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**Statement by Mr. Gibbs and Mr. Thornton on Guinea-Bissau
(Preliminary)
Executive Board Meeting 08/69
July 25, 2008**

We thank staff for the informative report and Mr. Rutayisire for his helpful Buff statement. Political instability, severe capacity constraints, and uncertain external financing make for a challenging environment. The absence of strong lead donors places a particularly heavy burden on the authorities and Fund and Bank staff. Under these conditions the significant reforms of public expenditure and revenue collection underway constitute an impressive achievement. We concur with the staff appraisal and support the request for a second purchase under the Emergency Post-Conflict Assistance.

Nevertheless, we recognize that the economic recovery and reform process are fragile, and the commodity price shocks pose strong risks for a country heavily dependent on imports of food and fuel, and for a government reliant on import taxes and duties on these products for a substantial portion of government revenue. As staff note, Guinea-Bissau lacks the capacity to replace across-the-board cuts in tariffs on basic commodities with more targeted measures. Given the country's poverty levels it is not clear that such targeting would in any case be worthwhile.

We encourage the authorities to maintain their commitment to consolidating fiscal reforms, and donors to work to overcome any technical issues that could delay disbursements and complicate the government's task in managing the economy. With the authorities' continued commitment to the programme, we very much look forward to a PRGF arrangement that would allow Guinea-Bissau to achieve the HIPC Completion Point and thereby the benefits of the Multilateral Debt Relief Initiative.