

**Guinea-Bissau: 2002 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2002 Article IV consultation with Guinea-Bissau, the following documents have been released and are included in this package:

- the staff report for the 2002 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **March 20, 2002**, with the officials of Guinea-Bissau on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 11, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff supplement of **June 25, 2002** updating information on recent developments.
- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its June 26, 2002 discussion** of the staff report that concluded the Article IV consultation.

The document(s) listed below have been or will be separately released.

Statistical Appendix.

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INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

**Staff Report for the 2002 Article IV Consultation**

Prepared by the Staff Representatives for the  
2002 Consultation with Guinea-Bissau

Approved by Anupam Basu and Masood Ahmed

June 11, 2002

- Discussions were held in Bissau during March 7-20, 2002. The staff team comprised Mr. Meyers (head), Mr. Krichene, Mr. Olters, and Mr. Zejan (all AFR), Mr. Gudmundsson (SEC), and Mr. Yao (the Fund's Resident Representative). Mr. Kudiwu, assistant to the Executive Director for Guinea-Bissau, participated in the policy discussions.
- The mission met with President Yalá, Prime Minister Nhassé, Finance Minister Sousa, BCEAO National Director Borges, other senior officials in charge of economic policy issues, and representatives from the trade unions and the Chamber of Commerce.
- Relations with the Fund and the World Bank Group are described in Appendices I and II, respectively. A description of key weaknesses in Guinea-Bissau's statistics is provided in Appendix III. A table of social indicators is in Appendix IV. A statistical appendix accompanies this report.
- The authorities have agreed to the publication of this staff report.
- Guinea-Bissau accepted the obligations of Article VIII, Sections 2, 3 and 4, with effect from January 1, 1997.

	Page
Executive Summary.....	3
I. Introduction .....	5
II. From Conflict to a PRGF-supported Program.....	6
III. Performance Under the PRGF and Recent Economic Developments.....	8
A. Performance under the PRGF .....	8
B. Recent Economic Developments.....	9
IV. Report on the Discussions .....	11
A. Medium-Term Outlook.....	12
B. Management of Public Finances.....	13
C. Short-Term Fiscal Stabilization.....	14
D. Fiscal Policy for 2002.....	14
E. Money and Banking.....	15
F. External Sector.....	15
G. Structural Measures.....	16
H. Poverty Reduction.....	17
I. Good Governance.....	17
J. Data Issues .....	17
V. Staff Appraisal.....	18
 Tables	
1. Performance Criteria, Indicators, and Structural Benchmarks, December 2000- December 2001.....	21
2. Selected Economic and Financial Indicators, 1997-2002.....	23
3. Central Government Operations, 2000-2002.....	24
4. Monetary Survey, 1999-2002.....	25
5. Balance of Payments, 1997-2005.....	26
6. Medium-Term Scenario, 1997-2005.....	27
 Figures	
1. Selected Indicators, 1997-2002.....	28
2. Fiscal Indicators, 1998-2002.....	29
3. External Sector Indicators, 1997-2002.....	30
 Appendices	
I. Relations with the Fund.....	31
II. Relations with the World Bank.....	36
III. Statistical Issues.....	40
IV. Income and Social Indicators, 1970-2001.....	44

## EXECUTIVE SUMMARY

An armed conflict in 1998-99 that left a substantial part of the economic infrastructure in ruins ended with a deepening of Guinea-Bissau's already widespread poverty. In addition, government institutions lost critical personnel, equipment, records, and buildings as a result of the conflict.

In May 1999, the Guinea-Bissau authorities set out a recovery strategy at a UN-sponsored donor roundtable in Geneva, Switzerland. Supporting this framework, the Fund's Executive Board approved a request for emergency post-conflict assistance in September 1999. Performance under the post-conflict program was judged to be satisfactory and enabled Guinea-Bissau to take advantage of the drive in 2000 to advance countries to the decision point under the HIPC Initiative.

The PRGF-supported arrangement for 2000-03, approved in December 2000, aimed to consolidate and build upon post-conflict achievements. Elements of the underlying strategic approach were retained from the May 1999 Geneva conference: demobilization of the armed forces, regularization of pre-2000 government domestic obligations, and restoration of critical infrastructure. The program also aimed at strengthening revenue collection, better targeting spending to favor poverty reduction, and improving financial administration.

Immediately after approval, the program was found to be substantially off track. Fund missions in early 2001 found a loss of budgetary control during 2000, with large unauthorized expenditures, mainly on defense, financed by credit from the banking system, as well as by promissory notes. These problems continued during the first part of 2001, albeit less dramatically.

With the program off track, Fund staff and the authorities agreed on a short-term macroeconomic program (STMP) for August-November 2001. However, the STMP targets were missed, owing to exceptional payouts for unprogrammed items. As a result, several performance criteria, structural benchmarks, and performance indicators for the PRGF-supported program for end-December 2001 were not observed, and the Fund's interim debt relief under the HIPC Initiative lapsed at end-2001.

In 2001, Guinea-Bissau suffered a substantial slowdown in economic activity, with real GDP growth estimated at 0.2 percent, as a result of a sizable loss of foreign program financing, a drop in the international market prices for cashew nuts of about 30 percent, and delays in implementing the demobilization and pre-2000 arrears settlement programs and receiving the concomitant external aid disbursements. The substantial slowdown in economic activity and weak prices for cashew nuts were reflected in government tax collections, as tax revenue fell 18 percent short of program projections.

Commercial banking in Guinea-Bissau suffered a serious setback as the second-largest commercial bank, the Banco Total Açores (BTA), ended its operations in the country on March 31, 2002. The BTA closure was followed in mid-April 2002 by the liquidation of the largest bank, the BIGB, whose operations had been largely suspended since 2000, when its financial position deteriorated. At present, commercial banking services are provided by a single bank operating out of its head office in Bissau.

The authorities acknowledged that, as a result of financial operations during December 2001-January 2002, they were unable to meet obligations currently falling due. Broad understandings were reached with the staff on an action plan, comprising (i) a schedule of actions to improve revenue collection; (ii) an expenditure priority policy providing clear funding guidelines for the Treasury Committee of the Ministry of Finance; and (iii) a monthly treasury cash management plan for April-July 2002.

The authorities recognized that as government deposit balances were presently depleted and as a large stock of domestic arrears had been accumulated there was an urgent need to reestablish sound management practices and successfully implement the necessary short-term stabilization measures. They also agreed that it was important to achieve a modest surplus in government current primary operations in order to begin rebuilding deposit balances.

Discussions centered on the urgent need to establish a sustainable program for government finances, strengthen the revenue base, regain control over public expenditures, and move forward with the programs for demobilization and for the settlement of domestic arrears in an accountable and transparent manner. It is also a matter of urgency to restore the integrity of the administration of public finances by strengthening expenditure control.

Delays in implementing required structural reforms have contributed significantly to Guinea-Bissau's current difficulties. Clearly, capacity limitations have added to the delays, and the authorities may need to ask supporting partners for additional assistance in this area. In this regard, it is vital that work begin without further delay on rehabilitating critical infrastructure and putting in place the administrative and judicial reforms required for progress. Nonetheless, part of the slower-than-planned progress appears related to the authorities' commitment.

The schedule and elements of the process leading to the completion of the PRSP, initially planned for late 2001, have been revised, with more emphasis given to agriculture, rural development, and infrastructure. The authorities believe that a preliminary draft of the full PRSP will be ready by end-July 2002, and the PRSP finalized by November 2002.

## I. INTRODUCTION

1. The 2001 Article IV consultation discussions with Guinea-Bissau were held in Bissau during March 7-20, 2002.<sup>1</sup> The mission met with Mr. Sousa, the Minister of Economy and Finance, Mr. Borges, the National Director of the Central Bank of West African States (BCEAO), and other senior officials in charge of economic policy issues, as well as with business and labor representatives. The mission worked closely with a parallel World Bank mission.

2. At the end of a protracted period of conflict, in May 1999, the authorities of Guinea-Bissau adopted an economic recovery strategy and, in support of the accompanying program, the Fund's Executive Board approved emergency post-conflict assistance in two tranches (September 14, 1999 and January 7, 2000) for a total of SDR 3.55 million (25 percent of quota).<sup>2</sup> Guinea-Bissau's satisfactory performance under its post-conflict arrangement created an opportunity for taking advantage of the drive in 2000 to advance countries to the decision point under the HIPC Initiative. An updated preliminary document under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) was discussed by the Boards of the World Bank and the Fund, respectively, on November 16 and 20, 2000.<sup>3</sup> Guinea-Bissau reached the decision point under the enhanced HIPC Initiative on December 15, 2000.

3. A three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), totaling SDR 14.2 million, was approved by the Executive Board on December 15, 2000 (EBS/00/246, 12/1/00). The first disbursement, amounting to SDR 5.08 million, was made on December 15, 2000. However, the program immediately went off track, and the first review—based on end-December 2000 performance—could not be completed. In an effort to bring the program back on track, Fund staff and the authorities agreed on a short-term macroeconomic program (STMP) for August-November 2001, but the STMP targets were missed generally. As a result, the Fund's interim debt relief under the HIPC Initiative lapsed at end-2001.

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<sup>1</sup> The mission was received by President Yalá and Mr. Nhassé, the Prime Minister. The mission comprised Mr. Meyers (head), Mr. Krichene, Mr. Olters, and Mr. Zejan (all AFR), Mr. Gudmundsson (SEC), and Mr. Yao (the Fund's Resident Representative).

<sup>2</sup> EBS/99/163 and EBS/99/238.

<sup>3</sup> EBS/00/218 (11/7/00). A preliminary document for Guinea-Bissau's eligibility under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) was considered by the Executive Boards of the World Bank and the Fund, respectively, on April 3 and 6, 1998 (EBS/98/62; 3/30/98).

4. Guinea-Bissau is on the standard 12-month consultation cycle. At the conclusion of the 2000 Article IV consultation (EBS/00/246, 12/1/00), Directors welcomed the adoption by the government, after a protracted period of armed conflict, of an interim poverty reduction strategy paper (I-PRSP), framing the authorities' efforts to implement a medium-term program to reestablish the basis for durable peace. They also emphasized that the attainment of the authorities' objectives required the pursuit of prudent macroeconomic policies, a reorientation of fiscal policy away from military spending toward poverty reduction, and adequate support from the international community.

5. At end-May 2002, Guinea-Bissau's outstanding use of Fund resources amounted to SDR14.74 million, equivalent to 103.8 percent of quota. Guinea-Bissau is current on its obligations to the Fund. Although the authorities intended to use SDR 3.55 million (25 percent of quota) of the first disbursement under the PRGF to repurchase existing obligations in the General Resources Account under the Fund's policy on emergency assistance to post-conflict countries, the repurchasing was not implemented. While the country has been current on its obligations to the Fund until now, uncertainties remain concerning the government's capacity to meet its future payment obligations, in light of the fiscal situation. The next payment, in an amount of SDR 210,000, is due on June 13, 2002. Guinea-Bissau accepted the obligations of Article VIII, Sections 2, 3 and 4, with effect from January 1, 1997.

6. The World Bank, through the IDA, approved, on March 26, 2002, a US\$31 million Private Sector Rehabilitation and Development Credit, building on the US\$25 million Economic Rehabilitation and Recovery Credit (ERRC) approved in May 2000. Guinea-Bissau's relations with the Fund and the World Bank are described in Appendices I and II, respectively. A description of key weaknesses in Guinea-Bissau's statistics is provided in Appendix III. A table of social indicators is in Appendix IV. A statistical appendix accompanies this report.

## II. FROM CONFLICT TO A PRGF-SUPPORTED PROGRAM

7. **The armed conflict between June 1998 and May 1999 displaced one-third of Guinea-Bissau's population, and left many administrative buildings, schools, hospitals, and homes unusable.** A large number of vehicles, a substantial part of the stock of heavy equipment, the industrial infrastructure, the telecommunications and water systems, and the airport were severely damaged. Thousands of land mines were scattered around the capital, the electricity generating capacity was cut, and the government's administrative capacity was hamstrung—many civil servants had departed, computers and files had disappeared, and buildings and vehicles were in disrepair. Economic activity contracted sharply—cashew nut output fell by about 30 percent—and, with industry, trade, and services interrupted, **overall GDP shrank by about 28 percent in 1998.**

8. **In May 1999, the authorities of Guinea-Bissau set out a recovery strategy at a UN-sponsored donor roundtable in Geneva, Switzerland.** The approach set out included as elements the following: the reconstruction of basic infrastructure, the return of displaced persons, the demobilization and reinsertion into civilian life of the armed forces, the removal of land mines, the rehabilitation of social sectors, support for private sector recovery, the clearance of

accumulated government domestic arrears, the organization of democratic elections, and the reestablishment of law and order.

9. Under a program supported by the Fund's emergency post-conflict assistance, in addition to the objectives set out at the Geneva conference, the government undertook to do the following: ensure the availability of rice seed for the planting season, settle government domestic arrears accumulated through mid-1998, accelerate the payment of obligations contracted during the conflict, become current on civil service wage and pension payments for the first half of 1999, rehabilitate government revenue administration and collection, and restore the strength of the external debt office. **For 1999, the program targeted GDP growth of 7.5 percent**, with cashew nut production rising by 32 percent to 50,000 tons. Under these assumptions, it was projected that government revenue would reach the equivalent of 11.7 percent of GDP, compared with the 15.3 percent achieved in 1997, while current primary expenditure under the program would rise to the equivalent of 13.6 percent of GDP, as against 9.9 percent of GDP in 1997.

10. **Performance under the post-conflict program was judged to be satisfactory.**

Displaced persons returned home, landmines were removed, and democratic elections were held. In 1999, cashew nut production rose by 45 percent to 55,000 tons, the output of rice and other cereals recovered to or exceeded their 1997 levels, GDP grew by 8 percent, and consumer prices fell by 2 percent. Government revenue collections exceeded projections, reaching the equivalent of 17.8 percent of GDP and, although the primary spending target was exceeded by 2 percent of GDP and new domestic arrears were accumulated, the indicator for the primary current budget balance was met.

11. With an external debt of US\$610 million in net present value (NPV) terms (equivalent to 1,200 percent of exports), it was clear that substantial debt relief would be needed to put the country on a sustainable macroeconomic path. Success in resettling refugees and in organizing elections had encouraged broad donor support. Furthermore, **the move to a PRGF-supported arrangement and to the HIPC Initiative decision point appeared appropriate**, given the progress achieved during the post-conflict period.

12. **The PRGF-supported arrangement for 2000-03, approved in December 2000, aimed to consolidate and build upon post-conflict achievements**—targeting real GDP growth of 8.5 percent in 2001, with inflation limited to 4 percent and an accumulation of net foreign assets at the Central Bank of West African States (BCEAO). Elements of the underlying strategy set out at the May 1999 Geneva conference were retained: the demobilization of armed forces, regularization of pre-2000 government domestic obligations, and restoration of critical infrastructure. Actions to restructure the public enterprise sector and strengthen the banking system, including the troubled International Bank of Guinea-Bissau (BIGB), were added to the critical reform agenda.

13. **In consolidating fiscal policies, the program aimed to strengthen revenue collection, better target spending to favor poverty reduction, and improve financial administration.** Revenues were projected to reach 15.9 percent of GDP in 2000 and 16.4 percent of GDP in 2001.



To accommodate an expansion in social services, current primary spending was programmed to increase by 2 percentage points (relative to the 1999 program) in 2000, and by a further 1 percentage point in 2001 to 15 ½ percent of GDP; meanwhile, the wage bill was to be limited to 6.1 percent of GDP in 2000 and to 5.7 percent of GDP in 2001. Domestic arrears were to have been reduced by 4.5 percent of GDP in 2000 and by a further 3 percent of GDP in 2001.

14. While a market-oriented economy remained in place, the conflict was followed by a period of political transition that adversely affected the management and structure of economic institutions. **During the political transition, in which the executive party maintained a minority in the legislature, the newly adopted constitution remained unsigned, and the executive faced limits to its authority that constrained its decision-making.**<sup>4</sup>

### III. PERFORMANCE UNDER THE PRGF AND RECENT ECONOMIC DEVELOPMENTS

#### A. Performance under the PRGF

15. **By end-2000, the program was substantially off track.** Fund missions in early 2001 found a loss of budgetary control during 2000, as unauthorized expenditures equivalent to about 10 percent of GDP, largely on defense, were financed by credit from the banking system as well as by promissory notes. As a result, the performance criteria for net banking system credit to the government and the primary current budgetary balance were missed by substantial margins, while the structural performance criterion on the adoption of an action plan for the largest commercial bank, BIGB, was not observed (Table 1). These problems continued during the first part of 2001, albeit less dramatically. By end-June, the primary deficit was about 3.5 percent of GDP above the adjusted program ceiling. In order to finance the corresponding operations, the authorities drew CFAF 2.5 billion from a deposit account earmarked for the demobilization program and accumulated civil service wage arrears totaling about CFAF 1.2 billion and nonwage domestic arrears amounting to about CFAF 2 billion.

16. With the program off track, projected donor program assistance in the first half of 2001, equivalent to about 4 percent of GDP and contingent on reasonable macroeconomic performance, was not forthcoming. Moreover, delays were experienced in implementing the demobilization and pre-2000 arrears settlement programs. Given this, **the Fund staff and the authorities agreed on a short-term macroeconomic program (STMP) for August-November 2001** that introduced a strict cash-flow treasury plan and measures to regain control over budget execution, strengthen tax and customs administrations, and avoid the further accumulation of domestic

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<sup>4</sup> Legislative and presidential elections were held in November 1999. The former ruling PAIGC (Partido Africano da Independência da Guiné e Cabo Verde) was defeated, and the opposition Partido da Renovação Social (PRS) won the largest share of seats in the Assembléia Nacional, although still short of a majority. The PRS leader, Kumba Yalá, won the second round of the presidential election in January 2000 with 72 percent of national vote.

arrears. If fully implemented, the STMP would have brought the primary fiscal deficit and net banking system credit to the government close to the performance criteria set under the PRGF-supported program for 2001.

17. **The authorities made a concerted effort to stay within the STMP framework, at least initially.** Performance related to the domestic primary current balance and net credit from the banking system was better than targeted during August-September 2001, and the reported accumulation of unpaid bills during this period was moderate. However, the wage bill exceeded benchmarks from the outset, and, with exceptional payouts for unprogrammed items amounting to CFAF 1.8 billion during October-November, the STMP targets were missed generally.

18. In December 2001, the receipt of CFAF 6 billion for fishing licenses and CFAF 1.3 billion in external budgetary support provided an opportunity to reconstitute government deposits, which, in turn, could be used to finance seasonal operating deficits during the first part of 2002. However, increased budgetary and extrabudgetary spending, ad hoc repayments of selected domestic arrears, and the partial reimbursement of borrowing from demobilization accounts limited the restoration of budgetary liquidity to about CFAF 2 billion. **Performance criteria, structural benchmarks, and performance indicators for the PRGF-supported program for end-December 2001, with the exception of net banking system credit to the government and the contracting of nonconcessional external debt were not observed.**

## B. Recent Economic Developments

19. **GDP growth in 2001, estimated at 0.2 percent, was substantially below the 8.5 percent that had been projected** (Table 2). While cashew nut output increased substantially (7.4 percent), international market prices for cashew nuts, which account for 95 percent of exports, declined by about 30 percent. A drop in rice production (15 percent) combined with the reduced domestic demand resulting from the fall in cashew income and from the delayed disbursement of external transfers led to weaker-than-anticipated growth in the rest of the economy. In this environment, consumer prices fell substantially during November and December 2001, ending the year 1.9 percent below the level of December 2000.

20. **The substantial slowdown in economic activity and weak prices for cashew nuts led to a shortfall in government tax collections.** In 2001, tax revenue collected, at CFAF 14.7 billion, fell 18 percent short of program projections (Table 3). The tax shortfall was, however, largely offset by a public enterprise dividend equivalent to 1.3 percent of GDP, and, as a result, the 19 ½ percent of GDP in total revenue collected was close to target.

21. As current domestic primary spending amounted to CFAF 29.3 billion (20.1 percent of GDP) in 2001, **the programmed current primary balance was missed** by CFAF 2.2 billion (1.5 percent of actual GDP). The structure of spending, however, varied considerably from the structure that had been targeted: the wage bill exceeded the target by CFAF 1.1 billion (0.7 percent of GDP), while savings (equivalent to 3 percent of GDP) on outlays on goods and services were offset by extrabudgetary spending.

22. **Investment outlays fell far short of programmed levels in 2001:** domestically financed investment was limited to 1.7 percent of GDP, while externally financed projects and programs, including demobilization and restructuring operations, fell short of projections at 12 percent of a lower-than-expected GDP. As substantial external grants for investment financing were not received, the overall deficit, including grants, was limited to 10.7 percent of GDP, as opposed to a deficit foreseen under the program equivalent to 13 ½ percent of GDP. Financing for the deficit amounted to 11 percent of GDP from external sources, including HIPC Initiative and Paris Club debt relief and project borrowing, with domestic sources accounting for the residual, including 3.8 percent of GDP in accumulation of domestic arrears, and errors and omissions, possibly counterpart to additional spending, accounting for 5.1 percent of GDP.

23. **In January 2002, budgetary revenue fell to CFAF 1.1 billion while domestically funded spending amounted to CFAF 3.1 billion, owing to continuing exceptional outlays.** As a result, government deposits were drawn down to a negligible level and wage and nonwage arrears were accumulated. With its current operations continuing in deficit during February 2002, the government borrowed CFAF 1.1 billion short term on commercial terms during the last week of that month. While this borrowing allowed the arrears on January wages to be cleared, the average principal payments of CFAF 400 million per month during March-May 2002 for this loan were deducted from current receipts, thereby further preventing the government from meeting its obligations during this period.

24. Monetary and credit policies are conducted by the BCEAO in a regional context. In 2001, the net foreign assets of the banking system increased by CFAF 3.1 billion (equivalent to 4.9 percent of beginning-of-period money) (Table 4). Although net banking sector credit to the government, narrowly defined, declined by CFAF 0.4 billion, after adjustments for the use of demobilization and fishing project deposits **the government's net balance with the banking system deteriorated by CFAF 0.8 billion.** Taking account of this adjustment, **net credit to the private sector declined by about CFAF 100 million** during the year. Because of this decline, as well as the impact of the deterioration in the "other items, net" category of the banking sector on currency in circulation, the money supply increased by 10 percent during 2001.

25. **Commercial banking in Guinea-Bissau suffered a serious setback** as the second-largest commercial bank, the Banco Tota y Açores (BTA), ended its operations in the country on March 31, 2002, following the takeover of the bank's Portuguese parent by a Spanish bank. The BTA closure was followed in mid-April 2002 by the liquidation of the largest bank, the BIGB, whose operations had been largely suspended since 2000, as its financial position deteriorated. At present, commercial banking services are provided by a single—and relatively small—bank operating out of its head office in Bissau.<sup>5</sup>

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<sup>5</sup> The remaining bank does not have any non-performing loans and currently meets the capital adequacy and liquidity requirements of the West African Economic and Monetary Union (WAEMU).

26. **In 2001, Guinea-Bissau's external current account balance with the rest of the world, excluding official transfers, remained roughly unchanged from the preceding year although income from the export of cashew nuts and other goods fell by almost 24 percent** (Table 5). Reflecting both a drop in import prices (-1 percent) and the weak domestic economy, merchandise imports fell by 7 percent, and the balance on services trade improved moderately. There was also a marked improvement in private sector current remittances on account of a US\$8.5 million (4 percent of GDP) decline in official balance of payments grants and higher scheduled interest payments. The overall deficit on the external current account, including official transfers, widened by US\$9.4 million between 2000 and 2001 (4.7 percent of GDP). Notwithstanding this and a sharp decline in the capital and financial account surplus, there was a modest rise in gross official reserves, which amounted to US\$71.6 million in 2001 (equal to 7.4 months of imports of goods and nonfactor services). The latter reflected financing obtained through debt rescheduling and some accumulation of arrears.<sup>6</sup>

27. **Although the equivalent of US\$40 million in debt service fell due during 2001, the actual cash payment was only US\$350,000.** One hundred percent of the amounts falling due to the IMF, World Bank, and African Development Bank were covered by interim relief under the HIPC Initiative. Guinea-Bissau also received exceptional relief from Paris Club creditors, and debt cancellation from China and Cuba. In addition, Guinea-Bissau continued discussions on possible relief with a number of multilateral and non-Paris Club bilateral creditors.<sup>7</sup>

28. **In August 2000, Guinea-Bissau took a substantial step toward liberalizing its trade regime by adopting the common trade policy of the West African Economic and Monetary Union (WAEMU).** Nonetheless, tariffs on 29 product groups still differ from the agreed common external tariff. Compliance with the guidelines on the nondiscriminatory levying of excise duties on products originating in the union has been met. The trade regime is still characterized by a number of exemptions on import duties under existing investment codes—in particular, for equipment related to investment projects—and special regimes.

#### IV. REPORT ON THE DISCUSSIONS

29. The authorities recognized the urgent need for improving policy performance, while noting the adverse impact of weak international market prices for cashew nuts on the economy. **The discussions focused on implementation of a comprehensive plan of action to achieve strong economic growth, reestablish a credible record of policy performance, restore sound and sustainable public finances, and reduce widespread poverty. As the PRSP will not be**

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<sup>6</sup> Arrears to the European Investment Bank, OPEC and IFAD amounting to US\$1 million, US\$7.6 million and US\$1 million, respectively, were outstanding at end-2001.

<sup>7</sup> Debts amounting to US\$ 5.8 million and US\$2.2 million were canceled by China (in June 2001) and Cuba, respectively.

ready until later this year (paragraph 51), discussions were guided by the I-PRSP (EBS/00/101).

#### A. Medium-Term Outlook

30. **The authorities agreed that recent policy performance could not be sustained beyond the short term.** While the external transfers to the economy during the next phase of demobilization, scheduled to begin at mid-2002, will provide a short-term boost to the economy, key external partners have not committed additional balance of payments support for 2003 and beyond. The authorities recognized that with a continuation of the structural deficit on government operations and the accompanying policy slippages of the past 18 months, domestic arrears would balloon, public utilities would become insolvent, possibilities for attracting entrants to the banking sector would evaporate, critical investment would not materialize and, in a vicious cycle, government finances would be further weakened. Moreover, under such a scenario, there would be a serious risk of donors holding back on their financial support. With the formal economy in collapse, financing for cashew production would shrink, export earnings would fall and social welfare would deteriorate precipitously. A substantially improved policy performance will be needed to lay the basis for the resumption of donor support and underpin strong economic growth.

31. **Against this background, the staff discussed the benefits of growth-oriented pro-poor policies in the context of a medium-term scenario** (Table 6). The scenario assumed the resumption of Fund support and concessional donor program support during the current fiscal year, while fiscal, structural and governance reforms are vigorously pursued over the next few years. The medium-term framework was also premised on sustained structural reform and the successful conclusion of the programs for settlement of domestic arrears and demobilization, in 2003 and 2004, respectively. After the substantial decline in 2001, the terms of trade are projected to begin to improve in 2002. Under these conditions, Guinea-Bissau could reestablish a strong annual growth rate of more than 6 percent (or more than 4 percent in per capita terms) from 2002 onward, and reach 8 percent GDP growth in 2005 (or 5.8 percent in per capita terms). This rate of growth could be sustained by good cashew seasons, private sector-led growth following support provided by IDA, and infrastructure works financed by the European Union in the framework of its regional infrastructure initiative. With annual average per capita growth rates of 5 percent, it will be possible to regain the path leading to a reduction of the income poverty rate from 88 percent in 2000 to some 65 percent by 2015.

32. It was noted that, with appropriate policies in place, **there would be good prospects of achieving a rise in private savings** after 2002 with (i) the return of confidence as a result of peace; (ii) the settlement of government arrears with the private sector; (iii) the establishment of programs for the rehabilitation and development of the private sector; and (iv) a push to liberalize the economy. Gross domestic investment could also increase after 2002, reflecting the successful completion of the programs for settlement of domestic arrears and demobilization, as well as the recovery of the private sector.

33. **To boost government savings, the staff stressed that the public finances would need to be further strengthened through enhanced revenue mobilization, and improved public expenditure management.** In particular, the government will need to intensify its efforts to reinforce the customs and tax administrations, reduce tax fraud, and broaden the tax base. There could be important savings derived from the introduction of a value-added tax (VAT), wage restraint in the public sector, and reductions in military spending. Government expenditure could fall from the 2001 level, owing to the strengthening of expenditure management. Fiscal expenditure will also need to be reoriented away from spending on the military and reconstruction, and toward the rehabilitation of social services (health and education).

34. In reviewing the external sector, **the authorities noted that largely as a result of a fall in cashew nut prices the current account deficit, including official transfers, would remain at about 23 percent of GDP during 2003-05, and that the debt service ratio, without HIPC relief, would decline from 72 percent in 2002 to only 61 percent in 2005.** With cashew nut prices at or near long-term lows, downside risks on export earnings are minimal. However, with cashew nuts accounting for about 95 percent of merchandise exports, the authorities pointed to the importance of promoting economic diversification in order to reduce vulnerability to shocks and to create new sources of growth. They recognized the opportunity afforded by the U.S.'s African Growth and Opportunity Act and stated that steps to establish Guinea-Bissau's eligibility, with a focus on the development of rice, cotton, palm oil and fish for export, are underway.

35. **The authorities noted that in support of the above policies, Guinea-Bissau will continue to require sustained international support for rehabilitation and reform.** The staff agreed and explained that under the medium-term scenario, foreign savings (including official transfers other than fishing licenses) are projected to remain at about 8 percent of GDP on average in the period 2003-2005. With the projected foreign assistance, gross international reserves are expected to rise, although they will decline when measured as months of imports of goods and services.

#### **B. Management of Public Finances**

36. **Notwithstanding the substantial progress made in improving financial administration during 2001—including through the creation of a single treasury payment point in Bissau, steps to limit spending authorization and payments outside of regular procedures, and the appropriate registration and accounting for financial operations—substantial problems remain.** The authorities noted that inadequate capacity, uncertainties regarding outstanding obligations dating from late 2000, and current arrangements for decision making are important factors contributing to weak financial management. In addition, the authorities acknowledged that the budget presented to the National Assembly in April 2002 was not comprehensive and that projected income was unlikely to be realized. They also recognized that current management practices did not account for seasonality and did not allow financial operations to meet obligations during deficit periods.

37. The mission welcomed the long-term technical assistance that had been provided, beginning in August 2001, by supporting donors, including the European Union, the Netherlands, and France, and recognized the importance of continuing efforts to build capacity. **In discussing the loss in fiscal discipline from end-2000, the mission urged the authorities to draw on the technical assistance being provided and act immediately to limit the continuing fallout from weak fiscal management.** In this regard, the mission recommended that the office of the Inspector General of Finance (IGF) verify the outstanding stock of *bons de virement* and certify those to be honored. The mission also proposed that the authorities provide the Treasury Committee of the Ministry of Finance with the necessary authority to implement policies without further interference.

### C. Short-Term Fiscal Stabilization

38. The authorities acknowledged that, as a result of financial operations during December 2001-January 2002, they were unable to meet obligations currently falling due. **In addressing this situation, an action plan was discussed, comprising the following: (i) a schedule of actions to improve revenue collection; (ii) an expenditure priority policy providing clear funding guidelines for the Treasury Committee; and (iii) a monthly treasury cash management plan for April-July 2002, that sets benchmarks for budgetary revenue, wage outlays, the current primary balance on government domestic operations, and ceilings on net credit from the banking system.** Measures to enhance revenue included an increase in the excise taxes (IEC) on beer and cigarettes to 40 percent and, if strengthened controls in the petroleum sector did not yield significant results by April 30, 2002, an increase in the IEC on gas-oil from 5 percent to 10 percent. In addition, the authorities indicated their intention to strengthen controls to stem the illegal importation of cigarettes.

39. **In limiting spending, the authorities proposed to freeze the implementation of the promotions announced toward the end of 2001 and to reduce spending on external travel and related gratuities.** In addition, they would review possibilities for further reductions in the wage bill and improvements in the current primary balance. Because the government was expected to run a deficit through end-May, the authorities would request additional assistance from supporting partners in order to sustain operations and limit arrears accumulation.

### D. Fiscal Policy for 2002

40. For 2002, the authorities recognized that there was an urgent need to reestablish sound management practices and successfully implement their short-term stabilization measures. They also indicated that, **it was critically important to achieve a modest surplus on the government's current primary operations in order to begin rebuilding deposit balances, and noted that a surplus of CFAF 2.4 billion (1.5 percent of GDP) on primary current operations would be a desirable objective.** At the same time, they would establish a plan for clearing verified domestic arrears accumulated during 2000-01 based on the findings of the IGF's treasury audit for 2001. However, it was envisaged that domestic arrears accumulated during 2000-01 and the first quarter of 2002 would not be cleared during 2002 unless resources are found to close the financing gap.

41. **The authorities set a revenue objective of CFAF 31.2 billion (19.3 percent of GDP) for 2002 and, in order to achieve this objective, a number of administrative measures were to be implemented.** These measures include an increase in customs patrols at the borders, improved coordination between the customs and domestic tax administrations, and stepped-up patrols to ensure the enforcement of fishing licenses. The authorities also indicated that they planned, with technical assistance from the Fund, to complete the required legislation for a value-added tax and its prompt introduction. In addition, and again with technical assistance from supporting partners, the authorities noted their intention to strengthen the fiscal tribunal.

42. **In order to limit current primary spending to CFAF 29 billion (18 percent of GDP) in 2002 and to assure the sustainability of government operations over the medium term, the authorities stated their intention to limit the wage bill to CFAF 10.8 billion (6.7 percent of GDP in 2002),** taking advantage of savings from the demobilization of 4,392 armed forces personnel and from the removal from the payroll of about 2,500 persons with "irregular" status. The authorities pointed to their plan, over the medium term, to proceed with a full-scale civil service reform that would yield additional savings.

#### **E. Money and Banking**

43. Monetary policy and banking supervision are set within the context of WAEMU. In 2002, inflation is targeted at 3.5 percent, while net foreign assets of the BCEAO are expected to increase by about US\$7 million to reach the equivalent of 5.9 months of imports of goods and services. Broad money growth has been targeted at 9 percent, slightly below the rate of growth of nominal GDP. **The authorities recognized that given the expansion in net banking system credit to the government during 2001 and the first quarter of 2002, budgetary recourse to domestic bank financing would have to be reduced by CFAF 1.5 billion by end-December 2002 to ensure that sufficient credit will be available for the private sector.**

44. **The authorities acknowledged the importance of reestablishing a sound and competitive commercial banking system capable of delivering needed financial services.** In this regard, it was noted that the remaining bank in operation, the BAO, had indicated its intention to expand its operations in order to provide services to former BTA and BIGB customers. The authorities stated that efforts were underway to identify other banks within the WAEMU and beyond that might be interested in starting operations in Guinea-Bissau.

#### **F. External Sector**

45. In discussing prospects for 2002, and in light of the difficult fiscal situation, the staff emphasized the critical importance of establishing a satisfactory track record under a Fund-supported program. **In particular, there is a need to bring the PRGF-supported program back on track to lay the basis for the resumption of interim debt relief from the Fund.**<sup>8</sup> It

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<sup>8</sup> Interim relief from the World Bank and other creditors has been ensured through end-2002.



was explained that debt service due on a cash basis after relief would amount to about US\$3.2 million and that the government needs to address the risk of not being able to meet these payment obligations to external creditors.<sup>9</sup>

46. The authorities have made a commitment not to introduce new or intensify existing exchange restrictions, introduce or modify any multiple currency practices, impose or intensify import restrictions for balance of payments reasons, or conclude agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement.

47. Guinea-Bissau maintains a fixed exchange rate regime, and, in the view of the staff, this continues to be appropriate. Guinea-Bissau's external competitiveness, as measured by the real effective exchange rate, has remained stable since early 2000 (see Figure 3).

### G. Structural Measures

48. Noting the completion of a census of the armed forces at end-2001 and the identification of 3,821 persons to be demobilized during May-August 2002, the mission commended the authorities' intention to move forward promptly with the next phase of the program. **The authorities noted that the demobilization, along with a plan to reform the civil service, was a critical element of the government's strategy for meeting the WAEMU's convergence criterion limiting the wage bill to no more than 35 percent of fiscal revenue.**

49. **The authorities stated that the clearance of domestic arrears accumulated prior to 2000 remained an important part of their strategy for normalizing relations with suppliers and creditors and for reinvigorating activity in the private sector.** The authorities indicated that they have now established a settlement plan that takes into account existing cross debts and is consistent with resources available from various supporting partners. Payouts are expected to begin in the third quarter of 2002, with technical and financial support from the World Bank and the European Union.

50. **The authorities observed that their private sector strategy, which was supported by a credit from the World Bank (see paragraph 6), aimed at stimulating private investment by supporting the privatization of public enterprises, reinforcing economic infrastructure, and facilitating private business initiatives.** In this regard, they have, among other actions, decided to advance a privatization program including (i) the liquidation or divestiture of about 30 enterprises; (ii) infrastructure reform (telecommunications, air transport, port, water, and energy), including private participation in services delivery and related regulatory capacity building; (iii) the development of potential entry points in agribusiness, cashew nuts, aquafarming, and tourism; and (iv) financial sector reform through the development of micro-finance and the strengthening of the financial sector.

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<sup>9</sup> The mission noted that projected external debt service falling due in 2002 amounts to US\$43.3 million.

## H. Poverty Reduction

51. The authorities are aware that an effective poverty reduction strategy depends on a broad-based ownership of the PRSP process. To this end, they are conducting a comprehensive consultative process that would lead to the completion of a high-quality full PRSP by November 2002. The completion of the PRSP, which had been planned for late 2001, was delayed in large measure by the change in government toward the end of the year. A household survey of 3,200 families has been launched and is expected to provide preliminary results about the country's updated poverty profile by mid-June 2002. At the same time, consultations in eight regions were held between end-March and mid-April 2002 to discuss with civil society the prioritization of social policies. **The authorities believe that a preliminary draft of the full PRSP will be ready by end-July 2002.**

52. The staff encouraged the authorities to proceed with the design and implementation of a poverty reduction strategy, regardless of whether a Fund-supported program was in place. **The mission noted that it would also be important to further strengthen the monitoring mechanism of PRSP-related spending through the participation of stakeholders and civil society.** The authorities, however, voiced their concern that the comprehensive participatory consultations might have raised unrealistic expectations that the implementation of priority programs would follow shortly thereafter: the lack of financing would frustrate these expectations and could make it more difficult to proceed in the future with a similar participatory process.

## I. Good Governance

53. **The authorities recognize that improvements in governance would add substantially to the effectiveness of administrative budgetary controls and to the efficiency of resource use.** Therefore, the government has created a Directorate for Government Procurement and plans to take the following actions: increase the frequency of spot audits by the office of the IGF of the Directorates of Budget, Treasury, Customs, and Taxes, including the publication of quarterly reports on the findings and a comprehensive annual audit of these entities. Second, it will improve the transparency of government financial operations, publishing on a quarterly basis data on income by source, expenditures by ministry and economic classification and associated movements in financial balances on a quarterly basis. Third, it will complete a manual on required documentation for expenditure authorization and payment. Finally, the government will extend and complete reforms of its procurement system, including the extension of the system to all government ministries.

## J. Data Issues

54. **Guinea-Bissau's macroeconomic statistics, which were already weak, deteriorated further as a result of the armed conflict, thereby hampering economic analysis and surveillance.** The staff is concerned about (i) the problems with monitoring budgetary data, in particular domestic arrears; (ii) external debt and payments data; (iii) the long lag in the provision of monetary data; and (iv) the weaknesses in national accounts data. The authorities indicated

that they would take actions, with donor assistance, to improve the quality and timeliness of these data.

## V. STAFF APPRAISAL

55. Implementation of the strategy for post-conflict recovery and restoration of the foundations for economic growth, set out at the May 1999 Geneva conference, has been delayed and partial. The substantial progress made in the months following the cessation of fighting provided an encouraging beginning. In the period that followed, however, elements of the recovery plan that were needed to produce a substantial domestic stimulus and to provide a mechanism for supporting external financial inflows were not implemented.

56. In the period ahead, the critical challenge will be for the government to extricate itself from a repeating sequence of ad hoc expenditure policies, a weakening of the government finances, deteriorating public services, and weak economic performance. The staff urged the authorities to reestablish sound financial management practices and steadfastly implement the April-July 2002 treasury cash management plan, as a step toward facilitating the extension of HIPC Initiative interim debt relief by creditors and opening the door for their budgetary support. In this regard, it was noted that strong performance during April-June 2002, could constitute a basis for beginning discussions on policies that could form the basis for an annual program for 2002-03 under the PRGF, upon the establishment of a satisfactory track record.

57. The programs for demobilization and for the settlement of domestic arrears need to move forward in an accountable and transparent manner. In public utilities, where managers are appointees, service provision is poor, billing unreliable, and payment an exception, commercial principles and professional management are urgently needed.

58. To improve the outlook for growth and employment generation in the formal sector, the implementation of key structural reforms needs to be accelerated. To bolster limited investment prospects, the authorities will need to address the problems that arise due to limited and erratic electric supply, undependable telecommunications and water services, a substantially weakened commercial banking sector, and continuing challenges in the political transition. With progress on these fronts, there is a strong possibility that a substantial part of prospective external transfers of US\$26 million to the economy under the demobilization and arrears settlement programs could be used for income generating activities.

59. Decisions that led to overspending during December 2001-January 2002 had serious financial consequences: they exhausted government deposits in the banking system and left the authorities unable to pay for minimal current operations during February-May 2002. The consequence of those decisions was a substantial new accumulation of domestic arrears, including on civil service wages, and the continuation of crisis-oriented fiscal management. In this context, the April 2002 collective agreement that raised the minimum wage by 75 percent and increased the wage bill to the equivalent of 13 percent of GDP complicated the task of strengthening government finances and further undermined confidence in the economy and the authorities' credibility.

60. With the considerable weakening of the economy and the lack of program financing, Guinea-Bissau faces very hard choices to make in closing the budgetary finance gap, with serious consequences for the economy, including the very fragile private sector. With the pressing demands on government resources, establishing a sustainable program for government finances should be given urgent attention. At present, about 35 percent of budgetary revenue comes from fishing licenses and taxes on cashew nut exports. Excluding revenue from cashew nut exports, tax revenue is only 7.5 percent of GDP. The revenue base can be strengthened substantially. In the short run, efforts to stop contraband trade in beer and cigarettes and to collect fishing license revenue from non-EU sources could contribute importantly to government revenue. In the longer term, the authorities should strengthen tax administration and complete the implementation of the value-added tax, in conformance with WAEMU guidelines.

61. Efforts to regain control over the spending program also need to be given an urgent priority. In the near term, the authorities should identify a core expenditure program that reflects clear priorities and is consistent with the goal of reestablishing regular payment for goods and services delivered. This will require a freeze on civil service wages, hiring, and promotions at the November 2001 level and a moratorium on the clearance of nonwage arrears accumulated after end-December 1999. The authorities also need to promptly compile and verify unpaid domestic obligations that have been accumulated during 2000-02 and to develop a clear, transparent, and realistic plan for settling legitimate claims.

62. Restoring the integrity of the administration of public finances is critically needed as a complement to revenue and spending measures. In this regard, the office of the Inspector General of Finance should be provided with the resources required to (i) establish and verify outstanding stocks of *bons de virement* issued during 1999-2001 and other unpaid domestic obligations accumulated during 2000-02; (ii) conduct spot audits of the Directorates of Budget, Treasury, Customs, and Taxes; and (iii) issue quarterly reports on its findings, along with a comprehensive annual audit for these entities. At the same time, the recently strengthened Treasury Committee of the Ministry of Finance should be allowed to manage the implementation of government-established policies without further political interference.

63. Important progress has been made in moving toward the WAEMU convergence criteria and in conforming to agreed monetary policies. The recent setbacks in commercial banking reflect the limited profitability of their operations under the current conditions. Success in seeking new entrants into the banking sector is likely to depend on prospects for the reestablishment of a stable economic and political environment. In this regard, Guinea-Bissau's membership in the WAEMU provides a solid foundation for this effort.

64. Guinea-Bissau's trade policy has become increasingly oriented toward the pursuit of regional integration, primarily through its membership in the WAEMU. It recently implemented a tariff reform that adopted the common external tariff of the union. Looking forward, it will be important to continue to liberalize the trade regime, thereby achieving full compliance with the tariff rate structure of the WAEMU and revising the exemptions on import duties under existing investment codes and special regimes.

65. At present, Guinea-Bissau's external balances are still far from a sustainable position. Even with the benefit of full interim relief from major multilateral and bilateral creditors and substantial relief from others, the continued heavy dependence on cashew nut exports and unrequited transfers leaves the balance of payments very vulnerable to external shocks. In this regard, it is vital that work begin without further delay on rehabilitating critical infrastructure and in putting in place the necessary structural reforms, including the administrative and judicial reforms required for broad based economic recovery. In the longer term, a concerted effort to build on the rehabilitation of economic infrastructure—including new bridges linking the country with Senegal—and the strengthening of the banking system will be needed.

66. As delays in implementing required structural reforms have been partly due to serious capacity limitations, the authorities may need to ask supporting partners for additional assistance in this area. In addressing this, steps should be promptly initiated to prepare a technical assistance action plan, providing a comprehensive framework for coordinating such assistance. Nonetheless, part of the slower-than-planned progress appears related to the authorities level of commitment.

67. Improving Guinea-Bissau's collection of macroeconomic and socioeconomic data is indispensable for macroeconomic policy formulation and monitoring, and for the poverty reduction program. It is important that adequate resources be provided to the Directorate of Statistics at the Secretariat of State for Planning to improve the core macroeconomic statistics, both in terms of quality and timeliness.

68. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Table 1. Guinea-Bissau: Performance Criteria, Indicators, and Structural Benchmarks, December 2000 - December 2001

(Cumulative change from the beginning of calendar year, in billions of CFA francs, unless otherwise indicated)

	2000				2001							
	December				June				December			
	Prog. PCs	Estimate	Adj. PCs, adjusters	Target met?	Prog. PCs	Estimate	Adj. PCs, adjusters	Target met?	Prog. PCs	Estimate	Adj. PCs, adjusters	Target met?
<b>Quantitative performance criteria (PC)</b>												
Net banking system credit to the government	-4.1	4.4	-4.4	no	1.5	3.6	2.2	no	0.2	0.8	3.5	yes
Adjusters			-0.3				0.8				3.4	
Maximum cumulative combined upward adjustment			5.0				5.0				5.0	
Cumulative adjustment			-0.3				0.8				3.4	
Net reduction of domestic payment arrears (- = increase) 1/	7.2	0.0	-1.1		5.3	-0.8	-1.1		5.3	-5.6	-1.1	
Privatization revenues 2/	0.0	0.0	0.0		0.0	0.0	0.0		2.5	0.0	1.3	
External debt relief 3/ 4/	130.6	134.6	-2.0		10.5	12.3	-0.9		21.3	26.0	-2.3	
Non-project-related budgetary assistance 5/	24.4	18.8	2.8		8.9	3.4	2.8		16.5	5.3	5.6	
Ceiling on the contracting or guaranteeing of nonconcessional external debt with original maturity of more than 1 year and up to 15 years by the government	0.0	0.0	0.0	yes	0.0	0.0	0.0	yes	0.0	0.0	0.0	yes
Ceiling on the contracting or guaranteeing of nonconcessional external debt with original maturity of one year or less by the government	0.0	0.0	0.0	yes	0.0	0.0	0.0	yes	0.0	0.0	0.0	yes
Primary current budgetary balance	1.8	-13.5	1.8	no	2.7	-2.4	2.7	no	1.4	-0.8	1.4	no
<b>Structural performance criteria</b>												
Accumulation of new arrears on external debt	0.0	-122.6	0.0	yes	0.0	1.5	0.0	no	0.0	2.8	0.0	no
Adoption by the Cabinet of Ministers of an action plan for the International Bank of Guinea-Bissau (IBIG)				no				no				no
			(delayed until January 2002)									
<b>Structural benchmarks</b>												
Harmonization with common external tariff under the West African Economic and Monetary Union (WAEMU)				yes				yes				yes
Adoption of a decree for the reform of the procurement system							(to be implemented by June 30, 2001)	yes				yes
Implementation of a fully operational procurement system in five ministries							(to be implemented by December 31, 2001)	...				no (in progress)
Accumulation of new domestic arrears	0.0	-2.1	0.0	yes	0.0	0.8	0.0	no	0.0	5.6	0.0	no

Table 1. Guinea-Bissau: Performance Criteria, Indicators, and Structural Benchmarks, December 2000 - December 2001 (concluded)  
(Cumulative change from the beginning of calendar year; in billions of CFA francs, unless otherwise indicated)

	2000				2001							
	December				June				December			
	Prog. PCs	Estimate	Adj. PCs, adjusters	Target met?	Prog. PCs	Estimate	Adj. PCs, adjusters	Target met?	Prog. PCs	Estimate	Adj. PCs, adjusters	Target met?
<b>Performance indicators</b>												
Minimum number of armed forces demobilized (cumulative)	500	500	500	yes	4,000	500	4,000	no	5,000	500	5,000	no
Total budgetary government revenue (incl. privatization)		51.2				17.0				45.8		
Excluding												
Tax exemptions on imports by governments and donors		-0.4				-0.2				-0.3		
Grants		-21.6				-8.0				-17.3		
Revenue from privatization 6/		0.0				0.0				0.0		
Total budgetary government revenue (as per PC)	25.5	29.2	25.5	yes	16.6	8.8	16.6	no	29.4	28.2	29.4	no
Ceiling on the wage bill	9.8	10.5	9.8	no	5.0	4.5	5.0	yes	10.2	11.3	10.2	no
<b>Memorandum items:</b>												
Payment of domestic budgetary arrears	7.2	2.1	7.2		5.3	-0.8	5.3		5.3	-5.6	5.3	
Adjustment aid (in millions of U.S. dollars)	33.1	25.5	33.1		12.6	4.8	12.6		23.3	7.5	23.3	
Debt relief from multilateral and bilateral creditors (in millions of U.S. dollars)	234.5	189.0	234.5		15.9	14.5	15.9		32.4	35.7	32.4	
External debt service on current maturities (in millions of U.S. dollars)	8.1	13.5	8.1		2.6	0.1	2.6		5.2	0.4	5.2	
Exchange rate	697.7	712.0	697.7		707.6	745.7	707.6		707.6	728.0	707.6	

- 1/ Downward adjustment by taking into account the shortfall in actual net reduction of domestic payment arrears, up to CFAF 1.1 billion.  
2/ Downward adjustment by taking into account one-half of the shortfall in privatization revenues (Sep. 2000 - Dec. 2001).  
Upward adjustment of one-half the excess in privatization revenues (Sep. 2000 - Dec. 2001) if spent on social sectors.  
3/ Upward/downward adjustment by one-half the difference in debt relief from programmed amounts; upward adjustment if spent on social sectors.  
4/ The data on external debt relief were subsequently revised; the adjusters have been calculated on the basis of the revised figures.  
5/ Upward/downward adjustment by taking into account one-half of the difference in non-project-related budgetary assistance from programmed amounts.  
Program exchange rate of CFAF 707.6 per U.S. dollar.  
6/ In "central government operations" table, privatization revenues are recorded in financing.

Table 2. Guinea-Bissau: Selected Economic and Financial Indicators, 1997-2002

	1997	1998	1999	2000	2001		2002
					Prog.	Prel.	Proj.
(Annual percentage change, unless otherwise indicated)							
National accounts and prices							
Real GDP at market prices	6.5	-28.2	7.6	7.5	8.5	0.2	5.7
GDP deflator	12.7	4.0	5.5	3.2	3.5	-5.1	4.7
Consumer price index, period average	49.1	8.0	-2.1	8.6	4.1	3.3	3.5
Consumer price index, end of period	16.7	7.9	-7.9	16.7	4.0	-1.9	3.5
Money and credit 1/							
Claims on the government (net) 2/	3.9	15.5	14.8	17.8	0.3	-0.7	-2.1
Credit to the economy	-9.5	62.9	8.7	-62.2	17.2	-1.2	43.5
Broad money	101.8	0.2	4.9	67.7	15.1	10.1	9.0
Six-month deposit rate (percent per annum; end of period)	5.0	5.0	...	...	...	...	...
Velocity (GDP/broad money)	4.3	3.3	3.5	2.8	3.4	2.1	2.1
Gross official reserves							
(in months of the following year's imports of goods and services)	5.0	4.8	3.2	6.9	4.4	7.0	7.2
(in percent of base money)	81.6	106.4	92.7	77.3	105.3	93.1	95.1
External sector							
Exports, f.o.b.(based on U.S. dollar values)	124.5	-46.5	97.4	21.3	13.2	-24.0	8.2
Imports, f.o.b. (based on U.S. dollar values)	28.7	-30.1	28.4	30.6	23.2	-6.8	9.1
Export volume	115.6	-37.3	63.5	25.7	8.5	6.0	5.0
Import volume	29.7	-26.1	27.0	35.7	23.1	-5.9	9.4
Terms of trade (deterioration -)	4.9	-9.8	19.5	0.5	4.3	-28.0	3.3
Real effective exchange rate (depreciation -)	12.4	6.6	-5.1	4.9	...	-3.0	...
(In percent of GDP, unless otherwise indicated)							
Investments and savings							
Gross domestic investment	21.8	11.4	16.8	16.0	23.7	18.9	7.8
Of which: government investment	15.6	6.2	10.8	10.0	18.1	12.0	4.1
Of which: restructuring programs 3/	0.0	0.0	0.0	0.3	3.8	1.2	2.7
Gross domestic savings	2.9	-10.0	-1.1	-10.6	-3.1	-11.6	-20.3
Of which: government savings	-2.9	-14.8	-3.3	-14.9	-9.6	-10.1	-14.7
Gross national savings	13.0	-1.8	4.8	2.8	0.6	0.0	-11.6
Government finances							
Budgetary revenue	15.3	5.4	17.8	19.2	16.4	19.6	19.3
(excluding fishing licenses)	9.6	4.8	11.5	15.6	12.0	15.5	15.6
Total primary expenditure	27.6	18.1	25.7	38.4	33.6	34.9	30.9
Current primary balance	5.4	-6.5	3.2	-8.8	0.8	-0.5	1.5
Overall balance (commitment basis)							
Including grants	-13.8	-16.2	-9.9	-10.8	-13.6	-10.7	-14.6
Excluding grants	-17.8	-19.4	-14.4	-24.9	-23.1	-23.7	-18.8
External current account (including official current transfers) 4/	-8.5	-13.2	-12.0	-13.2	-22.7	-18.9	-19.4
Excluding official current transfers	-22.5	-20.5	-22.3	-28.4	-29.4	-30.5	-27.8
Excluding official transfers other than fishing licenses	-17.0	-19.9	-16.6	-23.5	-25.0	-25.4	-24.2
Net present value of external debt/exports of goods and nonfactor services (in percent) 5/	...	...	1,030	934	669	824	814
Memorandum items:							
(In units indicated)							
Exchange rate							
CFA francs per U.S. dollar (period average)	583.7	590.0	615.7	712.0	707.6	728.0	711.5
Nominal GDP at market prices							
In billions of CFA francs	156.7	121.3	138.2	153.4	179.6	145.9	161.4
In millions of U.S. dollars	268.6	205.7	218.3	215.5	253.8	200.4	226.9
GDP per capita (in U.S. dollars)	238.0	178.6	185.0	178.1	204.7	161.6	178.5

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

1/ In 1997, at constant exchange rates and excluding recapitalization of the Central Bank of Guinea-Bissau (BCGB).

2/ In percent of beginning-of-period stock of broad money.

3/ Includes cost of demobilization and public service reform.

4/ For 2000-03, only includes project grants.

5/ After application of traditional debt-relief mechanisms.



Table 3. Guinea-Bissau: Central Government Operations, 2000-02

	2000		2001				2002 Ind.
	Jan-Dec		Aug-Nov		Jan-Dec		
	Prog.	Est.	STMP benchmark	Est.	Prog.	Est.	
(In billions of CFA francs)							
Tax revenue and grants	42.2	51.2	16.6	13.7	46.2	47.5	38.0
Budgetary revenue	25.5	29.5	9.1	8.2	29.4	28.5	31.2
Tax revenue	14.3	17.5	7.5	6.9	17.9	14.7	18.2
Nontax revenue	11.1	12.0	1.6	1.3	11.5	13.8	13.0
Grants	16.7	21.6	7.6	5.5	16.9	19.0	6.8
Food aid and budgetary support	2.1	12.6	0.0	0.0	0.0	6.1	5.4
Project grants	14.6	9.1	7.6	5.5	16.9	12.9	1.4
Total expenditure	54.6	67.7	22.7	24.1	70.8	63.2	61.5
Current expenditure	32.3	51.9	11.0	15.8	38.3	41.5	40.4
Current primary expenditure	23.7	43.1	7.6	12.3	27.9	29.3	28.7
Wages and salaries	9.8	10.5	3.2	4.1	10.2	11.3	10.8
Of which: civil service wages	...	3.1	1.6	1.3	3.6	4.3	4.4
Goods and services	8.3	10.9	1.6	2.7	11.2	6.7	10.3
Transfers, other current expenditures	5.6	5.3	3.2	3.0	6.5	6.8	7.1
Other current expenditures	...	3.9	...	2.1	...	3.9	...
Unallocated expenditures 1/	...	12.5	0.0	0.2	0.0	0.6	0.6
Scheduled external interest	8.6	8.8	3.3	3.3	10.4	11.6	11.0
Scheduled internal interest	0.0	0.0	0.0	0.2	0.0	0.6	0.6
Capital expenditure	20.9	15.8	11.6	8.3	32.5	21.6	21.1
Public investments	20.9	15.3	11.6	7.5	25.6	20.0	6.6
Domestically financed	3.1	3.5	0.8	1.3	5.0	2.5	0.5
Foreign financed	17.8	11.8	10.8	6.2	20.6	17.5	6.0
Demobilization expenditure	0.0	0.5	0.0	0.8	5.7	1.7	4.4
Restructuring operations	0.0	0.0	0.0	0.0	1.2	0.0	10.1
Overall balance, incl. grants	-12.4	-16.5	-6.0	-10.4	-24.5	-15.6	-23.5
Overall balance, excl. grants	-29.1	-38.2	-13.5	-15.9	-41.4	-34.6	-30.3
Current primary balance 2/	1.8	-13.5	1.4	-4.1	1.4	-0.8	2.4
Financing	12.4	16.5	6.0	10.4	24.5	15.6	23.5
Domestic financing	-11.3	5.1	0.1	5.5	-2.6	7.0	-4.6
Bank financing (incl. advances from projects)	-4.1	6.5	0.1	2.1	0.2	0.8	-4.6
Regular bank financing 3/	-4.1	4.4	0.1	1.5	0.2	-0.4	-1.5
Financing from project accounts	...	2.1	...	0.6	...	1.2	-3.0
Nonbank financing, incl. arrears	-7.2	-1.4	0.0	3.4	2.5	6.3	0.0
Delayed payments	-7.2	-1.4	0.0	3.4	-5.3	6.3	0.0
Arrears	-7.2	-2.1	0.0	3.4	-5.3	5.6	0.0
Privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	-121.1	9.7	4.6	4.0	-1.3	16.0	21.4
Drawings	11.3	10.2	2.2	0.7	12.9	4.6	13.7
Balance of payments loans	8.1	7.4	0.0	0.0	9.2	0.0	9.0
Project loans	3.2	2.7	2.2	0.7	3.7	4.6	4.6
Amortization	-12.2	-12.5	-2.6	-3.3	-14.2	-17.4	-20.9
Change in arrears 4/	-120.1	-122.6	-0.3	0.7	0.0	2.8	0.0
Debt relief	0.0	134.6	5.3	5.9	0.0	26.0	28.7
Float, errors and omissions	0.0	1.7	1.4	0.8	0.0	-7.4	0.0
Financing gap	144.8	0.0	0.0	0.0	28.5	0.0	6.6
(In percent of GDP)							
Tax revenue and grants	26.4	33.4	10.0	9.4	25.7	32.6	23.5
Budgetary revenue	15.9	19.2	5.5	5.6	16.4	19.6	19.3
Tax revenue	8.9	11.4	4.5	4.7	10.0	10.1	11.2
Nontax revenue	6.9	7.8	1.0	0.9	6.4	9.5	8.1
Grants	10.4	14.1	4.6	3.8	9.4	13.0	4.2
Total expenditure	34.1	44.1	13.7	16.5	39.4	43.3	38.1
Current expenditure	20.2	33.8	6.6	10.8	21.3	28.5	25.0
Current primary expenditure	14.8	28.1	4.6	8.4	15.6	20.1	17.8
Of which: wages and salaries	6.1	6.8	1.9	2.8	5.7	7.7	6.7
Scheduled external interest	5.4	5.7	2.0	2.3	5.8	8.0	6.8
Scheduled internal interest	0.0	0.0	0.0	0.1	0.0	0.4	0.4
Capital expenditure	13.1	10.3	7.0	5.7	18.1	14.8	13.1
Public investments	13.1	10.0	7.0	5.2	14.2	13.7	4.1
Domestically financed	1.9	2.3	0.5	0.9	2.8	1.7	0.3
Foreign financed	11.1	7.7	6.5	4.3	11.5	12.0	3.7
Demobilization expenditure	0.0	0.3	0.0	0.5	3.2	1.2	2.7
Restructuring operations	0.0	0.0	0.0	0.0	0.7	0.0	6.3
Overall balance, incl. grants	-7.8	-10.8	-3.6	-7.1	-13.6	-10.7	-14.6
Overall balance, excl. grants	-18.2	-24.9	-8.1	-10.9	-23.1	-23.7	-18.8
Current primary balance 2/	1.1	-8.8	0.8	-2.8	0.8	-0.5	1.5
Financing	7.8	10.8	3.6	7.1	13.6	10.7	14.6
Domestic financing	-7.1	3.3	0.1	3.8	-1.5	4.8	-2.8
Foreign financing	-75.7	6.3	2.8	2.8	-0.7	11.0	13.3
Float, errors and omissions	0.0	1.1	0.8	0.6	0.0	-5.1	0.0
Financing gap	90.6	0.0	0.0	0.0	15.9	0.0	4.1
Memorandum item:							
Nominal GDP	159.9	153.4	166.3	145.9	179.6	145.9	161.4

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

1/ In 2000, the unallocated expenditures include those not authorized and paid with *bons de virement* (CFAF 10.8 billion) and checks (CFAF 1.3 billion); the quarterly distribution during 2000 of these expenditures is not yet known.

2/ In 2001, excludes CFAF 1.5 billion (0.9 percent of GDP) in commitment arrears not reflected in spending data.

3/ Includes the government accounts in the Central Bank of West African States (BCEAO) statistics. At end-2000, the project balances were included in the BCEAO statistics.

4/ The amount in 2001 reflects payments due to bilateral, non-Paris Club creditors, which are currently under negotiation.

Table 4. Guinea-Bissau: Monetary Survey, 1999-2002

	1999	2000		2001		2002
	Dec. Est.	Prog.	Dec. Est.	Jun. Est.	Dec. Prov.	Dec. Prog.
(In millions of CFA francs)						
Net foreign assets	13,593	23,996	28,486	31,105	31,596	36,596
Central bank	15,356	26,621	33,553	35,676	37,290	42,290
Assets	23,036	33,463	...	...	...	...
Liabilities	-7,680	-6,842	...	...	...	...
<i>Of which: use of Fund resources</i>	-5,772	-8,123	...	...	...	...
Deposit money banks	-1,763	-2,625	-5,067	-4,571	-5,694	-5,694
Assets	5,707	1,181	5,953	3,606	2,850	2,850
Liabilities	-7,470	-3,806	-11,020	-8,177	-8,544	-8,544
Net domestic assets	24,593	21,680	35,533	42,911	38,875	39,327
Net domestic credit	20,883	17,628	20,322	25,706	19,838	20,291
Net claims on government	9,020	4,962	15,834	18,820	15,402	13,926
Net claims on central government	9,020	4,962	15,834	18,820	15,402	13,926
Central bank	10,088	6,029	16,753	20,123	16,547	15,547
Claims	13,081	16,485	20,392	20,356	20,288	20,148
Advances to treasury	6,719	10,123	14,201	14,201	14,201	14,201
Statutory limit	947	2,000	2,534	2,534	2,534	2,534
Use of Fund credit	5,772	8,123	11,667	11,667	11,667	11,667
Consolidated loans	6,362	6,362	6,190	6,155	6,087	5,947
Deposits	-2,994	-10,456	-3,639	-233	-3,742	-4,602
Deposit money banks	-1,067	-1,067	-919	-1,303	-1,144	-1,621
Claims	1	1	0	0	0	0
Deposits	-1,068	-1,068	-919	-1,303	-1,144	-1,621
Net claims on other government	0	0	0	0	0	0
Credit to the economy	11,863	12,666	4,488	6,886	4,436	6,365
Other items (net)	3,709	4,052	15,210	17,205	19,036	19,926
Liabilities	38,185	45,676	64,018	74,016	70,471	76,813
Broad money (M2X)	38,185	45,676	64,018	74,016	70,471	76,813
Local currency	38,185	45,676	64,018	74,016	70,471	76,813
Currency in circulation	24,033	31,645	44,245	53,778	53,195	57,983
Demand deposits and quasi money	14,152	14,030	19,774	20,238	17,275	18,830
Demand deposits	13,203	13,023	18,558	18,741	16,261	17,724
Quasi money	949	1,007	944	1,303	794	865
Other deposits	...	...	272	194	220	240
(In percent of beginning-of-period money stock, unless otherwise indicated)						
Net foreign assets	-11.4	27.2	39.0	4.1	4.9	7.1
Net domestic assets	16.3	-7.6	28.6	11.5	5.2	0.6
Domestic credit	17.4	-8.5	-1.5	8.4	-0.8	0.6
Credit to the government (excluding recapitalization of BCEAO)	14.8	-10.6	17.8	4.7	-0.7	-2.1
Credit to the economy (in percent)	8.7	6.8	-62.2	53.4	-1.2	43.5
Other items (net)	-1.1	0.9	30.1	3.1	6.0	1.3
Broad money (M2X)	4.9	19.6	67.7	15.6	10.1	9.0
Velocity (GDP/M2)	3.5	3.5	2.8	...	2.1	2.1

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

Table 5. Guinea-Bissau: Balance of Payments, 1997-2005

	1997	1998	1999	2000	2001	2001	2002	2003	2004	2005
				Est.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
(In millions of U.S. dollars)										
Goods and services	-50.7	-44.1	-40.3	-57.3	-67.9	-61.1	-63.7	-68.3	-78.3	-82.8
Goods	-24.6	-25.2	-14.4	-23.5	-36.2	-32.6	-36.0	-39.2	-47.2	-50.7
Exports, f.o.b.	48.5	25.9	51.2	62.1	74.6	47.2	51.0	57.7	63.4	69.5
Of which: cashew nuts	45.6	23.9	48.7	60.0	66.3	45.1	48.7	55.2	60.6	66.5
Imports, f.o.b.	-73.1	-51.1	-65.6	-85.6	-110.9	-79.8	-87.0	-96.9	-110.6	-120.2
Services (net)	-26.0	-19.0	-25.9	-33.7	-31.7	-28.5	-27.7	-29.2	-31.1	-32.1
Credit	8.0	3.9	4.6	6.4	9.3	7.3	8.7	9.7	11.0	12.5
Debit	-34.0	-22.9	-30.5	-40.1	-41.0	-35.8	-36.4	-38.9	-42.1	-44.6
Income (scheduled interest)	-14.3	-14.1	-14.3	-12.3	-13.8	-16.0	-15.5	-14.7	-12.5	-13.3
Current transfers (net)	41.3	31.1	27.6	41.1	24.2	39.3	35.4	25.1	26.7	27.3
Official <sup>1/</sup>	39.3	15.0	23.0	32.8	17.1	23.1	18.9	18.5	19.8	20.0
Of which: balance of payments support grants	16.0	7.6	1.3	15.9	0.0	7.3	7.6	0.0	0.0	0.0
fishing license fees	15.4	1.3	12.7	10.7	11.1	10.3	8.3	11.9	13.1	13.2
Private	2.0	16.1	4.6	8.3	7.1	16.2	16.5	6.6	6.9	7.3
Of which: nongovernmental organization grants	3.1	1.3	1.1	4.3	2.1	2.1	2.0	1.5	1.6	1.6
Current account	-23.7	-27.2	-27.0	-28.4	-57.5	-37.8	-43.8	-57.9	-64.1	-68.9
Including official transfers	-62.9	-42.2	-50.0	-61.3	-74.6	-61.0	-62.7	-76.4	-83.9	-88.9
Capital and financial balance	23.1	2.9	-7.6	37.2	21.3	3.3	1.3	5.3	8.4	1.1
Capital account (including transfers)	32.2	0.0	20.7	15.7	26.3	24.1	10.6	27.8	28.9	30.1
Financial account	-9.0	2.9	-28.3	21.4	-4.9	-20.8	-9.2	-22.5	-20.6	-28.9
Official medium- and long-term disbursements	25.7	10.2	2.4	14.3	18.3	6.3	19.5	8.2	8.2	8.0
Balance of payments support	0.0	3.7	0.0	10.2	13.0	0.0	13.0	0.0	0.0	0.0
IDA	0.0	0.0	0.0	10.2	13.0	0.0	13.0	0.0	0.0	0.0
African Development Fund	0.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects	25.7	6.5	2.4	4.1	5.3	6.3	6.5	8.2	8.2	8.0
Scheduled amortization	-18.3	-17.8	-19.7	-17.5	-23.2	-23.9	-27.8	-30.7	-28.8	-36.9
Commercial banks' net foreign assets	-5.8	6.0	4.5	4.6	0.0	0.7	-0.9	0.0	0.0	0.0
Private capital; errors and omissions	-10.6	4.5	-15.5	20.0	0.0	-3.9	0.0	0.0	0.0	0.0
Overall balance	-0.5	-24.2	-34.6	8.7	-36.2	-34.5	-42.4	-52.6	-55.8	-67.7
Financing	0.5	24.2	34.6	-8.7	-6.4	34.5	33.1	34.0	21.2	-6.8
Net foreign assets (increase -) <sup>2/</sup>	-24.7	-1.0	6.2	-25.6	-6.4	-5.1	-7.0	-6.8	23.3	-4.9
Of which: net IMF credit	5.1	2.6	4.0	8.4	3.5	-0.4	3.4	2.0	-2.1	-1.9
Purchases and loans	6.2	3.2	4.7	8.6	4.0	0.0	3.9	3.9	0.0	0.0
Repayments	-1.0	-0.6	-0.6	-0.2	-0.5	-0.4	-0.5	-1.9	-2.1	-1.9
Debt reschedulings obtained	9.4	3.7	0.0	189.0	0.0	35.7	40.1	40.8	0.0	0.0
Change in debt-service arrears (decrease -) <sup>3/</sup>	15.8	21.5	28.4	-172.2	0.0	3.9	0.0	0.0	0.0	0.0
Financing gap (+)	0.0	0.0	0.0	0.0	42.6	0.0	9.3	18.6	34.5	74.6
(In units indicated)										
Memorandum items:										
Export volume growth (in percent)	115.6	-37.3	63.5	25.6	8.5	6.6	5.0	9.8	6.6	6.5
Import volume growth (in percent)	29.7	-26.1	27.0	35.7	23.1	-5.9	9.4	9.9	11.6	6.5
Scheduled debt service										
In percent of exports and service credits	57.7	106.9	60.9	43.5	43.7	72.8	71.9	66.7	54.9	60.6
In percent of total government revenues	79.3	285.1	87.4	81.6	88.5	95.7	91.1	83.9	71.0	53.0
Current account balance (in percent of GDP)										
Including official transfers	-8.5	-13.2	-12.0	-13.2	-22.6	-18.9	-19.4	-23.3	-23.5	-23.1
Excluding official transfers	-22.5	-20.4	-22.3	-28.4	-29.4	-30.5	-27.8	-30.8	-30.7	-29.8
Excluding official transfers other than fishing licenses	-17.0	-19.8	-16.6	-23.5	-25.0	-25.4	-24.2	-26.0	-25.9	-25.4
Excluding interest and official transfers other than fishing licenses	-11.9	-12.9	-10.3	-17.7	-19.5	-17.4	-17.3	-20.1	-21.3	-20.9

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

<sup>1/</sup> This figure takes into account World Food Program (WFP) food aid and technical assistance to projects.

<sup>2/</sup> In 1997, balance of payments presentation differs from monetary survey as the treasury took over US\$23.7 million of external liabilities from the Central Bank of Guinea-Bissau in the context of its recapitalization.

<sup>3/</sup> The amount in 2001 reflects payments due to bilateral, non-Paris Club creditors, which are currently under negotiations.

Table 6. Guinea-Bissau: Medium-Term Scenario, 1997-2005

	1997	1998	1999	2000	2001	2002	2003	2004	2005
	(Annual percentage change)								
<b>National income and prices</b>									
Real GDP (factor cost)	6.3	-27.8	6.9	6.8	1.0	5.3	6.8	7.5	8.0
Real GDP (market prices)	6.5	-28.2	7.6	7.5	0.2	5.7	6.9	7.6	8.1
Real GDP (factor cost; per capita)	4.4	-29.6	5.0	4.9	-2.2	3.1	4.6	5.3	5.8
Consumer price index (period average)	49.1	8.1	-2.1	8.6	3.3	3.5	3.0	3.0	3.0
<b>External sector</b>									
Export volume	115.6	-37.3	63.5	25.7	6.0	5.0	9.8	6.6	6.5
Import volume	29.7	-26.1	27.0	35.7	-5.9	9.4	9.9	11.6	6.5
Terms of trade (-deterioration)	4.9	-9.8	19.5	0.5	-28.0	3.3	1.7	0.8	0.9
Real effective exchange rate (-depreciation) 1/	12.4	6.6	-5.1	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)								
<b>Investment and savings</b>									
Investment	21.8	11.4	16.8	16.0	18.9	7.8	21.1	23.1	22.9
Central government	15.6	6.2	10.8	10.0	12.0	4.1	14.5	16.1	15.2
Other	6.2	5.2	6.0	6.0	6.9	3.7	6.6	7.0	7.6
Gross national saving	13.0	-1.8	4.8	2.8	0.0	-11.6	-2.2	-0.4	-0.2
Central government	-2.9	-14.8	-3.3	-14.9	-10.1	-14.7	-7.2	-6.5	-6.0
Other	15.8	13.0	8.1	17.7	10.1	3.1	5.0	6.1	6.2
<b>Government budget</b>									
Revenue and grants	28.0	8.7	22.3	33.4	32.6	23.5	27.6	28.3	29.0
Total expenditure	41.8	24.9	32.2	44.1	43.3	38.1	32.6	31.0	31.0
Overall balance (commitment basis)									
Including grants	-13.8	-16.2	-9.9	-10.8	-10.7	-14.6	-6.0	-5.0	-4.0
Excluding grants	-17.8	-19.4	-14.4	-24.9	-23.7	-18.8	-16.4	-14.1	-12.0
<b>External sector</b>									
Current external balance									
Including official transfers	-8.5	-13.2	-12.0	-13.2	-18.9	-19.4	-23.3	-23.5	-23.1
Excluding official transfers	-22.5	-20.4	-22.3	-28.4	-30.5	-27.8	-30.8	-30.7	-29.8
Gross international reserves 2/	5.0	4.8	3.2	6.9	7.0	7.2	7.1	4.7	4.6
External debt (in millions of U.S. dollars) 3/	...	...	844	820	796	768	739	707	679
External debt (in millions of U.S. dollars) 4/	...	...	749	756	778	788	793	807	805
Net present value (NPV) of external debt 5/	...	...	1030	934	824	814	819	740	658

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

1/ End of period.

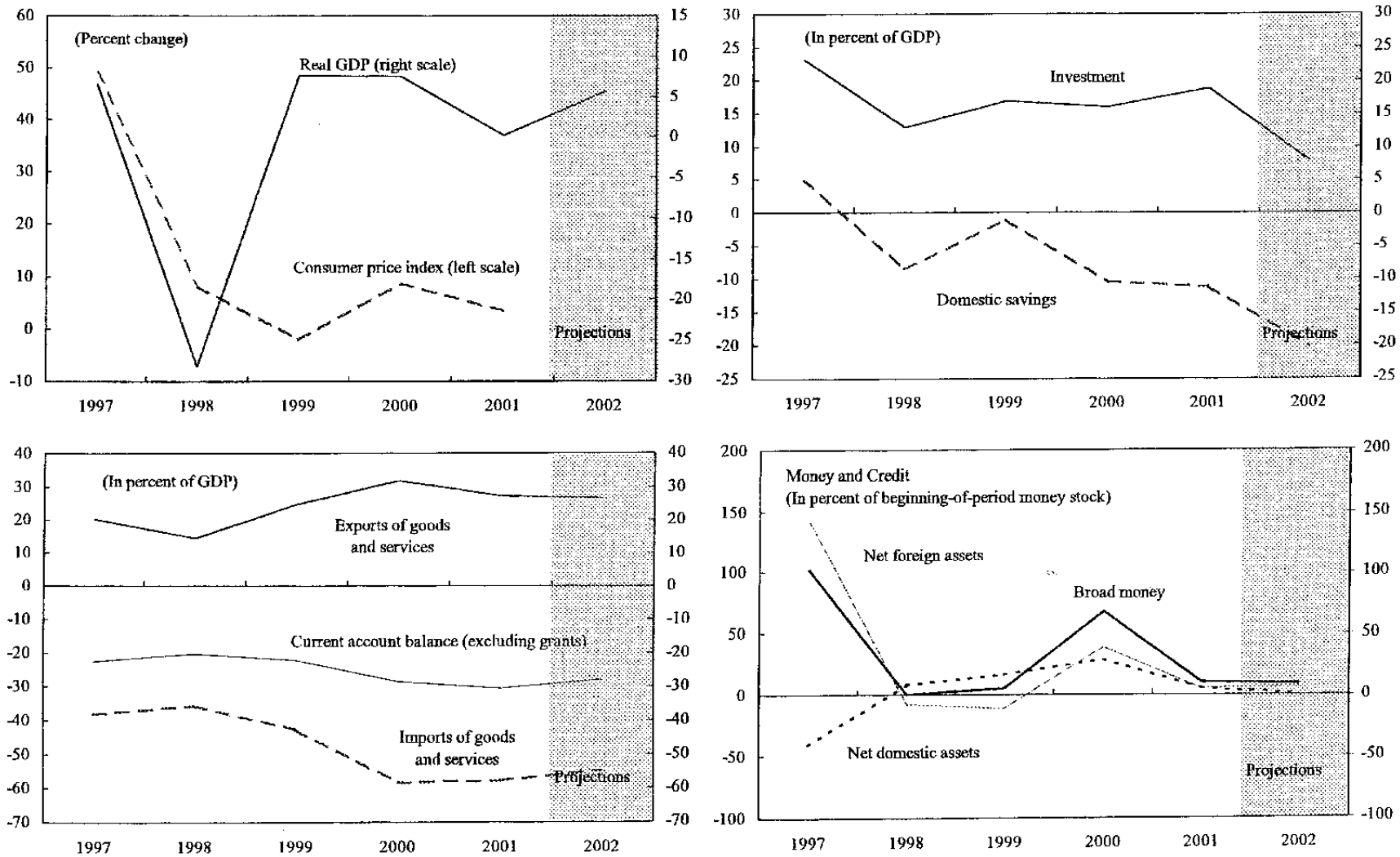
2/ In months of the following year's imports of goods and services.

3/ Before traditional debt relief.

4/ After traditional debt relief.

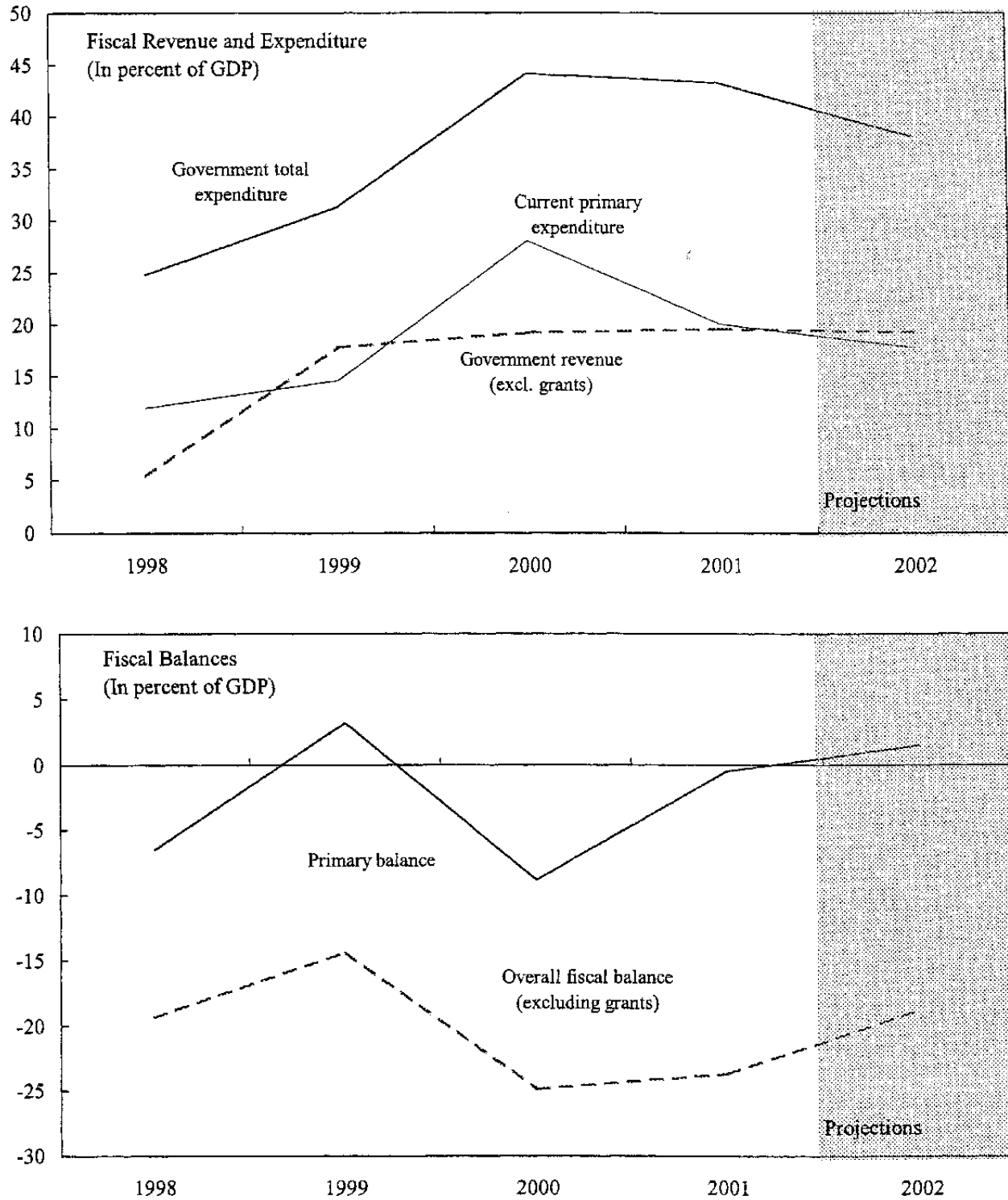
5/ In percent of three-year average of exports of goods and services.

Figure 1. Guinea-Bissau: Selected Indicators, 1997-2002



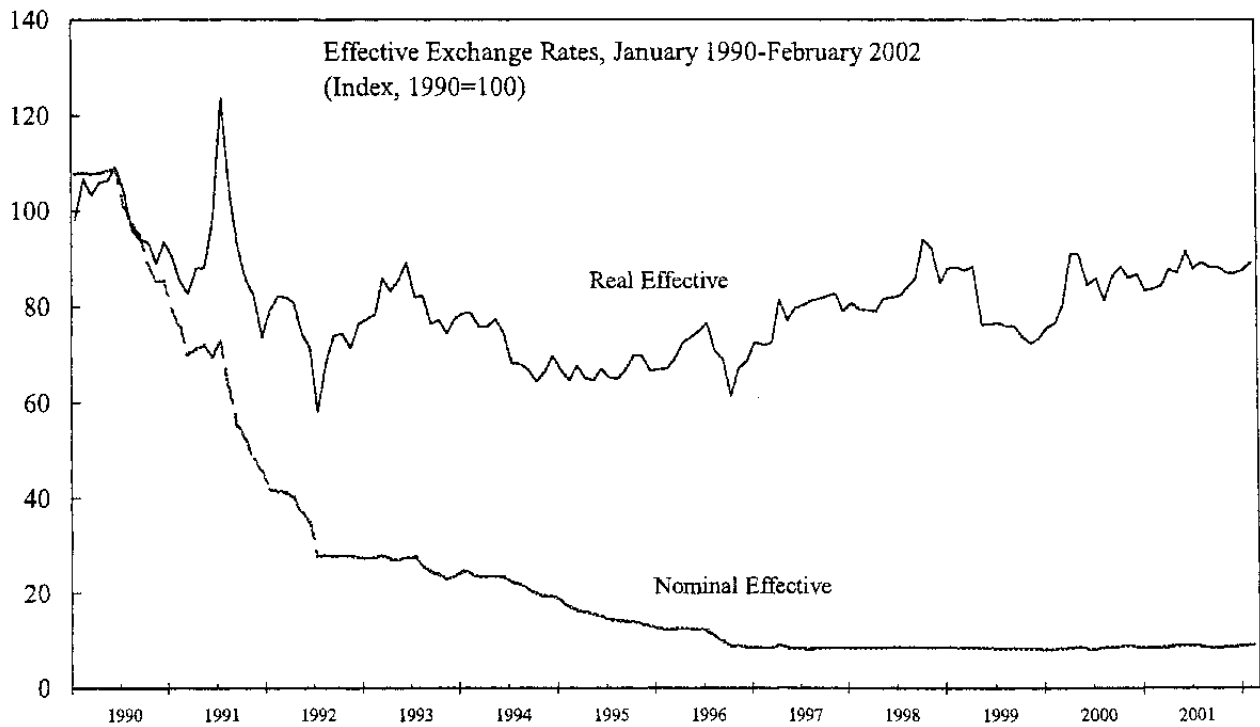
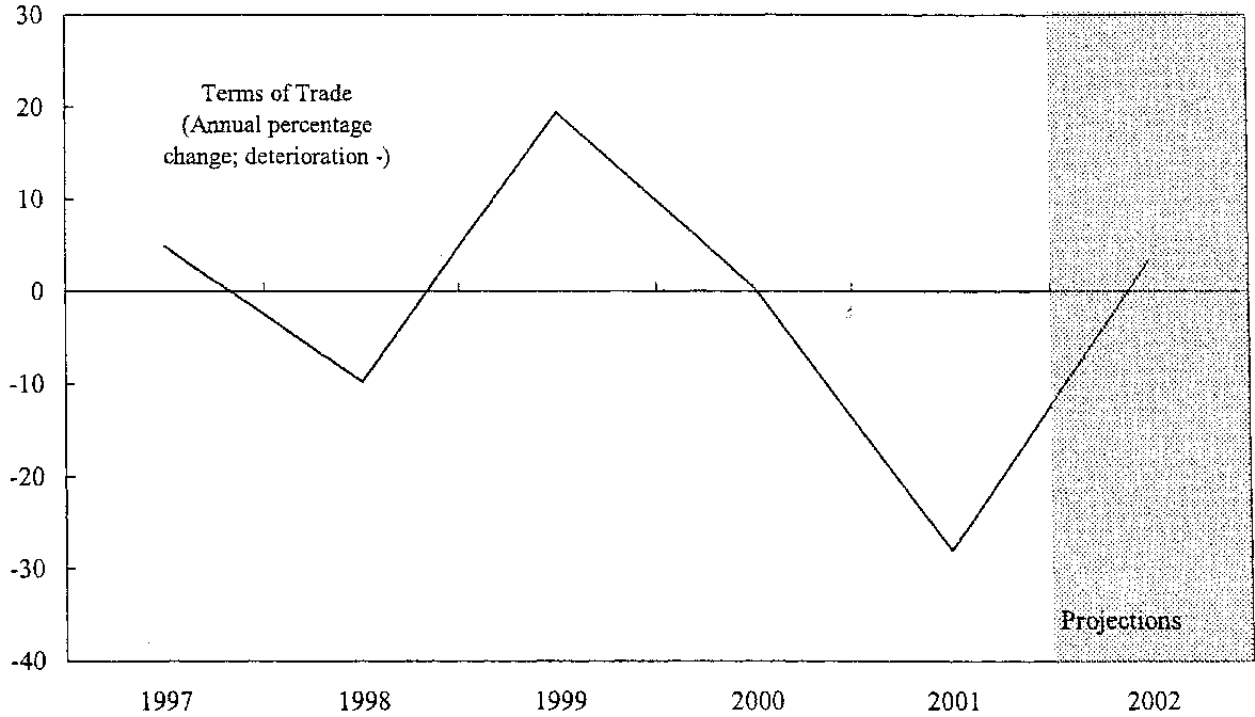
Sources: Guinea-Bissau authorities; and Fund staff estimates and projections.

Figure 2. Guinea-Bissau: Fiscal Indicators, 1998-2002



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

Figure 3. Guinea-Bissau: External Sector Indicators, 1997-2002



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

**Guinea-Bissau: Relations with the Fund**

(As of March 31, 2002)

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

II. <b>General Resources Account:</b>	<b>SDR million</b>	<b>% Quota</b>	
Quota	14.20	100.00	
Fund holdings of currency	17.75	125.00	
Reserve position in Fund	0.00	0.00	

III. <b>SDR Department:</b>	<b>SDR million</b>	<b>% Allocations</b>	
Net cumulative allocation	1.21	100.00	
Holdings	0.15	12.07	

IV. <b>Outstanding Purchases and Loans:</b>	<b>SDR million</b>	<b>% Quota</b>	
Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction and Growth Facility (PRGF) arrangements	14.74	103.80	
First credit tranche	3.55	25.00	

V. **Financial Arrangements:**

<b>Type</b>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>	
PRGF	12/15/2000	12/14/2003		14.20	5.08
ESAF	01/18/1995	07/24/1998		10.50	10.50
Struc. Adj. Facility (SAF)	10/14/1987	10/13/1990		5.25	3.75

VI. **Projected Obligations to the Fund  
Under the Repurchase Expectations Assumptions<sup>1</sup>  
(SDR million; based on existing use of resources and present holdings of SDRs):**

	<u>Overdue 12/31/2001</u>	<u>2002</u>	<u>2003</u>	<u>Forthcoming 2004</u>	<u>2005</u>	<u>2006</u>
Principal	0.0	1.10	3.50	3.60	2.10	2.60
Charges/interest	0.0	0.20	0.20	0.10	0.10	0.10
Total	0.0	1.30	3.70	3.70	2.20	2.70

<sup>1</sup> Disbursements made after November 28, 2000—with the exception of disbursements of emergency assistance and loans from the Poverty Reduction and Growth Facility—are expected to be repaid on the expectations schedule. Countries may request the IMF Executive Board to make repayments according to the obligations schedule if their external payments position is not strong enough to meet the repayment expectations without undue hardship or risk. Please note: Repayments under the Supplemental Reserve Facility are scheduled to be repaid on the expectations schedule. See also Repayment Schedules and IMF Lending.



**Guinea-Bissau: Relations with the Fund**

**VII. Implementation of HIPC Initiative:**

Commitment of HIPC assistance	Enhanced <u>Framework</u>
Decision point date	Dec. 2000
Assistance committed (NPV terms) <sup>2</sup>	end-1999
Total Assistance by all creditors (US\$ Million)	416.00
Of which: IMF Assistance (SDR Million)	9.20
Completion point date	Floating
Delivery of Fund assistance (SDR Million)	
Amount disbursed	0.54
Interim assistance	0.54
Completion point	0.00
Amount applied against member's obligations (cumulative) <sup>3</sup>	0.55

**VIII. Safeguards Assessments:**

Under the Fund's safeguards assessment policy, the Central Bank of the West African States (BCEAO), of which Guinea-Bissau is a member, is subject to a full safeguards assessment. An off-site safeguards assessment of the BCEAO was completed on July 25, 2001. The assessment concluded that high risks may exist in the financial reporting framework and recommended an on-site assessment. An on-site safeguards assessment of the BCEAO was completed on March 5, 2002. BCEAO authorities and Fund staff have reached an understanding regarding the implementation of key recommendations related to financial reporting and internal control (see attachment to this appendix).

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<sup>2</sup> NPV terms at the decision point under the enhanced framework.

(continued...)

## IX. 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. Guinea-Bissau joined the West African Monetary Union (WAMU), and the exchange system common to all members of the union is free of restrictions on payments and transfers for current international transactions. Starting in January 1, 1999, the CFA franc has been pegged to the euro at a fixed rate of EUR 1=CFAF 655.95. On March 31, 2002, the rate of the CFA franc in terms of the SDR was CFAF 941.42=SDR 1.

## X. Article IV Consultation

Guinea-Bissau is on the standard 12-month consultation cycle. The last Article IV consultation discussions with Guinea-Bissau were held in Bissau during July 3-16, 2000. The staff report (EBS/00/246; 12/15/2000) was discussed by the Executive Board on December 15, 2000. A statistical annex (SM/00/272; 12/01/00) was also circulated to the Board.

## XI. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
MAE	Expert	March 20-July 23, 1994	Assisting in banking supervision
MAE	Expert	June 6, 1994- January 26, 1997	Assisting in monetary policy
MAE	Expert	June-December 1995	Advising on bank accounting
STA	Staff	March 4-15, 1996	Assessing the quality of monetary, balance of payments, and government statistics
FAD	Staff	September 8-24, 1996	Advising on tax administration and tax policy
FAD	Staff	March 9-25, 1997	Advising on import tariff reform and the design of a general sales tax (GST)

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<sup>3</sup> The amount applied against Guinea-Bissau's obligations includes interest income earned on resources while in Guinea-Bissau's subaccount within the Umbrella Account for HIPC Operations.

MAE	Expert	June-September 1997 (three short-term missions)	Assisting in the transformation of the central bank into a branch of the Central Bank of West African States (BCEAO)
FAD	Expert	September 8-24, 1997	Assisting in the design and the implementation of GST and in strengthening fiscal control
FAD	Expert	October 19, 1997- April 10, 1998	Assisting in GST implementation
FAD	Expert	June 3-15, 1998	Assisting in GST implementation
FAD	Expert	January 1, 1999-March 2, 1999	Tax administration advisor
FAD	Expert	April 15, 1999-June 14, 1999	Tax administration advisor
FAD	Staff	July 13-27, 1999	Assessing budget management and the tax system
FAD	Expert	January 24, 2000-March 5, 2000	Tax administration advisor
FAD	Expert	January 2001	Tax administration advisor
FAD	Expert	February 2001	Peripatetic public expenditure management advisor

## XII. Resident Representative

The post of resident representative was opened in September 1997 and is covered by the Resident Representative in Senegal, Mr. Koffi Yao.

### Safeguards Assessment of the BCEAO

The Central Bank of the West African States (BCEAO) is the common central bank of the West African States, which includes Guinea-Bissau. An on-site safeguards assessment of the BCEAO proposed specific remedies to alleviate vulnerabilities that were identified by staff. Although Fund staff and BCEAO authorities disagreed on the initial modalities of the recommendations, the following specific understandings were subsequently reached regarding the key remedies.

**Financial Reporting Framework:** Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS), and publish a complete set of financial statements, including detailed explanatory notes. It was agreed between the BCEAO and Fund staff that **the BCEAO will strive to improve its financial and accounting reporting by aligning its practices with those recommended by IAS, as adopted internationally by other central banks.**

**Internal Controls System:** The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represents a significant risk. It was agreed between the BCEAO and Fund staff that, after seeking the opinion of the external auditor ("Commissaire Contrôleur"), BCEAO staff will propose to the BCEAO Board of Directors that they adopt a resolution whereby **the external auditor will be required to apprise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the Bank.**

The staff will follow-up on the progress of the BCEAO in implementing the proposed recommendations as part of the on-going safeguards monitoring process.

## **Guinea-Bissau: Relations with the World Bank Group**

1. As of March 31, 2002, IDA had approved 27 credits for Guinea-Bissau. Eight credits had been in the transport and infrastructure sector, three in the energy sector, three for strengthening the country's management capability (Technical Assistance (TA)/Economic Management), two for financing urgently needed imports in support of the government's economic recovery program, one in the agricultural sector, two in the health sector, two in the education sector, one social sector project, three for structural adjustment, one for economic rehabilitation and recovery, and one for private sector rehabilitation and development. The total value of these projects amounts to about US\$295.9 million equivalent, of which 241.0 million has been disbursed. As of end-March 31, 2002, the undisbursed balance was US\$55.9 million.

### **Structural adjustment credits**

2. IDA has approved a total of US\$63.4 million for structural adjustment operations. These include two Structural Adjustment Credits (SACs), one supplementary SAC, and one Economic Rehabilitation and Recovery Credit (ERRC). The SACs supported the government's program in the areas of economic liberalization and reform of the public administration and public enterprise sectors, and the ERRC supports peace building following the political unrest, promotes the revival of the economy and encourages the pursuit of reforms. Parallel financing of the SACs came from Switzerland (US\$5.3 million equivalent), the Saudi Fund for development (US\$3.2 million equivalent), the International Fund for Agricultural Development (US\$5.3 million equivalent), the African Development Fund (US\$23.3 million equivalent), the Netherlands (US\$7.5 million equivalent), the U.S. Agency for International Development (USAID) (US\$4.5 million), and Japan (US\$2 million equivalent).

### **Lending program**

3. IDA has in the pipeline, an HIV/AIDS project for fiscal year (FY) 2004. The World Bank is assisting the country with the Initiative for the Heavily Indebted Poor Countries (HIPC Initiative). A Transitional Support Strategy (TSS) is planned for FY2003.

### **International Finance Corporation (IFC)**

4. The IFC's current portfolio consists of two investments: one in agribusiness (US\$0.19 million—loan disbursed), and one in the financial sector (US\$0.28 million) to support a commercial bank (*Banco da Africa*).

## Statement of Loans/Credits

**Loan/Credit Accounts List as of December 31, 2001**  
**26 Records Retrieved—Sorted by Approval Date**

Credit	Project		Amount (In millions of U.S. dollars)			Approval Date	Closing Date
	ID	Description	Principal	Undisbursed	Disbursed		
33490	P065725	Economic rehabilitation and recovery	25	12.3	10.7	16-May-00	31-Dec-02
30100	P035688	National Health Development Program	11.7	8.3	2.5	25-Nov-97	31-Dec-03
29600	P001015	Basic education	14.3	10.3	3	10-Jun-97	31-Mar-03
		Outstanding accounts	51	30.9	16.2		
27480	P035915	Transport and urban infrastructure	22.0	0.0	19.4	22-Jun-95	31-Dec-00
24650	P001002	Social	8.8	0.1	9	23-Feb-93	30-Jun-00
20201	P001007	Social and infrastructure relief	2.9	0.0	2.7	5-May-92	31-Jul-94
23420	P001011	Technical assistance	7.2	0.2	7.1	19-Mar-92	31-Oct-00
22370	P001000	Energy	15.2	0.0	13.4	7-May-91	31-Dec-97
20740	P001003	Infrastructure rehabilitation	23.6	0.0	25.9	14-Dec-89	31-Dec-96
20190	P000993	SAC II	23.4	0.0	24.3	18-May-89	31-Dec-94
20200	P001007	Social and infrastructure relief	5.2	0.0	5.2	18-May-89	30-Jun-93
19350	P001005	Technical assistance II	9.7	0.0	9.4	23-Jun-88	31-Dec-93
19140	P000988	Education	4.3	0.0	4.3	7-Jun-88	31-Dec-95
17980	P000983	Structural adjustment loan	10.5	0.0	10.5	21-May-87	31-Jul-90
17990	P000995	Agricultural services	3.7	0.0	4.3	21-May-87	30-Sep-94
18000	P000994	PHN	4.2	0.0	4.5	21-May-87	31-Dec-91
A0260	P000983	Structural adjustment loan	5.2	0.0	5.2	21-May-87	31-Jul-90

### Statement of Loans/Credits (concluded)

Credit	Project		Amount (In millions of U.S. dollars)				
	ID	Description	Principal	Undisbursed	Disbursed	Approval Date	Closing Date
A0140	P000981	Rehabilitation imports	5.8	0.0	5.8	22-Apr-86	31-Dec-89
15310	P000981	Rehabilitation imports	10.0	0.0	11.1	13-Dec-84	30-Jun-89
15170	P000982	Technical assistance	6.0	0.0	7.2	11-Sep-84	31-Dec-88
14730	P000980	Highways II	4.8	0.0	4.8	8-May-84	30-Jun-90
F0180	P000980	Highways II	4.7	0.0	4.7	8-May-84	30-Jun-90
13920	P000979	Port Bissau	16.0	0.0	17.2	23-Jun-83	30-Jun-90
13340	P000978	Oil exploration II	13.1	0.0	12.2	15-Mar-83	30-Jun-90
10950	P000977	Petroleum	6.8	0.0	6.1	13-Jan-81	31-Dec-86
8780	P000976	Roads	9.0	0.0	9.0	30-Jan-79	30-Sep-83
		Closed accounts	<b>218.9</b>	<b>0.3</b>	<b>223.3</b>		
		<b>Total</b>	<b>269.9</b>	<b>31.2</b>	<b>239.5</b>		

## CAS Annex B8 (IFC) for Guinea-Bissau

### Statement of IFC's Held and Disbursed Portfolio

(As of 10/31/2001; in millions of U.S.dollars)

FY Approval	Company	Held				Disbursed			
		Loan	Equity	Quasi Participation	Loan	Equity	Quasi Participation		
1994	AEF Agribissau	0.25	0.00	0.00	0.00	0.25	0.00	0.00	0.00
1998	Banco da Africa	0.00	0.28	0.00	0.00	0.00	0.28	0.00	0.00
Total portfolio		0.25	0.28	0.00	0.00	0.25	0.28	0.00	0.00



## **Guinea-Bissau: Statistical Issues**

Before the conflict, Guinea Bissau's statistical database was comprehensive, but significant weaknesses remained, particularly in the areas of national income accounts, the consumer price index (CPI), and the balance of payments. These weaknesses did not, however, impede a meaningful assessment of economic development and policies.

During the conflict, much of the country's computer equipment was severely damaged, and many key technicians left the country; as a result, data collection was severely impaired, except for trade data and consumer prices. In early 1999, the authorities made a determined effort to reestablish their data capacities and were able to recover most information about production, government finances, and monetary and balance of payments developments lost during the conflict, owing to the assistance of various institutions, including UN agencies and the World Bank, which provided equipment and data.

Guinea-Bissau is a participant in the General Data Dissemination System (GDDS). Its GDDS metadata have been posted on the Fund's Dissemination Standards Bulletin Board since November 2001.

### **Outstanding statistical issues**

In March 1994, the *International Financial Statistics (IFS)* introduced a country page for Guinea-Bissau. Updates are now being reported in a timely manner, with the exception of external trade, which is available only on an annual basis (currently available for 2000) and fiscal sector statistics. Annual national accounts reports have improved, with current price data having been received until 1998. However, constant price GDP remains seriously out of date, with the most recent data having been received for 1997. Balance of payments data reported to STA for publication in the *IFS* currently lag more than three years.

### **The authorities' stance on statistical matters**

The Guinea-Bissau authorities are aware of the shortcomings of the country's database and have been receptive to the staff's recommendations on how to effect improvements. They are also committed to making public basic national statistics.

### **National accounts**

The inadequate statistical coverage of the national accounts remains the major hurdle to improving the country's databases. For the past four years, the United Nations Development Program (UNDP), in conjunction with bilateral donors, has assisted the National Institute of Statistics and Census (INEC) in improving real sector statistics, and, during 1995-96, Fund staff was provided with thoroughly revised estimates of the national accounts beginning in 1986. However, the GDP aggregate is mostly based on crude assumptions, which, in turn, are based on data from 1986. In view of the existing resource

constraints, the March 1996 STA mission recommended that the INEC emphasize improving production statistics, particularly in agriculture and industry, to enhance the reliability of national accounts estimates. The authorities have requested Fund technical assistance, which should also aim at training personnel, in order to finalize the national accounts after 1995. The INEC has been seriously affected by the armed conflict, and it requires technical assistance to rebuild its capacity to produce production statistics.

### **Consumer prices**

The CPI currently compiled is limited to foodstuffs, beverages, and tobacco in the city of Bissau. As part of the background work for the national accounts revision, a comprehensive household budget survey was completed in 1994 and is intended to serve as the basis for a broadened consumer price index. However, there have been serious delays in finalizing the compilation of the new index.

### **Government finance**

The government finance statistics for Guinea-Bissau held in the STA database cover the period 1983 through 1989. Consequently, a country page for Guinea-Bissau has been excluded from the *Government Finance Statistics (GFS) Yearbook* since 1995. The authorities have made substantial progress in preparing timely reports on monthly and quarterly budgetary execution; since early 1998, the quarterly reports have been widely circulated to relevant national institutions. The March 1996 STA mission suggested adjustments to these data that would make them suitable for publication in both *IFS* and the *GFS Yearbook*. There were, however, setbacks as a result of the armed conflict. The authorities intend to address the main shortcomings, with technical assistance from donors.

### **Monetary accounts**

Following its incorporation into the West African Monetary Union and membership in the Central Bank of West African States (BCEAO) on May 1, 1997, Guinea-Bissau ceased to report data directly to the Fund for publication in *IFS*. From that date onward, the BCEAO assumed responsibility for compiling and reporting to STA monetary data for Guinea-Bissau, as is the practice for other member countries in the union. Guinea-Bissau has adopted the new accounting and reporting procedures for monetary and financial statistics in accordance with the BCEAO's guidelines. Data for the monetary authorities and the deposit money banks through December 2001 are published in *IFS*. The BCEAO has experienced difficulties in estimating currency in circulation in each WAEMU member country because of the large backlog of unsorted banknotes held by the central bank in its various national agencies. A monetary and financial statistics mission visited the headquarters of the BCEAO in May 2001. The mission provided technical assistance in addressing the main shortcomings pertaining to coverage, methodology, and timeliness of monetary statistics. The mission discussed and agreed with the authorities on an action plan for the implementation of the *Monetary and Financial Statistics Manual* and for the introduction later in 2002 of an area-wide page in *IFS* for the West African Economic and Monetary Union (WAEMU).

### **Balance of payments**

Guinea-Bissau reports balance of payments data to AFR for operational purposes on a regular basis using information from customs (for trade) and from other sources (for invisible transactions). Improvements have been made in the preparation of data on services and transfers of the capital account, but the accuracy of the related surveys should be further enhanced.

### **External debt**

To correct for weaknesses in external debt statistics and debt management, the authorities adopted in November 1997 the Debt Management and Financial Analysis System (DMFAS) of the United Nation Conference on Trade and Development (UNCTAD), which became operational in early 1998. During the conflict, the debt computer system was severely damaged, and no progress has been made yet in rehabilitating it. As a result, debt data have not been maintained since mid-1998.

### **Recent technical assistance in statistics**

In March 1996, the STA fielded a multisector mission to Bissau and subsequently produced a report with its major findings and recommendations.

Guinea-Bissau: Core Statistical Indicators  
(As of May 22, 2002)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest Observation	4/30/02	3/31/02	3/31/02	3/31/02	3/31/02	4/30/02	3/31/02	Dec. 01	Dec. 01	3/31/02	Dec. 01	Dec. 01
Date received	5/1/02	4/25/02	4/25/02	4/25/02	4/25/02	5/8/02	4/25/02	3/25/02	3/25/02	4/25/02	4/25/02	4/25/02
Frequency of data 1/	D	M	M	M	M	M	M	Q	A	Q	A	Q
Frequency of reporting 1/	D	M	M	M	M	M	M	Q	A	Q	A	Q
Source of data 2/	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	Ministry of Economy and Finance	BCEAO	BCEAO	Ministry of Economy and Finance	Ministry of Economy and Finance	Ministry of Economy and Finance
Mode of reporting	On-line	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	3/	3/	3/	3/	No	No	3/	3/	3/	3/	3/
Frequency of publication 1/	D	M	M	M	M	M	M	A	A	A	A	A

1/ Frequency of data, reporting, and publication: D= daily; M= monthly; Q= quarterly; and A= annually.

2/ Source of data: BCEAO= Central Bank of West African States.

3/ Preliminary use for staff only; actual data unrestricted.

## Guinea-Bissau: Income and Social Indicators, 1970-2001

Item	Unit of Measurement	Latest Single Year			Estimate					
		1970-75	1980-85	1990-95	1996	1997	1998	1999	2000	2001
<b>Population</b>										
Population (midyear)	Thousands	627	886	1,044	1,066	1,129	1,152	1,180	1,210	1,240
Population growth rate	Annual average in percent	...	1.8	2.1	2.1	2.1	2.0	2.5	2.5	2.5
Total fertility rate	Births per woman	5.9	6.0	6.0	5.9	5.9	5.8	5.7	5.7	5.7
<b>Poverty</b>										
National poverty line	CFA francs	...	...	134,417	...	...	...	...	...	...
Urban poverty line	CFA francs	...	...	204,501	...	...	...	...	...	...
Rural poverty line	CFA francs	...	...	106,651	...	...	...	...	...	...
National head count index	Percent of population	...	...	49.0	...	...	...	...	...	...
Urban head count index	Percent of population	...	...	15.5	...	...	...	...	...	...
Rural head count index	Percent of population	...	...	84.5	...	...	...	...	...	...
<b>Income</b>										
GDP per capita 1/	U. S. dollars	200.0	190.0	240.0	226.6	247.6	179.3	190.2	178.1	161.6
Consumer price index	Annual average (percent)	...	...	45.4	65.6	49.1	8.0	-2.1	8.6	3.3
<b>Income/consumption distribution</b>										
Share of income distribution										
Lowest quintile	Percent of income	...	...	2.0	...	...	...	...	...	...
Highest quintile	Percent of income	...	...	59.0	...	...	...	...	...	...
<b>Social indicators</b>										
Share of public expenditure										
Health	Percent of GDP	...	...	2.9	...	...	...	1.2	2.5	2.4
Education (primary school)	Percent of GDP	...	...	3.5	...	...	...	1.6	3.9	3.5
Gross primary school enrollment rate										
Total 2/	Percent of school-age group	64.0	68.0	53.0	59.0	62.0	...	...	...	57.0
Male	Percent of school-age group	90.0	94.0	69.0	...	79.0	...	...	...	...
Female	Percent of school-age group	39.0	43.0	38.0	...	45.0	...	...	...	43.0
Illiteracy (in percent of population more than 15 years)										
Male	...	...	...	59.0	...	...	...	42.0	...	...
Female	...	...	...	86.0	...	...	...	82.0	...	...
Access to safe water										
Total	Percent of population	...	21.0	24.9	...	...	53.0	...	...	...
Urban	Percent of population	...	17.0	17.5	...	...	38.0	...	...	...
Rural	Percent of population	...	22.0	27.1	...	...	57.0	...	...	...
Immunization (under 12 months)										
Measles	Percent of age group	...	35.0	...	...	...	...	19.0	...	...
DPT3	Percent of age group	...	18.0	45.0	...	...	...	6.0	...	...
Child (under-5) malnutrition rate	Percent of age group	...	24.1	...	...	...	...	...	...	...
Life expectancy at birth	Years	36.0	38.0	38.0	44.0	44.0	...	44.0	...	...
Infant mortality rate	Per 1,000 live births	183.0	163.0	138.0	132.0	130.0	...	127.0	125.7	...
Under-5 mortality rate	Per 1,000 live births	...	...	231.0	...	...	...	214.0	211.3	...
Births assisted	Percent	...	...	...	...	...	...	...	...	...
Maternal mortality rate	Per 100,000 live births	900	...	...	800	...	...	910.0	...	...

Sources: World Bank, *Social Indicators of Development*, 1996; and World Bank staff estimates.

1/ World Bank Atlas method.

2/ 1996 estimate based on database established in the Ministry of Education, which improved coverage of the system by including the private sector.

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

**Staff Report for the 2002 Article IV Consultation  
Supplementary Information**

Prepared by Staff Representatives for the  
2002 Consultation with Guinea-Bissau

Approved by Donal Donovan and Masood Ahmed

June 25, 2002

1. This statement provides information on economic developments that became available after the staff report (SM/02/178) was circulated to the Executive Board.
2. Following the rejection by the National Assembly in April 2002 of the Government's budget for 2002, a revised budget was submitted in early-June. The revised budget excluded provision for the cost of a 75 percent wage increase agreed with civil service unions at the beginning of April 2002 but included a reduction in the tax on cashew nut exports, from 10 percent to 6 percent—neither of which had been discussed with the Fund mission that visited Bissau in April. The National Assembly rejected the revised budget on June 17, 2002, following its approval of a resolution, on June 13, 2002, calling for an emergency debate on the current political and economic impasse. The government is required to submit a new budget proposal by July 1, 2002.
3. Preliminary data for January-May 2002 confirms a significant deterioration in government finances (see attached table.) In particular, budgetary revenue excluding fishing licenses collected during the first five months of 2002 fell by 35 percent compared with the same period in 2001.<sup>1</sup> Revenue constraints were eased by the receipt of fishing payments, equivalent to one-fifth of annual projected budgetary revenue, in mid-May.<sup>2</sup> In these

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<sup>1</sup> Non-tax revenue in May 2001 included a CFAF 1.94 billion one-time dividend remittance from a public enterprise. Excluding this dividend from the calculations, non-tax revenue declined by 6.4 percent and revenue excluding fishing licenses fell by 11 percent, relative to 2001.

<sup>2</sup> As a result of a delay in reaching an agreement on a new accord, the last such payment from the European Union was made in December 2001. The next payment is not due until June 2003.

circumstances, the authorities cut domestically financed capital spending by nearly two-thirds, while moderately increasing current spending.<sup>3</sup> Taken together, total spending during January-May 2002 was reduced by nearly 18 percent relative to the year-earlier period and the overall deficit excluding grants was limited to CFAF 6.4 billion (9.5 percent of GDP on an annualized basis).

4. Reflecting political developments and deteriorating government finances, external grants were limited during the first part of 2002. As a result, as in 2001, the authorities were faced with a financing shortfall of CFAF 6 billion (8.7 percent of GDP). As it was decided to fully pay civil services wages due in 2002 and to reimburse CFAF 0.5 billion (out of CFAF 1.5 billion due) to the demobilization fund, it appears that a substantial part of non-wage spending during January-June 2002 was financed through the accumulation of new domestic arrears.

5. Fiscal performance during April-May 2002 fell short of the targets set in the action plan for April-July that was discussed with the March 2002 mission. That action plan had envisaged an increase in excise tax rates for beer and cigarettes, beginning on April 1, 2002, and if April revenue collections were not significantly improved, to increase the excise tax on gas-oil from 5 percent to 10 percent, beginning on April 30, 2002. In the event, the excise tax rate increases for beer and cigarettes were not introduced in April but, rather, have been included in the revised 2002 budget. No adjustment has been made to the tax rate for gasoil, at this point. The authorities have indicated, however, that steps to strengthen customs administration have been undertaken, as discussed with the staff. An expenditure priority policy providing clear funding guidelines for the Treasury Committee, also foreseen in the action plan, has not yet been issued.

6. The shortfall in revenue collections during March-May 2002, relative to the projections of the March 2002 mission, was limited to 0.3 percent of GDP (CFAF 0.5 billion), as the underperformance in tax revenue was partly compensated by improved nontax income. At the same time, domestic spending was about in line with targets. Thus, even if the fiscal outturn for June 2002 follows the April-May trend, the fiscal targets presented in the staff report for 2002 could still be achieved. However, this will require that the budget to be submitted to Parliament in July incorporates the revenue mobilization and expenditure restraining measures discussed with the staff in the context of the Article IV consultations.

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<sup>3</sup> Preliminary spending data are on a payment order basis. Available data do not provide a basis for assessing expenditure on a commitment basis.

Guinea-Bissau: Government financial operations, January-May, 2002

	2001			2002			2002/2001											
	Q1	Apr.	May	Jan.-May	Q1	Apr.	May	Jan.-May	Q1		Apr.	May	Jan.-May					
	(In CFAP billions)						(In CFAP billions)						(percentage change compared to same period in 2001)					
Tax revenue and grants	6.9	3.4	4.8	15.1	3.6	1.1	7.5	12.1	-48.2	-68.9	57.0	-19.6						
Budgetary revenue incl. fishing licenses	2.6	1.5	3.5	7.6	3.2	1.0	7.4	11.5	23.6	-34.5	108.6	52.1						
Budgetary revenue excl. fishing licenses	2.2	1.4	3.5	7.1	2.5	0.9	1.2	4.6	15.0	-38.6	-65.4	-35.4						
Tax revenue	1.8	1.3	1.3	4.4	2.2	0.7	1.0	4.0	21.7	-41.0	-21.3	-9.0						
Nontax revenue, excl. fishing licenses	0.3	0.2	2.2	2.7	0.3	0.1	0.2	0.6	-20.1	-20.1	-91.4	-78.0						
Fishing licenses	0.4	0.0	0.0	0.5	0.7	0.1	6.2	7.0	68.8	102.0	17,957.1	1,321.4						
Grants	4.3	2.0	1.2	7.5	0.4	0.1	0.1	0.6	-91.7	-94.1	-90.4	-92.1						
Total expenditure 1/	11.6	3.2	7.0	21.8	11.0	3.4	3.5	17.9	-4.8	6.2	-50.1	-17.6						
Current expenditure	8.3	1.5	4.4	14.2	9.1	3.0	3.0	15.1	9.7	96.5	-32.0	6.0						
Of which: Wages and salaries	2.5	0.5	0.9	4.0	2.2	1.2	0.7	4.1	-10.1	113.6	-22.7	3.9						
Capital expenditure 1/	3.2	1.7	2.6	7.5	1.9	0.5	0.5	2.8	-41.9	-72.4	-81.2	-62.3						
Overall balance, incl. grants	-4.7	0.2	-2.2	-6.7	-7.5	-2.4	4.0	-5.8	58.7	-1,188.5	-285.6	-13.1						
Overall balance, excl. grants	-9.0	-1.8	-3.4	-14.2	-7.8	-2.5	3.9	-6.4	-13.0	39.4	-214.8	-55.0						
Targets set during March 2002 mission:																		
Tax revenue	...	...	...	...	...	1.1	1.3	...	...	...	...	...						
Non-tax revenue excl. fishing licenses	...	...	...	...	...	0.2	0.3	...	...	...	...	...						
Wage bill	...	...	...	...	...	0.9	0.9	...	...	...	...	...						

Source: Guinea-Bissau authorities; and staff estimates.  
1/ Data are for domestically financed spending, based on payment orders.





INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 02/76  
FOR IMMEDIATE RELEASE  
July 26, 2002

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Concludes 2002 Article IV Consultation with Guinea-Bissau**

On June 26, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guinea-Bissau.<sup>1</sup>

### **Background**

The military conflict that took place in Guinea-Bissau from June 1998 to May 1999 caused severe damage to the infrastructure and disrupted economic activity, in addition to bringing intense hardship and suffering to the civilian population. In May 1999, the Guinean authorities set out a recovery strategy at a UN-sponsored donor roundtable in Geneva, Switzerland. Supporting this framework, the Fund's Executive Board approved a request for post-conflict assistance in September 1999. Performance under the post-conflict program was judged to be satisfactory. A three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), totaling SDR 14.2 million, was approved by the Fund's Executive Board on December 15, 2000 in support of a program covering the period 2000-2003. Also in December 2000, the IMF and World Bank Boards respectively decided that Guinea-Bissau had fulfilled the conditions for reaching the decision point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC), and that the interim Poverty Reduction Strategy Paper (I-PRSP) included an appropriate preliminary analysis of poverty in Guinea-Bissau and strategies to alleviate it.

Immediately after approval, the program was found to be substantially off track. Fund missions in early 2001 found a loss of budgetary control during 2000, with large unauthorized

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

expenditures, mainly on defense, financed by credit from the banking system, as well as by promissory notes. These problems continued during the first part of 2001, albeit less dramatically.

With the program off track, the Fund staff and the authorities agreed on a short-term macroeconomic program (STMP) for August-November 2001. However, the STMP targets were missed, owing to exceptional payouts for unprogrammed items. As a result, several performance criteria, structural benchmarks, and performance indicators for end-December 2001 were not observed, and the Fund's interim debt relief under the HIPC Initiative lapsed at end-2001.

In 2001, Guinea-Bissau suffered a substantial slowdown in economic activity, with real GDP growth estimated at 0.2 percent, as a result of a sizable loss of foreign program financing, a drop in the international market prices for cashew nuts of about 30 percent, and delays in implementing the demobilization and pre-2000 domestic arrears settlement programs and receiving the concomitant disbursements.

Discussions centered on the urgent need to establish a sustainable program for government finances, strengthen the revenue base, regain control over public expenditures, and move forward with the programs for demobilization and for the settlement of domestic arrears in an accountable and transparent manner. The authorities acknowledged that, as a result of financial operations during December 2001-January 2002, they were unable to meet obligations currently falling due. Broad understandings were reached with staff on an action plan, comprising (i) a schedule of actions to improve revenue collection; (ii) an expenditure priority policy providing clear funding guidelines for the treasury Committee of the Ministry of Finance; and (iii) a cash management plan for April-July 2002.

Delays in implementing required structural reforms have contributed significantly to Guinea-Bissau's current difficulties. Clearly, capacity limitations have added to the delays, and the authorities may need to ask supporting partners for additional assistance in this area.

### **Executive Board Assessment**

Executive Directors agreed with the thrust of the staff appraisal. They noted with concern that, as a result of the inadequate implementation of the strategy for post-conflict recovery and restoration, economic activity had failed to resume and a substantial part of expected donor assistance did not materialize. While recognizing the difficult challenges that the authorities are facing and the sharp terms-of-trade deterioration, Directors observed that ad hoc expenditure policies and a general weakening of the government finances were the main reasons for the deteriorating public services and weak economic performance.

Against this backdrop, Directors urged the authorities to reestablish sound financial management practices and steadfastly implement a strict treasury cash management plan, as a first step towards discussions on a new annual program under the PRGF-arrangement and extension of interim HIPC relief. However, they noted that fiscal performance continues to fall

short in this respect. Overspending during December 2001-January 2002 had exhausted government deposits in the banking system and had resulted in a substantial new accumulation of domestic arrears, including on civil service wages. More recently, the April 2002 collective arrangement which raised the minimum wage by 75 percent and increased the wage bill to the equivalent of 13 percent of GDP, has further undermined the authorities' credibility and confidence in the economy.

Directors stressed that a demonstrated commitment to sound budgetary management will be critical to restoring policy credibility and regaining donor support. This should include a substantial strengthening of the revenue base through efforts to stop contraband trade, collect fishing license revenue from non-European Union sources, enhance tax administration, and complete the implementation of the value-added tax, in conformance with West African Economic and Monetary Union (WAEMU) guidelines.

Efforts to regain control over the government's spending program should be given an urgent priority. Directors urged the authorities to identify a core expenditure program that reflects clear priorities, consistent with the goal of reestablishing regular payment for goods and services delivered. This will require a freeze on civil service wages, hiring and promotions at the November 2001 level and a moratorium on the clearance of non-wage arrears accumulated after December 1999. The authorities should also promptly compile and verify unpaid domestic obligations accumulated during 2000-02 and develop a transparent and realistic plan for settling legitimate claims.

Noting the critical importance of restoring the integrity of the administration of public finances, Directors encouraged the authorities to provide the office of the Inspector General of Finance with the resources needed to fulfill its verification and audit tasks, including the verification of outstanding *bons de virement* and domestic arrears accumulated during 2000-02; and the issuance of quarterly reports on audit findings, along with a comprehensive annual audit. They also stressed the importance of allowing the Treasury Committee of the Ministry of Finance to manage the implementation of government-established policies without further political interference.

Directors commended the authorities on the progress that has been achieved in moving towards the WAEMU convergence criteria and in conforming to agreed monetary policies. However, they regretted the recent setbacks in the banking sector where two out of three banks had ceased operations, and encouraged the authorities to redouble efforts toward establishing a stable economic and political environment that would attract new entrants to the banking system.

Directors stressed that progress on the demobilization program, on the settlement of domestic arrears, and on improved management and governance of public utilities will be key to establishing a foundation for economic growth and poverty reduction. Noting that even with full interim relief under the HIPC Initiative, Guinea-Bissau will remain highly vulnerable to external shocks due to its continued dependence on cashew nut exports and unrequited transfers, Directors urged the authorities to accelerate key structural reforms that will improve the outlook

for growth and employment. They highlighted, in particular, the need to address problems associated with the limited and erratic electric supply, undependable water and telecommunications services, the weak commercial banking sector, and the weak economic and judicial institutions. In view of the capacity limitations, Directors recognized that Guinea-Bissau will need technical assistance in these areas.

Directors commended the authorities on the comprehensive consultative process that is underpinning the preparation of their Poverty Reduction Strategy Paper, and encouraged them to proceed with the design of a strong strategy to be supported by adequate monitoring mechanisms.

Guinea-Bissau's trade policy has become increasingly oriented toward regional integration, primarily through its membership in the WAEMU. Directors were encouraged by the recent adoption of the Unions' common external tariff, and looked forward to further liberalization of the trade regime, including steps to achieve full compliance with the WAEMU's tariff rate structure.

Directors underscored the importance of improving macroeconomic and socioeconomic data for macroeconomic policy formulation and monitoring and for the poverty reduction program. This will require adequate resources for the Directorate of Statistics, as well as appropriate technical assistance.

Directors encouraged the Fund staff and Guinea-Bissau's development partners to stay engaged in helping the country confront the difficult challenges which it is facing.

**Public Information Notices (PINs)** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2002 Article IV Consultation with Guinea-Bissau is also available.

**Guinea-Bissau: Selected Economic Indicators**

	1997	1998	1999	2000	2001
Real GDP at market prices (annual percent change)	6.5	-28.2	7.6	7.5	0.2
Consumer price index (annual percent change)	49.1	8.0	-2.1	8.6	3.3
Budgetary revenue (in percent of GDP)	15.3	5.4	17.8	19.2	19.6
Total primary expenditure (in percent of GDP)	27.6	18.1	25.7	38.4	34.9
Current primary balance (in percent of GDP)	5.4	-6.5	3.2	-8.8	-0.5
Overall fiscal balance, excluding grants (in percent of GDP)	-17.8	-19.4	-14.4	-24.9	-23.7
External current account, excluding official transfers (in percent of GDP)	-22.5	-20.5	-22.3	-28.4	-30.5

Source: IMF Staff report for the 2002 Article IV Consultation, Table 2.