
- The government is committed to assisting in the implementation of any necessary remedial actions that the Banking Commission will impose. Furthermore, the authorities are strengthening contract enforcement and plan to implement OHADA's new uniform act on collective proceedings to expedite collateral collection.
- Banks will be required to implement the action plan set up by the WAEMU Banking Commission.

C. Improving the Business Environment for Private Sector Development and Other Issues

26. Fiscal reforms and the unwinding of the bailout will substantially improve the business environment, which can be complemented by strategies to promote the cashew sector and diversification. Reforms in tax administration will create a level playing field for private sector activity and generate additional resources for improved public services and infrastructure. PFM reforms will make the Government a more reliable partner both through a transparent procurement system and timely payments of bills. Finally, the unwinding of the bank bailout and measures to address non-compliance of prudential norms will reduce moral hazard and send a strong signal for the need of contract enforcement. To improve public service delivery and financial sustainability of public enterprises, the authorities are preparing an audit plan encompassing all state-owned enterprises and autonomous funds (structural benchmark now re-instated for November 2016). Finally, the completed FUNPI audit should provide valuable inputs for the design of a cashew sector strategy aimed at reducing transaction costs, increasing resilience, and promoting diversification.

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[3] This comes in addition to the doubling of the required minimum capital of banks by mid-2017 to CFAF 10 billion for all banks in the region.

27. Recent improvements in data provision, timeliness and coverage need to be sustained with adequate resources, passage of the statistics law and intra-institutional cooperation. With help from development partners, the statistics institute improved coverage of national statistics data with several surveys (enterprise survey, agricultural survey) ongoing or in the development phase, and first survey results are expected for early 2017. These encouraging results need to be followed by (i) Parliamentary approval of the Statistics Law to address institutional issues; (ii) adequate resourcing for the production of statistics, including staffing, equipment, and training, (iii) improvements in coordination and data sharing among institutions; and (iv) extension of the range and depth of surveys and inventories to better estimate growth and exports.

28. Structural reforms to address corruption and rent-seeking behaviors should be pursued concurrently with fiscal reforms. The submission for parliamentary approval of the national Anti-Money Laundering/Combatting of the Financing of Terrorism (AML/CFT) framework (MEFP ¶32) is welcomed. The implementation of this framework could assist in detecting, prosecuting and deterring corruption-related offenses and smuggling. However, further efforts to strengthen the Financial Intelligence Unit (CENTIF) and the implementation of the asset disclosure regime in line with international best practices remain crucial. Notably, asset disclosures should be verified for accuracy and be published. With Fund TA support, the authorities are assessing the nature of ML/FT risks, the weaknesses in the legal framework, the level of capacity with respect to the AML/CFT supervision of financial institutions and the operations of the CENTIF, and explore options for strengthening the AML/CFT legal framework.

PROGRAM MODALITIES AND FINANCING ASSURANCES

29. Program performance will continue to be monitored semi-annually (MEFP ¶33, Tables 1-4). For 2016 and 2017, program performance will be assessed relative to the proposed PCs for end-December 2016 and end-June 2017, including three continuous PCs, indicative targets for end-March, and SBs (MEFP ¶33 and Tables 2–3, and Tables 8–9). The PCs and indicative targets are defined in the original Technical Memorandum of Understanding (TMU) and its supplement that proposes minor technical modifications to: (i) include domestic loan guarantees issued by the central government to state-owned enterprises and suppliers in the calculation of NCG; (ii) switch to the use of the monetary survey table (*Position Nette du Gouvernement (PNG)*) in assessing performance of NCG; (iii) include bank bailout related tax receipts in the negative adjuster of -NCG,[4] and (iv) define more tightly the deadline after which external debt service obligations become payment arrears. New structural benchmarks are proposed to support the program's ultimate objectives, while most of the unmet benchmarks are being rescheduled (Table 9b).

[4] Following the bailout banks freed up provisions constituted against non-performing loans. As a result, these banks were able to generate profits, which the Government taxed.

30. Financing assurances are in place for the combined first and second reviews. The program is fully financed through end-2017, and there are good prospects of adequate financing for the remainder of the program period. The bulk of the financing is expected to be met through external support, with the residual domestic financing covered by BOAD. [Guinea-Bissau owes arrears to Angola, Brazil, Russia, the UAE, Libya, Pakistan, and Taiwan Province of China which have consented to Fund financing notwithstanding these arrears.] Adequate safeguards remain in place for the further use of the Fund's resources in Guinea-Bissau's circumstances and Guinea-Bissau's adjustment efforts have not been undermined by developments in debtor-creditor relations. The government has a credible plan and projected financing in place to eliminate the arrears with the European Investment Bank (EIB) (MEFP ¶23). Guinea-Bissau remains current on its remaining external debt service obligations.

31. Guinea-Bissau's capacity to repay the Fund is adequate. The use of Fund resources under the ECF arrangement will have a negligible impact on debt and debt service ratios (Table 6), and Guinea-Bissau's risk of debt distress remains moderate (¶22 and Annex II).

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

STAFF APPRAISAL

33. The recent ECOWAS-brokered six-point roadmap for an inclusive government and constitutional reform to solve the political crisis is a first promising step. Staff welcomes Guinea-Bissau's adherence to the rule of law and constitutional means in settling the political crisis. For more than a year, economic reforms were hampered by disruptive political events and the new roadmap represents a window of opportunity for political stability and accelerated implementation of economic reforms. Staff encourages stakeholders to build a sustainable political consensus which will need to be followed by a rapid resumption of Parliamentary operations to pass key pending legislations, including the Government's program, the state budget, statistics and the AML/CFT laws.

34. Notwithstanding the political tensions, economic activity strengthened further in 2015 and 2016. Agricultural production and related services increased buoyed by strong international cashew prices and an improved supply of electricity. Economic growth rose from 2.3 percent in 2014 to an estimated 4.8 percent in 2015, and is expected to reach the same level in 2016. Meanwhile, inflation remained low, averaging 1½ percent in 2015 and increasing only slightly in 2016.

35. The recent corrective actions taken by the authorities are commendable and show their determination to implement sound economic policies, but substantial risks remain which will require continued decisive measures to secure success. The protracted political crisis led to slippages in public finance management and a slowdown in economic reforms. The recent corrective actions together with a vigorous implementation of the economic policies and the structural reform agenda under the ECF program will help regain confidence of private investors and development partners.

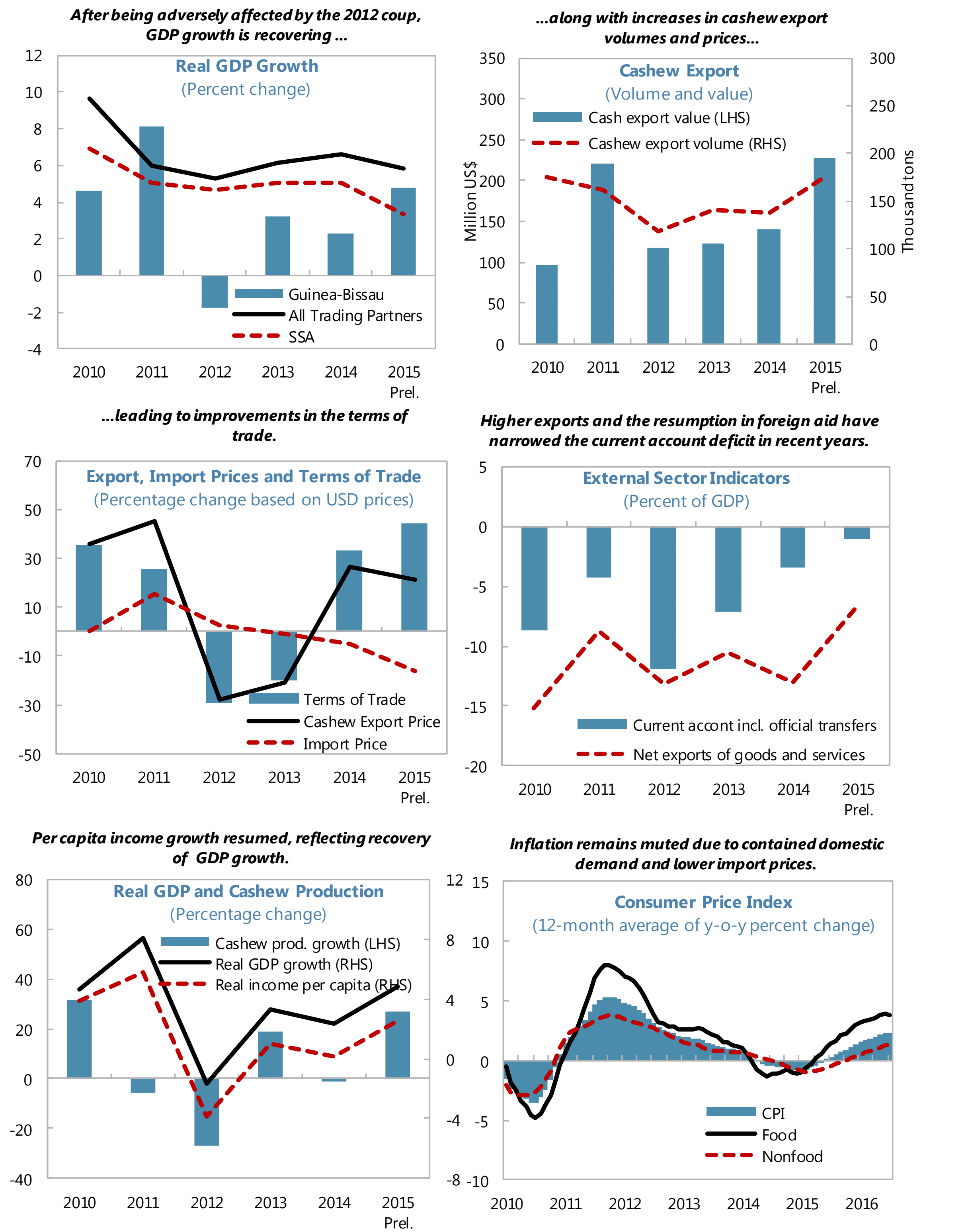
36. The authorities' resolute stance in unwinding the bank bailouts is welcome. Based on the assessment by the WAEMU Banking Commission of the health of the banking system, the authorities should take steps to enforce any identified measures to bring the affected banks into compliance with prudential norms. More broadly, the authorities should actively pursue reforms aimed at deepening financial intermediation and strengthening the health of the banking system. Furthermore, to safeguard public finance, the authorities should vigorously follow through all necessary steps until the bailout is irreversibly unwound.

37. Fiscal discipline will enhance fiscal policy credibility and support macroeconomic stability. Further advances in revenue mobilization are particularly important in light of the tight fiscal situation and still-limited external budget support. Implementation of recommendations from the Treasury committee meetings and adherence to established treasury procedures are key for avoiding arrears and non-regularized spending (DNTs). The tax and PFM reforms planned for the medium term are appropriately ambitious, given existing administrative capacity constraints, and are necessary for fiscal sustainability and an improved business environment. To reduce its heavy cost to the budget, the Water and Electricity Company, EAGB, needs to become financially transparent in the short-term and prepare a more far-reaching reform in the medium-term. Fiscal reforms will be supported by the strengthening of anti-corruption and AML/CFT efforts.

38. The recent improvements in the production of statistics are welcome. The authorities should continue to improve coordination among various institutions and ensure adequate allocation of resources for the production of statistical data, including for an inventory of cashew nut trees to provide essential data for the national accounts and related projections.

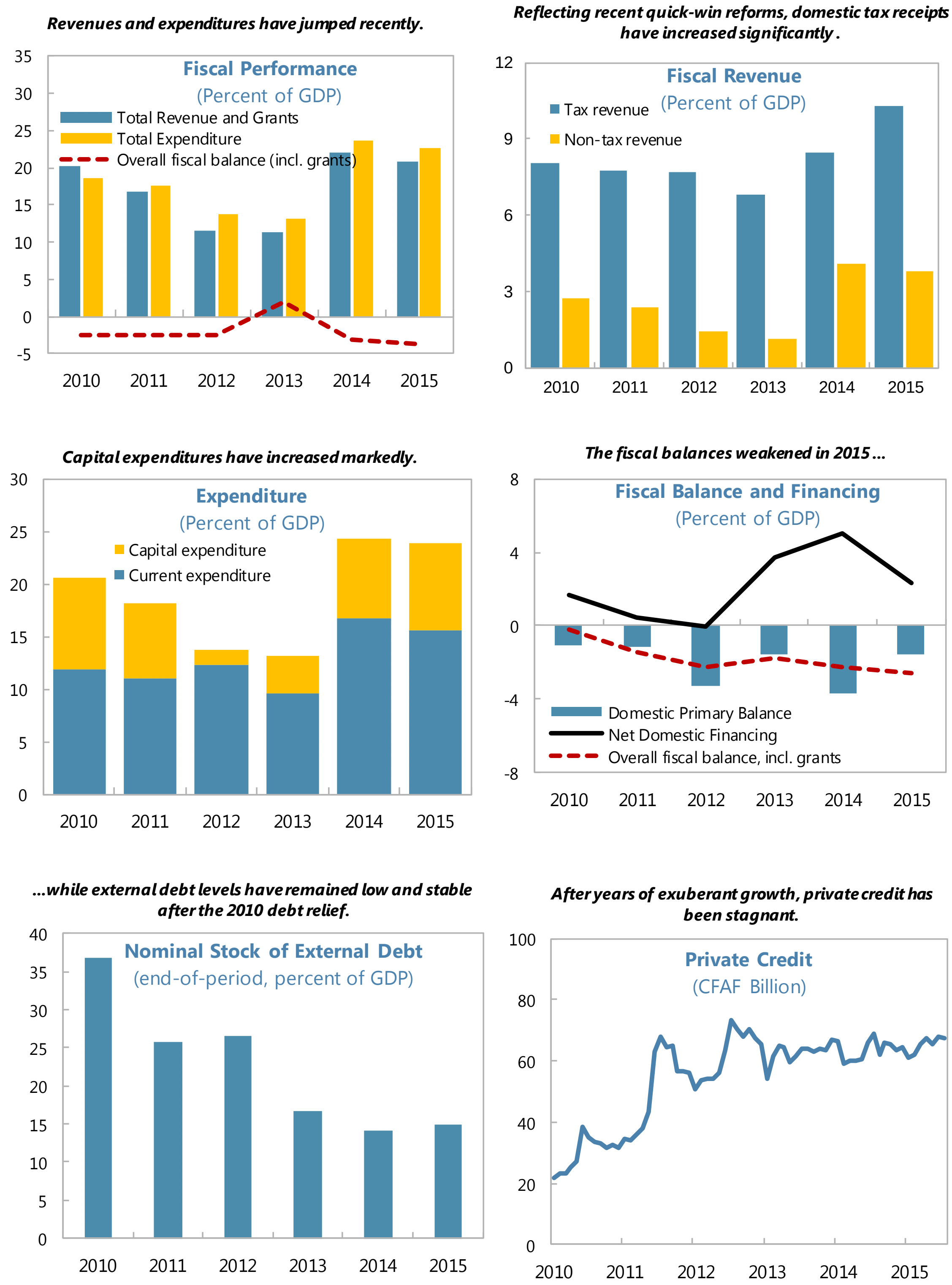
39. Staff recommends completion of the first and second program reviews and a financing assurances review. This recommendation is based on recognition of the challenges posed by political uncertainties to program implementation in 2015, the corrective revenue and expenditure measures implemented by the authorities following PFM slippages in the first half of 2016, and the ambitious reform agenda articulated by the authorities in their MEFP. Staff also supports the authorities request for a rephasing of the remaining program reviews and disbursements, and modification of the performance criteria on net domestic bank credit to the central government and external payment arrears to the central government.

Figure 1. Guinea-Bissau: Recent Economic Developments



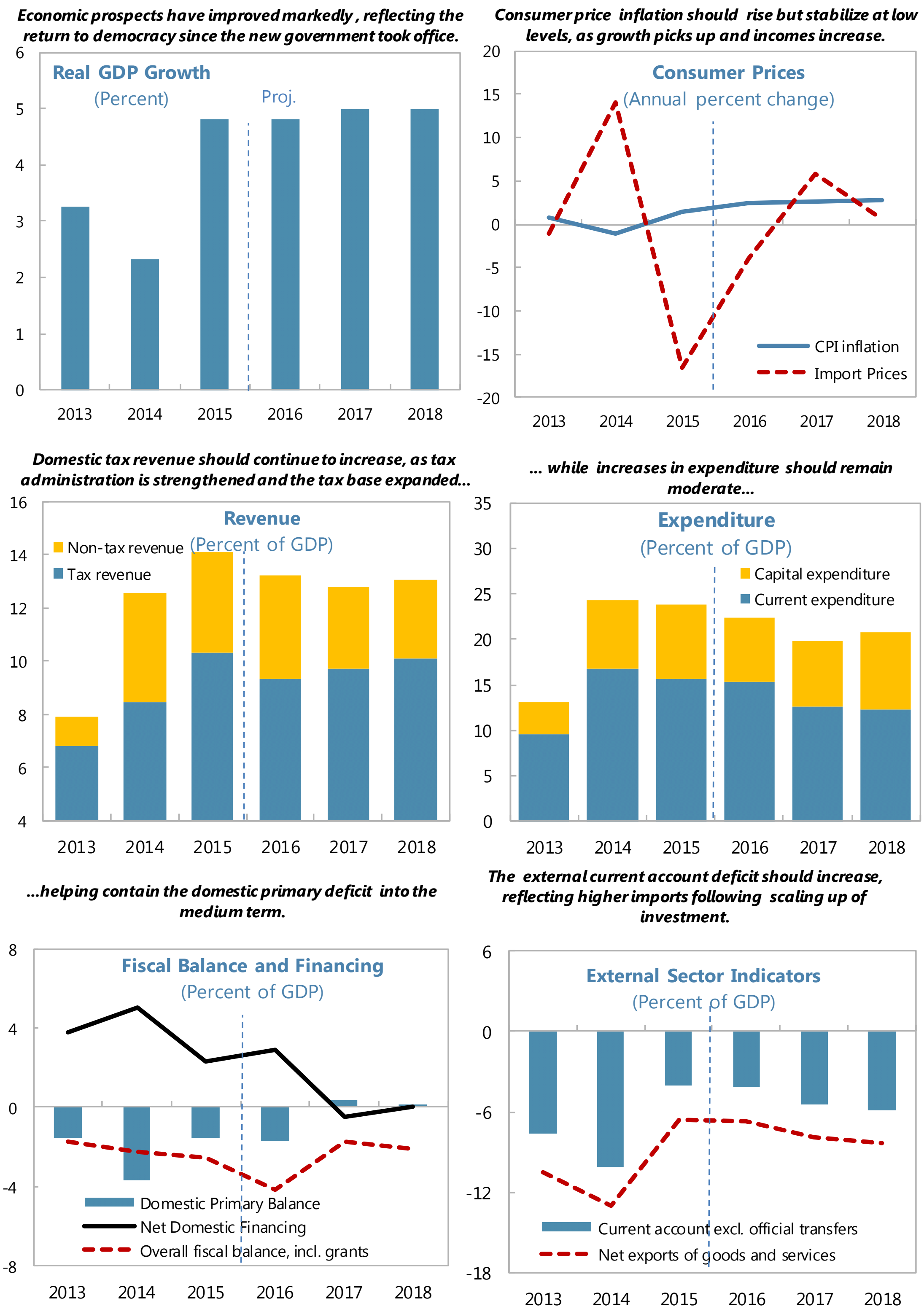
Sources: Guinea-Bissau authorities; and IMF staff estimates.

Figure 2. Guinea-Bissau: Fiscal and Credit Developments



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

Figure 3. Guinea-Bissau: Medium-Term Outlook



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

Table 1. Guinea-Bissau: Selected Economic Indicators, 2014–18[1]

	2014	2015 EBS/15/72	2015 Prel.	2016 EBS/15/72	2016 Proj.	2017 Projections	2018 Projections
	(Annual percent change, unless otherwise indicated)						
National accounts and prices							
Real GDP at market prices	2.3	4.7	4.8	4.8	4.8	5.0	5.0
Real GDP per capita	0.1	2.4	2.5	2.5	2.5	2.7	2.7
GDP deflator	-2.0	5.2	10.1	1.8	6.0	0.9	2.0
Consumer price index (annual average)	-1.0	1.3	1.5	2.3	2.4	2.6	2.8
External sector							
Exports, f.o.b. (based on US$ values)	11.0	13.1	55.5	7.2	15.2	0.4	0.0
Imports, f.o.b. (based on US$ values)	19.5	7.9	2.5	10.4	14.8	5.4	2.9
Export volume	-1.4	8.7	27.1	5.0	12.9	2.0	2.3
Import volume	20.9	26.1	25.0	9.8	19.3	-1.1	1.6
Terms of trade (deterioration = -)	33.0	24.5	44.5	-0.3	20.3	-5.7	-1.3
Real effective exchange rate (depreciation = -)	0.1	...	-16.5	...	...	...	...
Nominal exchange rate (CFAF per US$; average)	493.6	...	591.2	...	...	...	...
Government finances							
Domestic revenue (excluding grants)	59.4	17.1	29.4	17.9	4.3	2.4	9.3
Domestic revenue (excluding grants and one-offs)	47.7	20.9	30.4	9.5	10.4	3.6	9.3
Total expenditure	86.4	-0.6	12.9	11.9	4.2	-6.0	12.1
Current expenditure	75.8	-5.2	7.2	3.4	8.7	-12.2	3.5
Current expenditure (excluding elections-related spending)	57.2	6.1	19.9	3.4	8.7	-12.2	3.5
Capital expenditure	115.4	9.4	25.5	28.2	-4.2	7.2	27.2
Money and credit							
Net domestic assets [2]	-10.6	-6.8	15.4	-7.6	2.3	2.0	4.5
Credit to government (net)	1.7	1.8	1.2	-0.6	-4.7	-1.0	0.0
Credit to the economy	-2.7	2.7	14.6	2.7	14.1	2.4	2.8
Velocity (GDP/broad money)	2.1	2.2	1.9	2.2	1.9	1.9	1.9
	(Percent of GDP, unless otherwise indicated)						
Investments and savings							
Gross investment	11.4	12.4	12.5	13.6	12.8	13.2	13.4
Of which: government investment	4.0	7.1	8.2	8.5	7.1	7.2	8.5
Gross domestic savings	-1.3	2.1	6.6	2.4	7.0	5.7	5.4
Of which: government savings	-7.8	-1.2	-1.0	0.5	-1.7	0.3	0.8
Gross national savings	7.9	8.8	11.9	8.9	9.9	9.1	8.6
Government finances							
Total revenue [3]	12.6	12.6	14.1	14.0	13.2	12.8	13.1
Total domestic primary expenditure	16.3	13.7	15.6	14.3	14.9	12.5	13.0
Domestic primary balance	-3.7	-1.1	-1.5	-0.4	-1.7	0.3	0.1
Overall balance (commitment basis)							
Including grants	-2.3	-2.3	-2.6	-2.1	-4.2	-1.7	-2.1
Excluding grants	-11.8	-8.3	-9.3	-8.0	-8.8	-6.9	-7.7
External current account (including official current transfers)	-3.5	-3.6	-1.1	-4.7	-2.2	-3.1	-3.8
Excluding official transfers	-10.1	-5.3	-4.0	-6.3	-2.5	-4.4	-4.6
Nominal stock of public debt	48.0	50.9	46.7	49.5	47.5	45.8	43.1
Of which: external debt	14.2	18.0	14.9	16.6	13.7	14.0	15.0
Memorandum item:							
Nominal GDP at market prices (CFAF billions)	521.2	608.0	601.4	648.5	667.8	707.8	757.9

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

[1] Values in 2015 and 2016 exclude the bank bailout of CFA 34.2 billion. The Government determined the bailout contracts to be null and void. A final determination by the courts on the legality of the bailout contracts is still pending.

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

[3] One-off revenues amounted to 0.9 percent of GDP in 2014 (due to FUNPI's proceeds being transferred to the Treasury) and are expected to account for 0.9 percent of GDP in 2015 (due mostly to the selling of 3G licenses) and 1.3 percent of GDP in 2016 (mostly due to revenue from the sell of seized illegal wood and the collection of associated taxes.

Table 2a. Guinea-Bissau: Central Government Operations, 2014–17[1]

(billions of CFAF)

	2014	2015			2016		2017 proj.	
		June	EBS/15/72	Prel.	EBS/15/72	Proj.	June	Dec.
Revenue and grants	115.0	64.3	113.5	125.0	129.1	119.3	54.1	127.0
Revenue	65.5	42.9	76.8	84.8	90.5	88.4	41.1	90.6
Tax revenue	44.2	31.7	56.2	61.9	66.2	62.4	33.2	68.6
Nontax revenue	21.4	11.2	20.6	22.9	24.2	26.1	7.9	22.0
(o/w) one-off revenues[2]	4.8	2.0	3.3	5.6	10.0	4.0	0.0	0.0
Grants	49.5	21.4	36.8	40.1	38.6	30.9	13.0	36.4
Budget support	23.3	4.1	10.7	5.6	10.7	1.0	0.0	3.3
Project grants	26.2	17.3	26.1	34.5	27.9	29.9	13.0	33.2
Total expenditure	126.9	71.0	127.3	140.5	142.5	147.3	71.8	139.3
Current expenditure	87.4	44.2	84.1	91.0	87.2	99.9	46.6	88.5
Wages and salaries	32.3	16.1	32.5	31.8	34.6	32.0	17.1	33.1
Goods and services	12.2	7.9	14.6	16.2	19.0	17.6	7.9	16.5
Transfers [3]	13.3	8.4	20.2	18.9	17.1	31.4	13.6	21.6
Other current expenditures	26.9	9.2	11.3	19.4	13.9	14.1	5.3	13.5
Scheduled interest	2.7	2.6	5.5	4.6	2.5	4.8	2.7	3.9
Capital expenditure and net lending	39.5	26.8	43.2	49.5	55.4	47.4	25.1	50.8
Public investment program	39.4	26.8	43.2	49.5	55.2	47.4	25.1	50.8
Domestically financed	0.1	2.5	4.6	4.9	8.3	2.5	2.0	2.7
Foreign financed	39.2	24.2	38.6	44.6	46.9	44.9	23.1	48.1
Other capital expenditure	0.1	0.0	0.0	0.0	0.2	0.0	0.0	0.0
Domestically financed	0.1	0.0	0.0	0.0	0.2	0.0	0.0	0.0
Overall balance, including grants (commitment)	-11.8	-6.7	-13.8	-15.6	-13.5	-28.0	-17.7	-12.3
Overall balance, excluding grants (commitment)	-61.3	-28.1	-50.6	-55.7	-52.1	-58.9	-30.7	-48.7
Net domestic arrears[4]	-1.8	-2.9	-8.1	-5.2	-3.0	-0.4	-0.4	-2.6
Accumulation current year	2.2	3.2	0.0	2.2	0.0	6.6	0.0	0.0
Payment previous years	-4.0	-6.1	-8.1	-7.4	-3.0	-7.0	-0.4	-2.6
External interest arrears current year	0.0	-0.4	-0.9	-0.4	0.0	0.0	0.0	0.0
Non Regularized Spending[5]	-1.8	-4.8	0.0	-2.7	0.0	-2.0	-1.0	-1.0
Float and statistical discrepancies	-0.7	-0.3	0.0	1.6	0.0	0.0	0.0	2.0
Overall balance, including grants (cash)	-16.1	-15.1	-22.8	-22.2	-16.5	-30.3	-19.1	-13.9
Financing	16.1	15.1	22.8	22.2	16.5	30.3	19.1	13.9
Domestic financing	3.4	9.2	4.2	13.8	-4.0	19.2	9.7	0.1
Bank financing	3.4	9.2	4.4	13.8	-2.2	19.2	9.7	0.1
BCEAO credit	2.9	0.0	0.0	2.3	-0.6	3.8	2.5	3.8
(o/w) IMF	2.9	0.0	0.0	2.3	-0.6	3.8	2.5	3.8
Deposits at the BCEAO (- = build up)	-7.9	2.3	4.4	2.7	-1.6	5.7	0.0	-3.7
Domestic banks	8.5	6.9	0.0	8.8	0.0	9.7	7.2	0.0
(o/w) Regional (including T-bills)	15.0	5.0	0.0	1.0	0.0	13.0	0.0	0.0
Foreign financing (net)	12.7	5.9	13.8	8.4	16.7	11.2	9.4	13.8
Disbursements	13.1	6.9	15.7	10.0	18.9	15.0	10.2	15.0
Projects	13.1	6.9	12.5	10.0	18.9	15.0	10.2	15.0
Programs	0.0	0.0	3.2	0.0	0.0	0.0	0.0	0.0
Amortization (scheduled and arrears)	-3.3	-0.6	-1.9	-1.1	-2.2	-3.8	-0.8	-1.2
External arrears	0.0	-0.5	0.0	-0.5	0.0	0.0	0.0	0.0
Debt relief	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing gap (+ = financing need)	0.0	0.0	4.7	0.0	3.7	0.0	0.0	0.0
Additional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	4.7	0.0	3.7	0.0	0.0	0.0
Domestic primary balance[6]	-19.4	-6.0	-6.5	-9.3	-2.7	-11.2	-5.8	2.3
Revenue	65.5	42.9	76.8	84.8	90.5	88.4	41.1	90.6
Primary expenditure	84.9	48.9	83.2	94.1	93.1	99.6	46.9	88.3

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

[1] Values in 2015 and 2016 exclude the bank bailout of CFA 34.2 billion. The Government determined the bailout contracts to be null and void. A final determination by the courts on the legality of the bailout contracts is still pending.

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

[3] Transfers in 2016 include a CFA 10.0 billion debt repayment on behalf of Guinea-Telecom.

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

[5] In early 2015 CFA 3.7 billion were used to pay 2014 expenses.

[6] Domestic primary balance is adjusted to reflect Non Regularized Spending.

Table 2b. Guinea-Bissau: Central Government Operations, 2014–17[1]

(percent of GDP)

	2014	2015			2016		2017 Proj.	
		June	EBS/15/72	Prel.	EBS/15/72	Proj.	June	Dec.
Revenue and grants	22.1	10.7	18.7	20.8	19.9	17.9	7.6	17.9
Revenue	12.6	7.1	12.6	14.1	14.0	13.2	5.8	12.8
Tax revenue	8.5	5.3	9.2	10.3	10.2	9.3	4.7	9.7
Nontax revenue	4.1	1.9	3.4	3.8	3.7	3.9	1.1	3.1
(o/w) one-off revenues[2]	0.9	0.3	0.5	0.9	1.5	0.6	0.0	0.0
Grants	9.5	3.6	6.0	6.7	6.0	4.6	1.8	5.1
Budget support	4.5	0.7	1.8	0.9	1.6	0.2	0.0	0.5
(o/w) Elections Support	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	5.0	2.9	4.3	5.7	4.3	4.5	1.8	4.7
Total expenditure	24.3	11.8	20.9	23.4	22.0	22.1	10.1	19.7
Current expenditure	16.8	7.4	13.8	15.1	13.4	15.0	6.6	12.5
Wages and salaries	6.2	2.7	5.3	5.3	5.3	4.8	2.4	4.7
Goods and services	2.3	1.3	2.4	2.7	2.9	2.6	1.1	2.3
Transfers [3]	2.6	1.4	3.3	3.2	2.6	4.7	1.9	3.1
Other current expenditures	5.2	1.5	1.9	3.2	2.1	2.1	0.8	1.9
Scheduled interest	0.5	0.4	0.9	0.8	0.4	0.7	0.4	0.5
Capital expenditure and net lending	7.6	4.4	7.1	8.2	8.5	7.1	3.6	7.2
Public investment program	7.6	4.4	7.1	8.2	8.5	7.1	3.6	7.2
Domestically financed	0.0	0.4	0.8	0.8	1.3	0.4	0.3	0.4
Foreign financed	7.5	4.0	6.3	7.4	7.2	6.7	3.3	6.8
Other capital expenditure	0.0	0.0	0.0	0.0	0.0	0.0		0.0
Domestically financed	0.0	0.0	0.0	0.0	0.0	0.0		0.0
Overall balance, including grants (commitment)	-2.3	-1.1	-2.3	-2.6	-2.1	-4.2	-2.5	-1.7
Overall balance, excluding grants (commitment)	-11.8	-4.7	-8.3	-9.3	-8.0	-8.8	-4.3	-6.9
Net domestic arrears[4]	-0.3	-0.5	-1.3	-0.9	-0.5	-0.1	-0.1	-0.4
Accumulation current year	0.4	0.5	0.0	0.4	0.0	1.0	0.0	0.0
Payment previous years	-0.8	-1.0	-1.3	-1.2	-0.5	-1.0	-0.1	-0.4
External interest arrears current year	0.0	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0
Non Regularized Spending[5]	-0.3	-0.8	0.0	-0.5	0.0	-0.3	-0.1	-0.1
Float and statistical discrepancies	-0.1	0.0	0.0	0.3	0.0	0.0	0.0	0.3
Overall balance, including grants (cash)	-3.1	-2.5	-3.7	-3.7	-2.5	-4.5	-2.7	-2.0
Financing	3.1	2.5	3.7	3.7	2.5	4.5	2.7	2.0
Domestic financing	0.7	1.5	0.7	2.3	-0.6	2.9	1.4	0.0
Bank financing	0.7	1.5	0.7	2.3	-0.3	2.9	1.4	0.0
BCEAO credit	0.6	0.0	0.0	0.4	-0.1	0.6	0.4	0.5
(o/w) IMF	0.6	0.0	0.0	0.4	-0.1	0.6	0.4	0.5
Deposits at the BCEAO (- = build up)	-1.5	0.4	0.7	0.4	-0.3	0.9	0.0	-0.5
Domestic banks	1.6	1.2	0.0	1.5	0.0	1.4	1.0	0.0
(o/w) Regional (including T-bills)	2.9	0.8	0.0	0.2	0.0	1.9	0.0	0.0
Foreign financing (net)	2.4	1.1	2.6	1.4	2.6	1.7	1.3	1.9
Disbursements	2.5	1.1	2.1	1.7	2.9	2.2	1.4	2.1
Projects	2.5	1.1	2.1	1.7	2.9	2.2	1.4	2.1
Programs	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Amortization (scheduled and arrears)	-0.6	-0.1	-0.3	-0.2	-0.3	-0.6	-0.1	-0.2
External arrears	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Debt relief	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing gap (+ = financing need)	0.0	0.0	0.8	0.0	0.6	0.0	0.0	0.0
Additional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.8	0.0	0.6	0.0	0.0	0.0
Domestic primary balance[6]	-3.7	-1.0	-1.1	-1.5	-0.4	-1.7	-0.8	0.3
Revenue	12.6	7.1	12.6	14.1	14.0	13.2	5.8	12.8
Primary expenditure	16.3	8.1	13.7	15.6	14.4	14.9	6.6	12.5

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

[1] Values in 2015 and 2016 exclude the bank bailout of CFA 34.2 billion. The Government determined the bailout contracts to be null and void. A final determination by the courts on the legality of the bailout contracts is still pending.

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

[3] Transfers in 2016 include a CFA 10.0 billion debt repayment on behalf of Guinea-Telecom.

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

[5] In early 2015 CFA 3.7 billion were used to pay 2014 expenses.

[6] Domestic primary balance is adjusted to reflect Non Regularized Spending.

Table 3. Guinea-Bissau: Monetary Survey, 2014–18[1]

	2014	2015		2016		2017	2018
		EBS/15/72	Prel.	EBS/15/72	Proj.	Proj.	
	(CFAC billions)						
Net foreign assets	160.7	204.1	196.4	250.2	224.1	238.2	248.0
Central Bank of West African States (BCEAO)	135.5	172.9	176.6	226.6	211.9	227.6	237.4
Commercial banks	25.2	31.2	19.8	23.6	12.2	10.6	10.6
Net domestic assets	82.6	67.4	120.7	46.8	128.3	135.2	151.9
Credit to the government (net)[2]	25.2	26.9	28.2	25.3	13.2	9.5	9.5
Credit to the economy	61.1	67.7	96.8	75.1	115.1	125.7	142.4
Other items (net)	-3.7	-27.2	-4.3	-53.6	0.0	0.0	0.0
Money supply (M2)	244.1	271.4	317.3	297.0	352.4	373.5	399.9
Currency outside banks	151.8	168.3	199.4	184.1	221.5	234.7	251.3
Bank deposits	92.3	103.1	117.9	112.8	130.9	138.7	148.6
Base money (M0)	176.4	175.5	176.1	192.1	195.5	207.2	221.9
	(Change in percent of beginning-of-period broad money)						
Contribution to the growth of broad money							
Money supply (M2)	22.4	10.9	30.0	9.4	11.0	6.0	7.1
Net foreign assets	33.0	17.7	14.6	17.0	8.7	4.0	2.6
BCEAO	31.8	15.3	16.8	19.8	11.1	4.5	2.6
Commercial banks	1.2	2.5	-2.2	-2.8	-2.4	-0.5	0.0
Net domestic assets	-11.4	-6.9	15.6	-7.6	2.4	2.0	4.5
Credit to the central government[2]	1.7	1.8	1.2	-0.6	-4.7	-1.0	0.0
Credit to the private sector	-2.7	2.7	14.6	2.7	5.8	3.0	4.5
Other items net	-10.4	-11.4	-0.3	-9.7	1.4	0.0	0.0
Memorandum items:							
Money supply (M2, annual percentage change)	22.4	10.9	30.0	9.4	11.0	6.0	7.1
Base money (M0, annual percentage change)	36.8	10.9	-0.2	9.4	11.0	6.0	7.1
Credit to the private sector (annual percentage change)	-8.2	10.9	58.4	10.9	19.0	9.2	13.3
Velocity (GDP/M2)	2.1	2.2	1.9	2.1	1.9	1.9	1.9
Money Multiplier (M2/M0)	1.4	1.5	1.8	1.5	1.8	1.8	1.8

Sources: BCEAO; and IMF staff estimates and projections.

1/ End of period.

2/ Values for 2015 were adjusted by Staff to exclude the bank bailout of CFA 34.2 billion. The Government determined the bailout contracts to be null and void. A final determination by the courts on the legality of the bailout contracts is still pending.

Table 4. Guinea-Bissau: Balance of Payments, 2014–18

(billions of CFAF)

	2014	2015		2016		2017	2018
		EBS/15/72	Prel.	EBS/15/72	Proj.	Projections	
Current Account Balance							
Including all official transfers	-18.1	-21.7	-6.6	-30.4	-14.7	-22.0	-28.8
Excluding official transfers	-41.4	-32.3	-12.2	-41.0	-15.8	-25.3	-32.3
Goods and services	-67.9	-62.8	-39.8	-72.5	-44.9	-56.1	-62.8
Goods	-42.5	-30.2	0.9	-36.7	1.7	-7.1	-12.5
Exports, f.o.b	83.8	114.5	156.0	122.2	179.2	179.9	179.4
Of which: cashew nuts	69.2	97.0	134.4	101.6	152.9	155.9	153.9
Imports, f.o.b.	-126.3	-144.7	-155.1	-158.8	-177.5	-186.9	-191.8
Of which: food products	-40.7	-43.1	-41.5	-45.9	-50.2	-53.2	-57.0
petroleum products	-27.4	-29.5	-37.0	-31.5	-34.2	-42.4	-48.0
Services (net)	-25.4	-32.7	-40.7	-35.9	-46.6	-49.1	-50.4
Credit	19.4	21.3	18.6	23.4	21.3	22.4	23.0
Debit	-44.8	-54.0	-59.3	-59.3	-67.9	-76.9	-78.1
Incomes (net)	11.2	11.3	11.7	11.3	11.8	13.0	12.4
Credit	12.0	12.4	12.8	12.4	13.4	14.7	14.7
EU fishing compensation	5.7	6.0	4.1	6.0	4.1	5.9	5.9
Other license fees	6.3	6.4	8.7	6.4	9.3	8.8	8.8
Debit	-0.8	-1.2	-1.1	-1.2	-1.5	-1.7	-2.3
Of which: external interest	-0.8	-1.2	-1.1	-1.2	-1.5	-1.7	-2.3
Current transfers (net)	38.6	29.9	21.4	30.9	18.3	21.2	21.6
Official [1]	23.3	10.7	5.6	10.7	1.0	3.3	3.5
Of which: balance of payments support grants	23.3	10.7	5.6	10.7	1.0	3.3	3.5
Private	15.3	19.2	15.8	20.2	17.3	17.9	18.1
Of which: remittances	15.3	19.2	15.8	20.2	17.3	17.9	18.1
Capital and financial balance	78.5	54.3	48.6	80.4	50.0	37.8	38.6
Capital account	26.5	26.3	34.7	28.1	30.1	33.4	39.0
Financial account	52.0	28.0	13.8	52.2	19.9	4.4	-0.5
Official medium- and long-term disbursements	13.1	12.5	10.0	18.9	15.0	15.0	16.0
Project loans	13.1	12.5	10.0	18.9	15.0	15.0	16.0
Amortization	-0.9	-2.7	-2.2	-3.0	-4.4	-2.2	-2.9
Treasury bills and regional financing	15.0	0.0	1.0	0.0	13.0	0.0	0.0
Commercial bank net foreign assets	-2.2	-6.0	5.3	7.6	7.6	1.6	0.0
Private net foreign assets	27.0	24.2	-0.3	28.7	-11.3	-10.0	-13.6
Errors and Omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	60.4	32.6	42.0	50.0	35.3	15.8	9.8
Financing	-60.4	-32.6	-42.0	-50.0	-35.3	-15.8	-9.8
Net foreign assets (increase = -)	-63.4	-37.4	-41.1	-53.7	-35.3	-15.8	-9.8
Of which: net IMF credits	3.6	0.0	2.8	-1.0	4.6	4.6	1.6
purchases and loans	2.7	0.0	2.3	0.0	4.2	5.0	2.5
Debt relief	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in debt-service arrears (decrease = -)	0.0	-0.9	-0.9	0.0	0.0	0.0	0.0
Gross financing gap	0.0	4.7	0.0	3.7	0.0	0.0	0.0
Proposed ECF financing	0.0	4.7	0.0	3.7	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Memorandum items:							
Export volume of goods (annual percentage change)	-1.4	8.7	27.1	5.0	12.9	2.0	2.3
Cashew export prices (US$ per ton)	1,000	1,100	1,210	1,103	1,400	1,400	1,400
Import volume of goods (annual percentage change)	25.6	26.1	22.5	9.8	19.4	-0.7	1.5
Imputed international reserves							
US$ millions	199.2	…	11.5	…	…	…	…
As percent of broad money	37.1	…	38.3	…	…	…	…
WAEMU gross official reserves (billions US$)	13.2	…	11.5	…	…	…	…
Percent of broad money	…	…	…	…	…	…	…
Scheduled debt service							
Percent of exports and service credits	-1.9	1.3	0.9	1.7	1.4	1.3	1.7
Percent of total government revenue	-3.0	2.3	1.9	2.8	3.3	2.9	3.5
Current account balance (percent of GDP)							
Including official transfers	-3.5	-3.6	-1.1	-4.7	-2.2	-3.1	-3.8
Excluding official transfers	-10.1	-5.3	-4.0	-6.3	-4.1	-5.4	-5.9

Sources: BCEAO; and IMF staff estimates and projections.

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

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

(percent)

	2010	2011	2012	2013	2014	2015	2016 June
Capital Adequacy							
Capital to risk-weighted assets	28.5	22.3	23.7	22.7	20.1	19.3	19.0
Tier 1 capital to risk weighted assets	28.5	22.3	22.3	23.1	21.4	13.9	15.3
Capital to total assets	15.3	11.8	13.2	13.5	11.0	16.8	16.8
Sectoral distribution of credit							
Agriculture and fishing	3.1	4.1	3.4	2.6	2.6	2.6	2.3
Manufacturing	11.5	9.4	17.7	16.3	14.7	12.2	10.5
Electricity, gas, and water	2.8	11.5	9.6	11.1	10.4	10.2	9.4
Building and construction	3.4	4.0	3.3	4.1	3.9	2.5	2.8
Commerce	54.0	52.9	45.6	42.5	44.0	47.4	48.1
Transport and Communication	0.0	0.1	0.1	0.2	0.1	0.2	0.3
Services	1.3	0.6	0.3	0.4	0.4	0.4	0.5
Collectives and Social Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other activities	23.9	17.5	20.1	23.1	24.0	24.5	26.2
Asset quality							
Non-performing loans to total credit	9.8	6.5	6.4	11.6	25.7	6.2	5.6
Non-performing loans to capital	42.6	51.8	59.2	55.2	91.0	65.2	41.2
Provisions to gross non-performing loans	5.9	3.3	2.7	3.1	2.8	2.3	2.1
Provisions to gross loans	16.3	13.0	10.7	11.6	19.0	8.9	4.2
Earnings and profitability							
Net Income to average assets (ROA)	1.1	2.5	2.6	2.9	2.9	2.9	2.8
Net Income to average equity (ROE)	6.2	17.7	18.0	17.9	17.5	17.5	16.5
Liquidity							
Liquid assets to total assets	22.2	30.0	34.3	25.2	34.0	26.8	17.0
Liquid assets to short term assets	33.0	42.2	49.0	49.5	60.1	35.0	35.0
Ratio of deposits to assets	33.1	35.6	45.9	56.2	59.2	45.7	43.3
Ratio of loans to deposits	56.7	58.6	78.9	72.5	82.0	76.5	72.4
Excess reserves / broad money							
Memorandum items:							
Deposit rate	3.6	3.8	4.7	4.7	4.7	4.7	4.7
Lending rate	10.6	10.6	10.2	9.2	9.2	9.2	9.2

Source: BCEAO.

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

Table 6. Guinea-Bissau: Indicators of Capacity to Repay the Fund, 2016–25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Projections					
					(SDR millions, unless otherwise indicated)					
Fund obligations based on existing credit										
Principal	0.48	1.45	1.45	1.45	1.45	1.29	0.57	0.57	0.57	0.57
Charges and interest	0.00	0.00	0.00	0.02	0.01	0.01	0.01	0.01	0.00	0.00
Fund obligations based on existing and prospective credit										
Principal	0.5	1.5	1.5	1.5	2.2	2.0	2.6	3.8	4.1	3.4
Charges and interest	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit										
SDR millions	0.5	1.5	1.5	1.5	2.2	2.0	2.6	3.8	4.1	3.4
CFAF billions	0.4	1.2	1.2	1.2	1.8	1.6	2.1	3.1	3.4	2.8
Percent government revenue	0.4	1.3	1.2	1.1	1.5	1.2	1.5	2.0	1.9	1.4
Percent exports of goods and services	0.2	0.7	0.7	0.6	0.9	0.8	0.9	1.3	1.2	0.9
Percent debt service	15.5	49.3	37.8	31.0	48.0	51.6	65.7	89.4	127.1	107.6
Percent GDP	0.1	0.2	0.2	0.1	0.2	0.2	0.2	0.3	0.3	0.2
Percent quota	1.7	5.1	5.1	5.1	7.6	7.0	9.2	13.5	14.5	12.0
Percent reserves	0.2	0.5	0.5	0.5	0.7	0.6				
Outstanding Fund credit										
SDR millions	18.0	22.6	24.2	22.8	20.6	18.6	16.0	12.2	8.1	4.7
CFAF billions	14.8	18.6	19.9	18.6	16.8	15.2	13.0	9.9	6.6	3.8
Percent government revenue	16.8	20.5	20.1	17.1	14.0	11.6	9.0	6.2	3.7	1.9
Percent exports of goods and services	8.3	10.3	11.1	9.6	8.4	7.8	5.8	4.1	2.4	1.3
Percent debt service	581.9	769.5	631.9	486.7	457.8	480.6	404.1	285.2	249.0	147.0
Percent GDP	2.2	2.6	2.6	2.3	1.9	1.6	1.3	0.9	0.6	0.3
Percent quota	63.5	79.7	85.3	80.2	72.6	65.5	56.3	42.9	28.4	16.4
Percent reserves	7.0	8.2	8.4	7.4	6.4	5.5				
Net use of Fund credit	4.6	4.6	1.6	-1.5	-2.2	-2.0	-2.6	-3.8	-4.1	0.0
Disbursements	5.1	6.1	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	0.5	1.5	1.5	1.5	2.2	2.0	2.6	3.8	4.1	3.4
					(CFAF billions)					
Memorandum items:										
Nominal GDP	667.8	707.8	757.9	813.4	872.8	937.2	1,013.6	1,096.2	1,185.5	1,282.2
Exports of goods and services	179.2	179.9	179.4	194.6	199.6	193.4	223.1	244.5	268.8	296.6
Government revenue	88.4	90.6	99.0	108.8	119.7	131.3	144.5	159.6	175.9	195.1
Debt service	2.6	2.4	3.1	3.8	3.7	3.2	3.2	3.5	2.6	2.6
Net Foreign Assets Central Bank	211.9	227.6	237.4	250.2	263.6	277.3	…	…	…	
CFAF/SDR (period average)	823.0	821.7	821.0	818.7	815.1	815.1	815.1	815.1	815.1	815.1
Quota (SDR)	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4

Source: IMF staff estimates and projections.

Table 7. Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets for 2015

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

	Dec. 2014	2015											
		June				Sept.[1]				Dec.			
	Stock	Prog.	Adj. Prog.	Act.	Status	Prog.	Adj. Prog.	Act.	Status	Prog.	Adj. Prog.	Act.	Status
Performance criteria[1]													
Total domestic tax revenue (floor)	44.2	26.2	...	31.7	Met	40.7	...	49.7	Met	53.3	...	61.9	Met
Net domestic bank credit to the central government (ceiling)	2.7	8.2	10.2	9.2	Met	7.9	9.1	12.1	Not Met	4.4	11.5	11.5	Met
Ceiling on new nonconcessional external debt (in $ million)[2]	0.0	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[2]	0.0	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met
External payment arrears (ceiling)[2]	0.9	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met
Indicative targets													
New domestic arrears (ceiling)	...	0.0	...	0.2	Not Met	0.0	...	3.0	Not Met	0.0	...	1.3	Not Met
Social and priority spending (floor)	21.3	12.9	...	20.0	Met	19.4	...	27.4	Met	25.8	...	36.5	Met
Domestic primary balance (commitment basis, floor)	-19.4	-2.6	...	-2.9	Not Met	-6.0	...	-6.6	Not Met	-6.5	...	-9.3	Not Met
Non regularized expenditures (DNTs, ceiling)	...	0.4	...	4.8	Not Met	0.6	...	0.4	Met	0.8	...	2.7	Not Met
Memorandum items:													
Clearance of domestic payment arrears	...	4.3	...	6.6		6.0	...	7.4		8.10	...	7.4	
External budgetary assistance (US$ million)[3]	24.0	7.6	...	7.0		15.8	...	7.0		23.6	...	19.5	
ECF disbursements (SDR millions, flow)[4]	10.8	0.0	...	0.0		2.84	...	2.84		2.84	...	0.0	

[1] The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-September 2015 and end-March 2016 are indicative targets.

[2] These apply on a continuous basis.

[3] Comprises grants and loans.

[4] A disbursement of 20 percent of quota (SDR 2.84 million) is proposed on Board approval of the ECF arrangement in July.

Table 8a. Guinea-Bissau: Proposed Quantitative Performance Criteria and Indicative Targets for 2016

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

	Dec. 2015	2016					
		Mar. 1/		Jun.		Sept. 1/	Dec.
	Stock	IT	Prel.	IT	Prel.	Proj.	Proposed PC
Performance criteria[1]							
Total domestic tax revenue (floor)	61.9	15.7	10.4	31.5	31.2	49.6	61.4
Net domestic bank credit to the central government (ceiling)	11.5	0.0	6.4	0.0	19.3	19.8	15.4
Ceiling on new nonconcessional external debt (in $ million)[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling)[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets							
New domestic arrears (ceiling)	1.3	0.0	0.0	0.0	4.6	6.6	6.6
Social and priority spending (floor)	36.5	7.7	6.0	21.7	12.9	23.2	31.0
Domestic primary balance (commitmenmt basis, floor)	-9.3	-0.7	-7.1	-1.3	-15.8	-9.4	-11.2
Non regularized expenditures (DNTs, ceiling)	2.7	0.2	2.1	0.4	7.8	1.0	2.0
Memorandum items:							
Clearance of domestic payment arrears	7.4	0.8	3.3	1.8	6.4	5.7	7.0
External budgetary assistance (US$ million)[3]	19.5	5.9	0.0	9.2	0.0	1.7	1.7
ECF disbursements (SDR millions, flow)[4]	0.0	0.0	0.0	2.3	0.0	0.0	5.1
Concessional loans (US$ million)[5]	21.1	6.1	1.8	12.3	5.4	5.4	12.5

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

[2] These apply on a continuous basis.

[3] Comprises grants and loans.

[4] Reflects proposed new disbursement schedule.

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

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

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

	Dec. 2016	2017			
		Mar. 1/	Jun.	Sept. 1/	Dec. 1/
	Proj.	Proj.	Proposed PC	Proj.	Proj.
Performance criteria[1]					
Total domestic tax revenue (floor)	61.4	16.3	32.6	48.9	65.2
Net domestic bank credit to the central government (ceiling)	15.4	8.0	7.2	0.0	-3.7
Ceiling on new nonconcessional external debt (in $ million)[2]	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[2]	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling)[2]	0.0	0.0	0.0	0.0	0.0
Indicative targets					
New domestic arrears (ceiling)	6.6	0.0	0.0	0.0	0.0
Social and priority spending (floor)	31.0	7.7	21.7	23.2	31.0
Domestic primary balance (commitment basis, floor)	-11.2	-6.4	-5.8	-1.0	2.3
Non regularized expenditures (DNTs, ceiling)	2.0	0.2	0.4	0.7	0.9
Memorandum items:					
Clearance of domestic payment arrears	7.0	0.4	0.4	0.8	2.6
External budgetary assistance (US$ million)[3]	1.7	0.0	0.0	5.5	5.5
ECF disbursements (SDR millions, flow)[4]	5.1	0.0	3.0	0.0	3.0
Concessional loans (US$ million)[5]	12.5	4.6	9.3	13.9	18.6

[1] The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU). Targets for end-March, end-September, and end-December 2017 are indicative, while those for end-June are proposed performance criteria.
[2] These apply on a continuous basis.
[3] Comprises grants and loans.
[4] Reflects proposed new disbursement schedule.
[5] These comprise project loans with grant elements exceeding or equal to 35 percent.

Table 9a. Guinea-Bissau: Structural Benchmarks under the ECF Program, 2015–16

Measures	Timing	Macro Rationale	Status
Revenue Mobilization			
Implement an intra-trade post in SAFIM to reconcile invoice merchandise data with actual contents of the cargo.	Sept. 2015	Strengthen revenue collection.	Met.
Draw up a strategic plan for improving infrastructure and working conditions of officials of the domestic tax and customs administration.	Dec. 2015	Strengthen revenue collection.	Not met. An existing plan is being re-drafted.
Implement a new small taxpayer regime by the introduction of universal NIF (tax payer identification number)	Dec. 2015	To improve voluntary compliance and raise tax revenue.	Not met.
Expenditure management			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2015 budget.	July 2015 for August 2015 and monthly thereafter	Enhance expenditure management.	Met.
Transition to the payment of the salaries, wages, and allowances of all public servants (including the security service) through the banking system.	Sept. 2015	Reduce handling of cash by the Treasury and strengthen public financial management.	Not met. Implemented in October 2015.
Prepare a quarterly report on PIP execution.	Dec. 2015 for Sept. 2015 Report, quarterly thereafter	Enhance PIP execution and monitoring.	Met.
Debt management			
Reinstall and operationalize debt management IT system.	July 2015	Enhance debt management capacity and borrowing policies.	Not met. Implemented with delay.
Prepare a quarterly report on external debt commitments, agreements and disbursements.	Dec. 2015 for Jun. 2015 Report, quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments.	Met.
Business Environment			
Complete an international and comprehensive audit of the fund for industrialization of agricultural products (FUNPI)	Sept. 2015	To improve cashew nuts production and trade.	Not met. Audit report presented to Finance minister in April 2016.
Prepare an audit plan for all State-owned Enterprises and autonomous funds.	Mar. 2016	To improve service delivery by, and financial sustainability of, public enterprises.	Not met and rescheduled.
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2016	Reduce transaction costs.	Not met and rescheduled.

Table 9b. Guinea-Bissau: Proposed Structural Benchmarks under the ECF Program, 2016–17

Measures	Timing	Macro Rationale	Status
Submission of 2016 budget to Parliament	Prior action for combined first and second program reviews	Proper fiscal management	Under preparation
Revenue Mobilization			
Prepare a draft law, with technical assistance from the IMF, for a new small taxpayer regime that is simple and transparent, protects the revenue base, lowers compliance costs, and ensures global participation.	Dec. 2017	To improve tax administration and compliance.	New benchmark
Expenditure management			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2017 budget.	December 2016 for January 2017, and monthly thereafter	Enhance expenditure management.	Continuation of earlier measure.
Prepare timely quarterly reports on ministry-level budget execution with details along economic classification of expenses.	Dec. 2016, and quarterly thereafter	Enhance budget execution and monitoring.	New benchmark.
As a precursor to the planned Treasury Single Account, draw up a list (including 2015 amounts) of own-source revenues collected by ministries, departments and government agencies.	Dec. 2016	Strengthen public financial management	New benchmark
Debt management			
Prepare a quarterly report on external debt commitments, agreements and disbursements.	Dec. 2016 for Sept. 2016 Report, and quarterly thereafter.	Enhance debt management capacity and transparency in external debt commitments.	Continuation of earlier measure.
Council of Ministers to issue a decree to clarify the debt issuance authority and the procedure for the issuance of government guarantees, on-lending operations, and large liabilities.	Dec. 2016	Bring Guinea-Bissau's debt management policy in line with the WAEMU Regulation.	New benchmark
Business Environment			
Prepare an audit plan for all State-owned Enterprises and autonomous funds.	Nov. 2016	To improve service delivery by, and financial sustainability of, public enterprises.	Not met and rescheduled.
EAGB will submit reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and on a monthly basis starting from October 2016.	December 2016	To instill transparency in EAGB operations and financial position.	New Benchmark
Complete, with assistance of the WAEMU Banking Commission, an assessment of the two banks affected by the bailout, and articulate an action plan to bring these banks into compliance with prudential norms.	April 15, 2017	To strengthen the health of the banking system.	New benchmark
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2017	Reduce transaction costs.	Not met and rescheduled.

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

Availability	Disbursements		Condition for Disbursement	Status
	In millions of SDR	In percent of Quota[2]		
July 10, 2015	2.840	10.000	Approval of the three-year ECF arrangement.	Disbursed
October 15, 2015	2.840	10.000	Board completion of the first review based on observance of performance criteria for June 30, 2015.	
April 15, 2016	2.272	8.000	Board completion of the second review based on observance of performance criteria for December 31, 2015.	
April 15, 2017	3.030	10.669	Board completion of the third review based on observance of performance criteria for December 31, 2016.	
October 15, 2017	3.030	10.669	Board completion of the fourth review based on observance of performance criteria for June 30, 2017.	
April 15, 2018	3.028	10.662	Board completion of the fifth review based on observance of performance criteria for December 31, 2017.	
Total Disbursements	**17.040**	**60.000**		

Source: IMF staff estimates.
1/ The First and Second reviews are combined.
2/ Based on the new quota for Guinea-Bissau under the 14th General Quota Review.

Table 11. Guinea-Bissau: External Financing Requirements and Sources, 2015–18
(millions of US dollars; unless otherwise indicated)

	2015	2016	2017	2018
1. Gross financing requirements	89.9	89.5	76.2	77.3
External current account deficit [1]	20.3	26.7	42.9	55.1
Capital account balance [1]	0.3	0.3	0.3	0.3
Debt amortization	2.1	2.1	4.1	3.1
Change in arrears, net	-0.8	0.0	0.0	0.0
Gross reserve accumulation	68.1	59.8	26.8	16.7
IMF repayments	0.0	0.7	2.0	2.0
2. Available financing	89.9	89.5	76.2	77.3
Foreign direct investment, net	17.9	22.8	34.4	36.8
Identified disbursements	57.6	53.6	59.2	70.8
Grants	55.9	48.2	53.8	63.5
Project [3]	55.9	48.2	53.8	63.5
Program	0.0	0.0	0.0	0.0
Loans	1.7	5.4	5.4	7.3
Project	1.7	5.4	5.4	7.3
Program	0.0	0.0	0.0	0.0
ECF disbursements	3.9	7.1	8.4	4.2
Other flows, net [2]	10.5	6.0	-25.8	-34.5
3. Financing gap	0.0	0.0	0.0	0.0
Memorandum items:				
Fiscal deficit (commitment basis, in percent of GDP)	-2.6	-4.2	-1.7	-2.1
Current account deficit (in percent of GDP)	-1.1	-2.2	-3.1	-3.8

Sources: Bissau-Guinean authorities; and Fund staff estimates and projections.

1. Excludes official transfers.

2. Comprises estimates and projections of private short-term financial flows.

3. Excludes project grants from ECOWAS, WAEMU, and BOAD.

Annex I. Guinea-Bissau: Debt Sustainability Analysis Update[1]

This update of the joint IMF-World Bank Debt Sustainability Analysis (DSA) indicates that Guinea-Bissau faces a moderate risk of debt distress based on an assessment of public external debt, but a heightened overall risk of debt distress reflecting significant vulnerabilities related to domestic debt. [2,3] *Under the baseline scenario, all external debt present value (PV) ratios show improvements relative to the last DSA, due largely to good revenue performance in 2015 and expected benign developments in the terms of trade and nominal GDP. Under the most extreme shock scenario, the PV of debt-to-exports ratio breaches its threshold for only a short period, unlike under the last DSA where the breach extended over a long period. In contrast, the overall public debt indicator has worsened relative to the last DSA, mainly due to the domestic debt increase on account of a realized contingent liability, new Treasury bill issuance and other new domestic loans—elevating the overall risk of debt distress. The economy remains vulnerable to adverse shocks to exports, which could be amplified by worsening terms of trade or a decline in (or non-realization of projected) foreign direct investment.*

1. Compared to the last DSA, expected improvements in tax administration, public financial management, and the terms of trade are the main differences in the domestic assumptions. Real GDP growth is expected to follow almost exactly the same trajectory as under the last DSA, averaging 5 percent over the projection period (Text Table 1 and Table 1). Tax revenue, which shows a sluggish short-term trajectory, is projected to pick up in the longer term in response to growth in incomes and continuing improvements in tax administration. These expected advances, coupled with parallel improvements in public financial management, are expected to yield gains in the overall fiscal balance, with the primary deficit falling gradually and converting to surpluses by the end of the projection period, 2036.

2. For international prices, the DSA update is based on the IMF WEO medium-term projections of fuel and non-fuel prices, which prop up Guinea-Bissau's terms of trade, export values, and nominal GDP, and help moderate debt vulnerabilities. In particular, as the price of cashew (the main export produce of Guinea-Bissau) is expected to increase into the medium term, the country's terms of trade are projected to strengthen along with its export values. Reflecting the expected benign developments in Guinea-Bissau's terms of trade, export growth is now expected at a higher rate (averaging 10.2 percent of GDP in the long term, compared with 7.5 percent in the last DSA); and import growth is expected to be higher as well, in view of higher expected income and FDI flows. As a result, the external non-interest current account balance is expected to show a lower

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[1] This DSA updates the analysis presented to the IMF Executive Board in July 2015. The DSA Update was approved by Messrs. Roger Nord and Peter Allum (IMF) and Ms. Paloma Anos-Casero (IDA).

[2] The staffs of the IMF and IDA, in consultation with the Debt Management Unit of the Bissau-Guinean Ministry of Economy and Finance, prepared this DSA update jointly. The fiscal year of Guinea-Bissau spans January 1–December 31. The previous full DSA was prepared on June 24, 2015 (see IMF Country Report Number 15/194).

[3] Debt sustainability thresholds are determined by the three-year (2013-2015) averages of the Country Policy and Institutional Assessment (CPIA) rating (2.50) that classifies Guinea-Bissau as having weak policy performance and institutional framework.

long-term average deficit than under the last DSA. In parallel, the expected expansion of export values and nominal GDP should help domestic revenue intake, which is now expected to grow at a somewhat faster pace than under the last DSA. As a result of these expectations, and coupled with the Bissau-Guinean authorities' pursuit of grants and highly concessional borrowing, the baseline PV of debt-to-GDP, debt-to-exports and debt-to-revenue ratios are projected to remain below their respective thresholds into the long term, with a similar profile for debt service ratios.

3. The baseline macroeconomic assumptions underlying this DSA update are as follows:

- **Real GDP growth:** Economic growth is expected to remain robust, averaging around 5 percent into the medium term. Over the long term, growth could strengthen with the realization of expected FDI inflows and improvements in growth-enhancing infrastructure, and is projected to be above its historical average rate during the forecast period (Text Table 1).[4]
- **Consumer price inflation** is projected to rise in the medium term, with increasing disposable incomes as the economy sustains its recovery. Following the decline to -1 percent at end 2014, average inflation picked up to 1½ percent at end-2015, and it is now expected to increase to the WAEMU threshold (3 percent) by end-2018 and hover around that figure into the long term.
- **Central government balances:** The primary fiscal deficit is projected to gradually decline in the medium and long term. Specifically, the primary deficit, which increased in 2015 on account of weak public financial management (PFM) in the context of a lingering political crisis, is expected to improve as the authorities strengthen PFM and enhance their tax effort. Thereafter, continued improvements in tax administration and revenue measures should drive a gradual decline in the primary deficit to insignificant levels by 2021, to surpluses by 2026, and yield an average surplus during 2022–36 (Table 3). Non-interest primary expenditure is expected to be contained to average around 19 percent of GDP per year in 2016-21 (this was 20.8 percent in 2015).
- **External current account balance:** Reflecting benign expected terms of trade and increasing export volumes, the current account deficit is projected to remain low, at around 2 percent of GDP in 2016 and to average around 3 percent in 2017–22; it is then expected to remain around this average in the longer term (2023-36), mainly on account of expected overall income growth and increases in imports associated with increasing FDI inflows.
- **Financing flows:** FDI is projected to increase to an average 2.6 percent of GDP per year in 2017–21 (mainly on account of the phosphate project), after hovering below 2.0 percent of GDP in 2015–16. Over the longer term (2022-36), FDI is expected to decline to average 1½ percent of GDP per year (Table 1). This expectation is predicated on improvements in the political situation and the business environment. Official transfers are expected to increase

[4] The authorities have revised real GDP growth rates for 2012–14, based on TA from AFRITAC to finalize the national accounts for these years.

during the projection period, and grant-equivalent financing would form the bulk (some 85–90 percent) of projected external financing.

Text Table 1. Guinea-Bissau: Evolution of Selected Macroeconomic Indicators

	2012	2013	2014	2015	Long Term[1]
Real GDP growth (percent)					
Previous DSA	-1.8	0.8	*2.5*	*4.7*	5.0
Current DSA	-1.7	3.3	2.3	4.8	5.0
Revenue and Grants (percent of GDP)					
Previous DSA	11.4	11.6	21.0	18.7	23.0
Current DSA	11.5	11.3	22.1	20.8	22.6
Primary (non-interest) expenditure (percent of GDP)					
Previous DSA	13.5	13.2	22.0	17.9	24.3
Current DSA	13.6	12.9	23.2	21.6	22.1
Primary balance (percent of GDP)					
Previous DSA	-2.0	-1.6	-1.0	-0.8	-1.3
Current DSA	-2.0	-1.6	-1.1	-0.8	-0.5
Non-interest current account deficit (percent of GDP)					
Previous DSA	8.8	4.3	0.9	3.5	4.6
Current DSA	8.8	7.1	3.2	0.4	2.1
Growth of exports (percent)					
Previous DSA	-44.8	16.3	12.7	13.1	7.5
Current DSA	-44.8	24.7	9.4	41.3	10.2
Growth of imports (percent)					
Previous DSA	-24.4	0.6	24.7	7.9	6.2
Current DSA	-24.4	6.1	15.0	2.5	9.2

Source: Guinea-Bissau authorities and staff estimates.
[1] Long term value of the indicator is defined as an average over the last 15 years of the projections.

4. The DSA indicates an improvement in Guinea-Bissau's external debt sustainability. The downside risks to the macroeconomic outlook under the last DSA, in the form of weakening terms of trade and exports, have not materialized; on the contrary, the country realized an increase in terms of trade and in export volumes, enhancing export values. As a result, all baseline external debt indicators have remained comfortably below their respective policy-dependent indicative thresholds throughout the projection period (2016–36) (Figure 1). Nonetheless, all five external debt indicators are highly sensitive to exports shocks. Under the most extreme shock scenario, one indicator—the PV of debt-to-exports ratio—breached its threshold, albeit by a lower margin and for a shorter period than under the previous DSA. Guinea-Bissau, therefore, remains at moderate risk of debt distress.

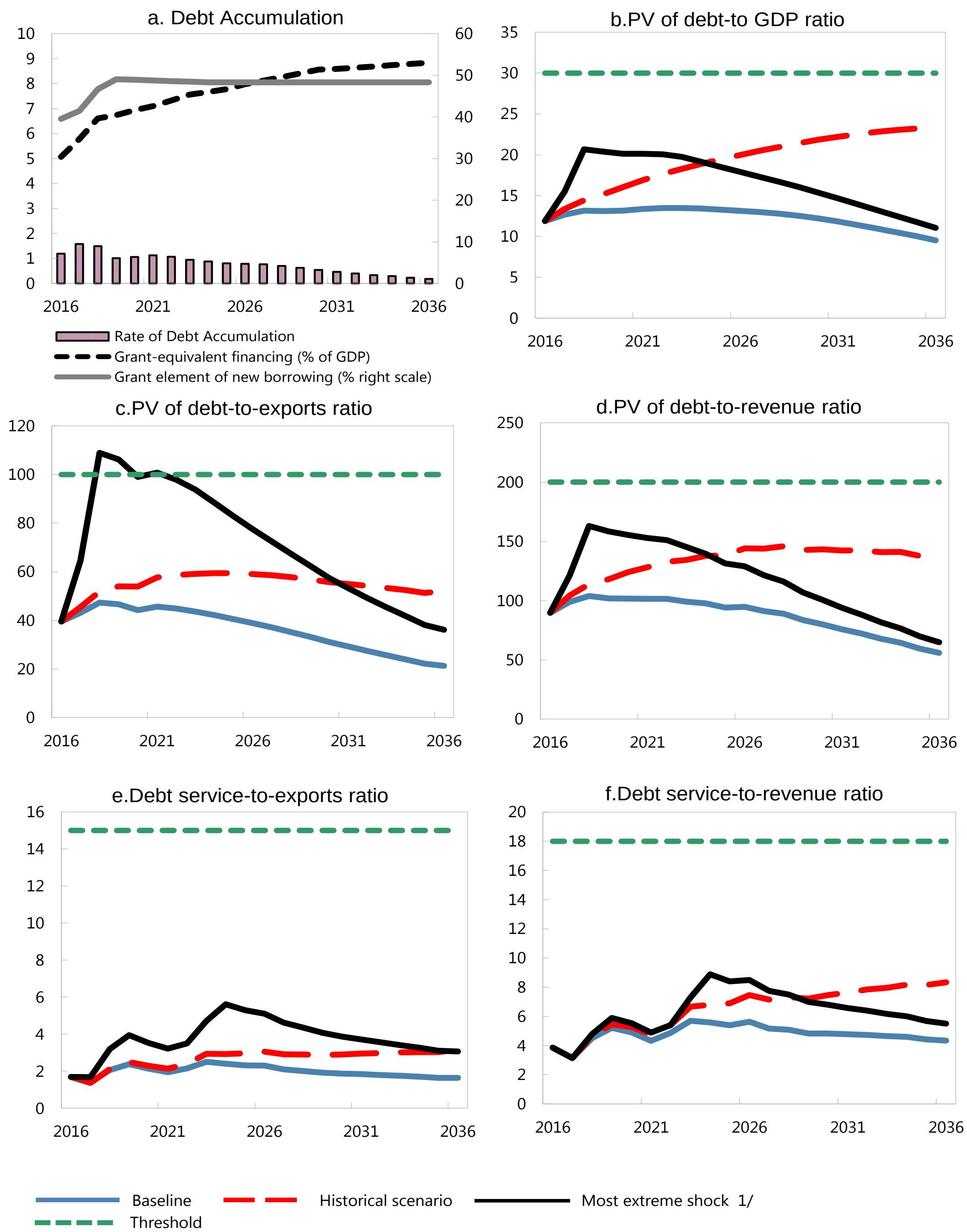
5. Due to an increase in domestic debt, however, the overall public debt and debt service indicators have worsened. The government's contracting of additional domestic loans (issuance of Treasury bills totaling CFAF 13 billion) and the realization of a contingent liability (CFAF 9.8 billion) have shifted the baseline PV of public debt-to-GDP ratio upward and its breach of the threshold in the most extreme shock scenario now extends over a longer period than under the last DSA.[5] The new domestic loans have increased public debt by some 3.4 percent of GDP, causing the baseline PV ratio in 2016 to stay above the benchmark for longer than in the previous DSA. The decline in this ratio now occurs at a slower pace than under the last DSA and the fixed primary balance PV ratio also remains above its threshold. In the same vein, the debt service ratios do not decline as fast as under the last DSA, highlighting likely risk of high debt-service burden, particularly in the event of adverse revenue shocks (Figure 2).

6. Results from the updated DSA show that the Bissau-Guinean economy remains vulnerable to adverse shocks. These shocks, including to exports and foreign direct investment (FDI) inflows, and nominal currency depreciation through a strengthening of the US dollar relative to the euro (to which the CFAF is fixed), could result in significant breaches of several thresholds in the short to medium run on a protracted basis. Despite the current benign situation with the external PV of debt-to-exports ratio falling below its threshold after a brief breach and the other ratios being comfortably below their respective ratios, adverse shocks could cause problems of debt distress. Staff therefore reiterates the need for continued prudent borrowing policies, revenue enhancement, sustained improvements in public financial management, and implementation of further growth-enhancing structural reforms.

7. The Bissau-Guinean authorities broadly concur with staff's assessment and policy recommendations. They agree that debt sustainability depends crucially on sound macroeconomic policies that would in turn help their chances of accessing concessional financing. They recognize the contributory role of prudent debt management along with other supportive structural reforms to improve the business environment and to enhance overall growth and export prospects.

[5] In 2015, domestic debt (which was all CFAF denominated) was 58 percent of total public debt excluding contingent liabilities related to the voiding of the bank bailout. It was owed to the BCEAO (46 percent), regional financial institutions (of which banks 42 percent and BOAD the remainder), and the remainder to non-financial institutions (mainly in the form of arrears to suppliers). This configuration is not expected to change significantly over the medium to long term, except for a gradual budgeted clearance of the arrears to domestic suppliers.

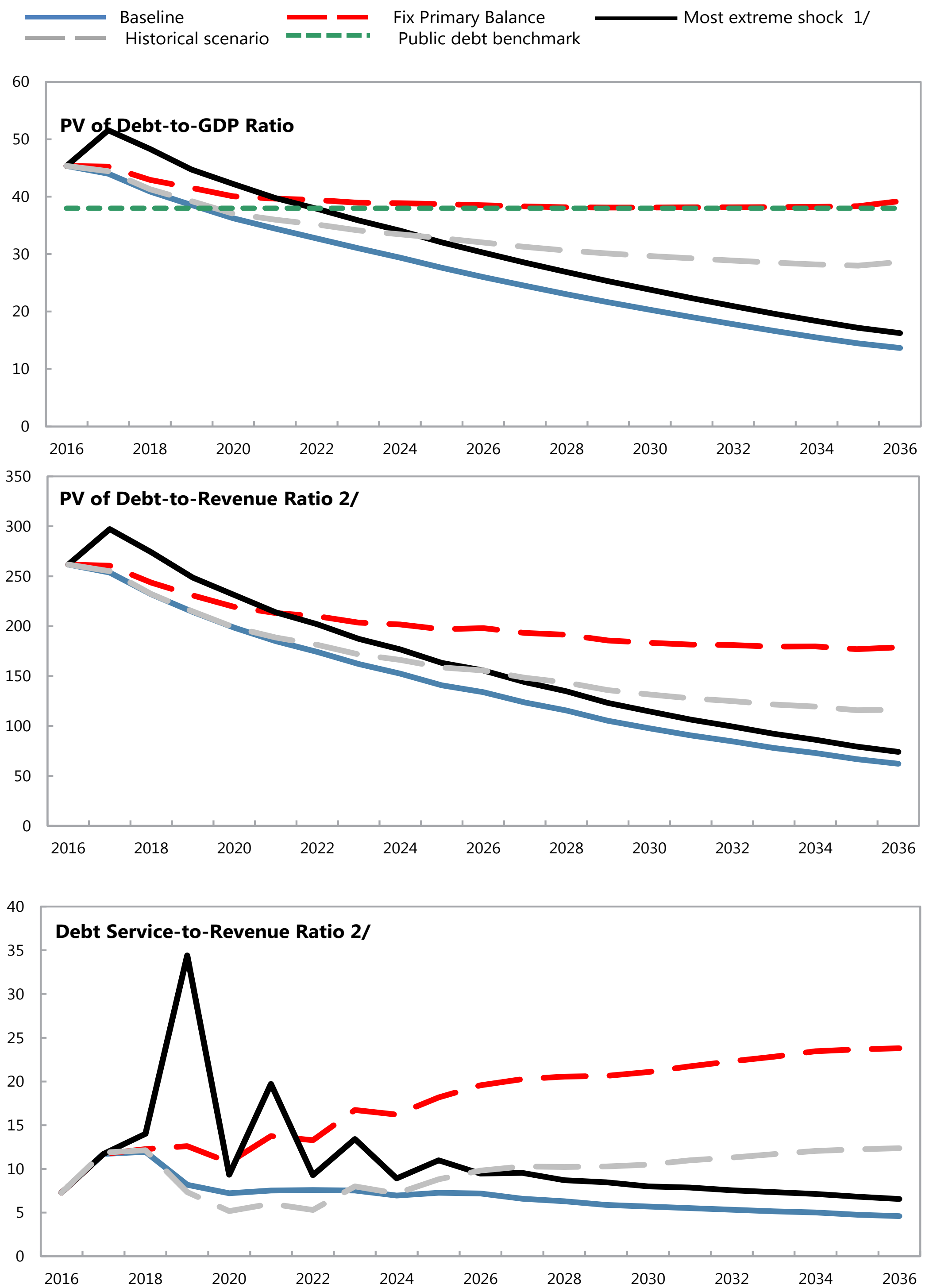
Figure 1. Guinea-Bissau: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2016-2036 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. 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 Exports shock

Figure 2.Guinea-Bissau: Indicators of Public Debt Under Alternative Scenarios, 2016-2036 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Table 1. Guinea-Bissau: External Debt Sustainability Framework, Baseline Scenario, 2013–36 1/

(percent of GDP unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2016-2021			2022-2036
	2013	2014	2015			2016	2017	2018	2019	2020	2021	Average	2026	2036	Average
External debt (nominal) 1/	**16.2**	**14.9**	**15.0**			**14.1**	**14.5**	**15.4**	**15.9**	**16.3**	**16.9**		**18.1**	**13.9**	
of which: public and publicly guaranteed (PPG)	16.1	14.9	14.9			14.1	14.5	15.4	15.9	16.3	16.9		18.1	13.9	
Change in external debt	-10.6	-1.2	0.0			-0.9	0.4	0.9	0.5	0.5	0.6		0.1	-0.7	
Identified net debt-creating flows	3.7	1.4	-0.5			0.3	0.5	1.3	0.9	0.9	0.9		0.4	-0.4	
Non-interest current account deficit	**7.1**	**3.2**	**0.4**	**4.5**	**3.6**	**2.6**	**4.0**	**4.5**	**3.8**	**3.7**	**3.7**		**2.7**	**1.0**	2.1
Deficit in balance of goods and services	10.5	13.0	5.9			5.8	7.5	7.9	7.1	6.5	6.3		5.9	2.9	
Exports	18.1	19.8	29.0			30.0	29.4	27.8	28.1	29.8	29.3		33.8	44.8	
Imports	28.6	32.8	34.9			35.9	36.8	35.7	35.3	36.3	35.6		39.7	47.7	
Net current transfers (negative = inflow)	-3.6	-7.4	-3.6	-6.4	2.5	-1.1	-1.6	-1.5	-1.5	-1.2	-1.3		-1.9	-0.9	-1.5
of which: official	-0.8	-4.5	-0.9			-0.2	-0.5	-0.5	-0.5	-0.5	-0.5		-0.5	-0.5	
Other current account flows (negative = net inflow)	0.3	-2.5	-1.9			-2.1	-1.9	-2.0	-1.9	-1.6	-1.4		-1.3	-1.0	
Net FDI (negative = inflow)	**-1.9**	**-2.0**	**-1.8**	**-2.0**	**0.8**	**-2.0**	**-2.9**	**-2.9**	**-2.5**	**-2.4**	**-2.3**		**-1.7**	**-0.9**	-1.5
Endogenous debt dynamics 2/	**-1.5**	**0.3**	**0.8**			**-0.3**	**-0.6**	**-0.3**	**-0.4**	**-0.5**	**-0.5**		**-0.6**	**-0.5**	
Contribution from nominal interest rate	0.1	0.3	0.3			0.3	0.1	0.3	0.4	0.3	0.2		0.3	0.2	
Contribution from real GDP growth	-0.8	-0.4	-0.7			-0.6	-0.7	-0.7	-0.7	-0.7	-0.8		-0.8	-0.7	
Contribution from price and exchange rate changes	-0.8	0.3	1.3			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-14.3**	**-2.6**	**0.6**			**-1.1**	**-0.2**	**-0.3**	**-0.5**	**-0.4**	**-0.3**		**-0.4**	**-0.3**	
of which: exceptional financing	0.0	-0.6	0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	12.3			11.9	12.7	13.2	13.1	13.2	13.4		13.1	9.5	
In percent of exports	...	...	42.3			39.6	43.2	47.3	46.6	44.2	45.6		38.8	21.3	
PV of PPG external debt	**...**	**...**	**12.3**			**11.9**	**12.7**	**13.2**	**13.1**	**13.2**	**13.4**		**13.1**	**9.5**	
In percent of exports	**...**	**...**	**42.2**			**39.6**	**43.1**	**47.3**	**46.6**	**44.2**	**45.6**		**38.8**	**21.3**	
In percent of government revenues	**...**	**...**	**87.0**			**89.7**	**98.9**	**103.9**	**101.9**	**101.6**	**101.5**		**94.7**	**56.0**	
Debt service-to-exports ratio (in percent)	**1.8**	**2.3**	**1.5**			**1.7**	**1.4**	**2.1**	**2.4**	**2.1**	**1.9**		**2.3**	**1.6**	
PPG debt service-to-exports ratio (in percent)	**1.8**	**2.3**	**1.5**			**1.7**	**1.4**	**2.1**	**2.4**	**2.1**	**1.9**		**2.3**	**1.6**	
PPG debt service-to-revenue ratio (in percent)	**4.1**	**3.6**	**3.1**			**3.8**	**3.1**	**4.5**	**5.2**	**4.9**	**4.3**		**5.6**	**4.3**	
Total gross financing need (Millions of U.S. dollars)	58.8	16.8	-9.3			12.3	18.6	28.3	27.4	29.6	31.8		39.6	38.4	
Non-interest current account deficit that stabilizes debt ratio	17.7	4.4	0.4			3.5	3.6	3.5	3.3	3.2	3.1		2.6	1.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.3	2.3	4.8	3.4	2.4	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	3.0	-1.9	-8.1	2.8	11.3	6.3	1.0	2.2	2.9	3.0	2.0	2.9	2.0	2.0	2.0
Effective interest rate (percent) 5/	0.3	1.9	1.7	0.8	0.7	2.5	0.4	2.4	2.5	1.8	1.5	1.9	1.7	1.4	1.6
Growth of exports of G&S (US dollar terms, in percent)	24.7	9.4	41.3	16.0	31.2	15.2	3.6	1.7	9.2	14.5	5.4	8.3	10.6	5.9	10.2
Growth of imports of G&S (US dollar terms, in percent)	6.1	15.0	2.5	9.8	14.8	14.4	8.9	4.1	6.6	11.3	5.1	8.4	9.5	6.1	9.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	39.5	41.5	46.7	49.1	48.9	48.8	45.7	48.3	48.3	48.4
Government revenues (excluding grants, in percent of GDP)	7.9	12.6	14.1			13.2	12.8	12.7	12.9	12.9	13.2		13.9	17.0	15.0
Aid flows (in Millions of US dollars) 7/	45.2	126.7	84.9			57.9	71.9	96.1	107.8	119.6	130.9		201.9	419.0	
of which: Grants	35.9	100.3	67.9			52.4	61.8	72.0	80.4	90.0	99.1		162.4	380.6	
of which: Concessional loans	9.2	26.4	17.0			5.4	10.1	24.1	27.4	29.6	31.8		39.6	38.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.1	5.8	6.6	6.7	6.9	7.1		8.0	8.8	8.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			88.3	86.5	85.0	87.1	87.4	87.6		89.9	95.3	91.8
Memorandum items:															
Nominal GDP (Millions of US dollars)	1052.5	1055.9	1017.3			1133.1	1201.4	1289.5	1392.7	1506.1	1613.8		2274.0	4515.3	
Nominal dollar GDP growth	6.3	0.3	-3.7			11.4	6.0	7.3	8.0	8.1	7.2	8.0	7.1	7.1	7.1
PV of PPG external debt (in Millions of US dollars)			122.3			134.4	152.3	170.2	183.3	198.0	215.1		297.8	429.3	
(PVt-PVt-1)/GDPt-1 (in percent)						1.2	1.6	1.5	1.0	1.1	1.1	1.2	0.8	0.2	0.6
Gross workers' remittances (Millions of US dollars)	29.9	31.0	26.7			27.6	28.5	29.6	30.7	31.8	33.0		39.7	57.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	12.0			11.6	12.4	12.9	12.8	12.9	13.1		12.9	9.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	38.7			36.6	39.9	43.7	43.2	41.2	42.7		36.9	20.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.4			1.6	1.3	1.9	2.2	2.0	1.8		2.2	1.6	

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; 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, 2016–36

(percent)

				Projections				
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	12	13	13	13	13	13	**13**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	12	13	14	15	16	17	**20**	23
A2. New public sector loans on less favorable terms in 2016-2036 2	12	13	14	14	15	15	**17**	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	12	13	14	14	14	14	**14**	10
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	12	16	21	20	20	20	**18**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	12	14	16	16	16	16	**16**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	12	12	12	12	12	13	**13**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	12	13	15	15	15	15	**15**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	12	18	19	19	19	19	**19**	14
PV of debt-to-exports ratio								
Baseline	40	43	47	47	44	46	**39**	21
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	40	45	52	54	54	58	**59**	52
A2. New public sector loans on less favorable terms in 2016-2036 2	40	44	50	51	49	52	**50**	32
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	40	43	47	47	44	46	**39**	21
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	40	65	109	106	99	101	**77**	36
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	40	43	47	47	44	46	**39**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	40	42	45	44	42	43	**37**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	40	43	47	47	44	46	**39**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	40	43	47	47	44	46	**39**	21
PV of debt-to-revenue ratio								
Baseline	90	99	104	102	102	101	**95**	56
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	90	104	114	118	124	128	**144**	137
A2. New public sector loans on less favorable terms in 2016-2036 2	90	101	110	111	114	116	**122**	84
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	90	103	113	111	110	110	**102**	60
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	90	121	163	158	155	153	**129**	65
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	90	109	128	126	125	125	**116**	69
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	90	96	98	97	96	96	**91**	55
B5. Combination of B1-B4 using one-half standard deviation shocks	90	102	115	113	112	112	**106**	64
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	90	141	148	146	145	144	**134**	79

Table 2. Guinea-Bissau: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36 (continued)

(percent)

				Debt service-to-exports ratio				
Baseline	2	1	2	2	2	2	**2**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	2	1	2	2	2	2	**3**	3
A2. New public sector loans on less favorable terms in 2016-2036 2	2	1	2	3	2	2	**3**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	2	1	2	2	2	2	**2**	2
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	2	2	3	4	4	3	**5**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	2	1	2	2	2	2	**2**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	2	1	2	2	2	2	**2**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	2	1	2	2	2	2	**2**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	2	1	2	2	2	2	**2**	2
				Debt service-to-revenue ratio				
Baseline	4	3	5	5	5	4	**6**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	4	3	5	5	5	5	**7**	8
A2. New public sector loans on less favorable terms in 2016-2036 2	4	3	5	6	6	5	**7**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	4	3	5	6	5	5	**6**	5
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	4	3	5	6	6	5	**8**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	4	3	6	6	6	5	**7**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	4	3	4	5	5	4	**5**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	4	3	5	6	6	5	**6**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	4	4	6	7	7	6	**8**	6
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	47	47	47	47	47	47	**47**	47

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 a 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, 2013–36

(percent of GDP unless otherwise indicated)

	Actual					Estimate	Projections								
	2013	2014	2015	Average 5/	Standard Deviation 5/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	48.9	50.5	48.5			49.0	47.2	44.5	42.6	40.6	39.2		32.0	18.8	
of which: foreign-currency denominated	16.1	14.9	14.9			14.1	14.5	15.4	15.9	16.3	16.9		18.1	13.9	
Change in public sector debt	-7.5	1.7	-2.0			0.5	-1.8	-2.7	-1.9	-2.0	-1.5		-1.5	-1.2	
Identified debt-creating flows	-1.4	2.7	-4.1			-2.4	-1.8	-1.4	-1.9	-1.6	-2.4		-2.3	-2.4	
Primary deficit	1.6	1.1	0.8	0.5	3.0	2.5	0.8	1.3	0.9	1.1	0.1	1.1	-0.4	-1.3	-0.5
Revenue and grants	11.3	22.1	20.8			17.9	17.9	18.3	18.6	18.9	19.3		21.0	25.5	
of which: grants	3.4	9.5	6.7			4.6	5.1	5.6	5.8	6.0	6.1		7.1	8.4	
Primary (noninterest) expenditure	12.9	23.2	21.6			20.3	18.8	19.6	19.6	20.0	19.4		20.7	24.2	
Automatic debt dynamics	-2.5	2.1	-4.5			-4.4	-2.3	-2.4	-2.4	-2.4	-2.2		-1.8	-1.1	
Contribution from interest rate/growth differential	-1.9	-0.3	-5.1			-3.6	-2.4	-2.4	-2.3	-2.3	-2.2		-1.8	-1.1	
of which: contribution from average real interest rate	-0.1	0.8	-2.7			-1.3	-0.1	-0.1	-0.2	-0.3	-0.3		-0.2	-0.2	
of which: contribution from real GDP growth	-1.8	-1.1	-2.3			-2.2	-2.3	-2.2	-2.1	-2.0	-1.9		-1.6	-0.9	
Contribution from real exchange rate depreciation	-0.6	2.4	0.6			...	...	...	...	...	...		...	...	
Other identified debt-creating flows	-0.4	-0.4	-0.5			-0.4	-0.4	-0.4	-0.3	-0.3	-0.3		-0.2	-0.1	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.5	-0.5	-0.5			-0.5	-0.4	-0.4	-0.4	-0.3	-0.3		-0.2	-0.1	
Other (specify, e.g. bank recapitalization)	0.0	0.1	0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-6.1	-1.1	2.1			2.8	0.1	-1.3	0.0	-0.4	0.9		0.9	1.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	45.8			46.8	45.4	42.2	39.8	37.5	35.6		27.0	14.4	
of which: foreign-currency denominated	...	...	12.3			11.9	12.7	13.2	13.1	13.2	13.4		13.1	9.5	
of which: external	...	...	12.3			11.9	12.7	13.2	13.1	13.2	13.4		13.1	9.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	8.1	7.6	7.0			8.4	6.8	7.1	5.8	5.6	4.3		2.3	-0.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	220.6			261.7	253.0	231.4	213.7	198.0	184.4		128.5	56.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	325.0			353.1	354.8	333.4	309.7	289.3	270.4		194.7	84.7	
of which: external 3/	...	...	87.0			89.7	98.9	103.9	101.9	101.6	101.5		94.7	56.0	
Debt service-to-revenue and grants ratio (in percent) 4/	6.1	2.6	5.1			7.3	11.7	11.9	8.2	7.2	7.5		6.9	4.1	
Debt service-to-revenue ratio (in percent) 4/	8.8	4.6	7.6			9.8	16.4	17.2	11.8	10.5	11.0		10.4	6.1	
Primary deficit that stabilizes the debt-to-GDP ratio	9.1	-0.5	2.8			2.0	2.6	4.0	2.8	3.0	1.6		1.1	-0.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.3	2.3	4.8	3.4	2.4	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	0.3	1.9	1.7	0.8	0.7	2.5	0.4	2.4	2.5	1.8	1.5	1.9	1.7	1.4	1.6
Average real interest rate on domestic debt (in percent)	0.8	2.2	-8.3	-2.8	5.7	-4.6	0.5	-0.5	-0.8	-0.9	-0.8	-1.2	-1.0	-1.2	-1.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.5	15.0	4.2	-0.5	8.2	-6.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-0.3	-2.0	10.1	3.6	6.4	6.0	0.9	2.0	2.2	2.2	2.0	2.6	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.9	84.3	-2.4	8.0	26.8	-1.3	-3.1	9.4	4.9	7.4	1.9	3.2	5.5	3.8	6.6
Grant element of new external borrowing (in percent)	...	...	...	...	...	39.5	41.5	46.7	49.1	48.9	48.8	45.7	48.3	48.3	...

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, 2016–36

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	47	45	42	40	37	36	27	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	47	46	43	40	38	37	33	29
A2. Primary balance is unchanged from 2016	47	47	44	43	41	41	40	40
A3. Permanently lower GDP growth 1/	47	46	43	41	39	37	31	25
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	47	48	47	45	43	42	35	27
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	47	47	46	43	40	38	29	16
B3. Combination of B1-B2 using one half standard deviation shocks	47	48	46	44	42	40	33	23
B4. One-time 30 percent real depreciation in 2017	47	50	47	44	41	39	28	15
B5. 10 percent of GDP increase in other debt-creating flows in 2017	47	53	50	46	43	41	31	17
PV of Debt-to-Revenue Ratio 2/								
Baseline	262	253	231	214	198	184	128	57
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	262	254	231	214	198	188	148	101
A2. Primary balance is unchanged from 2016	262	260	243	230	219	212	189	156
A3. Permanently lower GDP growth 1/	262	254	234	218	203	191	144	96
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	262	262	251	236	222	211	163	102
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	262	264	251	231	213	198	138	62
B3. Combination of B1-B2 using one half standard deviation shocks	262	263	247	231	217	204	154	89
B4. One-time 30 percent real depreciation in 2017	262	280	256	234	216	200	134	57
B5. 10 percent of GDP increase in other debt-creating flows in 2017	262	295	272	247	230	212	149	67
Debt Service-to-Revenue Ratio 2/								
Baseline	7	12	12	8	7	7	7	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	12	12	7	5	6	9	10
A2. Primary balance is unchanged from 2016	7	12	12	13	11	14	18	21
A3. Permanently lower GDP growth 1/	7	12	12	8	8	8	9	11
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	7	12	13	10	10	11	13	11
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	7	12	12	15	13	11	8	5
B3. Combination of B1-B2 using one half standard deviation shocks	7	12	13	11	9	11	11	9
B4. One-time 30 percent real depreciation in 2017	7	12	13	10	9	10	10	7
B5. 10 percent of GDP increase in other debt-creating flows in 2017	7	12	14	34	9	19	9	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.

Appendix I. Letter of Intent

Bissau, Guinea-Bissau
November 8, 2016

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

Dear Managing Director,

1. The three-year Extended Credit Facility (ECF) Arrangement, which was approved for Guinea-Bissau by the Executive Board of the International Monetary Fund (IMF) in the amount of SDR 17.04 million on July 10, 2015, is a welcomed support to our medium-term economic program focused at rekindling economic activity and poverty reduction. The recent political crises stoked uncertainty, dulled effective functioning of the government, and threatened to unwind the gains we had made since taking office; the situation has eased and we have put in place a functioning government.

2. The attached Memorandum of Economic and Financial Policies (MEFP) updates the MEFP of June 20, 2015. It summarizes recent economic developments and the implementation of our policies in 2015-16, discusses performance under the ECF-supported program, and outlines our macroeconomic policies and structural measures for 2016–17.

3. As explained in the attached MEFP, all performance criteria (PCs) for end-June 2015 and, after correcting for a bank bailout, also end-December 2015 were met, with a significant revenue over-performance (of 1½percent of GDP) relative to the end-December target. Nonetheless, the political impasse that witnessed a sequence of changes in governments between August 2015 and June this year, delayed the scheduled program reviews. It also delayed the structural reform agenda, as we were able to implement only four of the nine structural benchmarks as envisaged by end-2015. The government has re-committed to a timely implementation of the delayed measures in accordance with the proposed revised schedule. Therefore, the government requests completion of the first and second reviews of the ECF-supported program, and the disbursement of the associated loans in the amount of SDR 5.11 million and completion of related financing assurances review, a re-phrasing of disbursements and associated reviews, and the modifications to the performance criteria on net domestic bank credit to the central government and external payments arrears to the central government.

4. Economic and financial management in 2015 was challenging, partly due to the political stalemate, although significant gains were made in revenue mobilization. Albeit nascent, the pickup in economic activity following the resumption of constitutional rule in 2014 continued in 2015 and 2016, shoring up cashew nut exports and a strengthening agricultural activity, construction and services. Private sector credit grew marginally in 2015, after a decline in 2014. Our efforts in tax administration yielded significant gains in 2015, but progress in clearing domestic arrears in the context of challenging institutional shortfalls resulted in a higher-than-envisaged spending and primary deficit.

5. Our budget execution upon taking office this year has been tight, in view of the loss in budget support and revenue shortfalls on account of the political impasse. The 2016 budget, which [was submitted to Parliament], therefore appropriately features revenue measures (sale of seized wood and an increase in the sales tax rate on fuel imports) and expenditure adjustment (particularly in the wage bill and goods and services) combined with domestic borrowing. Our projections for 2017 envisage a tightening of the fiscal stance, which will be supported by vigorous revenue mobilization and cautious spending. To attain this, we continue to strengthen tax administration and public financial management procedures at our weekly Treasury committee meetings.

6. The government has declared null and void the 2015 bank bailout that resulted in a loss of development partner budget support and complicated economic management in 2016. With the intention to clean the loan portfolios of two commercial banks saddled with non-performing loans and thereby help revitalize financial intermediation, the government took over these loans from the banks in mid-2015 at their original value, implying a premium and thus a windfall to the banks. In view of the associated fiscal costs, the loss of development partner budget support, and the evident lack of a sufficient legal basis for the operation, we have declared the bailout contracts null and void—a decision for which we are seeking court confirmation after the affected commercial banks' refusal to undo the bailout. In this connection, we have requested the WAEMU Banking Commission to carry out a thorough on-site inspection of the banking system and to require remedial prudential actions necessary to bring the banks in full compliance with regulations. We will closely follow up on this inspection and implement actions at our disposal to strengthen the banking sector.

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

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

Yours sincerely,
/s/

Henrique Horta dos Santos
Minister of Economy and Finance
Guinea-Bissau

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

Attachment I. Memorandum of Economic and Financial Policies

Bissau, November 8, 2016

I. Background

1. The political stalemate in the last quarter of 2015 and early 2016 and its attendant uncertainties threatened to erode the gains that Guinea-Bissau had made in the short period of its return to constitutional rule. The country has since turned the page following the political stalemate that started with the dismissal of the government in mid-August 2015 and of fifteen PAIGC parliamentarians earlier this year. The security situation has remained calm, and a functional government is now in place under new Prime Minister Baciro Djá. However, intra-PAIGC political tension remains the key risk to stability, but could culminate into an inclusive government of the main political parties, the PAIGC and the PRS. In this context, the current government has reiterated its commitment to the economic and financial program for 2015–18 supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF).[1] The program aims to entrench macroeconomic stability and advance structural reforms to support inclusive growth and poverty reduction, and address governance issues.

2. This Memorandum of Economic and Financial Policies (MEFP) supplements the MEFP of June 20, 2015. It presents performance relative to the performance criteria and other targets under the three-year ECF-arrangement, and describes economic and financial policies as well as structural reforms for 2016 and 2017.

II. Economic Developments until End-2015

3. The economic recovery witnessed in 2014 and 2015 continued into 2016, despite uncertainties stemming from the political impasse. The pace of the recovery was supported by measures initiated by the government to enhance electricity supply, remove bottlenecks to the pricing and export of cashew nuts (including the suspension of the FUNPI levy), and to shore up mechanization of rice production. Alongside, and prior to the political stalemate, construction activities and services expanded. During the last cashew season, the government increased the domestic reference price of cashew nuts to $950 per ton, and stepped up border-control to minimize smuggling of the produce. As a result, cashew nut export increased to 198,000 tons in 2016, from 175,000 tons in the previous year, and contributed significantly to domestic revenue mobilization. Reflecting these developments, the economy is estimated to have grown by 4.8 percent in 2015. Average inflation increased to 1½ percent on account of strong aggregate demand, and despite the decline in global oil prices.

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

4. The external current account balance narrowed significantly because of a sharp improvement in the terms of trade in 2015. Guinea-Bissau's terms of trade improved by 45 percent, as global fuel and non-fuel prices declined while the price of the country's main export produce, cashew nuts, increased by 16 percent. The benign terms-of-trade development helped a decline in the current account deficit by 2-percentage points of GDP to 1¼ percent of GDP at end-2015. Accordingly, the overall balance of payments posted a significant surplus that helped reserve accumulation.

5. The banking system has been weighed down by non-performing loans and low financial intermediation. The government bailout of two banks in 2015 was aimed at removing bad loans from the banks' portfolio and thereby kick-starting lending to the private sector. The government has declared this bailout null and void. Post-bailout, total bank credit grew by 8½ percent between end-December 2015 and end-June 2016 (an annualized rate of 18 percent). At end-June 2016, the ratio of gross non-performing loans (NPLs) to total gross credit stood at 7.5 percent according to banks' balance sheets. This ratio would return to a high level of around 25 percent, if the bailout is not taken into account.

6. Although development partner support in 2015 helped enhance the fiscal space and capacity building, budget support fell short of expectations. While the ECF-supported program approved by the Executive Board of the IMF for Guinea-Bissau helped the pace of structural reforms, it also catalyzed assistance from other development partners. For example, the EU restored the financial compensation agreement for fisheries, while the African Development Bank and the World Bank disbursed budget and project supports to the country. Indeed, concerns about political stability and lack of progress in structural reforms—mainly failure to achieve indicative targets necessary for disbursements—reduced the amount of budget support received. Nevertheless, capacity development activities financed by development partners have helped shore up tax administration (EU, IMF and the World Bank), public financial management (IMF) and the business environment (IMF and World Bank).

III. Program Performance in 2015

7. All quantitative performance criteria for both end-June 2015 and, after correcting for the bank bailout, end-December 2015 were met (Table 1). The floor on total domestic tax revenue was exceeded both at end-June and end-December with sizeable margins on account of stronger-than-expected expansion in economic activity and a vigilant tax administration. While the end-June ceiling on net domestic bank credit to the central government was met comfortably after adjusting for excess domestic arrears clearance, the adjusted ceiling for end-December was met after adjusting for shortfalls in budget support (implying a substitution of domestic financing for foreign financing) and after correcting for the bank bailout. New external borrowing on non-concessional terms and short-term external borrowing or guaranteeing were consistent with the respective zero-ceilings under the program. The government honored all external debt service obligations, and continues to seek restructuring and/or outright cancellation of debts currently under discussion with our bilateral creditors.

8. Tax revenues substantially exceeded expectations, reflecting the several measures initiated during 2015. The government limited the fuel subsidies to the military, improved tax compliance by large taxpayers, and stepped up custom controls to contain fraud and under-invoicing by importers. Combined with stepped-up vigilance of tax administration and burgeoning economic activity, these measures boosted tax collection to CFAF 31.7 billion at end-June (some 21 percent above the program target) and CFAF 61.9 billion at end-December (10 percent of GDP, and 10 percent above the end-year PC floor).

9. At the same time, budget execution fell short of expectations and weakened the fiscal stance in 2015. Non-wage expenditures increased during the year, driven mostly by increases in other current expenditures, pushing current expenditure some 0.9 percent of GDP above the program expectation. On the other hand, capital spending exceeded expectation by 0.8 percent of GDP on account of higher than programmed project grants for public investment. As a result of these developments, the domestic primary deficit exceeded both its mid-year and year-end targets (1.1 percent of GDP at end-2015). However, the increase in expenditure was offset by the outstanding revenue performance, yielding a mildly higher-than-anticipated domestic primary deficit of 1.5 percent of GDP.

10. Only one of the four indicative quantitative targets earmarked for both end-June and end-December was met at the target dates. In the government's efforts to clear historical domestic payment arrears and avoid new ones (a program indicative target), and coupled with the lingering problem of non-regularized expenditures (an indicative target), the end-June indicative quantitative target on the domestic primary balance was exceeded (Table 1). At the same time, the indicative floor on poverty-related (social and priority) expenditure totaled CFAF 20.0 billion, some CFAF 7.1 billion above the end-June target reflecting higher-than-program investment in social areas. Performance remained steady through end-December, as only the target on social and priority spending was observed; the ceilings on both non-regularized expenditures and new domestic arrears were exceeded along with the floor on the domestic primary balance.

11. Of the nine structural benchmarks set for implementation by end-2015, four structural benchmarks under the program were implemented as envisaged, while two were not implemented and three others were either delayed or partially implemented, also owing to the political impasse (Table 4a). The unmet measures, both of which were earmarked for completion by end-December 2015, relate to the (i) drawing up of a strategic plan for improving infrastructure and working conditions of officials of the domestic tax and customs administration, and (ii) implementation of a small taxpayer regime. The rest of the measures were implemented as follows:

- Implement an intra-trade post in SAFIM to reconcile invoice merchandise data with actual contents of the cargo (observed as envisaged);
- The government prepared a rolling monthly cash-flow projection consistent with the 2015 budget (observed as envisaged);

- The government prepared quarterly reports on execution of the public investment plan (PIP) and external debt commitments, agreements and disbursements as envisaged—both at end-December as envisaged for operations during the first half of 2015 (observed as envisaged); and
- Structural benchmarks that were not met but implemented with delay as of end-December 2015 comprise: (i)—re-installation of the debt management IT system—was completed with a delay at end-October 2015. However, although the system assisted in the analysis of the debt stock and the debt service schedule, the software provider has issued a new version and ceased to support the old; we are seeking to upgrade the software to the new version. (ii) transition to salary payments through the banking system for all public servants. The authorities have extended salary payments through the banking system for all public workers only as of end-October 2015; and (iii) the government implemented, albeit with a delay, an international and comprehensive audit of the Fund for Industrialization of Agricultural Products (FUNPI) in [March] 2016 (SB for September 2015). The result of the audit is expected to be published after parliamentary approval.

IV. Economic Outlook and Policies for 2016–17

A. Economic Outlook

12. The macroeconomic outlook remains favorable, though with downside risks. The updated macroeconomic framework anticipates real GDP growth to nudge 4½ percent per year in 2016–17, in line with the expected continued strong activity expansion in agriculture, construction, and services, supported by improvements in energy and water supply. Buoyed by favorable terms of trade and a benign cashew reference price increase from $900 to $950 per kilogram, cashew nut export has reached 198,000 tons in the 2016 season, and 2017 is expected to be an equally strong year, which should help moderate the current account deficit to 0.3 percent of GDP in 2016 and 1 percent in 2017. The expected expansion in output would benefit from an increase in gross investment to an average around 13 percent of GDP per year during 2016–17, sustained for the most part by the public component. The government plans to continue infrastructure projects, including building high-tension power distribution lines to access power supply from neighboring countries to curtail the chronic shortage of energy, and to expand the country's road network. Consumer price inflation is expected to average 2.3 percent (below the WAEMU convergence criteria of 3 percent) during the period, as domestic demand improves with increasing incomes. The expansion in economic activity continues to be due mainly to catch-up after the 2012 decline, and hence should not create excessive demand pressure during 2016-17.

13. The recent nascent recovery of financial intermediation is expected to continue into 2016 on account of a positive outlook for the 2016–17 cashew campaign. The BCEAO will continue to strengthen banking supervision by strictly enforcing prudential norms and seeking to strengthen these further in collaboration with the WAEMU Banking Commission, particularly in the context of the fallout from the recent voiding of the 2015 bank bailout operation. Required minimum capital of banks is scheduled to be doubled by mid-2017 to CFAF 10 billion for all banks in the region.

B. Economic policies

14. After challenging first nine months of 2016, the program through end-2017 aims to resume sound financial management fostering macroeconomic stability and to enhance medium-term economic growth supporting job creation and poverty reduction. To attain these objectives, the government will need to reinvigorate sound public financial management and accelerate structural reforms in tax administration and debt management in particular. This should help free up and expand the budgetary resources needed to improve social services and develop basic infrastructure. The government will continue to focus on improving the business environment and promoting policy transparency, good governance and respect for the rule of law, with a view to restoring the confidence of households, private investors, and development partners.

15. Approval of the government's economic program for 2016, which is consistent with its medium-term development program (2014–18), stalled upon a Supreme Court ruling. The Supreme Court ruled unconstitutional the parliamentarian body that had approved an earlier version in January 2016. The program is the main reference for the country's economic and financial policies in 2016–17, and comprises three levels of intervention:

- (i) a Program of Action for Immediate Impact; (ii) a Contingency Program, and (iii) a Development and Strategic Operational Plan.
- The economic program seeks to: (i) address the most pressing problems affecting various public entities using quick fixes (the program of action for immediate impact); (ii) review a number of contracts, obligations and acts signed by the state or where the state has a stake and which require clarification, including areas such as natural resource extractions (phosphates, bauxite and heavy sands and oil), the energy and water utility (EAGB), telecommunications, FUNPI and autonomous funds (the contingency program); and (iii) changing the country's macroeconomic, social and political framework that adversely affects its human development. The main elements of the country's development and strategic operational plan include development of infrastructure, industrialization, and urbanization.
- The government envisages that the program will (i) support growth through the pursuit of prudent economic policies, while favoring priority social and infrastructure spending to reduce poverty; (ii) improve public financial management and expand the fiscal space through effective tax administration and better expenditure management; and (iii) contribute to modernizing the business environment to encourage private sector development and improve competitiveness.

Fiscal policies

16. The political crisis led to significant fiscal challenges in 2016, as the loss of 2.6 percent of GDP of budget support forced substantial expenditure adjustments. The 2016 budget [which was submitted to Parliament] (a prior action) incorporates costs related to contingent liability realizations of 1.5 percent of GDP with respect to Guinea Telecom guarantees and 0.8 percent of GDP with respect to EAGB, and resource shrinkage due to the loss of budget support (2.6 percent of GDP) from development partners. Furthermore, in view of lapses in expenditure management and slightly weaker revenue performance in nominal terms, the budget features expenditure reductions in wages, goods and services, and domestically financed investment which helps reduce the impact of the negative fiscal shocks on the overall balance. Notwithstanding these measures the budget implies a higher primary deficit (1.5 percent of GDP) relative to earlier expectations under the program.

17. Extra revenue is needed in 2016 in view of lapses in expenditure management and loss of budget support. Domestic revenue excluding one-offs is projected at 12.4 percent of GDP in 2016, slightly lower than the original program (12.5 percent of GDP) and representing a decline relative to 2015 (13.2 percent of GDP). This decline largely reflects difficulties in revenue mobilization that resulted from the ongoing political crisis. Nevertheless, the revenue measures referred to above (including the expedited sales of seized illegal wood (0.9 percent of GDP) and key tax administration measures to encourage tax compliance have helped relieve fiscal space somewhat.

18. The 2016 budget is fully financed mainly from domestic sources, as external financing pales in comparison to earlier expectations. In view of this, we envisage a net borrowing from the domestic banks and the regional securities market—a total of 2.3 percent of GDP, to cover the shortfall in budget support. Public financial management continues to be challenging despite progress in the functioning of the Treasury committee which has led to a rise in domestic arrears. To minimize/avoid the accumulation of domestic arrears, and to contain the domestic debt burden, the government stands ready to scale back spending on non-priority items and domestically financed investment in the event of a shortfall in budgeted resources. Furthermore, the government commits to applying extra revenues above the budget in both years to reduce the stock of domestic arrears.

19. Fiscal policy will be tightened in 2017 to partially adjust for debt accumulation in 2015 and 2016 due to external shocks. Projections for 2017 envisage tightening of the fiscal stance relative to the program, with a domestic primary surplus projected at 0.1 percent of GDP. This will result from a combination of higher revenues excluding one-offs and a decrease in expenditure relative to the program and to 2016 thus leading to a net accumulation of deposits in 2017 and an NCG of 0.5 percent of GDP (proposed PC) to partially offset the increased borrowing in 2015 and 2016 that resulted from shortfalls in budget support.

Measures to Bolster Public Financial Management

20. The government will continue to improve public financial management, in particular, by strengthening the functioning of the Treasury committee and incorporating a treasury plan to shore up fiscal discipline. The weekly Treasury committee meetings will help align expenditures with available resources (re-prioritizing spending, if needed) and monitor compliance with PFM rules along the expenditure chain. In this context, the government will increasingly shun the use of non-regularized spending (DNTs) and accumulation of arrears to domestic suppliers and contractors (Tables 2 and 3). To this end, it will:

- Create and enforce via ministerial decree a "negative list" detailing expenses and payments which cannot be processed as DNTs;
- Introduce a continuous limit of CFAF 1 billion on the outstanding *stock* and a quarterly limit of 1 percent of current expenditure, as envisaged by the Treasury Plan, on the *flow* of DNTs (to safeguard the budget execution chain and ensure the availability of funding for issued mandates in order to avoid the accumulation of arrears);
- Prepare titles and issue mandates at the beginning of each month for anticipated DNTs paid through the banking system and adjust *resto por pagar*, deducting payments accordingly until the expense is fully paid;
- Task and equip the Treasury committee with the mandate to follow up on DNTs and ensure timely regularization of DNT expenses. Provide information on the use of DNTs to the weekly Treasury committee for expense rationalization and to confirm the regularization status;
- Mandate the use by the Treasury department of the software application in SIGFIP that automatically registers DNT payments with the Budget department thereby facilitating the regularization of DNTs;
- Include a section in the Treasury committee reports where data supply to the Treasury committee is assessed and noncompliance reported, citing nonperformance;
- Continue to prepare and review rolling monthly Treasury cash-flow projection tables consistent with the 2016 budget (SB for July 2015 and monthly thereafter; Table 4a). The government will further ensure that the cash-flow projections and budget execution are informed by the weekly Treasury committee meetings;
- Draw up a list of types of own-source revenues (including 2015 amounts) collected by ministries, departments and government agencies (a proposed SB for December 2016; Table 4b) in preparation for the planned Treasury Single Account. (To this end, the government has requested and received from domestic banks a list of all government related accounts and is cross-referencing this list against account information provided by ministries, departments, and government agencies in order to evaluate voluntary compliance);
- Continue to strengthen Treasury management by improving our accounting procedures through the double-entry system and use of the accounting module of SIGFIP (an integrated system of public finances); and
- Prepare timely quarterly reports on budget execution (a proposed SB for December 2016, and quarterly thereafter; Table 4b). Budget execution will be guided by our expenditure plans, supported by an open and transparent procurement process.
- Prepare quarterly reports on PIP executions.

21. The government will prioritize measures to strengthen capacity enhancement and to draw up and monitor time-bound actions plans to timely implement TA recommendations. In this regard, the government will set up a unit, or assign this task to an existing unit, charged with the responsibility of identifying technical assistance needs and helping implement the recommendations from TA missions. The unit will comprise long-term foreign consultants and local experts to work in tandem with public employees in recipient government agencies. It will also help provide training to transfer the knowledge and expertise necessary for effective use of TA recommendations.

Revenue Measures

22. Domestic revenue mobilization will continue to gain from measures to expand the tax base and strengthen tax administration. For 2016 and beyond, the government will ensure the attainment of the revenue target by implementing the following measures:

- Upon completion of outreach, implement new uniform sales invoice beginning with large companies by December 2016, medium taxpayers by March 2017, and finally for the rest of taxpayers by June 2017;
- Introduce a gateway system for communication networks which will facilitate tax control and compliance monitoring in the communication strategy;
- Prepare a draft law for a new small taxpayer regime with technical assistance from the IMF in order to facilitate small taxpayer compliance (December 2017);
- Having compiled a list of 5412 taxpayers and assigned taxpayer identification numbers to 28 percent of these taxpayers, complete 75 percent assignment by December 2016, and completing 100 percent assignment by March 2017;
- Having undertaken a significant change in personnel, replacing ill-equipped and idle workers with new employees hired via a competitive hiring process supported by TA from the IMF, urgently provide appropriate working space for the new tax officers and to accommodate equipment and furniture to be provided through a World Bank project;
- Implement the tax certification clearance as established by law, in all contracts and payments made by the government (December 2016). Implement tax withholding as established by Law 9/2013 for all pensions and additional remuneration including subsidies (December 2016); and; implement as established by Law 3/2015 the offset of credits owed to the state, especially tax arrears, from payments to be made by the state (December 2016);
- Eliminate special clearance procedures without proper entry lodged in ASYCUDA before release, and guarantee to fully automate the reporting operation procedures within the system; and
- Continue to minimize tax exemptions and fine-tune subsidies. In this respect, the government will continue using the exemptions committee to identify and quantify the value of subsidies and tax exemptions, and re-commits to assessing their impacts on the poor, and transparently accounting for them in the budget.

Borrowing Policies and Debt Management

23. The government will continue to prioritize grants and concessional financing to safeguard long-term debt sustainability. We have re-installed debt management IT system that was used to track debt accumulation and debt service obligations to ensure their prompt payment (SB for July 2015; Table 4a) until the recent update by the vendor of the software and our consequent loss of vendor support. We will upgrade the software to the latest version (DEMFAS 6.0) and restore the vendor's support. At the same time, we continue to strengthen communication between the debt management unit and the Treasury, and we are continuously training staff of the debt unit to eliminate capacity shortcomings. Further, the government is in negotiations with its bilateral (Paris Club and non-Paris Club) creditors on debt under discussion for re-structuring or outright cancellation. This includes efforts to formalize agreements with Brazil, Russia, and Angola and to initiate negotiations with UAE, Libya, Pakistan, and Taiwan Province of China. The government remains current on its remaining external debt obligations.

24. Management of domestic debt will be strengthened along three key fronts to ensure accurate debt accounting and timely servicing. First, we will re-initiate the inventory all agreements with respect to domestic debt and the commitment to guarantee domestic debt signed by the government in order to include the debts and their repayment schedules in the public debt database. In this connection, the Terms of Reference to audit and validate the 2008–12 domestic arrears are ready; the results of the audit are expected by year-end, after which we will draft a repayment strategy to clear these arrears after netting out any tax liabilities of the beneficiaries. Second, the government will continue to negotiate higher grant element in the contracting of loans from the West African Bank for Development (BOAD). We will also ensure that any such loans are transparently reflected in the annual borrowing plans and budgets. Third, to reduce the financial burden of temporary borrowings, we will finance short-term liquidity needs through the issuance of treasury bills. Should there be a need of financing from commercial banks, all such loans will, as much as possible, be carried out through transparent auctions.

25. We will continue to strengthen public investment management through frequent reviews and reports on project execution (see ¶[20] above). To ensure continued prudent borrowing to finance social and infrastructure needs, we will prioritize investment projects carefully to ensure debt sustainability and consistency with our long-term national objectives before their inclusion in the annual borrowing plans. Furthermore, to assess the strength of our fiscal institutions related to public investment management with a view to enhancing the efficiency of public investment, we will request a Public Investment Management Assessment (PIMA) mission from the IMF and take actions in line with its recommendations.

26. To improve transparency and accountability, the government has already drafted a decree to clarify the debt issuance authority and the procedure for the issuance of government guarantees, on-lending operations, and the assumption of large liabilities outside of the budgetary process. The final draft of this decree will be submitted for cabinet approval by end-December 2016. The decree will make Guinea-Bissau's debt management practices consistent with the WAEMU debt management regulation (Regulation 09/2007/CM/UEMOA).

Financial Sector Policies

27. Recognizing that a healthy and compliant banking system is essential for financial deepening and economic growth, the government urges adoption and implementation of remedial action plans. To this end, and having declared the bailout contracts with the banks null and void, the government expects the Banking Commission to promptly conduct on-site inspections of the banks to assess the health of the banking system and require those banks currently non-compliant with regulatory norms to prepare time-bound action plans to remedy these violations. We are fully committed to take any necessary steps to ensure that such action plans are implemented.

28. The government remains committed to strengthening the bankruptcy regulation and improving the business climate. The government will, with the assistance of development partners, continue efforts aimed at developing the financial markets (including for SMEs), strengthening contract enforcement and improving the business environment for banks. In addition, it will (i) implement OHADA's new uniform action on collective proceedings to expedite the collection of collateral, (ii) strengthen the bankruptcy legislation and (iii) implement measures aimed at ensuring registration of actual prices paid in real estate transactions and avoidance of cash settlements.

C. Other Structural Reforms

29. The government remains committed to the security sector reform, but has not been able to move ahead with the demobilization and reintegration of soldiers. The first group of 500 soldiers was not dealt with as intended within the framework of the program due to continued political instability and lack of financing for the public awareness campaign. The government has created a special pension fund with an estimated cost of US$82 million to cater to 2500 security personnel expected to be gradually demobilized and reintegrated within a five-year period. To facilitate a broader security sector reform and support the pension fund, the ECOWAS commission has allocated $63 million and is expected to finalize a revised modality with the government for the reform. The UN peace building fund has also deposited US$1.1 million into the Pension Fund, while the government has made an initial deposit of $90,000 into the fund. We will ensure the financing of the awareness campaign, and continue to engage partners to secure additional funding to facilitate the process.

30. The government will prepare audit plans for all state-owned enterprises (SOEs) and autonomous funds to strengthen oversight and service delivery. Regarding monitoring of EAGB, we will require a submission of reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and subsequently on a monthly basis starting October 2016 (SB for end-December 2016). To shore up EAGB's financial position, the government has authorized a restructuring of the EAGB to become an autonomous entity. Related to this, EAGB accounts and accounting processes have been separated into water and electricity, a regulatory body has been set up with full oversight over the electricity sector, the recently adopted EAGB statutes have been operationalized, a new EAGB Board has been appointed and is meeting monthly, and the relevant legislation to enable the private sector participation in the market has been revised. The latter will enable private firms to operate and maintain generation assets to ensure reliable power supply, and a management contractor to take responsibility of EAGB operations.

Improve Economic Statistics

31. The government continues to improve the compilation of statistics with TA from the IMF and other development partners. To strengthen the use of TA recommendations, the government will set up a unit charged with the responsibility of identifying technical assistance needs and helping implement data-related recommendations (see ¶19). We have instituted regular meetings between the BCEAO, the national cashew authority (ANCA), the Ministry of Agriculture, Ministry of Commerce, and the Bureau of National Statistics (INE) to reconcile official statistics, particularly for cashew nuts production and export statistics for national income accounting purposes and for balance of payments statistics. Furthermore, the government has secured funding to conduct a survey of the agricultural sector, including cashew nuts and other cereal crops, and we are mulling a strategy to enhance cashew productivity and transformation using the results of the FUNPI audit (SB for June 2017). The government, with assistance of its development partners, is conducting an enterprises survey that will help improve the quality of data on economic aggregates. In this regard, the government has designated the Ministry of Agriculture as the legal entity responsible for the dissemination of agricultural data, including data on cashew production. The government will continue to provide Fund staff with the relevant information (as outlined in the attached Technical Memorandum of Understanding (TMU)) for assessing performance under the ECF-supported program.

Combat Corruption and Rent Seeking

32. The government will build on its current efforts to address corruption and rent seeking. We will give sufficient autonomy and adequate resources to the Financial Intelligent Unit (CENTIF) to conduct its mandate as well as ensure adequate verification of asset declarations of high-ranking public officials. We will also strengthen and effectively mobilize the Anti-Money Laundering/Combating of the Financing of Terrorism (AML/CFT) framework to assist in detecting, prosecuting, and deterring corruption-related offences and smuggling within the framework of the WAEMU AML/CFT law. To this end, our AML/CFT national strategy plan was approved by the Council of Ministers and submitted to parliament for approval. This strategy plan will bring our framework in line with the 2012 FATF standard. Further, we will enforce the public procurement laws and procedures strictly, and prosecute violators swiftly to deter and root out rent seeking in the public and private sectors. Following an IMF diagnostic TA mission, the government will take appropriate actions to mitigate risk of money laundering in areas identified by the mission.

V. Program Monitoring

33. The program will remain subject to semi-annual monitoring by the IMF Executive Board based on quantitative performance criteria, indicative targets, and structural benchmarks (Tables 2-4). Performance criteria for end-December 2016 and end-June 2017 are being proposed and the modification of the performance criteria on net domestic bank credit to the central government and external payment arrears of the central government, and rephasing of disbursements and associated reviews is requested. The performance criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU) along with the relevant adjustors. The third program review will be based on the end-December 2016 performance criteria and is scheduled to be completed on or after April 15, 2017. The fourth program review will be based on end-June 2017 performance criteria and is scheduled to be completed on or after October 15, 2017. The fifth review (the last after a rephasing of disbursements and reduction in the number of reviews in view of delays in program implementation) will be based on end-December 2017 performance criteria and is scheduled to be completed on or after April 15, 2018. Accordingly, the government undertakes:

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

Table 1. Guinea-Bissau: Quantitative Performance Criteria and Indicative Targets for 2015

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

	Dec. 2014	2015											
		June				Sept.[1]				Dec.			
	Stock	Prog.	Adj. Prog.	Act.	Status	Prog.	Adj. Prog.	Act.	Status	Prog.	Adj. Prog.	Act.	Status
Performance criteria[1]													
Total domestic tax revenue (floor)	44.2	26.2	...	31.7	Met	40.7	...	49.7	Met	53.3	...	61.9	Met
Net domestic bank credit to the central government (ceiling)	2.7	8.2	10.2	9.2	Met	7.9	9.1	12.1	Not Met	4.4	11.5	11.5	Met
Ceiling on new nonconcessional external debt (in $ million)[2]	0.0	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[2]	0.0	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met
External payment arrears (ceiling)[2]	0.9	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met
Indicative targets													
New domestic arrears (ceiling)	...	0.0	...	0.2	Not Met	0.0	...	3.0	Not Met	0.0	...	1.3	Not Met
Social and priority spending (floor)	21.3	12.9	...	20.0	Met	19.4	...	27.4	Met	25.8	...	36.5	Met
Domestic primary balance (commitment basis, floor)	-19.4	-2.6	...	-2.9	Not Met	-6.0	...	-6.6	Not Met	-6.5	...	-9.3	Not Met
Non regularized expenditures (DNTs, ceiling)	...	0.4	...	4.8	Not Met	0.6	...	0.4	Met	0.8	...	2.7	Not Met
Memorandum items:													
Clearance of domestic payment arrears	...	4.3	...	6.6		6.0	...	7.4		8.10	...	7.4	
External budgetary assistance (US$ million)[3]	24.0	7.6	...	7.0		15.8	...	7.0		23.6	...	19.5	
ECF disbursements (SDR millions, flow)[4]	10.8	0.0	...	0.0		2.84	...	2.84		2.84	...	0.0	

[1] The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU); end-September 2015 and end-March 2016 are indicative targets.

[2] These apply on a continuous basis.

[3] Comprises grants and loans.

[4] A disbursement of 20 percent of quota (SDR 2.84 million) is proposed on Board approval of the ECF arrangement in July.

Table 2. Guinea-Bissau: Proposed Quantitative Performance Criteria and Indicative Targets for 2016

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

	Dec. 2015	2016					
		Mar. 1/		Jun.		Sept. 1/	Dec.
	Stock	IT	Prel.	IT	Prel.	Proj.	Proposed PC
Performance criteria[1]							
Total domestic tax revenue (floor)	61.9	15.7	10.4	31.5	31.2	49.6	61.4
Net domestic bank credit to the central government (ceiling)	11.5	0.0	6.4	0.0	19.3	19.8	15.4
Ceiling on new nonconcessional external debt (in $ million)[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling)[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets							
New domestic arrears (ceiling)	1.3	0.0	0.0	0.0	4.6	6.6	6.6
Social and priority spending (floor)	36.5	7.7	6.0	21.7	12.9	23.2	31.0
Domestic primary balance (commitmenmt basis, floor)	-9.3	-0.7	-7.1	-1.3	-15.8	-9.4	-11.2
Non regularized expenditures (DNTs, ceiling)	2.7	0.2	2.1	0.4	7.8	1.0	2.0
Memorandum items:							
Clearance of domestic payment arrears	7.4	0.8	3.3	1.8	6.4	5.7	7.0
External budgetary assistance (US$ million)[3]	19.5	5.9	0.0	9.2	0.0	1.7	1.7
ECF disbursements (SDR millions, flow)[4]	0.0	0.0	0.0	2.3	0.0	0.0	5.1
Concessional loans (US$ million)[5]	21.1	6.1	1.8	12.3	5.4	5.4	12.5

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

[2] These apply on a continuous basis.

[3] Comprises grants and loans.

[4] Reflects proposed new disbursement schedule.

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

Table 3: Guinea-Bissau: Proposed Quantitative Performance Criteria and Indicative Targets for 2017

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

	Dec. 2016	2017			
		Mar. 1/	Jun.	Sept. 1/	Dec. 1/
	Proj.	Proj.	Proposed PC	Proj.	Proj.
Performance criteria[1]					
Total domestic tax revenue (floor)	61.4	16.3	32.6	48.9	65.2
Net domestic bank credit to the central government (ceiling)	15.4	8.0	7.2	0.0	-3.7
Ceiling on new nonconcessional external debt (in $ million)[2]	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external debt owed or guaranteed by the central government with maturities of less than one year (ceiling)[2]	0.0	0.0	0.0	0.0	0.0
External payment arrears (ceiling)[2]	0.0	0.0	0.0	0.0	0.0
Indicative targets					
New domestic arrears (ceiling)	6.6	0.0	0.0	0.0	0.0
Social and priority spending (floor)	31.0	7.7	21.7	23.2	31.0
Domestic primary balance (commitment basis, floor)	-11.2	-6.4	-5.8	-1.0	2.3
Non regularized expenditures (DNTs, ceiling)	2.0	0.2	0.4	0.7	0.9
Memorandum items:					
Clearance of domestic payment arrears	7.0	0.4	0.4	0.8	2.6
External budgetary assistance (US$ million)[3]	1.7	0.0	0.0	5.5	5.5
ECF disbursements (SDR millions, flow)[4]	5.1	0.0	3.0	0.0	3.0
Concessional loans (US$ million)[5]	12.5	4.6	9.3	13.9	18.6

[1] The performance criteria and indicative targets are defined in the Technical Memorandum of Understanding (TMU). Targets for end-March, end-September, and end-December 2017 are indicative, while those for end-June are proposed performance criteria.

[2] These apply on a continuous basis.

[3] Comprises grants and loans.

[4] Reflects proposed new disbursement schedule.

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

Table 4a. Guinea-Bissau: Structural Benchmarks under the ECF Program, 2015–16			
Measures	**Timing**	**Macro Rationale**	**Status**
Revenue Mobilization			
Implement an intra-trade post in SAFIM to reconcile invoice merchandise data with actual contents of the cargo.	Sept. 2015	Strengthen revenue collection.	Met.
Draw up a strategic plan for improving infrastructure and working conditions of officials of the domestic tax and customs administration.	Dec. 2015	Strengthen revenue collection.	Not met. An existing plan is being re-drafted.
Implement a new small taxpayer regime by the introduction of universal NIF (tax payer identification number)	Dec. 2015	To improve voluntary compliance and raise tax revenue.	Not met.
Expenditure management			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2015 budget.	July 2015 for August 2015 and monthly thereafter	Enhance expenditure management.	Met.
Transition to the payment of the salaries, wages, and allowances of all public servants (including the security service) through the banking system.	Sept. 2015	Reduce handling of cash by the Treasury and strengthen public financial management.	Not met. Implemented in October 2015.
Prepare a quarterly report on PIP execution.	Dec. 2015 for Sept. 2015 Report, quarterly thereafter	Enhance PIP execution and monitoring.	Met.
Debt management			
Reinstall and operationalize debt management IT system.	July 2015	Enhance debt management capacity and borrowing policies.	Not met. Implemented with delay.
Prepare a quarterly report on external debt commitments, agreements and disbursements.	Dec. 2015 for Jun. 2015 Report, quarterly thereafter	Enhance debt management capacity and transparency in external debt commitments.	Met.
Business Environment			
Complete an international and comprehensive audit of the fund for industrialization of agricultural products (FUNPI)	Sept. 2015	To improve cashew nuts production and trade.	Not met. Audit report presented to Finance minister in April 2016.
Prepare an audit plan for all State-owned Enterprises and autonomous funds.	Mar. 2016	To improve service delivery by, and financial sustainability of, public enterprises.	Not met and rescheduled.
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2016	Reduce transaction costs.	Not met and rescheduled.

Table 4b. Guinea-Bissau: Proposed Structural Benchmarks under the ECF Program, 2016–17			
Measures	**Timing**	**Macro Rationale**	**Status**
Submission of 2016 budget to Parliament	Prior action for combined first and second program reviews	Proper fiscal management	Under preparation
Revenue Mobilization			
Prepare a draft law, with technical assistance from the IMF, for a new small taxpayer regime that is simple and transparent, protects the revenue base, lowers compliance costs, and ensures global participation.	Dec. 2017	To improve tax administration and compliance.	New benchmark
Expenditure management			
Prepare a monthly rolling Treasury cash flow projection table consistent with the 2017 budget.	December 2016 for January 2017, and monthly thereafter	Enhance expenditure management.	Continuation of earlier measure.
Prepare timely quarterly reports on ministry-level budget execution with details along economic classification of expenses.	Dec. 2016, and quarterly thereafter	Enhance budget execution and monitoring.	New benchmark.
As a precursor to the planned Treasury Single Account, draw up a list (including 2015 amounts) of own-source revenues collected by ministries, departments and government agencies.	Dec. 2016	Strengthen public financial management	New benchmark
Debt management			
Prepare a quarterly report on external debt commitments, agreements and disbursements.	Dec. 2016 for Sept. 2016 Report, and quarterly thereafter.	Enhance debt management capacity and transparency in external debt commitments.	Continuation of earlier measure.
Council of Ministers to issue a decree to clarify the debt issuance authority and the procedure for the issuance of government guarantees, on-lending operations, and large liabilities.	Dec. 2016	Bring Guinea-Bissau's debt management policy in line with the WAEMU Regulation.	New benchmark
Business Environment			
Prepare an audit plan for all State-owned Enterprises and autonomous funds.	Nov. 2016	To improve service delivery by, and financial sustainability of, public enterprises.	Not met and rescheduled.
EAGB will submit reports detailing its financial flows for the 2015 financial year, the first three quarters of 2016 and on a monthly basis starting from October 2016.	December 2016	To instill transparency in EAGB operations and financial position.	New Benchmark
Complete, with assistance of the WAEMU Banking Commission, an assessment of the two banks affected by the bailout, and articulate an action plan to bring these banks into compliance with prudential norms.	April 15, 2017	To strengthen the health of the banking system.	New benchmark
Design a strategy to promote cashew production and transformation based on results of the FUNPI audit.	June 2017	Reduce transaction costs.	Not met and rescheduled.

Attachment II. Technical Memorandum of Understanding[1]

Bissau, Guinea-Bissau, November 8, 2016

INTRODUCTION

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

2. **Program exchange rates**.[2] For the purpose of the program, foreign currency denominated values for 2015 will be converted into local currency (CFA francs) using a program exchange rate of CFA 532.3/US$ and cross rates as of end December 2014.

QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on Total Domestic Tax Revenue

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

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

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

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

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

b. the net position of the Government with commercial banks, including: (a) treasury bills; (b) treasury bearer bonds; and (c) loan and advances of commercial banks to the central

[1] This proposed TMU supersedes the June 2015 version, and introduces modifications (indicated in *italics*) to better clarify and tighten the monitoring and assessment of program performance.

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

Government; less central Government deposits (excluding project-related deposits) in commercial banks; and

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

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

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

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

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

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

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

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

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

E. External Payment Arrears of the Central Government

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

QUANTITATIVE INDICATIVE TARGETS

A. New Domestic Arrears of Central Government

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

B. Social and Priority Poverty-Related Expenditures

14. Definition. Social and Priority Poverty-related expenditures are defined to include spending on health, education, and the gender ministry (Table 3).

C. Domestic Primary Balance (Commitment Basis)

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

D. Non-Regularized Expenditure (DNTs)

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

PROGRAM MONITORING

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

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

Table 1. Guinea-Bissau: Summary of Reporting Requirements

Information	Frequency	Reporting Deadline	Responsible
Fiscal Sector			
Central Government budget and outrun	Monthly	30 days after the end of the month	Budget Directorate
Grants	Monthly	30 days after the end of the month	Budget Directorate
Budgetary grants	Monthly	30 days after the end of the month	Budget Directorate
Project grants	Monthly	30 days after the end of the month	Budget Directorate
Chenge in the stock of domestic arrears	Monthly	30 days after the end of the month	Budget Directorate
Unpaid claims	Monthly	30 days after the end of the month	Budget Directorate
Interest arrears	Monthly	30 days after the end of the month	Budget Directorate
Proceeds from bonds issued in the regional WAEMU market	Monthly	30 days after the end of the month	Budget Directorate
Real and External Sector			
Updates on annual National Accounts by sector	Annually	Within 6 weeks of availability	CSO/MOEF [1]
Balance of Payments data	Annually	Within 6 weeks of availability	CSO/MOEF
Details of exports breakdown	Quarterly	30 days after the end of the quarter	CSO/MOEF
Details of imports breakdown	Quarterly	30 days after the end of the quarter	CSO/MOEF
CPI	Monthly	30 days after the end of the month	CSO/MOEF
Debt			
External and domestic debt and guaranteed debt by creditor	Monthly	30 days after the end of the month	DMU [2]
Disbursements	Monthly	30 days after the end of the month	DMU
Amortization	Monthly	30 days after the end of the month	DMU
Interest payments	Monthly	30 days after the end of the month	DMU
Stock of external debt	Monthly	30 days after the end of the month	DMU
Stock of domestic debt	Monthly	30 days after the end of the month	DMU
Arrears on interest and principal	Monthly	30 days after the end of the month	DMU
Exceptional domestic financing	Monthly	30 days after the end of the month	DMU
Copies of any new loan agreements	As occuring		DMU

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

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

November 10, 2016

FIRST AND SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR RE-PHASING OF DISBURSEMENTS, MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

The African Department
(In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of September 30, 2016)

Membership Status

Joined: March 24, 1977; Article VIII

General Resources Account:	SDR Million	Percent Quota
Quota	28.40	100.00
Fund Holdings of currency (Exchange Rate)	24.48	86.2
Reserve Tranche Position	3.59	13.9

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	13.60	100.00
Holdings	8.59	63.14

Outstanding purchases and Loans:	SDR Million	Percent Quota
RCF Loans	3.55	25.00
ECF Arrangements	7.24	51.00

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jul 10, 2015	Jul 09, 2018	17.04	2.84
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				
	2016	2017	2018	2019	2020
Principal	**0.48**	**1.45**	**1.45**	**1.45**	**2.16**
Charges/Interest	**0.00**	**0.00**	**0.00**	**0.02**	**0.01**
Total	**0.48**	**1.45**	**1.45**	**1.47**	**2.17**

[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 Framework
Commitment of HIPC assistance	
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

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):

MDRI-eligible debt (SDR Million) 5/	0.51
Financed by: MDRI Trust	0.00
Remaining HIPC resources	0.51

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 (WAMU). The latest assessment of the BCEAO was completed on December 13, 2013. The assessment found that the bank continued to have a strong control environment and has, with the implementation of the 2010 Institutional Reform of the WAMU, enhanced its governance framework. Specifically, an audit committee was established to oversee the audit and financial reporting processes, transparency has increased with more timely publication of the audited financial statements, and the BCEAO was committed to IFRS implementation by end-2014. The assessment also identified some limitations in the external audit process and recommended that steps be taken to ensure the adequacy of the mechanism through selection of a second experienced audit firm to conduct joint audits. All recommendations from the assessment have been implemented.

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 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 October 8, 2016, the rate of the CFA franc in terms of the SDR was CFAF 1009.95 = 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, April 23–May 5, 2015. The staff report was discussed by the Executive Board and the consultation was concluded on July 10, 2015.

Technical Assistance (2008–16)			
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
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

Technical Assistance (2008–16)			
Department	**Type of Assistance**	**Time of Delivery**	**Purpose**
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
FAD	Staff	April 2013	Revenue administration
West AFRITAC	Short-term expert	April 2013	National accounts
West AFRITAC	Short-term expert	April 2013	Public financial management
West AFRITAC	Short-term expert	September 2013	Customs administration
West AFRITAC	Short-term expert	September 2013	Real sector statistics
West AFRITAC	Short-term expert	October 2013	Government finance statistics
West AFRITAC	Short-term expert	March 2014	Real sector statistics
West AFRITAC	Short-term expert	August 2014	Tax administration
FAD	Staff	September 2014	Public financial management
FAD	Staff	September 2014	Tax administration
West AFRITAC	Short-term expert	September 2014	Customs modernization
West AFRITAC	Short-term expert	September 2014	Government finance statistics
West AFRITAC	Short-term expert	September 2014	Real sector statistics
West AFRITAC	Short-term expert	February 2015	Macroeconomic analyzing and prevision
West AFRITAC	Short-term expert	February 2015	Tax administration
MCM	Staff	March 2015	Banking sector: NPLs
West AFRITAC	Short-term expert	March 2015	Public financial management
West AFRITAC	Short-term expert	March 2015	National accounts
FAD	Staff	April 2015	Revenue administration
West AFRITAC	Short-term expert	April 2015	Real sector statistics
FAD	Short-term expert	June 2015	Tax administration
FAD	Short-term expert	July 2015	Tax administration
West AFRITAC	Short-term expert	July 2015	National Accounts
FAD	Short-term expert	September 2015	Revenue administration
FAD	Short-term expert	September 2015	Tax administration
FAD	Short-term expert	October 2015	Tax administration
West AFRITAC	Short-term expert	October 2015	Government finance statistics
FAD	Staff	December 2015	Tax administration
West AFRITAC	Short-term expert	December 2015	National Accounts
FAD	Short-term expert	January 2016	Tax administration
FAD	Short-term expert	March 2016	Tax administration
West AFRITAC	Short-term expert	March 2016	Customs administration
West AFRITAC	Short-term expert	March 2016	National Accounts
FAD	Short-term expert	April 2016	Customs administration
FAD	Short-term expert	April 2016	Tax administration

Technical Assistance (2008–16)			
Department	**Type of Assistance**	**Time of Delivery**	**Purpose**
FAD	Short-term expert	June 2016	Tax administration
West AFRITAC	Short-term expert	July 2016	Tax administration
West AFRITAC	Short-term expert	July 2016	National Accounts
FAD	Staff	September 2016	Tax 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 was the Resident Representative until end-May 2015. Mr. Melhado assumed the Resident Representative position in August 2015.

Table 1. Guinea-Bissau: Arrangements with the IMF, 1984–2016			
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 elapsed 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 elapsed on May 6, 2013.
Rapid Credit Facility	November 3, 2014	SDR 3.55 million	
Extended Credit Facility	July 10, 2015	SDR 17.04 million	

WORLD BANK GROUP RELATIONS

1. Guinea-Bissau joined the World Bank in 1977, three years after independence. The first operation was approved in 1979 for a road construction and restoration project. Since then, the International Development Association (IDA) has approved 43 projects for Guinea-Bissau amounting to about US$511 million.

2. World Bank engagement in Guinea-Bissau for fiscal years 2015–16 was based on a Country Engagement Note (CEN) approved in March 2015. The CEN is designed to provide immediate short-term support to the country, in order to consolidate the transition and restore basic services while assisting the government to design a more sustainable strategy for long term poverty reduction and greater shared prosperity. The CEN focused on two key areas:

- Building institutions and strengthening public sector capacity, to enable the government to provide a sound macro-fiscal environment and the infrastructure and legal and regulatory framework necessary to promote shared growth and attract investment.
- Strengthening the provision of basic services to the poor in health, education, electricity and water with a view toward providing people with the services, resources, and skills they need to create and take advantage of economic opportunities.

Budget Support Operations

3. By June 2017, the Bank will put forth a Country Partnership Framework (CPF) FY17–20 for Board approval replacing the 2015–16 CEN. The CPF will be informed by a Systematic Country Diagnostic, which was finalized in June 2016, which is an analysis of the key constraints to achieving the World Bank Group's twin goals of eradicating extreme poverty and boosting shared prosperity.

Lending Program

4. The current active portfolio for Guinea-Bissau consist of four national IDA operations (US$65.6 million), and two regional IDA operations (US$84 million) for a total commitment amount of US$149.6 million. The largest share of the portfolio is in energy (55 percent), followed by water (16 percent), social protection (14 percent), trade & competitiveness (6 percent), environment and fisheries (6 percent), and governance (3 percent). The World Bank has also supported non-lending technical assistance activities in Guinea-Bissau such as a Public Expenditure Management and Financial Accountability Review (PEMFAR) and the 2016 Systematic Country Diagnostic.

AFRICAN DEVELOPMENT BANK GROUP RELATIONS

5. From the approval of the first project to the country in 1976, to May 2015, the AfDB had approved 50 operations for Guinea-Bissau, for a net commitment of UA 237.6 million (about CFAF 195.6 billion). 33.3 percent of these operations have been in the infrastructure sector, 26.4 percent for social, 22.9 percent in the multi-sector, 15.4 percent in agriculture and 2.0 in finance. As of September 2016, the active portfolio comprises nine ongoing national projects representing a total net amount of UA 40.37 million, and a disbursement rate of 23 percent.

Lending Program

6. During the period January 2008–April 2014, 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 (US$500,000), an emergency support grant to cholera (US$ 999,750), a capacity building grant to public administration (UA 7.80 million), a technical assistance and capacity building grant to public administration (UA 0.66 million) and an emergency budget support to budgetary reforms (UA 5.7 million).

7. In May 2015, the AfDB approved a new budget support operation to the tune of UA 5 million (CFAF 4.1 million). The program is built around two components: (i) the strengthening of transparency, internal and external control of budget execution and the fight against corruption, and (ii) the strengthening of budget management. It has been complemented by the approval of an institutional support project of UA 5 million (CFAF 4.1 billion) targeting capacity building in public financial management as well as the strengthening of the justice sector.

8. In the non-governance sector, additional approvals in 2015 are an energy project to rehabilitate the electricity network of Bissau for UA 13.3 million (CFAF 10.9 billion), a contribution to the OMVG transmission line for UA 4.5 million (CFAF 3.7 billion). In September 2016, an emergency assistance to support Guinea-Bissau preparedness and response plan to fight the Zika virus outbreak for US$1 million has been approved and a UA 3.8 million (CFAF 3.2 billion) investment project in agriculture sector (rice value chains) is under preparation.

Non-lending Program

9. In January 2015, the AfDB approved its 2015–19 country strategy and Country Portfolio Performance Assessment. The approved strategy is based on two pillars, namely (i) strengthening of governance and the foundations of the State; and (ii) development of infrastructure that will foster inclusive growth. A Regional Integration Strategy Paper for West Africa for 2011–15 was released in March 2011. Recent economic and sector studies include a review of the transport sector, the agriculture sector and a country gender profile released in 2015, as well as the preparation of policy papers on Public-Private-Partnerships and on the management of natural resources.

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. Starting with 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 GDP in both current and constant (2005) prices, and GDP deflators. Several missions from AFRITAC West, during 2013 to 2016, have helped improving the compilation of national accounts, although source data remain an issue. The missions are also assisting with the preparation of a new base year (2015) for the annual national accounts using the *System of National Accounts 2008* (*2008 SNA*) as the standard.
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, improvement in compilation techniques, extended coverage of products and increase in outlets). Price data are collected only for the capital city, Bissau. Work is now underway to update the base year to 2014 and to extend the coverage to the whole country.
Government Finance Statistics (GFS): 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 GFS mission from West AFRITAC provided technical assistance in compiling and disseminating GFS and implementing action plans designed to improve the GFS data dissemination to users. Under the West AFRITAC work program, GFS technical assistance missions visited Guinea-Bissau in October 2013 and September 2014. These missions stressed the need for the Ministry of Economy and Finance to start implementing the recommendations of previous GFS missions.
Monetary and Financial Statistics (MFS): MFS, compiled and disseminated by the regional Central Bank of West African States (BCEAO), are broadly adequate. In August 2016, the BCEAO completed the migration of Guinea-Bissau's MFS to the standardized report forms (SRFs) for the central bank and other depository corporations. These SRF-based data are being processed by the IMF Statistics Department for publication in the November 2016 issue of *IFS*.
Financial Sector Surveillance: Guinea-Bissau does not report financial soundness indicators (FSIs) to the IMF. A technical assistance mission on FSIs is scheduled to visit the BCEAO headquarters in Dakar, Senegal in 2017. This mission will assist the authorities in their efforts to develop a set of core and encouraged FSIs for deposit taking institutions for WAEMU member countries, including Guinea-Bissau.

<table>
<tr><td colspan="2">Balance of Payments Statistics: Guinea-Bissau moved to BPM6 methodology for both balance of payments and international investment position (IIP) statistics in September 2013, reviewing back series from 2007. Balance of payments data are weak, mostly due to substantial unregistered trade and inconsistencies between financial account transactions and the position data in the IIP. The large number of small-scale operators, a large informal sector, and institutional weaknesses hamper the data collection. While no external debt data are published by the Ministry of Economy and Finance, stock and flow data are regularly produced and transmitted to the BCEAO. Guinea-Bissau also participates in the Coordinated Direct Investment Survey (CDIS) Under the recently launched Japan funded three-year project in 17 francophone countries in West and Central Africa, Guinea-Bissau will receive technical assistance missions for improving its external sector statistics.</td></tr>
<tr><td colspan="2" align="center">Data Standards and Quality</td></tr>
<tr><td>Guinea-Bissau has participated in the General Data Dissemination System (GDDS)/Enhanced GDDS) since November 2001. Metadata for all data categories and plans for improvement need to be updated.</td><td>No data ROSC is available.</td></tr>
<tr><td colspan="2" align="center">Reporting to STA</td></tr>
<tr><td colspan="2">Currently no monthly, quarterly or annual government finance data are 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 IIP statistics to STA on an annual basis, but with delays. CDIS data for inward direct investment position have been reported for end-December 2011.</td></tr>
</table>

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]	Aug. 2016	Sept. 2016	M	M	M
Reserve/base money	Aug. 2016	Sept. 2016	M	M	M
Broad money	Aug. 2016	Sept. 2016	M	M	M
Central bank balance sheet	Aug. 2016	Sept. 2016	M	M	M
Consolidated balance sheet of the banking system	Aug. 2016	Sept. 2016	M	M	M
Interest rates[2]	Sept. 2016	Oct. 2016	M	M	M
Consumer price index	June 2016	July 2016	M	M	M
Revenue, expenditure, balance and composition of financing[3] – general government[4]	Sept. 2016	Sept. 2016	M	Q	Q
Revenue, expenditure, balance and composition of financing[3]– central government	Sept. 2016	Sept. 2016	M	Q	Q
Stocks of central government and central government-guaranteed debt[5]	Dec. 2011	Apr. 2013	A	I	I
External current account balance	Dec. 2015	June 2016	A	I	I
Exports and imports of goods and services	Dec. 2015	June 2016	A	I	I
GDP	2015	Apr. 2016	A	I	I
Gross external debt	2015	June 2016	A	I	I
International Investment Position[6]	2014	June 2016	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)

Statement by Executive Director, Mr. Daouda Sembene and Advisor of the Executive Director, Mr. Romao Lopes Varela
December 2, 2016

Our Bissau-Guinean authorities have expressed their appreciation of the Fund's continued support as well as the constructive policy dialogue maintained with the Fund staff. They found this dialogue to be rightly focused, notably on the need to maintain fiscal sustainability, strengthen the resilience of the financial system, and accelerate structural reforms. The authorities remain committed to consolidating the recent progress made in fostering economic growth and macroeconomic stability, and they broadly concur with staff's main policy recommendations.

Recent Economic Developments and Performance under the ECF Arrangement

Despite a difficult political situation, economic activity has been strong in 2015. Real GDP is estimated to have grown by 4.8 percent against 2.3 percent in 2014, mainly driven by the increase in agricultural output and improvement in the supply of electricity and water. Partly because of stronger cashew exports, the current account deficit narrowed significantly more than was initially expected under the ECF arrangement. At the same time, inflation stood well below the WAEMU regional convergence criterion of 3 percent.

In the fiscal sector, the authorities took several steps to enhance revenue mobilization and improve public finance management. These include measures aimed at improving tax compliance by large taxpayers and strengthening the customs administration's capacity to reduce fraud and under-invoicing by importers. Thus, revenue performance exceeded program targets for both June 2015 and December 2015.

However, on the expenditure side, current spending was higher than expected and capital expenditure overshot targeted levels due to higher than budgeted foreign-financed public investment. Consequently, the domestic primary deficit has been slightly higher than initially programmed for 2015. In light of the above**,** the Government has suspended all new expenditures, excepting salary and funds needed for normal functioning.

In the financial sector, the authorities are taking steps to address the issue related to the 2015 government bailout of two commercial banks. This consisted in an attempt to take over high NPLs from the banks' books at face value with a view to increasing private sector access to credit. Recognizing that this bailout raised governance issues, the authorities have subsequently declared it null and void pursuant to existing laws and regulations. Moreover, they initiated legal actions against the banks and the signatories of the bailout contracts. It is the firm intention of the authorities to follow forcefully through all the necessary steps to ensure that the bailout is completely reversed and at no costs to the budget.

Progress under the ECF-supported program has broadly been satisfactory despite a challenging domestic environment. All end-June 2015 and end-December 2015 quantitative performance criteria (PCs) were met. Domestic revenue exceeded the target by large margins, reflecting the government's continuous efforts to improve tax collection and administration. The ceilings on net domestic bank credit to the central government (NCG) and on non-concessional debt were also met. In addition, all external debt service obligations were honored. As regards the indicative quantitative targets, the floor on social expenditures was easily exceeded, but ceilings on non-regularized expenditures (DNTs), new domestic arrears, and the domestic primary balance were missed.

Of the nine structural benchmarks, through end-December 2015, four were met on time and three were met with some delays. Due to the political impasse, measures related to the implementation of a small taxpayer regime and the drawing up of a strategic plan for improving the working conditions of officials of the domestic tax and customs administration could not be met. The authorities are currently working to implement them and in this endeavor technical assistance from development partners and the Fund in particular will continue to be valuable.

Economic Outlook and Policies for 2016–17

The authorities are committed to pursuing their fiscal consolidation efforts. In this connection, reform measures will aim to strengthen further public financial management (PFM) and tax administration, with the view to ensuring fiscal and debt sustainability, as indicated in their medium-term development program (2014–18). Likewise, they will step up the implementation of structural reforms to improve the business environment.

Real GDP is projected to grow by 4½ percent per year in 2016–17, as agriculture is expected to continue performing well together with a strong contribution from construction, and services as well as improvements in energy and water supply. Cashew nut exports have reached record high of 198,000 tons in the 2016 season, and are expected to continue to perform strongly in 2017, which should help keep the current account deficit under 3 percent of GDP in 2016 and 2017. Gross investment is expected to pick up to around an average of 13 percent of GDP per year during 2016–17. Inflation is projected to remain low at 2.3 percent, aided by improvements in domestic demand and incomes.

Fiscal Policy and Debt Sustainability

The authorities are committed to maintaining fiscal discipline. They have targeted an ambitious but realistic domestic primary deficit in the near term, taking into consideration available domestic revenue and financing. The authorities stand ready to scale back non-priority spending and domestically financed investment in the event of a shortfall in budgeted resources. Furthermore, they remain committed to using revenue above the budgeted amount in 2016-17 to reduce the stock of domestic arrears.

On the revenue side, among the measures envisaged, the authorities will implement new uniform sales invoice beginning with large companies by December 2016, medium taxpayers by March 2017, and finally for the rest of taxpayers by June 2017. They will also introduce a mechanism for facilitating tax control. In addition, steps will be taken to further reduce the administrative burden on taxpayers and expand the tax base and yield by establishing a new tax regime for small taxpayers with technical assistance from the IMF, strengthen the one-stop-shop for cashew nut exports and associated tax payments, and identify all non-tax and tax levies and charges not collected by the tax administration. Moreover, continued efforts will be made to promote tax compliance by large taxpayers and to improve the functions and procedures of the tax administration. To achieve these objectives and improve the performance of tax administration, technical assistance will play a key role and we call for Fund continued support to Guinea-Bissau in this area.

On the expenditure front, steps will be taken to improve fiscal transparency and expenditure treasury management. The authorities plan to align expenditures with available revenue, and ensure compliance with PFM rules. They are also committed to limiting the use of DNTs and the accumulation of arrears to domestic suppliers and contractors, including through the use of an integrated system of public finances (SIGFIP). Additionally, the authorities will prepare quarterly reports on budget execution to ensure that it is guided by expenditure plans and that social and priority spending is protected. Steps will also be taken to improve treasury management by rigorously following existing accounting procedures and the use of the accounting module of the SIGFIP, and the expenditure and procurement plans drawn up ex-ante based on the annual budget.

On debt issue, as the updated debt sustainability analysis indicates, Guinea Bissau remains in moderate risk of debt distress. Given the country's vulnerability to external shock and narrow export base, the authorities will continue to rely on grants and concessional loans for their external financing, and avoid the contracting and guaranteeing of short-term external debt. Cognizant of the need to limit contingent liabilities, the authorities have compiled an inventory of all government guarantees to the banking system. They have also—in line with the WAEMU debt management regulation—drafted a decree for cabinet approval, which will help better regulate debt issuance authority and transparency, the procedure for issuance of government guarantees, and the assumption of large liabilities outside the budgetary system.

Financial Sector Reforms

The authorities are committed to ensure that Guinea Bissau's financial system is in compliance with regulatory norms and international standards. In this context, the authorities will require the banks identified in recent on-site inspection conducted by the WAEMU banking commission to comply with regulatory norms related to provision of non-performing loans, capital increases and other corrective measures identified as part of the ongoing unwinding of the bailout. The government stands ready to take any remedial action deemed necessary by the Banking Commission to address both post-bailout and NPLs issues.

With the technical assistance of development partners, the authorities are also taking steps to develop the financial markets (including for SMEs), strengthen contract enforcement, implement OHADA's new uniform action on collective proceedings to expedite the collection of collateral, and strengthen the bankruptcy legislation.

Other Structural Reforms

The authorities recognize the need to continue to improve the business environment with the view to achieving high, sustained and inclusive growth and diversify the economy. Steps will be taken to improve public service delivery and financial sustainability of public enterprises, including the electricity and water company (EAGB). In this regard, the government will prepare audit plans for state-owned enterprises (SOEs) and autonomous funds and design a new strategy to promote cashew nut production and transformation.

The authorities have made substantial progress in data provision and compilation with the assistance of development partners. Additional efforts will be pursued to address remaining issues on the National Statistics Institute, including the approval of the new Statistics Law, adequate resourcing to produce statistics, and improvements in coordination and data sharing among institutions.

Our Bissau Guinean authorities are committed to continue improving their AML/CFT framework. In this regard, a national strategy on AML/CFT consistent with the Financial Action Taskforce on Money Laundering (FATF) standards was submitted to Parliament for approval. The authorities are also committed to giving sufficient autonomy and adequate resources to the Financial Intelligent Unit (CENTIF) to perform its mandate and help fight corruption and rent seeking.

Conclusion

Our Bissau-Guinean authorities remain committed to exercising fiscal prudence and accelerating reforms to overcome challenges facing the economy. They will continue to build on recent achievements notably on the revenue and expenditure fronts to preserve fiscal sustainability. Their efforts will also focus on implementing corrective financial measures with the assistance of the WAEMU banking commission to maintain stability in the financial sector. As well, the authorities will step up structural reforms towards diversifying the economy.

Considering the above, we would appreciate Directors' support for the completion of the first and second reviews under the ECF arrangement and the requests for modification of PCs and rephasing of disbursements.