

FOR
AGENDA

EBS/87/197

CONFIDENTIAL

September 14, 1987

To: Members of the Executive Board
From: The Acting Secretary
Subject: Guinea-Bissau - Request for Arrangements Under the Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report on a request from Guinea-Bissau for arrangements under the structural adjustment facility which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 17.

Mr. Cronquist (ext. 6932) or Mr. Enders (ext. 6935) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

GUINEA-BISSAU

Request for Arrangements Under the
Structural Adjustment Facility

Prepared by the African Department

(In consultation with the Exchange and Trade Relations,
Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by A.D. Ouattara and W.A. Beveridge

September 11, 1987

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I. Introduction

In the attached letter to the Managing Director, dated September 10, 1987, the Minister-Governor of the National Bank of Guinea-Bissau requests a three-year arrangement under the structural adjustment facility (SAF), and the first annual arrangement thereunder, in the amount that will become available to Guinea-Bissau in support of an economic and financial program for the three-year period July 1987-June 1990. The amount is presently estimated at SDR 4.8 million (63.5 percent of quota), of which SDR 1.5 million (20 percent of quota) will be disbursed upon Fund approval of the first annual arrangement.

The medium-term economic and financial policy framework paper (PFP; EBS/87/99, May 7, 1987), setting forth the Government's economic and financial objectives for the three calendar years 1987-89, and the policies and measures designed to achieve these objectives according to a detailed timetable, was considered by the Executive Board on June 8, 1987 (EBM/87/84). The World Bank's Executive Directors had considered the PFP on May 19, 1987 at the same time as the Bank's Executive Board had approved a structural adjustment credit (SAL) to Guinea-Bissau in the amount of US\$15 million as part of a US\$40 million structural adjustment package. The staffs of the Fund and the World Bank maintained close contact to ensure consistency between the plans of action supported by the SAL and the economic and financial policies designed to attain the objectives of the medium-term program under the SAF.

A staff mission that visited Bissau during July 10-21, 1987 ^{1/} concluded the second part of the two-stage negotiations of the three-year and the first annual programs that could be supported by arrangements under the SAF. As indicated in the staff report that accompanied the PFP (EBS/87/99, Supp. 1, May 15, 1987), understandings had been reached in March 1987 with the authorities of Guinea-Bissau on the major elements of a first annual program. These elements, notably a devaluation of the currency, the adoption of a flexible exchange rate policy, the liberalization of the exchange and trade system, and the adoption of a government budget consistent with the program's objectives, were introduced in May-July 1987.

In order to reduce the difference in timing between the beginning of the first annual program and the associated disbursement under the SAF, the authorities have agreed to adjusting elements of the economic

^{1/} The representatives of Guinea-Bissau included Mr. Monteiro, Minister of Finance, Mr. Pereira, Minister of Planning, Mr. Santos, Minister of Commerce and Tourism, and Mr. Gomes, Minister-Governor of the National Bank. The staff representatives were Messrs. Cronquist (head-AFR), Enders (AFR), Fontana (ETR), and Ms. Dubey (FAD). Mr. Santos, the Alternate Executive Director for Guinea-Bissau, attended the policy meetings in Bissau.

and financial program that could be supported under the SAF from a calendar year basis to the 12-month period July 1987-June 1988, despite the earlier understandings that the first annual program cover calendar 1987. However, the quarterly benchmarks for the first half of 1988 are tentative, since firm economic ground for setting definitive benchmarks does not yet exist. In particular, the impact of the substantial tax measures and the devaluation in May 1987 is not yet fully known, and the authorities have not yet elaborated a budget proposal for calendar year 1988. They have indicated that they will request a staff visit in November/December 1987 in the context of the budget preparations, and definitive benchmarks could be discussed with the authorities at that time or during the Article IV consultation discussions that are foreseen for January/February 1988, when a more informed view of developments in 1987 can be obtained.

The authorities have requested debt relief from official creditors under the auspices of the Paris Club to close the projected external financing gaps during 1987-88. The Paris Club creditors have decided that a rescheduling on a multilateral basis is appropriate in the case of Guinea-Bissau, despite the limited number of Paris Club creditors involved. The authorities envisage that official creditors which are not members of the Paris Club will provide debt relief on terms comparable to those requested from the Paris Club creditors.

The letter of transmittal and the memorandum on the economic and financial policies are provided in the attachments to Appendix I. Summary statements of Guinea-Bissau's relations with the Fund and the World Bank group are given in Appendices II and III, respectively. Appendix IV contains statistical tables, including a summary of the Fund position during a SAF arrangement.

II. Medium-Term Framework

The PFP, which was considered by the Executive Board of the Fund on June 8, 1987, describes the major economic problems facing Guinea-Bissau, the objectives and priorities for the medium term, and the economic and financial policies that would be implemented to attain these objectives. The medium-term program aims at achieving an average annual economic growth rate in real terms of at least 3.5 percent during 1987-89, at progressively reducing the inflation rate from an estimated 45 percent in 1986 to about 8 percent in 1989, at making progress toward a viable balance of payments position by reducing the external current account deficit (excluding official transfers) by one fifth to about US\$52 million in 1989, and at normalizing relations with official creditors through the elimination of outstanding external payments arrears. The staff report that accompanied the PFP provided a detailed timetable for the implementation of the measures to increase production incentives, improve external competitiveness, bring the budgetary deficit under control, and enhance the efficiency of the public enterprise sector.

On the basis of these policies and measures, balance of payments projections for the period 1987-91 were prepared in close cooperation with the authorities. Since then, additional information on the balance of payments outturn in 1986 has become available, which, together with improved accounting for external debt transactions as well as indications of a strong recovery in agricultural exports in 1987 (see below), has made it possible to revise the earlier balance of payment projections for this period.

The external current account deficit (excluding official transfers) is now projected to decline steadily from US\$66 million in 1986 to US\$50 million in 1991, with exports rising by 224 percent and imports increasing by about 10 percent in this period (Table 1 and Appendix IV, Table I). However, owing to the high level of scheduled debt amortization, the targeted elimination of arrears, and a small programmed increase in official reserves, there will be an external financing gap in each year of the period 1987-89. The financing gap in 1987 is expected to amount to US\$34 million, but in 1988 and 1989 the gaps would be reduced to US\$17 million and US\$14 million, respectively. No exceptional financing requirement beyond the projected level of balance of payments grants and concessional loans is projected for 1990-91, despite the substantial increase in scheduled debt service payments in the latter year, when the grace period for previously rescheduled debt expires, although the use of official reserves to finance the 1991 projected deficit would reduce the level of reserves to about the end-1986 level of US\$2.3 million.

The trade deficit is projected to be reduced by about 40 percent from US\$42 million in 1986 to US\$25 million in 1991, owing to an expected improvement in export performance, reflecting mainly continued growth in cashew nut exports and the recovery of fish exports. On the basis of preliminary indications on cashew nut production and exports during the campaign in May-July 1987, exports of cashews are estimated to increase by more than 50 percent in 1987 and are projected to rise further by 10 percent annually in 1988-91, owing to increased producer incentives, the removal of the export monopoly of the state trading enterprises, as well as the favorable world market prices, which are assumed to rise by about 5 percent annually during 1988-91. Fish exports are projected to recover in view of the authorities' efforts to attract foreign partners in the rehabilitation of existing industrial facilities.

Imports in the three years 1987-89 are projected to increase by only about 1 percent annually in U.S. dollar terms whereas an increase of 3-4 percent annually is projected for 1990-91. Consumer goods imports, excluding food imports, are projected to increase in view of the need to improve the availability of these goods in rural areas, but this increase will be almost offset in the earlier years by the projected decline in capital goods imports and in rice imports; the

Table 1. Guinea-Bissau: Selected Economic and Financial Indicators, 1984-91

(Annual percent changes, unless otherwise specified)

	1984	1985	1986 Prel. est.	1987 Prog.	1988	1989	1990	1991
					Projections			
Central government operations								
Total revenue and grants	108.4	60.1	36.4	219.2	18.6	12.1	8.6	9.8
Of which: budgetary revenue	(105.3)	(40.1)	(29.2)	(194.6)	(33.0)	(18.0)	(6.1)	(12.2)
Current expenditure	55.9	54.9	49.8	91.4	22.8	8.6	2.6	7.3
Capital expenditure	157.8	47.4	15.7	163.8	23.1	4.5	9.0	7.5
Overall deficit (commitment basis, in percent of total expenditure)								
Including grants	-46.8	-47.1	-38.9	-23.0	-20.3	-15.5	-14.2	-11.9
Excluding grants	-78.8	-81.5	-79.1	-74.7	-72.7	-69.5	-69.7	-68.2
Money and credit								
Net domestic credit ^{1/}	49.0	62.6	42.8	2.8	...	...	...	...
Of which: Central Government, net credit to economy	(36.8) (10.7)	(28.6) (34.4)	(23.6) (19.2)	(-48.9) (51.7)	(...) (...)	(...) (...)	(...) (...)	(...) (...)
Money supply	33.5	41.7	41.5	12.0	...	...	...	...
External sector (in terms of U.S. dollars)								
Exports, f.o.b.	102.3	-33.3	-17.2	63.5	33.1	13.9	14.7	13.9
Imports, c.i.f.	5.9	-1.2	-11.2	1.0	1.1	0.6	2.8	4.0
Export volume	65.3	-31.6	8.7	31.0	22.3	7.3	7.6	7.7
Import volume	6.6	0.4	-7.7	-1.7	-2.7	-3.8	-1.0	0.4
Terms of trade (deterioration -)	23.3	-1.0	-20.8	21.6	4.8	1.5	2.7	2.1
Official grants	-31.9	-11.3	42.6	-1.1	-16.3	-2.8	2.9	2.8
Nominal exchange rate (US\$/PG)	-147.2	-34.3	-22.0	-65.3	-25.5	-10.9	-6.4	-5.3
Nominal effective exchange rate (- depreciation)	-52.9	-27.1	-29.4	...	...	...	...	...
External public debt								
Medium- and long-term debt (in millions of U.S. dollars) ^{2/}	178.8	249.7	295.5	...	...	...	...	...
Short-term debt (in millions of U.S. dollars) ^{2/}	36.0	26.8	27.9	...	...	...	...	...
Total outstanding arrears (in millions of U.S. dollars)	58.7	49.3	51.0	22.6	12.1	2.1	—	—
Debt service ratio ^{3/}	35.4	53.6	88.9	113.2	95.5	80.3	65.9	85.1
External current account (in millions of U.S. dollars)								
Including official transfers	-36.2	-43.5	-23.0	-18.8	-20.7	-17.3	-13.5	-12.9
Excluding official transfers	-65.5	-74.0	-66.5	-61.8	-56.7	-52.3	-49.5	-49.9
Overall balance of payments (in millions of U.S. dollars)								
Gross official reserves (in weeks of imports, c.i.f.)	2.2	2.6	2.0	3.8	4.2	5.6	5.7	1.9
Gross official reserves (in millions of U.S. dollars)	2.5	3.0	2.3	4.3	4.8	6.5	6.8	2.4

Sources: Data provided by the Guinea-Bissau authorities; and staff estimates and projections.

^{1/} In percent of initial stock of broad money supply.

^{2/} Including arrears on debt service payments.

^{3/} Scheduled debt service in percent of exports of goods and nonfactor services (before rescheduling).

latter are assumed to decline given the strong emphasis on the rehabilitation of the mangrove rice fields, which are among the most cost-effective in the region.

The deficit on the services account is projected to increase by 14 percent to US\$27 million in 1987 on account of the increase from US\$6.5 million to US\$11.2 million in scheduled interest obligations, which are mainly related to loans on commercial terms to finance a new hotel in Bissau and to finance petroleum imports. In 1988-90 the deficit on the services account is projected to decline marginally, reflecting mainly higher revenues from fishing licenses, under the assumption of a successful renegotiation of existing licensing contracts and of improvements in Guinea-Bissau's capacity to monitor fishing activities in its coastal waters. In 1991, however, this deficit is projected to increase again when the grace period for previously rescheduled debt expires.

Official grants, which are estimated to remain at the 1986 level in 1987, are projected to decline in 1988 and to level off thereafter, owing to lower levels of public investment as well as reduced need for food aid. Private transfers are expected to become positive in 1987 in view of the adoption of a realistic exchange rate which would encourage migrants' transfers. The Government is currently negotiating with Portuguese and French banks on mechanisms that would facilitate the transfer of remittances from Guinea-Bissau workers abroad.

The capital account, excluding refinancing of arrears, is expected to improve beginning in 1987, as program loans, largely related to the World Bank's SAL, will more than compensate for a decline in project-related loan disbursements. Scheduled amortization payments (before debt relief), which are doubling in 1987 to US\$16.1 million because of the rise in principal payments on the above-mentioned loans on commercial terms, will decline slightly during 1989-90, but will rise markedly in 1991, owing to the expiration of the grace period for debt that was rescheduled in 1985-86. Private capital flows are projected to reverse to a small net inflow in 1988-91 on the assumption that the improved economic climate will encourage foreign private investment.

The authorities have elaborated an external payments plan which would permit closing the projected external financing gaps in 1987-89 and eliminating the need for exceptional financing beyond the program period. This strategy includes no new accumulation of external payments arrears, the elimination of all outstanding payments arrears, and the timely discharge of scheduled debt service obligations to multilateral creditors. The authorities are seeking from their official creditors a comprehensive rescheduling of arrears and a more limited rescheduling of current maturities on medium- and long-term debt, which would reduce the debt service ratio from 113 percent in 1987 and 96 percent in 1988 to 84 percent and 49 percent in these two years, respectively.

The authorities' external payments plan includes the settlement of all arrears to multilateral institutions through cash payments in 1987, the elimination of the short-term arrears of the National Bank during the program period, and a buildup of gross official reserves to the equivalent of about two months of projected imports, c.i.f., by 1989, compared with about two weeks of imports at the end of 1986. In order to ensure the orderly discharge of its debt service obligations, the Government will prepare annual foreign exchange budgets as part of the central government budget.

III. Policies and Measures Under the First Annual Program

Consistent with the medium-term strategy set out in the policy framework paper, the first annual program has been designed to achieve the following broad objectives: an annual rate of economic growth in 1987 and 1988 of about 3-4 percent, a slowdown in inflation to about 20-25 percent in 1987 and to about 17 percent in 1988, and a reduction in the external current account deficit, excluding official transfers, of about 7 percent in 1987 and of about 8 percent in 1988. The policies and measures that would achieve these objectives are indicated below and summarized in Table 2.

1. External policies

On May 4, 1987, the Guinea-Bissau peso was devalued by nearly 60 percent in foreign currency terms, or from about PG 269 per U.S. dollar to PG 650 per U.S. dollar, in order to eliminate the large gap between the rates on the official and parallel markets. A flexible exchange rate policy was adopted to ensure that the competitiveness of the country's main exports would be maintained, and to prevent the re-emergence of a spread exceeding 10 percent between official and parallel market exchange rates. Administrative measures that were taken in order to facilitate the smooth working of the exchange system included the automatic issuance of import licenses for a list of merchandise that covers about 50 percent of the value of commercial imports, excluding petroleum; licenses for foreign-financed imports were already automatically granted. Private sector traders may obtain import licenses while providing their own foreign exchange and also surrender their foreign exchange receipts to the banking system without any inquiry about the source. In early 1988, the Government will evaluate the performance of the exchange system with a view to eliminating as soon as possible the existing scheme under which exporters may use 50 percent of their export proceeds for the financing of imports.

The implementation of an appropriate exchange rate policy, together with supporting policy measures, is expected to encourage trade through official channels and to narrow the external current account deficit, excluding official transfers, from US\$66 million in 1986 to US\$62 million in 1987 and to US\$57 million in 1988, despite the rise in scheduled

Table 2. Guinea-Bissau: Summary of Economic and Financial Policies and Timetable for Implementation of the Adjustment Measures, 1987/88

Policy Areas	Objectives and Targets	Measures	Status of Implementation
<u>1. External policies</u>			
a. Exchange rate	Eliminate differential between official and parallel market exchange rates	One-step devaluation with a flexible exchange rate policy thereafter	Implemented in May 1987
b. Exchange system	Encourage repatriation of foreign exchange	Encourage surrender of foreign exchange irrespective of source	Implemented in May 1987
c. Foreign trade liberalization	Reduce quantitative restrictions	Import licenses to be automatically issued for 50 percent of non-petroleum commercial imports	Implemented in May 1987
d. Taxes on exports and imports	Reduce export taxes, eliminate import tax exemptions and exonerations, and achieve uniform tariff rates	Eliminate export taxes except on cashews and reduce cashew export tax rate to 50 percent	Implemented in May 1987
		Cease issuing import tax exemptions and eliminate existing ones (see also 2(a) below)	Implemented in May 1987
e. External debt management	Contracting or guaranteeing new loans on concessional terms only	No new loans with grant element of less than 50 percent, except normal trade credits and refinancing of existing debt	Implemented as of January 1987
	Service external debt on orderly basis and reduce arrears. No new external arrears	Debt relief under auspices of Paris Club	Paris Club meeting requested to reschedule part of current obligations and to consolidate external arrears
<u>2. Fiscal policies</u>			
a. Revenue	Simplify tax system, improve collection, and increase tax rates	No new tax exemptions and elimination of existing ones, except those based on contractual obligations; increase consumption taxes on alcohol and switch to <u>ad valorem</u> taxation; increase national reconstruction tax and extend coverage; introduce <u>ad valorem</u> tax on gasoline sales	No new exemptions granted since March 1987; noncontractual exemptions to be eliminated by December 1987 Implemented in May and June 1987

Table 2 (continued). Guinea-Bissau: Summary of Economic and Financial Policies and Timetable for Implementation of the Adjustment Measures, 1987/88

Policy Areas	Objectives and Targets	Measures	Status of Implementation
b. Expenditures	Contain current expenditures by reducing the number of civil servants and limit wage bill	Reduce the number of civil servants by 5 percent in 1987 and agree on plan for a further 10 percent reduction in 1988	Number of civil servants reduced by 2 percent by end-May 1987; budget provides further reduction by end-1987. Timetable for reduction during 1988 will be elaborated by end-1987
		Limit general wage increase to 25 percent	Implemented in 1987 budget; wage bill limited to PG 5.1 billion
	Reduce and restructure investment outlays	Reduce investment outlays by 16 percent in U.S. dollar terms and increase share of investments in agriculture	Implemented in 1987 budget
<u>3. Monetary and credit policies</u>			
a. Credit	Design policies consistent with the targets for the balance of payments. Priority in access to bank credit to be given both to the private sector and public enterprises	No net use of bank credit by the Government in 1987/88 and reduce the Government's debt to the National Bank	Credit program agreed for 1987 and the first half of 1988, including a reduction of outstanding government debt of PG 4.4 billion in 1987 and of PG 4.2 billion in first half of 1988
b. Banking system	Institutional reform to improve structure of banking system	Improve National Bank accounting system	New accounting system adopted based on Fund staff recommendations; computerization of accounts proceeding
		Begin separation of commercial and central banking functions of National Bank	Progress slower than anticipated
		Implement recommendations of study on establishment of private commercial banks	Recommendations under review; negotiations with several foreign banks have been initiated
c. Interest rates	Flexible interest rate policy with the aim of achieving positive real rates	Lending and deposit rates to be adjusted periodically	A new schedule of interest rates adopted in May 1987. Positive real interest rates achieved

Table 2 (continued). Guinea-Bissau: Summary of Economic and Financial Policies and Timetable for Implementation of the Adjustment Measures, 1987/88

Policy Areas	Objectives and Targets	Measures	Status of Implementation
4. Priority sectors			
a. Agriculture	Export parity pricing without implicit or explicit taxation	Adjustment of minimum producer prices annually	Minimum producer prices for cashew nuts raised in May 1987 from PG 37 per kg to PG 137 per kg; actual producer prices were higher than the minimum
		Eliminate export taxes, except on cashew nuts; (see 1(d) above)	Implemented in May 1987
	Reform of the two parapublic trading firms	Eliminate monopoly and reduce staff of these firms	Monopolies eliminated; staff being reduced; SOCOMIN is expected to be dissolved by end-1987
	Prepare agricultural sector strategy	Sectoral consultation with UNDP	Sector strategy being designed on basis of consultation with UNDP in June 1987
Redesign mangrove rice and integrated rural development projects in line with conclusions of the 1987 sectoral consultation		Under review	
b. Fishing	Increase revenue from licenses	Renegotiate agreements	Negotiations not yet completed
5. Public enterprises			
a. Electricity company	Strengthen management	Sector review with World Bank; if necessary, engage foreign management	Review with World Bank completed; foreign technical assistance in place
	Achieve full cost recovery	Increase tariffs annually, with cost recovery by 1989	Tariffs increased in May 1987 by an average of 250 percent to cover operating cost
b. Oil distribution company	Achieve import parity pricing for heavy fuels.	Pass-through of exchange rate action	Implemented in May 1987
	Increase fiscal revenues from gasoline	Introduce tax on retail sales of gasoline	Gasoline retail tax introduced in May 1987

Table 2 (concluded). Guinea Bissau: Summary of Economic and Financial Policies and Timetable for Implementation of the Adjustment Measures, 1987/88

Policy Areas	Objectives and Targets	Measures	Status of Implementation
<u>6. Pricing and marketing</u>			
a. Administrative pricing	Reduce scope of price control and achieve import parity pricing for all goods under price control	Eliminate controlled prices on all imports, except rice, sugar, cooking oil, petroleum, fertilizer	Implemented in May 1987
		Increase the controlled prices for remaining products to achieve import parity pricing	Implemented in May 1987
b. Marketing reform	Encourage private trade and transport	Simplify procedures to obtain a trader's license	Effectively implemented
		Replace controlled transport prices by maximum and minimum rates	Implemented in May 1987
<u>7. Social impact</u>			
a. Accompanying social policies	Reduce any negative social impact of the program	Implement a study of the social impact with assistance from the World Bank and UNDP	Being implemented

Source: Memorandum on the Economic and Financial Policies and Measures in Support of a Request for Arrangement Under the Structural Adjustment Facility.

interest payments (Table 1 and Appendix IV, Table I). As indicated above, cashew nut exports are expected to increase substantially in 1987-88. Imports, however, are expected to rise only modestly in these two years, with an increase in consumer goods imports, excluding food imports, being almost offset by a reduction in capital goods imports following the adoption of a more realistic investment budget, as well as a reduction in rice imports, owing to the projected growth in domestic food production. Taking into account the projected level of official transfers (mainly project aid) and the disbursements of highly concessional loans, of which the largest part is related to the World Bank's SAL, the overall balance of payments deficit is projected at about US\$3 million in 1987 and US\$5 million in 1988. However, because of the targeted elimination of outstanding payments arrears on the public debt, there are financing gaps of nearly US\$34 million and US\$17 million in 1987 and 1988, respectively. These gaps could be closed by debt relief in line with the authorities' request to official creditors and the annual disbursements under the SAF.

2. Fiscal policies

The overall deficit of the Central Government's 1987 budget, on a commitment basis and excluding grants, is targeted at 75 percent of total expenditures, ^{1/} compared with 79 percent in 1986 (Table 1 and Appendix IV, Table II). Including the grants, which are estimated to remain at a level twice that of budgetary revenue, and taking into account the substantial reduction in external payments arrears, the overall deficit on a cash basis is targeted at PG 12.4 billion, or 28 percent of total outlays, compared with 34 percent in 1986. The deficit will be financed mainly by the use of the domestic counterpart of the concessional foreign loans that are projected to be disbursed in support of the balance of payments, which will also permit the Government to reduce its outstanding debt to the National Bank by the equivalent of 49 percent of the initial stock of broad money. If external balance of payments assistance exceeds the projected levels, outstanding net credit to the Government will be correspondingly reduced. The Government has undertaken to maintain strict control over the generation of domestic counterpart funds so as to avoid any lending by the Government to public and private trading enterprises for the purpose of financing imports under the external assistance programs. Importers will be obliged to pay the full amount due upon release of the goods from customs, and these amounts will be credited on a monthly basis to the treasury accounts with the National Bank. Taking into account the substantial amortization payments, a financing gap of about PG 17 billion is expected, which could be closed through the external debt relief requested by the authorities.

^{1/} Owing to the weak statistical base, the standard ratios in terms of GDP have not been utilized.

Total tax and nontax revenues in 1987 are estimated to increase more than threefold to PG 11.2 billion. Of this increase, about PG 3.8 billion results from the impact of the devaluation on import and export tax receipts and fees from foreign fishing licenses, and about PG 2.6 billion is due to a number of new tax measures, in particular a switch to ad valorem taxation of alcoholic beverages, and the introduction of an ad valorem tax on gasoline retail sales (Table 2). Total expenditure will be limited to PG 44.3 billion, or an increase of 132 percent compared with 1986, owing mainly to a 164 percent rise in capital outlays, which are affected by the devaluation. In U.S. dollar terms, however, the programmed investment outlays in 1987 have been reduced by 16 percent to US\$48 million in consultation with the World Bank. This reduction reflects the expected completion of a few large projects during 1987, in particular a new hotel in Bissau, and the Government's policy of limiting the start-up of new projects to those which are directly productive, with priority to be given to projects in agriculture. The World Bank staff regards the level and the composition of the public investment program adopted by the authorities as appropriate in view of its impact on economic growth, recurrent costs, and the balance of payments. Current expenditures will be limited to PG 16 billion, representing an increase of 90 percent over 1986, owing mainly to the increase in scheduled interest payments, and the impact of the exchange rate action on purchases of material, foreign travel, and salaries paid abroad. The number of civil service employees will be reduced by 5 percent, equivalent to some 750 persons, of which 380 were released by end-May 1987. A further 10 percent reduction is foreseen for 1988. The general salary increase granted in May 1987 was limited to 25 percent, which, taking into account the impact of the devaluation, implied a substantial reduction in real wages.

A budget proposal for 1988 will be elaborated by the authorities in November/December 1987 when indications on the 1987 outturn become available, in particular the impact of the devaluation and of the substantial tax measures taken in May 1987. The timetable for the continued reduction of the civil service staff will take into account a joint UNDP/World Bank project for the reintegration of released civil servants into the private sector, which is expected to be finalized in the last quarter of 1987. During the budget preparations, the Government will also assess the appropriateness of its tariff structure, as indicated in the PFP. On this basis, including a continued reduction in the civil service staff, the 1988 budget tentatively aims at a further decline in the overall deficit, excluding grants, to 73 percent of total expenditure.

3. Credit policies

Prudent monetary and credit policies will be implemented during the program period, consistent with the objectives of stimulating economic growth and reducing inflation, and with a view to supporting the authorities' exchange rate action, the reduction in price controls, the liberalization of the trade system, and the tight fiscal policies. A

flexible interest rate policy has been introduced in order to stimulate private savings and encourage a more efficient use of credit. A new schedule of interest rates has moved deposit rates from a range of 4.5-8 percent in 1986 to 21-30 percent, making most of these rates positive in real terms in 1987.

The projected external budgetary support will allow a reduction in net credit to the Government equivalent to about 49 percent of beginning broad money stock in 1987 and to about 41 percent during the first half of 1988 (Table 1 and Appendix IV, Table III). The programmed increase in credit to other sectors of the economy will be about 52 percent in terms of beginning broad money stock during 1987 and about 39 percent during the first half of 1988. These increases are based on the estimated need for crop financing, as well as for the marketing of imports under the external assistance programs, in particular the World Bank's SAL. The expansion in credit to the economy in this period takes into account the impact of the devaluation on import prices in local currency, and also a switch in import financing from parastatal trading firms using government funds to private sector traders using bank credit. Consequently, total domestic credit is estimated to expand in 1987 by about 3 percent in terms of beginning money stock, and to decline in the first half of 1988 by about 2 percent. In view of the balance of payments target for 1987, broad money in that year is estimated to increase by about 12 percent (42 percent in 1986) which would be consistent with a slowdown in inflation from an estimated 45 percent in 1986 to about 20-25 percent. The credit expansion during the first half of 1988 is consistent with the 1988 balance of payments projection and with the targeted deceleration in inflation to about 17 percent.

Quarterly benchmarks have been established by the authorities to monitor the expansion in total domestic credit and the reduction in net credit to the Government (Table 3 and Attachment Table 1). The quarterly benchmarks for net credit to the Government will be adjusted downward by any increase over the programmed amounts of external budgetary assistance. The benchmarks for the first half of 1988 are tentative; definitive benchmarks for this period will be established when a better overview of developments in 1987 can be ascertained.

The accounting procedures of the National Bank are being reviewed with technical assistance from the Fund and the World Bank in order to facilitate the provision of monetary statistics on a timely and accurate basis. Moreover, the World Bank is providing assistance to enhance the efficiency of the banking system, in particular to separate the central banking functions of the National Bank from its commercial and development banking functions. It is expected that this separation will be completed in the second half of 1988. Given the urgent need to improve and expand the commercial banking facilities, the Government is currently approaching foreign private banks to ascertain their interest in opening branches or subsidiaries in Bissau.

Table 3. Guinea-Bissau: Benchmarks for the First Annual Program Under the Structural Adjustment Facility, July 1, 1987-June 30, 1988

	<u>Timing</u>
1. <u>External Policies</u>	
Flexible exchange rate policy to be maintained.	1987/88
Outstanding stock of external debt service arrears to be reduced through cash payments of at least US\$5.8 million.	December 31, 1987
No contracting or guaranteeing of new loans with grant element of less than 50 percent, except normal trade credits and refinancing of existing debt.	1987/88
Reduce external current account deficit, excluding grants, to US\$61.8 million.	1987
Gross official reserves to be maintained at least at the level of end-1986.	December 31, 1987
2. <u>Fiscal Policies</u>	
Overall government deficit, on a commitment basis and excluding grants, to be contained at PG 33.1 billion.	1987
The number of civil service employees to be reduced by 5 percent from the end-1986 level.	December 31, 1987
Existing tax exemptions and exonerations, except those based on contractual obligations, to be eliminated.	December 31, 1987
No new tax exemptions or exonerations will be granted and no prolongation of existing contractual exemptions beyond the expiration date.	1987-88
3. <u>Money and Credit Policies</u>	
Quarterly limits on total domestic bank credit and on net credit to the Government.	Sept. 1987-June 1988
4. <u>Pricing Policies</u>	
Import parity prices for petroleum products to be maintained.	1987/88
5. <u>Public Enterprises</u>	
Comprehensive study of public enterprise sector, including an inventory of existing cross-debts between the Government and these enterprises, and a timetable for their elimination.	June 1988

Source: Memorandum on the Economic and Financial Policies and Measures in Support of a Request for Arrangements Under the Structural Adjustment Facility.

4. Production, pricing, and marketing policies

In order to increase production and marketing through official channels, the guaranteed minimum producer prices for cashew nuts have been increased, the scope of price control has been reduced to petroleum products, rice, sugar, fertilizers, and cooking oil, and these remaining controlled retail prices have been raised to reflect the full impact of the exchange rate action. Owing to strong competition among traders, prices paid to producers during the cashew campaign of May-July 1987 exceeded the minimum prices by substantial margins, and the bulk of the crop was marketed by private traders. The controlled prices for sugar, fertilizer and cooking oil will be substituted by a system of markups of at least 15 percent at the retail level by the end of 1987. The authorities have initiated the renegotiation of existing fishing licenses agreements, and are preparing a medium-term strategy to tap the country's extensive forestry resources.

The Government is also preparing, in collaboration with the World Bank, a comprehensive study of the public enterprise sector, including an inventory of existing cross-debts between the Government and public enterprises and a timetable for their elimination. The completion of this study by June 1988 constitutes a benchmark under the first year program. The reform of the two state trading companies is being pursued with technical assistance from the European Community. In line with World Bank recommendations, the electricity tariffs were increased in May 1987 by some 250 percent to allow the electricity company (EAGB) to meet its operating costs without government subsidies. Technical and management assistance to the EAGB is provided by the Electricité de France and the World Bank. The retail prices for petroleum products are being adjusted quarterly with a view to maintaining the import parity price for heavy fuels, while the retail prices for gasoline will be increased further in order to reach a price level that approximates that in neighboring countries, so as to reduce border trade and increase government fiscal receipts.

IV. Staff Appraisal

In view of the rapidly deteriorating economic and financial situation in 1986, the authorities of Guinea-Bissau have adopted and implemented wide-ranging medium-term adjustment measures that could be supported by arrangements under the Fund's SAF. The implementation of the structural policies, which focus on the pursuit of a realistic exchange rate policy and the liberalization of the exchange and trade system, has already virtually eliminated the differences between parallel and official market prices. The pursuit of appropriate pricing policies has also resulted in promising signs of growth in the agricultural sector. The balance of payments outlook for the medium-term has improved substantially compared with that outlined in the policy framework paper. Specifically, the revised balance of payments projections indicate that while substantial financing gaps persist in

1987-89, no recourse to exceptional financing will be required in 1990-91. However, these projections assume the maintenance of a flexible exchange rate policy and continued tight financial policies.

The staff welcomes the authorities' adoption of a budget for 1987 that achieves a reduction in the overall deficit in terms of total expenditures. However, the financial position of the Government remains dependent on external support, including grants, concessional loans, and debt rescheduling. It is therefore important that the authorities sustain the fiscal adjustment efforts. In this context, the staff believes that the authorities' proposed reduction in the size of the civil service is an important step toward a sustainable fiscal position in the medium term.

The authorities' credit policies under the first annual program aim at *redirecting credit to the productive sectors of the economy* and reducing the outstanding debt of the Government toward the National Bank in order to promote economic growth and slow down inflation. The revised schedule of interest rates will contribute to mobilizing domestic savings and improving the credit allocation. The ongoing technical assistance to improve the accounting procedures and to separate the commercial and development banking functions of the National Bank, as well as the authorities' initiation of negotiations with foreign commercial banks to establish branches or subsidiaries in Guinea-Bissau, should help improve the efficiency of the existing banking system and lay the foundation for a commercial banking sector that can support a growing and increasingly monetized economy.

While the adjustment measures are designed to narrow the external current account deficit, there will be an external financing gap in each year of the period 1987-89, mainly because of the high level of scheduled debt amortization and the large reduction in outstanding payments arrears. Consequently, Guinea-Bissau's adjustment efforts will need to be supported by external concessional borrowing and exceptional financing, including debt relief, to close the external financing gaps in this period. The ongoing improvement in the administrative and technical capacity of the National Bank, and the preparation of a foreign exchange budget, should prevent any delays in discharging debt service obligations, including those to the Fund.

Although Guinea-Bissau has not yet divested itself entirely of its heritage of centralized controls, a large state enterprise sector, and a substantial debt burden, the staff feels that the adjustment measures in the program for which Fund support under the SAF is requested, if sustained and adapted to changing circumstances, constitute major achievements in the effort to reduce existing disequilibria and to help establish the basis for sustainable economic growth.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Government of Guinea-Bissau has requested a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the structural adjustment facility.

2. The Fund approves the arrangements set forth in EBS/87/197.

Guinea-Bissau --
Structural Adjustment Facility--
Three-Year and First Annual Arrangements

Attached hereto is a letter, dated September 10, 1987 and a memorandum on economic and financial policies from the Minister-Governor of the National Bank of Guinea-Bissau requesting from the Fund a three-year structural adjustment arrangement and the first annual arrangement thereunder, and setting forth

- (i) the objectives and policies of the program to be supported by the three-year arrangement, and
- (ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the International Monetary Fund grants the requested arrangements in accordance with the following provisions and subject to the regulations for the administration of the structural adjustment facility:

1. For a period of three years from _____, 1987, Guinea-Bissau will have the right to obtain three successive loans from the Fund under the structural adjustment facility in a total amount equivalent to SDR 4.7625 million.

2. The first loan, in an amount equivalent to SDR 1.500 million, is available for disbursement at the request of Guinea-Bissau.

3. The second and third loans will be available upon approval by the Fund of the corresponding annual arrangements and will be disbursed at the request of Guinea-Bissau. The amount of the second loan will be equivalent to SDR 2.250 million, and the amount of the third loan will be equivalent to SDR 1.0125 million.

4. Before approving the second annual arrangement, the Fund will appraise the progress of Guinea-Bissau in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily:

(a) the measures pertaining to 1987/88 specified in the annexed memorandum on economic and financial policies and the benchmarks specified in paragraph 18 and the intentions concerning external debt specified in paragraphs 3 and 4 of the annexed memorandum on economic and financial policies;

(b) (i) the imposition or intensification of restrictions on payments and transfers for current international transactions,

(ii) the introduction or modification of multiple currency practices,

(iii) the conclusion of bilateral payments agreements which are inconsistent with Article VIII, and

(iv) the imposition or intensification of import restrictions for balance of payments reasons.

5. In accordance with the attached letter, Guinea-Bissau will provide the Fund with such information as the Fund requests in connection with the progress of Guinea-Bissau in implementing the policies and reaching the objectives supported by the first annual arrangement.

6. In accordance with the attached letter, Guinea-Bissau will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because he considers that consultation on the program is desirable. These consultations may include correspondence and visits of officials of the Fund to Guinea-Bissau or of representatives of Guinea-Bissau to the Fund.

Bissau, Guinea-Bissau
September 10, 1987

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700 - 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Camdessus:

The attached memorandum on economic and financial policies and measures summarizes the objectives and policies that the authorities of Guinea-Bissau will pursue during the period 1987-89 and which are described in detail and quantified in the policy framework paper that was considered by the Executive Board of the Fund on June 8, 1987. The memorandum supplements the policy framework paper by providing details of the policies for the first year of this period for which balance of payments assistance is needed. In support of these objectives and policies, the Government of Guinea-Bissau hereby requests a three-year structural adjustment arrangement for the period July 1987-June 1990 in the amount that will be available to Guinea-Bissau under the Fund's structural adjustment facility, and the first annual arrangement thereunder.

Guinea-Bissau will provide the Fund with such information as the Fund requests in connection with the progress of Guinea-Bissau in implementing the policies and achieving the objectives of the program. The Government of Guinea-Bissau believes that the policies and measures described in the policy framework paper, as supplemented by this memorandum, are adequate to achieve the objectives of its program. However, it will take any additional measures which may be required and appropriate in the light of changing circumstances. In this regard, Guinea-Bissau will consult with the Fund at the initiative of the Government of Guinea-Bissau or whenever the Managing Director requests such consultations.

Sincerely yours,

Pedro Godinho Gomes
Minister-Governor of the
National Bank of Guinea-Bissau

Attachment: Memorandum on the Economic and Financial
Policies and Measures in Support of a
Request for Arrangements Under the
Structural Adjustment Facility

GUINEA-BISSAU

Memorandum on the Economic and Financial Policies and
Measures in Support of a Request for Arrangements
Under the Structural Adjustment Facility

I. Medium-Term Objectives and Policies

1. The policy framework paper (PFP), which the Government of Guinea-Bissau prepared in collaboration with the staffs of the Fund and the World Bank for the three-year period beginning January 1987, was considered by the Executive Board of the Fund on June 8, 1987. This memorandum supplements the description of the policies provided in the PFP by specifying the measures to be taken during the first twelve-month period of the program, which has been adjusted to start in July 1987 in order to reduce the difference in timing between the first annual program and the first annual arrangement under the structural adjustment facility (SAF). However, since a government budget proposal and related policies to be implemented in 1988 have not yet been elaborated, further details on the 1988 measures will be established as soon as possible.

2. The medium-term program aims at achieving an average annual economic growth rate in real terms of at least 3.5 percent during 1987-89, at progressively reducing the inflation rate from an estimated 45 percent in 1986 to about 8 percent in 1989, at making progress toward a viable balance of payments position by reducing the external current account deficit (excluding official transfers) by one fifth to about US\$52 million by 1989, and at normalizing relations with creditors through the elimination of outstanding external payments arrears. The economic and financial policies that would attain these objectives have been described in detail in the policy framework paper, which also includes a timetable for the implementation of the measures to improve external competitiveness, to increase production incentives, to bring the budgetary deficit under control, to rationalize the public investment program, to reorganize the public enterprise sector, and to liberalize the pricing and marketing systems. These policies and measures are explained and quantified in Chapters III and IV and in Attachment I of the PFP.

3. Despite the envisaged adjustment measures, balance of payments viability will not be achieved before 1990 due to the high level of scheduled debt amortization. Consequently, the Government has elaborated, in close collaboration with the Fund staff, an external payments plan, which would permit the closing of the projected external financing gaps while gradually reducing the need for exceptional financing during the program period and beyond. This strategy includes no further accumulation of external payments arrears, the elimination of outstanding arrears by mid-1990, and the timely discharge of scheduled debt service obligations to multilateral creditors. The Government will

seek a consolidation of its outstanding external payments arrears and a rescheduling of part of current maturities on a multilateral basis. Also, the Government will not contract or guarantee any new external loans with any maturities if the grant element is less than 50 percent, excluding debt refinancing and normal trade credits.

4. The Government's stock of external long- and medium-term debt service arrears as of end-1986 is estimated at about US\$29 million. During 1987, these payments arrears will be reduced by at least US\$5.8 million through cash payments. The Government envisages that the remaining arrears could be eliminated through rescheduling or refinancing by end-1987. To ensure the orderly discharge of its debt service obligations during 1987-89, the Government will prepare annual foreign exchange budgets as part of the central government budget law.

Taking into account the projected external current account deficits (excluding official transfers), the proposed reduction of outstanding arrears, and the targeted increase in official reserves, the total financing requirements for the period 1987-89 will amount to US\$272 million. Expected disbursements of grants and loans from external donors and creditors, excluding possible disbursements under the SAF, total US\$208 million. The Government believes that the remaining gap of about US\$64 million could be closed through the rescheduling of part of current obligations by bilateral creditors, suppliers, and financial institutions, and the possible disbursements under the SAF in this period.

5. The Government will annually update the policy framework paper and extend it by another year, in collaboration with the Fund and the World Bank staffs, in the light of the evolution of the economy and the international environment with a view to attaining the program objectives by an adaptation of policies to changing circumstances. Specific measures for 1987/88 are outlined below, to the extent possible, while measures for 1988/89 will be elaborated when an overall view of developments in 1987 and the first half of 1988 can be ascertained. The Government has established a National Commission for Economic Coordination and Management, which centralizes and coordinates the implementation and monitoring of the adjustment program. The authorities are taking steps to strengthen the data base with bilateral and multilateral technical assistance, including from the Fund, the World Bank, and the UNDP, with a view to providing monetary and financial statistics on a timely and accurate basis.

II. The Program for 1987/88

External policies

6. As indicated in the PFP (Section IV), the Government of Guinea-Bissau is aware that a major shift away from past external sector policies is essential. For this reason, the Government has taken a

number of substantive corrective measures. On May 4, 1987, the Guinea-Bissau peso was devalued by nearly 60 percent in foreign currency terms, or from PG 263 per U.S. dollar at end-April 1987 to PG 650 per U.S. dollar, in order to eliminate the gap between the rates on the official and parallel markets. The exchange rate action has been passed on to minimum guaranteed producer prices and to the few import prices which remain officially controlled. A flexible exchange rate policy will be maintained to ensure the competitiveness of Guinea-Bissau's main exports and to prevent the re-emergence of a spread exceeding 10 percent between official and parallel market exchange rates.

7. Effective May 4, 1987, a number of administrative measures were also taken in order to facilitate the smooth working of the exchange system. Private sector importers with valid import licenses may now freely provide their own foreign exchange, while exporters may surrender their foreign exchange receipts to the banking system without any inquiry about the source. Import licenses are automatically issued for a list of merchandise that covers about 50 percent of non-aid imports, excluding petroleum. Furthermore, and in the light of the experience gained, the Government will consider in due course the elimination of the existing scheme under which exporters may use 50 percent of their foreign exchange receipts for the financing of imports.

8. The implementation of an appropriate exchange rate policy, together with the supporting financial and structural policy measures indicated below, is expected to reduce Guinea-Bissau's external current account deficit in 1987 and in 1988. In particular, these policies are expected to encourage trade through official channels and to bring about a recovery in exports of groundnuts, fish, and timber and a substantial expansion in exports of cashew nuts. An increase in cashew nut exports is also anticipated in view of substantial tree plantings since 1983 and current favorable world market prices for this commodity. The volume of imports is expected to remain in 1987 at about the 1986 level and to increase only marginally in 1988, despite substantial consumer goods imports of the rural sector; imports of cereals are expected to decline due to import substitution for rice, since local production will be stimulated by the increase in domestic prices, and imports of capital goods are projected to be lower due to the adoption of a more realistic public investment program. Thus, despite a sharp rise in scheduled interest payments compared with 1986, the current account deficit, excluding official transfers, is expected to decline by about 7 percent to US\$62 million in 1987 and by about 8 percent to US\$57 million in 1988. The main part of the 1987 deficit is expected to be financed by official transfers (mainly project aid) and highly concessional loans, largely related to the recently approved SAL from the World Bank. In 1988, however, the level of projected grants and food aid is projected to decline substantially. As a result, the overall balance of payments deficit, which is estimated at US\$2.9 million in 1987, is tentatively projected to increase to US\$4.7 million in 1988. Since the Government and the National Bank will reduce their outstanding arrears, and official reserves are programmed to increase, a financing gap of nearly

US\$34 million would emerge in 1987, and this gap is projected to decrease to nearly US\$17 million in 1988. The Government believes that a rescheduling of arrears and part of current maturities by bilateral creditors, suppliers, and financial institutions will provide the exceptional financing that would, together with the possible disbursement under the SAF, permit closing the projected financing gaps in these two years.

Financial policies

9. Reflecting the medium-term fiscal objectives as described in the PFP (paragraphs 15 and 20-23), the overall deficit of the central government budget, as adopted by the National Assembly on June 3, 1987, on a commitment basis and excluding grants, is targeted at 75 percent of total expenditures in 1987, compared with 79 percent in 1986. Including grants, this ratio will decline from 39 percent in 1986 to 17 percent in 1987. Including the elimination of external arrears on interest, the overall deficit on a cash basis is targeted at PG 12.4 billion, or 28 percent of total outlays, compared with 34 percent in 1986. The deficit will be financed by the use of part of the domestic counterpart of the concessional foreign loans that are projected to be disbursed in support of the balance of payments, which will also permit the Government to reduce its indebtedness to the National Bank. If external financial assistance is larger than projected, the Government's debt to the National Bank will be correspondingly reduced. The Government will maintain separate accounts with the National Bank for the counterparts of foreign assistance. These accounts will be credited with the full amounts due and paid by enterprises and traders immediately upon customs clearance of the merchandise, so that the Government will not extend any credit to finance imports in the context of external assistance programs.

10. Total tax and nontax revenues in 1987 are projected to increase more than threefold to PG 11.2 billion. Revenue performance will critically depend on the impact of the devaluation on the taxable base since the largest share of budgetary receipts stems from taxes on imports and exports, and fees from foreign fishing licenses. The full pass-through of the exchange rate action on these items is expected to yield an estimated PG 3.8 billion. A number of new tax measures have also been introduced in the 1987 budget. The rate of the tax on the consumption of beer was increased from 75 percent to 85 percent, ad valorem; the tax on locally produced spirits was increased from a specific tax of PG 120 per liter to an ad valorem tax of 40 percent; the rate of the National Reconstruction Tax was increased by 150 percent from PG 2,000 to PG 5,000 and its coverage extended to women, who will pay PG 2,000; and a 10 percent ad valorem tax on retail sales of gasoline was introduced, the receipts of which will be transferred monthly from the petroleum distribution company (DICOL) to the Treasury. Export taxes have been abolished, except for the export tax on cashew nuts, which was reduced from an effective rate of 80 percent to a rate of 50 percent, ad valorem. Nevertheless, if there is a

substantial increase in the international prices of some products, the Government may reconsider the system of export taxation. The Government is determined to improve tax administration and tax enforcement and has ceased authorizing ad hoc exemptions and exonerations of import duties and taxes as of April 1987. All exemptions will be abolished by end-1987, except those required under existing contracts and treaties, which will expire at the end of these contracts and will not be prolonged or give rise to any new exemptions. The Government will send to the Fund staff by end-September 1987 a timetable on the expiration dates of these contractual exemptions.

11. Budgetary expenditure in 1987 will be limited to PG 44 billion, representing an increase of 132 percent compared with 1986, mainly due to a 164 percent rise in capital outlays, which are affected by the devaluation. Current expenditures will be limited to PG 16 billion, or an increase of 91 percent, which is mainly due to the increase in scheduled interest payments. Recognizing that the principal factor underlying the rapid increase in current expenditures in recent years has been the wage bill, the Government has decided to reduce the number of civil service employees by 5 percent in 1987 (about 750 employees), of which 380 were released by end-May 1987. At the same time, and in order to provide some compensation for inflation, the Government has provided a 25 percent general salary increase, which, together with the impact of the exchange rate change on salaries paid abroad, would more than offset the impact of the cut in personnel on current expenditure. The Government will closely monitor developments in the payroll to ensure that expenditure for wages and salaries will not exceed PG 5.1 billion. Expenditure on other goods and services is targeted to increase to PG 3.8 billion in 1987, owing to the exchange rate action, which affects the Government's purchases of material and supplies, and foreign travel, although expenditures for travel and fuel will be reduced by about 30 percent in real terms, while purchases for embassies will be frozen at the 1986 level in real terms. Transfer payments will rise by about 20 percent to PG 1.1 billion, also implying a decline in real terms. Transfers to public agencies and international organizations will be reduced even in nominal terms, partly because these transfers in 1986 included settlements of arrears. Pensions and similar transfers will rise, in part reflecting severance pay to released government employees. With regard to investment expenditures in 1987, which are entirely foreign financed, the Government has decided, in consultation with the World Bank staff, to reduce the level in U.S. dollar terms by 16 percent to US\$48 million. The World Bank staff regards the level and the composition of these outlays appropriate in view of their impact on recurrent costs, economic growth, and the balance of payments.

12. A budget proposal for 1988 will be elaborated in late 1987 on the basis of available indications on the 1987 outturn, in particular the impact of the devaluation and the tax measures taken in May 1987. Tentatively, the 1988 budget aims at a further reduction of the overall deficit, excluding grants, to about 73 percent of total expenditures.

The specific fiscal policies for 1988, in particular tax and wage policies, and the further reduction of civil service staff, will be agreed upon at that time with the Fund and the World Bank staff.

13. The overall objective of the monetary and credit policies is to contain the expected short-run growth in domestic liquidity resulting from the activation of idle money balances, and to absorb some of the money stock that has financed the transactions in the parallel markets, so that the increase in broad money would be consistent with a slowdown in inflation from the estimated 45 percent in 1986 to about 20-25 percent in 1987 after the pass-through of the devaluation. Consistent with these objectives, total domestic credit in 1987/88 will be contained without compromising the financing needs for the marketing of the cash crops and for the productive activities of the private sector and public enterprises. There will be no net recourse to bank credit by the Government in view of the fiscal adjustment and the availability of budgetary support. On the contrary, the projected disbursements of foreign concessional loans will permit the Government to reduce its outstanding indebtedness to the National Bank by about PG 4.5 billion in 1987, equivalent to some 49 percent of the initial stock of broad money, and, tentatively, by a further PG 4.2 billion during the first half of 1988. Credit to the economy will increase by about 52 percent in terms of beginning broad money stock during 1987 and, tentatively, by 39 percent during the first half of 1988. As a result, during 1987, total credit will expand by about PG 0.2 billion, equivalent to about 3 percent in terms of beginning money stock, while during the first half of 1988, total credit will be reduced by about PG 0.2 billion, or by 2 percent in terms of beginning money stock. Taking into account the balance of payments target, broad money is estimated to increase by about 12 percent in 1987. Quarterly benchmarks (see below) for the second half of 1987 and the first half of 1988 have been established in order to facilitate the monitoring of developments in total domestic credit and in net credit to the Government. However, the benchmarks for March and June 1988 are tentative; definitive benchmarks will be established at a time when the economy's performance in 1987 can be assessed. The programmed reduction in the Government's net indebtedness to the National Bank will be larger, and, consequently, total domestic credit will be adjusted downward by any increase over and above the programmed amounts of external budgetary assistance. A new schedule of interest rates that was adopted in May has increased deposit rates from a range of 4.5-8 percent in 1986 to 21-30 percent in 1987. These rates will be adjusted periodically to take account of changes in market conditions and price developments, so as to maintain positive real interest rates and encourage domestic financial savings and more efficient use of bank credit.

Important steps have been taken to improve the efficiency of the banking system. Monetary statistics and the accounting procedures at the National Bank are being reviewed with technical assistance from the Fund and the World Bank, respectively, with the objective of providing monitorable data on a timely and accurate basis. Moreover, the World

Bank is providing assistance to the National Bank to separate the central banking functions from the commercial and development banking functions of this institution.

Production, pricing, and marketing policies

14. The Government's agricultural policy aims at increasing production and marketing through official channels. For this purpose, the Government has prepared the timetable that is included in the PFP for measures aimed at opening the agricultural sector to market forces, including the reformulation of the public investment program to give emphasis to productive small-scale agricultural projects, in particular the low-cost restoration of the mangrove rice fields. Building on the policies adopted in August 1986, the guaranteed minimum producer prices were increased in May 1987 to reflect the exchange rate action; these prices will be adjusted throughout the program period to reflect exchange rate developments and changes in world market prices and costs, in consultation with the Fund and World Bank staffs. The renegotiation of existing fishing license agreements, which has been initiated in 1987, will be actively pursued with a view to increasing budgetary revenues in 1988. The Government is currently preparing a medium-term agricultural strategy which will take into account the recommendations and conclusions of the 1987 UNDP agricultural sector consultation, and is also preparing proposals to tap the country's extensive forestry resources over the medium term. A detailed plan of action will be drawn up in consultation with the Fund and the World Bank staff in early 1988.

15. With regard to price controls and marketing regulations, the controlled prices for cement, insecticides, and pesticides were abolished in April 1987, and the controlled retail prices for petroleum products, rice, sugar, fertilizers, and cooking oil were raised to reflect the full impact of the exchange rate action, so as to avoid any need for government subsidies. The controlled prices for transport services in the interior of the country have been replaced by a system of maximum and minimum rates that are to be adjusted periodically for variations in cost components. Transport prices for Bissau are now determined freely on the basis of supply and demand. By end-1987, the Government will adopt legislation which will guarantee a profit margin of at least 15 percent for the marketing of sugar, edible oil, and fertilizers.

Public enterprises

16. The Government is currently preparing, in collaboration with the World Bank, a comprehensive diagnostic study of the public enterprise sector, including an inventory of existing cross-debts between the Government and the enterprises, and a timetable for their elimination. Pending the completion of this study by June 1988, to provide the basis for a detailed plan of action to be implemented during 1988-89, the reform of the two state trading companies (Armazens do Povo and SOCOMIN) is being pursued in the context of an EC-supported project. With regard

to the electricity company (EAGB), which is the principal public enterprise loss-maker, a sector review has been undertaken in collaboration with the World Bank, and a timetable for the implementation of necessary measures will be established by the end of 1987. In line with World Bank recommendations, the electricity tariffs were increased by some 250 percent in May 1987. The oil distribution company (DICOL) raised the retail prices for all petroleum products in May 1987 to reflect the exchange rate action. These prices will be adjusted quarterly so as to maintain the import parity price for heavy fuels while the retail prices for gasoline will be increased further in order to reach a level that approximates that in the neighboring countries, which would reduce border trade and increase government fiscal receipts.

Benchmarks and monitoring

17. During the program period the Government will not (i) introduce or modify multiple currency practices; (ii) impose new or intensify existing restrictions on payments and transfers for current international transactions or introduce, for balance of payments reasons, any new or intensify any existing restrictions on imports; (iii) conclude any new bilateral payments agreements with members of the Fund which are inconsistent with Article VIII of the Fund's Articles.

18. To monitor progress under the program, a number of quantitative and qualitative benchmarks have been established. These include (i) the targets for the external current account deficit, excluding grants, and for the overall deficit of the government budget, excluding grants, as indicated in paragraphs 8 and 9 of this memorandum, respectively; (ii) the quarterly limits on total domestic credit and on net bank credit to the Government, and the minimum cash reduction of outstanding external payments arrears of the Government, as specified in the table attached to this memorandum; (iii) a ban on the contracting and guaranteeing of any new external loans by the Government and public entities, regardless of maturity, if the grant element is less than 50 percent, excluding debt refinancing and normal trade credits; (iv) the maintenance of gross official reserves at end-1987 at least at the level of end-1986; (v) the maintenance of a flexible exchange rate policy as specified in paragraph 6; (vi) adherence to the timetables for the elimination of tax exemptions and for the reduction of civil service employees, as specified in paragraphs 10 and 11, respectively; (vii) the maintenance of import parity prices for petroleum products; and (viii) completion of a diagnostic study of the public enterprise sector by end-June 1988.

The Government will provide the Fund with financial and balance of payments data on a regular basis, including monthly monetary and fiscal statistics to be sent with a delay of no more than seven weeks after the end of the month, and with all other information that the Fund may request in connection with the progress of Guinea-Bissau in implementing the policies and achieving the objectives of the program.

Table 1. Guinea-Bissau: Benchmarks on Total Domestic Credit and Credit to the Government for the First Annual Program under the SAF, July 1987-June 1988

	1986	1987		1988		
	Dec. Prel. base figures	June Prel. est.	Sept. Prog.	Dec. Prog.	March Tentative	June
<u>(In millions of Guinea-Bissau pesos; end of period)</u>						
Total domestic credit	14,079	16,707	15,472	14,330	13,369	14,078
Net credit to Government <u>1/</u>	10,128	12,193	8,072	5,671	3,571	1,470
<u>(In millions of U.S. dollars)</u>						
New foreign borrowing contracted or guaranteed by the Government and public entities with any maturity if the grant element is less than 50 percent <u>2/</u>		—	—	—	—	—
Minimum reduction of external payments arrears through cash payments		...	...	-5.8	...	...

Sources: Data provided by the Guinea-Bissau authorities; and staff estimates.

1/ To be adjusted downwards by any amounts of budgetary assistance received in excess of programmed amounts. The cumulative amount of external budgetary assistance is tentatively estimated at PG 11.9 billion by end-September 1987 and PG 17.1 billion by end-December 1987.

2/ Excluding debt refinancing and normal trade credits.

Guinea-Bissau - Relations with the Fund
(As of July 31, 1987)

I. Membership Status

Date of membership March 24, 1977
Status Article XIV

A. Financial Relations

II. General Department

Quota SDR 7.5 million
Total Fund holdings of SDR 9.4 million
 Guinea-Bissau pesos (125 percent of quota)
 of which SDR 1.88 million
 (25 percent of quota) is
 related to credit
 tranche purchases.

Reserve tranche position SDR 417 (zero percent of quota)

III. Use of Fund Resources

First credit tranche purchase SDR 1.875 million; August 27,
 1984 (EBS/84/156 and Supp. 1)

IV. SDR Department

Net cumulative allocation SDR 1.21 million
Holdings SDR 47,563 (3.9 percent of net
 cumulative allocations)

V. Administered Accounts

Guinea-Bissau was not eligible
for Trust Fund drawings (or
distribution of gold or
profits from gold sales),
since it joined the Fund
after August 1975.

Guinea-Bissau - Relations with the Fund (concluded)

B. Nonfinancial Relations

VI. Exchange System

On May 4, 1987 the exchange rate of the Guinea-Bissau peso was depreciated against the U.S. dollar, the intervention currency, from PG 269 = US\$1 to PG 650 = US\$1. A flexible exchange rate policy has since been maintained.

VII. Latest Article IV Consultation

Guinea-Bissau is on the standard 12-month consultation cycle. The latest Article IV consultation discussions were held during the period September 2-13, 1986; the consultation was completed by the Executive Board on December 1, 1986. The following decision was taken:

1. The Fund takes this decision relating to Guinea-Bissau's exchange measures subject to Article VIII, Section 2, and in concluding the 1986 Article XIV consultation with Guinea-Bissau, in the light of the 1986 Article IV consultation with Guinea-Bissau, conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. As described in SM/86/269, Guinea-Bissau maintains restrictions on payments and transfers for current international transactions, in accordance with Article XIV, Section 2. In addition, the restrictive features of a bilateral payments agreement with a Fund member are subject to Fund approval under Article VIII, Section 2(a). The Fund encourages Guinea-Bissau to reduce its reliance on exchange restrictions and to terminate the restrictive features of the bilateral payments agreement with a Fund member.

VIII. Technical Assistance

A CBD expert served as Advisor to the Governor of the National Bank for a three-year period, which ended on September 30, 1986. A new CBD expert serving as Advisor to the Governor of the National Bank arrived in April 1987 for a one-year period. Two fiscal panel experts served in the Ministry of Finance through early 1986. One was involved in advising on the implementation of tax reform proposals made by an FAD technical assistance mission in 1979, and the other was advising on government budgeting and financial management. In addition, during October 1984-April 1985, CBD provided technical assistance to the National Bank on accounting procedures, and staff members from the Bureau of Statistics visited Bissau in 1984 and February 1987 to familiarize officials of the National Bank with an analytical framework for financial statistics.

Guinea-Bissau - Relations with the World Bank Group
(As of June 30, 1987)

IDA has made twelve credits to Guinea-Bissau totaling US\$97.3 million. Four have been in the transport sector, two for petroleum exploration, one for strengthening the country's macroeconomic management capability, and two for financing urgently needed imports in support of the Government's economic recovery program. In FY 1987 three credits were approved: US\$3.7 million credit for institution building in agricultural services; a US\$4.7 million credit for improving the efficiency of population, health, and nutrition services, with emphasis on improving cost recovery; and a US\$15 million structural adjustment credit as part of a US\$40 million two-year structural adjustment package.

Transport

IDA's assistance has focused on urgently needed rehabilitation and maintenance of roads under the First Roads Project for US\$9.0 million (FY 1979), and the Second Roads Project for US\$8.0 million (FY 1984). Further assistance in the transport sector is being provided under the Bissau Port Project for US\$16 million (FY 1982), which involves the rehabilitation of the port of Bissau and small river ports throughout the country. The two roads projects are strengthening the local maintenance capability by training road maintenance brigades.

Petroleum

The two credits in the petroleum sector (FY 1981 and FY 1982) are helping Government to carry out offshore oil exploration through the collection, processing, and evaluation of seismic data, provision of training and physical facilities, and assistance in establishing a sound legal framework for negotiating exploration contracts. The first Oil Exploration Project led to the identification of six offshore lots, and drilling by a consortium headed by ELF/Aquitaine. Surveys under the Second Project are progressing satisfactorily.

Technical Assistance

Technical assistance has played an important role in the above projects. In FY 1985, IDA approved the US\$6.0 million Technical Assistance Credit to assist Government in strengthening the macroeconomic management capability of key economic institutions and in developing a sound institutional framework in newly created ministries and agencies. Its objective is to provide Government with the technical and managerial expertise necessary to support economic recovery.

Guinea-Bissau - Relations with the World Bank Group (continued)Import Credits

In FY 1985, IDA approved a US\$10.0 million Reconstruction Import Credit to assist in providing urgently needed agricultural, transport, energy, and other essential imports to support the economic recovery program and ensure economic activity during the design and implementation of reform measures. A supplementary credit of US\$5.0 million from the Special Facility for Africa was approved in March 1986 to ensure needed imports for 1986 and the continuation of the policy reform program.

Summary of IDA Operations 1/
(In millions of U.S. dollars, as of June 30, 1987)

<u>Project</u>	<u>Amount 2/</u>	<u>Disbursed 3/</u>
Roads I	9.0	9.0
Petroleum I	6.8	6.8
Petroleum II	13.1	14.1
Bissau Port	16.0	13.2
Roads II	8.0	6.1
Technical Assistance	6.0	5.5
Reconstruction Import Credit	15.0	14.8
SAL I	15.0	5.4
Agricultural Services	3.7	0.2
Population, Health, Nutrition	<u>4.7</u>	<u>0.4</u>
Total	97.3	75.5

Source: Data provided by the World Bank.

1/ Including Special Facility for Africa (SFA) but not US\$5.2 million in special joint financing from Switzerland and US\$3.2 million from the Saudi Fund for the SAL.

2/ Amounts calculated using exchange rate at date of negotiations.

3/ 1 SDR = US\$1.27802 at June 30, 1987.

Guinea-Bissau - Relations with the World Bank Group (concluded)

Structural Adjustment Credits

In FY87, IDA approved at US\$10.0 million IDA credit and a US\$5.0 million Special African Facility credit to support the Government's economic recovery program and allow economic activity to expand while current and future reform measures are implemented. The adjustment program focusses on economic liberalization measures and reform of public administration and public enterprises. Special Joint Financing from Switzerland of US\$5.2 million and US\$3.2 million from the Saudi Fund will be provided under the Special Facility for Africa. Furthermore, the International Fund for Agricultural Development will provide US\$5.3 million equivalent; the African Development Bank, US\$11.3 million equivalent and the Federal Republic of Germany, US\$2.0 million equivalent.

Table I. Guinea-Bissau: Balance of Payments, 1984-91

(In millions of U.S. dollars)

	1984	1985	1986	1987 Prog.	1988	1989 Projections	1990 Projections	1991 Projections
Current account	-36.2	-43.5	-23.0	-18.8	-20.7	-17.3	-13.5	-12.9
Trade balance	-42.7	-47.9	-41.6	-36.0	-31.4	-28.8	-26.8	-25.2
Exports, f.o.b.	(17.4)	(11.6)	(9.6)	(15.7)	(20.9)	(23.8)	(27.3)	(31.1)
Imports, f.o.b.	(-60.1)	(-59.5)	(-51.2)	(-51.7)	(-52.3)	(-52.6)	(-54.1)	(-56.3)
Services (net)	-17.9	-22.7	-23.4	-26.8	-26.3	-24.5	-23.7	-25.7
Of which:								
scheduled interest	(-4.1)	(-5.3)	(-6.5)	(-11.2)	(-11.4)	(-11.3)	(-11.2)	(-14.2)
Transfers (net)	24.4	27.1	42.0	44.0	37.0	36.0	37.0	38.0
Official	(29.3)	(30.5)	(43.5)	(43.0)	(36.0)	(35.0)	(36.0)	(37.0)
Private	(-4.9)	(-3.4)	(-1.5)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Capital account	37.0	39.9	9.8	15.9	15.0	14.8	14.9	7.5
Of which:								
Official medium- and long-term drawings	(43.1)	(43.1)	(17.9)	(32.0)	(31.5)	(30.0)	(29.0)	(29.8)
Of which: Balance of payments support	(...)	(...)	(2.6)	(17.0)	(16.0)	(16.0)	(16.0)	(16.0)
Scheduled amortization	(-6.1)	(-3.2)	(-8.1)	(-16.1)	(-16.5)	(-15.2)	(-14.1)	(-22.3)
Errors and omissions and private capital	-13.1	-11.4	-3.7	—	1.0	1.0	1.0	1.0
Overall balance	-12.3	-15.0	-16.9	-2.9	-4.7	-1.5	2.4	-4.4
Refinancing of arrears	—	24.0	19.4	...	—	—	—	—
Change in debt service arrears (decrease -) ^{1/}	8.0	7.6	4.4	-25.6	—	—	—	—
Total	-4.3	16.6	6.9	-28.5	-4.7	-1.5	2.4	-4.4
Financing	4.3	-16.6	-6.9	28.5	4.7	1.5	-2.4	4.4
Net foreign assets	4.3	-16.6	-6.9	-5.1	-12.1	-12.6	-2.4	4.4
Of which:								
Use of Fund credit (net)	1.6	-0.9	-1.1	-0.3	-1.1	-0.9	—	—
Drawings, excluding SAF	(1.6)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Repurchases	(—)	(-0.9)	(-1.1)	(-0.3)	(-1.1)	(-0.9)	(—)	(—)
Change in National Bank arrears (decrease -)	5.7	-17.0	-2.7	-2.8	-10.5	-10.0	-2.1	—
Financing gap (before debt relief)	—	—	—	33.6	16.8	14.1	—	—
Memorandum items:								
Current account, excluding official transfers	-65.5	-73.2	-66.5	-61.8	-56.7	-52.3	-49.5	-49.9
Debt service ratio, ^{2/}								
Before rescheduling	35.4	53.6	88.9	113.2	95.5	80.3	65.9	85.1
After rescheduling	...	...	...	83.9	49.1	...	...	...
Exchange rate (Guinea- Bissau peso per U.S. dollar, period average)	105.1	160.0	205.0	590	792	889	950	1,003
Assumed debt relief	—	—	—	31.6	13.9	...	—	—
SAF disbursements	—	—	—	2.0	2.9	1.3	—	—

Sources: National Bank of Guinea-Bissau; and staff estimates.

^{1/} Excluding central bank arrears.^{2/} In percent of exports of goods and nonfactor services.

Table II. Guinea-Bissau: Central Government Operations, 1984-91

	1984	1985	1986	1987	1988	1989	1990	1991
				Prog.		Projections		
(In millions of Guinea-Bissau pesos)								
Total revenue and grants	5,258	8,416	11,477	36,629	43,424	48,688	52,868	58,024
Budgetary revenue	2,100	2,943	3,802	11,200	14,898	17,586	18,650	20,927
Tax receipts	1,236	1,945	2,206	7,297	9,544	11,163	11,294	12,632
Taxes on international trade	664	1,202	1,247	5,596	7,659	8,990	8,959	10,089
Of which: export tax	(87)	(43)	(101)	(2,056)	(1,704)	(1,320)	(—)	(—)
Nontax receipts	864	998	1,596	3,903	5,354	6,423	7,357	8,294
Fishing licenses	260	853	888	3,127	4,437	5,421	6,273	7,119
Grants	3,158	5,473	7,675	25,429	28,526	31,102	34,218	37,097
Total expenditure	9,893	14,856	19,096	44,327	54,514	57,767	61,616	66,195
Current expenditure	3,602	5,581	8,363	16,007	19,649	21,333	21,885	23,483
Wages and salaries	2,053	3,008	4,090	5,060	5,500	5,487	5,219	5,485
Goods and services	1,019	1,538	2,480	3,813	4,461	4,818	5,107	5,363
Transfers	323	474	906	1,116	1,408	1,706	1,682	1,517
Scheduled interest	207	561	887	6,018	8,280	9,322	9,876	11,119
Capital expenditure	6,291	9,275	10,733	28,320	34,865	36,434	39,731	42,712
Net lending	—	1,056	-198	—	—	—	—	—
Overall deficit, commitment basis	-4,635	-7,496	-7,421	-7,698	-11,090	-9,079	-8,748	-8,172
External arrears (reduction -)	130	464	615	-4,661	—	—	—	—
Errors and omissions (net)	—	—	418	—	—	—	—	—
Overall deficit, cash basis	-4,505	-7,032	-6,389	-12,359	-11,090	-9,079	-8,748	-8,172
Financing	4,505	7,032	6,389	12,359	11,090	9,079	8,748	8,172
Domestic								
National Bank	1,253	1,691	1,519	-4,456	-12,603	-5,850	-6,935	-6,867
Foreign	2,946	5,042	4,807	-236	13,788	14,929	15,683	15,039
Drawings ^{1/}	(3,379)	(5,346)	(6,242)	(18,880)	(24,960)	(26,659)	(27,564)	(29,878)
Amortization ^{2/}	(-433)	(-304)	(-1,435)	(-19,116)	(-11,172)	(-11,730)	(-11,581)	(-14,839)
Other	306	299	62	—	—	—	—	—
Financing gap	—	—	—	17,051	9,905	—	—	—
Possible financing	—	—	—	17,051	9,905	—	—	—
Debt relief ^{3/}	—	—	—	17,051	9,905	—	—	—
Principal	(—)	(—)	(—)	(14,455)	(9,905)	(—)	(—)	(—)
Interest ^{4/}	(—)	(—)	(—)	(2,596)	(—)	(—)	(—)	(—)
Memorandum items:								
Overall deficit before grants (commitment basis)	-7,793	-12,969	-15,605	-33,127	-39,616	-40,003	-42,966	-44,968
Arrears on principal (reduction -)	317	369	759	-10,738	—	—	—	—
(In percent of total expenditure)								
Total revenue and grants	53.1	52.9	60.1	82.6	79.7	84.3	85.8	87.7
Of which: budgetary revenue	(21.1)	(18.5)	(19.9)	(25.3)	(27.3)	(30.4)	(30.3)	(31.6)
tax revenue	(12.5)	(12.2)	(11.5)	(16.6)	(17.5)	(19.3)	(18.3)	(19.1)
Current expenditure	36.4	35.1	43.8	36.1	36.0	36.9	35.5	35.5
Capital expenditure	63.6	58.3	56.2	63.9	64.0	63.1	64.5	64.5
Overall deficit (commitment basis)								
Including grants	46.8	-47.1	-38.9	-17.4	-20.3	-15.7	-14.2	-12.3
Excluding grants	78.8	-81.5	-79.1	-74.7	-72.7	-69.6	-69.7	-68.4

Sources: Ministry of Finance; and staff estimates.

^{1/} Excluding disbursements under the SAF.^{2/} Includes elimination of external arrears on principal of Central Government and, in 1987, also of publicly guaranteed debt.^{3/} Includes rescheduling of current principal due during the period July 1, 1987-December 31, 1988 and an estimate for the amount of debt service arrears as of June 30, 1987.

Table III. Guinea-Bissau: Summary Accounts of the National Bank of Guinea-Bissau, 1984-88

(In millions of Guinea-Bissau pesos; end of period)

	1984	1985	1986	1987			1988	
				March Prel. act.	Sept. Prog.	Dec. Prog.	March Tentative	June
Net foreign assets <u>1/</u>	-6,859	-6,583	-7,211	-8,055	...	-18,693	...	...
Assets	315	526	534	444	...	...	...	...
Liabilities	-7,174	-7,109	-7,745	-8,499	...	...	...	...
Total domestic credit	8,485	11,326	14,079	14,425	15,472	14,330	13,369	14,078
Claims on Government, net	7,328	8,608	10,128	10,665	8,072	5,671	3,571	1,470
Credit to the economy	1,157	2,718	3,951	3,760	7,400	8,659	9,798	12,608
Broad money supply	4,541	6,433	9,105	...	...	10,197	...	...
Money	...	6,279	8,936	8,936	...	...	...	...
Currency in circulation	2,731	3,319	5,467	...	...	...	...	...
Private sector deposits	1,025	1,242	1,696	...	...	...	...	...
Deposits of state enterprises	785	1,718	1,773	...	...	...	...	...
Quasi-money	...	154	168	...	...	...	...	...
Medium- and long-term foreign liabilities <u>1/</u>	2,212	7,263	12,232	13,755	...	40,090	...	...
Other items, net	-5,127	-8,953	-14,470	...	...	-54,649	...	...
Valuation account	-6,149	-10,000	-14,985	...	...	-54,893	...	...
Other	1,022	1,047	515	...	...	244	...	...

Sources: National Bank of Guinea-Bissau; and staff estimates.

1/ Accounts in foreign exchange are valued at the following end-of-period actual and projected exchange rates (Guinea-Bissau pesos per U.S. dollar):

Actual	1983:	84.06
	1984:	127.25
	1985:	176.28
	1986:	237.06
Projected	March	1987: 267.1
	Sept.	1987: 710
	Dec.	1987: 738

Table IV. Guinea-Bissau: External Debt Summary, 1986-92 ^{1/}

(In thousands of U.S. dollars)

Creditors	Total debt outstanding December 31, 1986	Of which: Arrears December 31, 1986	Debt Service					
			1987	1988	1989	1990	1991	1992
Multilateral	105,257.0	3,794.4	3,010.0	3,490.3	3,509.4	3,632.0	3,692.9	3,692.1
Principal		896.6	1,065.5	1,627.5	1,807.2	2,018.8	2,171.0	2,261.9
Interest		2,897.8	1,944.5	1,862.8	1,702.3	1,613.2	1,521.9	1,430.2
Bilateral and regional ^{2/}	97,796.0	12,942.0	11,389.3	9,547.7	8,332.5	7,560.4	9,885.7	9,259.9
Principal		10,156.9	7,929.4	7,627.1	6,587.1	5,904.0	8,117.9	7,965.2
Interest		2,785.1	3,459.9	1,920.6	1,745.4	1,656.5	1,767.8	1,294.7
Financial institutions	26,383.0	—	6,784.3	6,306.2	5,987.5	5,668.8	5,350.0	4,712.6
Principal		—	4,553.2	4,553.2	4,553.2	4,553.2	4,553.2	4,553.2
Interest		—	2,231.2	1,753.0	1,434.3	1,115.5	796.8	159.4
Suppliers	6,504.6	5,659.9	302.7	295.7	288.6	—	—	—
Principal		5,013.8	281.6	281.6	281.6	—	—	—
Interest		646.1	21.1	14.1	7.0	—	—	—
Total Central Government	235,940.7	22,396.3	21,486.2	19,639.8	18,118.0	16,861.1	18,928.6	17,664.6
Principal		16,067.3	13,829.7	14,089.4	13,229.0	12,476.0	14,842.1	14,780.3
Interest		6,329.0	7,656.6	5,550.5	4,889.0	4,385.2	4,086.5	2,884.3
Publicly guaranteed debt	5,125.7	3,856.7	709.4	670.7	475.0	69.9	66.8	63.7
Principal		2,819.9	588.6	588.6	431.5	52.6	52.6	52.6
Interest		1,036.8	120.8	82.2	43.5	17.4	14.2	11.1
Total public sector	241,066.4	26,253.0	22,195.6	20,310.6	18,593.0	16,931.1	18,995.4	17,728.3
Principal		18,887.2	14,418.2	14,677.9	13,660.5	12,528.5	14,894.6	14,832.9
Interest		7,365.8	7,777.4	5,632.6	4,932.5	4,402.5	4,100.7	2,895.4
Debt of National Bank	82,305.7	24,781.4	2,392.7	2,415.2	2,099.9	2,082.4	10,492.5	10,020.1
Principal		23,129.4	1,670.3	1,773.3	1,517.2	1,550.4	7,398.2	7,411.8
Interest		1,651.9	722.5	641.9	582.7	531.9	3,094.3	2,608.3
Long-term	54,419.7	2,767.2	1,157.9	1,211.0	1,189.8	1,172.2	9,582.4	9,109.9
Principal		1,588.8	790.0	893.1	923.4	956.6	6,804.4	6,818.0
Interest		1,178.5	367.8	317.9	266.4	215.6	2,778.0	2,292.0
Short-term	27,886.0	22,014.1	1,234.9	1,204.2	910.1	910.1	910.1	910.1
Principal		21,540.7	880.3	880.3	593.8	593.8	593.8	593.8
Interest		473.5	354.6	324.0	316.3	316.3	316.3	316.3
Total debt service	323,372.1	51,034.4	24,588.4	22,725.8	20,692.9	19,013.4	29,487.9	27,748.3
Principal		42,016.7	16,088.5	15,451.2	15,177.7	14,079.0	22,292.9	22,244.6
Interest		9,017.7	8,499.8	6,274.5	5,515.1	4,934.5	7,195.0	5,503.7
<u>Memorandum items:</u>								
Total long-term debt	295,486.1	29,020.2	23,353.5	21,521.5	19,782.7	18,103.3	28,577.8	26,838.2
Principal		20,476.0	15,208.3	15,571.0	14,583.9	13,485.2	21,699.1	21,650.8
Interest		8,544.2	8,145.2	5,950.5	5,198.8	4,618.2	6,878.7	5,187.4

Source: National Bank of Guinea-Bissau.

^{1/} Data may not add up because of rounding.^{2/} Excludes a small amount of debt service to Portugal, which, according to the 1986 agreement, is to be paid in local currency.

Table V. Guinea-Bissau: IDA Credits and Debt Service, 1982-89

(In millions of U.S. dollars)

	<u>Actual</u>					<u>Projected</u>		
	1982	1983	1984	1985	1986	1987	1988	1989
IDA (net) <u>1/</u>								
Disbursements	6.6	10.7	4.6	14.6	9.6	18.3	18.2	16.5
Amortization	--	--	--	--	--	--	--	--
Net disbursements	6.6	10.7	4.6	14.6	9.6	18.3	18.2	16.5
Service charges	--	0.1	0.2	0.3	0.5	0.7	0.9	1.0

Source: World Bank.

1/ Including Special Facility for Africa.

Table VI. Guinea-Bissau: Fund Position During Period of Proposed
SAF Arrangement, 1987-91

(In millions of SDRs; end of period)

	Outstanding on June 30, 1987	1987		1988				1989				1990	1991
		July- Sept.	Oct.- Dec.	Jan.- March	April- June	July- Sept.	Oct.- Dec.	Jan.- March	April- June	July- Sept.	Oct.- Dec.	Jan.- Dec.	Jan.- Dec.
(In millions of SDRs)													
Transactions under tranche policies (net)	—	—	-0.234	-0.234	-0.234	-0.234	-0.234	-0.234	-0.234	-0.234	—	—	—
Purchases	1.88	—	—	—	—	—	—	—	—	—	—	—	—
Repurchases	—	—	0.234	0.234	0.234	0.234	0.234	0.234	0.234	0.234	—	—	—
SAF disbursements	—	1.5000	—	—	—	2.250	—	—	—	1.0125	—	—	—
(In percent of quota)													
Total Fund credit outstanding (end of period)	25.0	45.0	41.9	38.8	35.6	62.5	59.4	56.3	53.2	63.5	63.5	63.5	63.5
Tranche policies	25.0	25.0	21.9	18.8	15.6	12.5	9.4	6.3	3.2	—	—	—	—
SAF	—	20.0	20.0	20.0	20.0	50.0	50.0	50.0	50.0	63.5	63.5	63.5	63.5

Source: IMF, Treasurer's Department.

Table VII. Guinea-Bissau: Social and Demographic Indicators

<u>Area</u>	<u>Population</u>	<u>Density (1982)</u>
36.1 thous. sq. km.	0.9 million (1982)	23.9 per sq. km.
	Rate of growth: 1.8 percent (1984)	54.1 per sq. km of arable land
<u>Population characteristics (1982)</u>		
Life expectancy at birth:	38	Population per physician: 8,840
Infant mortality (per thousand):	158	Population per hospital bed: 620
Child death rate: (aged 1-4, percent):	36.0	
<u>Income distribution:</u>	n.a.	<u>Distribution of land:</u> n.a.
<u>Access to safe water (1980)</u>		<u>Access to electricity:</u> n.a.
Percent of population, urban:	18.0	
rural:	8.0	
<u>Nutrition (1982)</u>		
Calorie intake as percent of requirements:	68.0	Adult literacy rate (percent): ...
Per capita protein intake (grams per day):	32.0	Primary school enrollment (percent): 88.0

Source: World Bank.