

GUINEA: FIFTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, FINANCING ASSURANCES REVIEW, AND REQUESTS FOR AN AUGMENTATION OF ACCESS AND EXTENSION OF THE CURRENT ARRANGEMENT—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA



GUINEA

February 2015

FIFTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, FINANCING ASSURANCES REVIEW, AND REQUESTS FOR AN AUGMENTATION OF ACCESS AND EXTENSION OF THE CURRENT ARRANGEMENT—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA

In the context of the Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Financing Assurances Review, and Requests for an Augmentation of Access and Extension of the Current Arrangement, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 11, 2015, following discussions that ended on November 14, 2014, with the officials of Guinea on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on January 28, 2015.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Guinea.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Guinea*

Memorandum of Economic and Financial Policies by the authorities of Guinea*

Technical Memorandum of Understanding*

*Also included in Staff Report

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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FIFTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, FINANCING ASSURANCES REVIEW, AND REQUESTS FOR AN AUGMENTATION OF ACCESS AND EXTENSION OF THE CURRENT ARRANGEMENT

KEY ISSUES

The Ebola outbreak has inflicted a heavy toll on Guinea's economy notwithstanding the supportive macroeconomic policies the authorities put in place. Fiscal policy has expanded to reflect revenue shortfalls and higher Ebola-related spending, resulting in a markedly higher budget deficit. Monetary policy has also been supportive, as inflation continued to trend downwards and reserve coverage of imports has remained adequate.

Performance under the ECF program has been satisfactory. All quantitative performance criteria have been met. With the authorities focused on combating the Ebola outbreak, however, structural reform has advanced at a slower pace than previously envisaged, delaying the implementation of a number of structural benchmarks.

Macroeconomic policies in 2015 will remain supportive to help deal with the Ebola outbreak, which looks set to persist well into the year and induce a slight economic contraction. The 2015 budget foresees a widening of the deficit to provide space for Ebola-related spending, finance a significant salary increase for civil servants, and support the economy. Monetary policy will be relaxed to provide adequate liquidity to the private sector and facilitate bank financing of the government budget. A concerted international effort is needed to help the authorities fully implement their Ebola response plan. The 2015 structural reform agenda focuses on finalizing growth-friendly measures.

Risks are tilted to the downside. A prolonged presence of the Ebola epidemic could further disrupt economic activity. The renewal of political tensions and political uncertainty in the run-up to the presidential elections in 2015 could discourage investors and affect growth. However, Guinea would benefit from the recent decline in oil prices

Staff supports the completion of the 5th review under the ECF arrangement and financing assurances review and requests for: (i) an extension of the current arrangement to end-2015; (ii) an augmentation in access; and (iii) disbursement of 25 percent of quota as budget support under the 5th review. Completion of the review will result in disbursement of SDR 45.135 million (42.1 percent of quota).

Approved By
**Abebe Aemro
 Selassie and
 Masato Miyazaki**

An IMF team consisting of Messrs. Snoek (head), Ms. Charry-Velasquez, Messrs. Bouis and Wane (all AFR), Dicks-Mireaux (SPR), Mooney (FIN), and Sulemane (resident representative) held discussions with the authorities in Paris, France during November 3–14, 2014. It met with the Minister of State and Economy and Finance Diaré and the Governor of the Central Bank of Guinea Nabé, and other senior officials.

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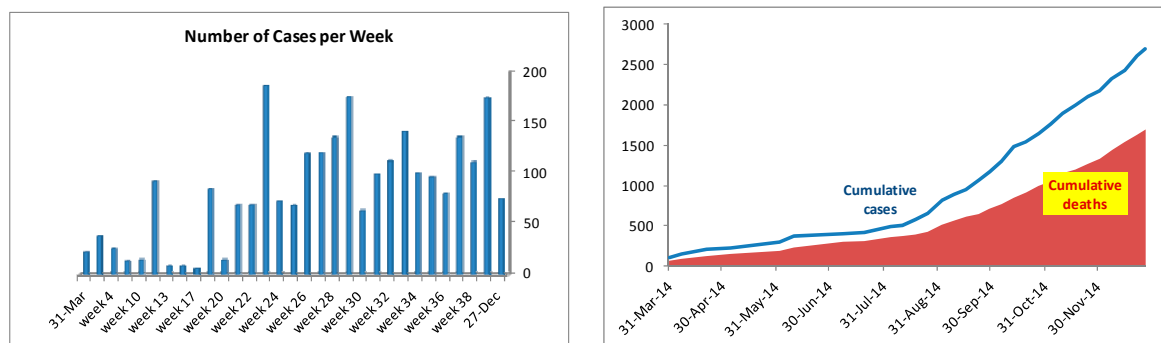
RECENT DEVELOPMENTS AND PROGRAM IMPLEMENTATION

1. Guinea continues to be hit hard by the Ebola outbreak. After the infection rate slowed somewhat through early November, it has leveled out at around 20 cases per day (Box 1). The epidemic remains concentrated in the south-east border region with Sierra Leone and Liberia (70 percent) and around the capital Conakry (20 percent). But it has now extended north toward bauxite and gold producing regions. The government continues its aggressive efforts to control the epidemic: between mid-November and early December five new treatment centers have been opened bringing the total to seven plus one transit center in the epicenter of the outbreak, in the south-eastern part of the country. Also, efforts to overcome the public's resistance to interventions by medical personnel have expanded and the rate of monitoring of persons in contact with those infected has risen to 90–95 percent. Still staff expects that it will be well into 2015 before the disease is eliminated.

Box 1. Guinea: Recent Data on the Ebola Epidemic

The Ebola Virus Disease (EVD) outbreak continues to spread geographically, in both cities with high population density and rural zones where people resort first to traditional healers. After a sharp acceleration from end-August and a peak in October, contamination has slowed down somewhat in the past weeks, but a marked downward trend has not yet emerged. As of January 6, 2,783 cases and 1,791 deaths (of which 72 were health workers) were reported, compared with 2,164 cases and 1,327 deaths on November 30. According to WHO, children infected by EVD in Guinea represent 20 percent of the total number of cases.

Guinea—Number of Cases and Deaths from Ebola, March–December 2014



In a recent report, the WFP and FAO estimate aggregate food crop production in 2014 has fallen by about 3 percent. Surveys suggest Ebola has aggravated an already precarious situation of chronic food insecurity, with 9 percent of the population estimated to be severely food insecure in December 2014. The number of food insecure persons is projected to increase to 1.2 million in March 2015, of which 470,000 are Ebola driven.

2. The political situation remains stable but fragile in the run-up to presidential elections scheduled for end-2015. Opposition parties are accusing the government of not abiding by agreements on the preparations for upcoming presidential and communal elections due in the second half of 2015. Challenges in logistical preparations, in part because of the Ebola outbreak, could further exacerbate political tensions, particularly if they were to cause the elections to be delayed into 2016. Political unrest, which had abated since the outbreak of the Ebola disease, flared up again in the first week of January 2015. Protests against the lack of basic services (electricity and water) continue, especially in the capital. On January 5, unions launched a general strike to support their demands to reduce fuel pump prices in line with international oil prices, and increase public wages by 300 percent (¶13, MEFP ¶20).

3. The immediate effect of the Ebola epidemic has been a pronounced economic slowdown in 2014. The economic impact of the Ebola outbreak is now expected to be more severe than anticipated at the time of the disbursement under the Rapid Credit Facility¹ (Tables 1–4). Growth is estimated to have slowed to 0.4 percent² (Figure 1) as economic activity was seriously hampered by border closures and controls, displacements of population and the related farm labor shortage, a sharp decline in international travel and a fall off in the number of visitors, and a slowdown in foreign investments. Available data indicate that most sectors were affected, especially agriculture, services (particularly in the hotel sector),³ transport and trade. By contrast, mining operations, which are in the northern part of the country, have remained steady, though facing higher transport and insurance costs. Inflation has continued to slow and was 9.0 percent y-o-y in December (Figure 2). Poverty is expected to have increased, especially amongst vulnerable groups who rely on the informal sector for employment, and casual workers in the service industry.

¹ See IMF Country Report n° 14/298, September 9, 2014.

² The authorities projected growth of 1.3 percent in 2014 based on a better expected performance of agriculture. While acknowledging inevitable uncertainties given data lags and weaknesses, official data and staff discussions with a range of private sector representatives pointed to a lower growth estimate. The December 2014 FAO/WFP crop and food insecurity report for Guinea confirm staff's projections for the sector.

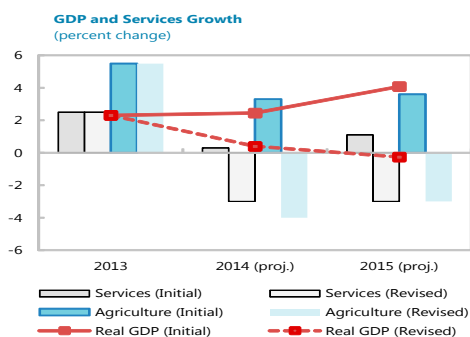
³ Hotels report a decline in occupancy rates of as much as 80 percent as of October 2014 compared to one year earlier.

Figure 1. Guinea: 2014 GDP Growth Projections

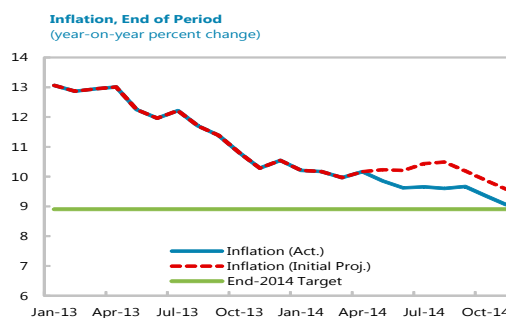
Sources: Guinean authorities, IMF staff calculations.

Figure 2. Guinea: Economic Overview, 2013–15

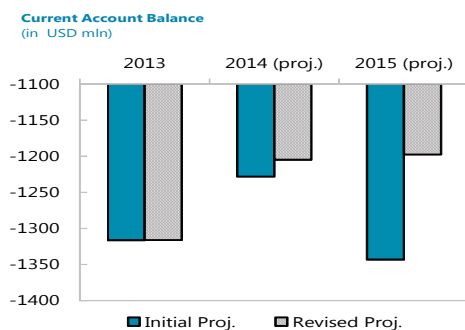
Growth has slowed due to deterioration in the services and agricultural sectors...



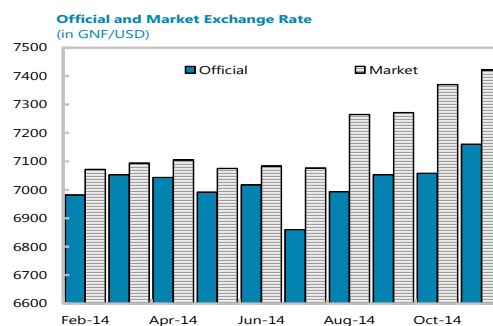
...as inflation subsided towards the year-end targets.



Increased gold exports and lower oil prices afforded support to the current account...



...while the GNF has depreciated against the USD in the recent months.



Source: Guinean authorities, IMF staff calculations.

Note: "Initial projections" refer to the estimates made at the time of the RCF purchase request.

4. The uncertainty on short-term prospects and availability of financing has complicated the conduct of fiscal policy (Text Table 1). At the time of the 4th ECF review and the RCF disbursement, the authorities were faced with downward revisions in projected revenues, which for the most part reflected the effect of the Ebola epidemic on economic activity.⁴ In addition, the authorities' response plan, supported by donors, was updated several times reflecting the more protracted nature of the crisis and its larger scope than originally envisioned. To accommodate the effects of the Ebola crisis and maintain a strong investment effort, the authorities allowed the fiscal deficit to increase within the limit of available financing. In November, the National Assembly adopted a revised budget in line with understandings reached with staff in the context of the 4th ECF review and RCF disbursements. However, in the discussions for the current review, the projections for 2014 were further revised to reflect the increase in international financial assistance to fight Ebola and the delay in receiving exceptional mining revenue which was earmarked for investment projects in the 2014 budget.

Text Table 1. Changes to Fiscal Projections, 2014
(Percent of GDP)

	2014		
	4th Review	RCF	5th Review
Revenue, excl. grants	19.3	18.7	18.7
Grants	5.6	5.2	7.0
Expenditure, of which:	28.9	29.8	30.1
Current	15.6	17.2	18.1
Capital	13.0	12.2	11.7
Basic balance ¹	-4.0	-5.5	-5.7
Overall balance	-9.6	-11.2	-11.4

Sources: Guinean authorities, IMF staff estimates.

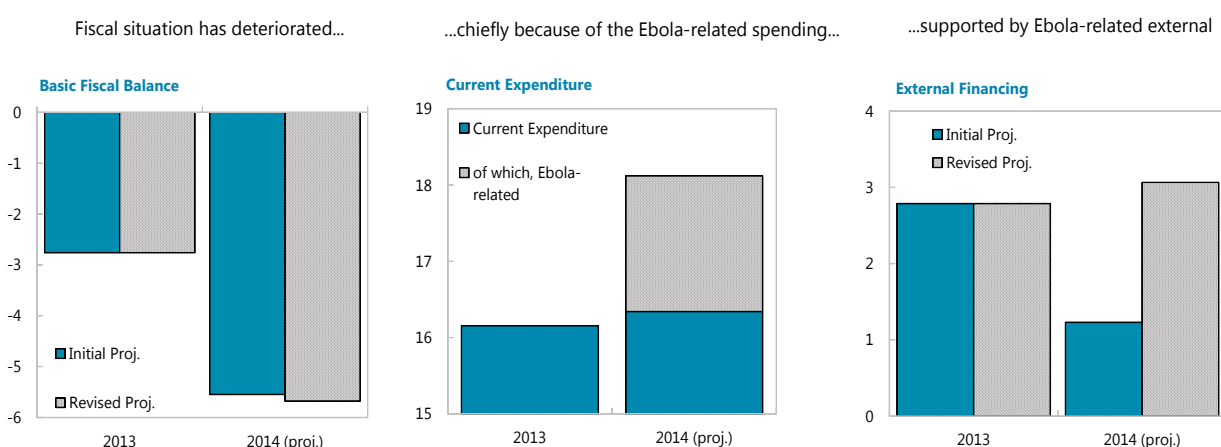
¹ Revenue minus expenditure excluding interest on external debt and foreign-financed investment.

5. Preliminary data suggest budget execution in 2014 resulted in a higher basic balance deficit than envisioned under the program. The deficit is estimated at 5.7 percent of GDP, compared to a program target of 5.5 percent of GDP. Both tax and non-tax revenue projections were

⁴ The revenue projections at the time of 4th ECF review incorporated the impact of the initial smaller Ebola outbreak in the first half of the year which accounted for a part of the then downwardly revised revenue projections. These projections, however, did not anticipate the resurgence of the Ebola epidemic, the effects of which were incorporated at the time of the RCF disbursement.

lower than programmed, in particular mining sector tax receipts,⁵ notwithstanding higher fuel excise revenues in the latter part of the year reflecting the decline in international oil prices. Current expenditures exceeded program projections by 0.6 percent of GDP, almost entirely because of higher spending under the Ebola response plan⁶ which was primarily financed from development partners). To partly offset the revenue loss stemming from the impact of the Ebola outbreak and the delay in exceptional revenue (14), domestic investment was cutback by 0.8 percent of (revised) GDP. This helped the authorities continue to avoid recourse to monetary financing other than withdrawing deposits from exceptional mining revenue received in 2011.

Figure 3. Guinea: Fiscal Sector Developments, 2013–14
(Percent of GDP)



Source: Guinean authorities, IMF staff calculations.

Note: "Initial projections" refer to the estimates made at the time of the RCF purchase request.

6. The central bank (BCRG) has maintained a cautious policy stance in 2014, which has supported a reduction of inflation and a buildup of international reserves. The policy stance has remained broadly unchanged since the November 2013 reduction of the reserve requirement rate—the main monetary policy instrument. The reduction of the policy rate in June 2014 had little if any impact on credit conditions.⁷ Domestic liquidity remained adequate: the ratio of excess reserves to total deposits reached 11 percent at end-October, and private sector credit grew by 30 percent, mainly driven by loans signed prior to the onset of the Ebola crisis.

⁵ This owed in part to delays in the collection of tax arrears as the epidemic hampered on-site audits of some mining companies.

⁶ Budgeted costs of Ebola expenditures include only identified spending on budget allocations. However, a large part of announced international assistance of Ebola operations is being executed outside the budgetary process, channeled directly through multilateral and non-government organizations. The government has little information on the cost and nature of these operations.

⁷ The BCRG policy rate remains significantly higher than the inflation rate, making the real cost of central bank refinancing expensive and limiting the use by commercial banks of BCRG's refinancing window. As a result, changes in the policy rate remain largely symbolic, aside from their signaling role regarding the direction of monetary policy.

7. The external current account (including grants) is estimated to have improved somewhat, as a result of an increase in official grants and lower nonfood imports. However, a fall in capital and financial inflows, largely due to a sharp slowdown in foreign direct investment and lower private short-term capital inflows, resulted in an overall balance of payments deficit.

8. The official and parallel market exchange rates have diverged since the onset of the crisis, but this wedge has diminished more recently. Downward pressure on the Guinean franc has been driven by uncertainty owing to Ebola-related border closures and transport restrictions which resulted in increased hedging by private agents, as well as lower foreign exchange inflows from expatriates, foreign businessmen and diamond exporters. Against this backdrop, the market rate depreciated by about 4 percent through end-2014. To help support confidence in the local currency, the BCRG increased foreign exchange sales in the weekly auctions, moderating the depreciation of the official exchange rate to around 3 percent. This contributed to a divergence of nearly 5 percent versus the market rate by end-November, but the parallel market premium has since diminished to close the year at less than 3 percent.

9. Staff supports the BCRG's recent efforts to ease transitory crisis-related pressures on the exchange rate by augmenting its weekly foreign exchange sales, to the extent that this does not compromise the program's objectives for international reserves. Gross international reserves rose from the equivalent of 3 months of imports in 2013 to about 4 months of imports by end-October 2014, in line with significantly higher-than-anticipated levels of external assistance disbursed late in the year (e.g. crisis-related budget support from the IMF, World Bank, and African Development Bank) and a reduction in projected imports. However, should pressures on the exchange rate persist the BCRG would need to shift to a more flexible stance in order to safeguard both competitiveness and external buffers.

10. Program performance has been satisfactory in 2014.

- *All end-June 2014 performance criteria and indicative targets were met.*
- *Preliminary data indicate that most end-September indicative targets have been met.* The target on expenditure in priority sectors was missed owing to the cutbacks in investment spending. The BCRG balance sheet indicates that the target for net domestic assets of the BCRG was missed.
- *All end-2014 performance criteria and indicative targets are expected to be met, with the exception of the indicative target on expenditure in priority sectors.*
- *The implementation of the authorities' structural reform agenda has experienced delays since the 4th ECF review, primarily reflecting Ebola-related diversion of administrative resources and delays in planned external technical assistance.* Two of the four end-September structural benchmarks have been implemented albeit with a delay. These comprised the adoption of a draft law on public entities to bring them into conformity with the new budget framework law (LORF), and the adoption of a new budget classification. The authorities are seeking advice from their regional peers regarding the transfer of public entity accounts to the treasury single account at the BCRG. None of the four end-December benchmarks was implemented.

However the civil service reform plan and the action plan for the program to reform the State and modernize the administration were validated by all stakeholders and donors and are awaiting government adoption. Progress has also been made in other areas of the authorities' structural reform agenda, and government coordination and monitoring of structural reform implementation was further strengthened (MEFP ¶18-¶14).

ECONOMIC OUTLOOK AND POLICY DISCUSSIONS FOR 2015

A. Economic Outlook and Risks

11. The effects of the Ebola epidemic look set to tip the economy into recession in 2015. A downward trend in the number of new Ebola cases remains elusive. Coupled with the more significant disease burden in neighboring Sierra Leone and Liberia, it seems likely that it will take much of 2015 for the disease to be eradicated. Discussions with private sector representatives, also point to further economic disruption, including from second-round effects of the epidemic such as closures and layoffs. Production and investment would be hindered by limited labor supply and mobility, while investment may also take time to recover due to investors' higher risk-aversion and the downward trend in international commodity prices. Agricultural production would be held back by the impact of disruptions in the marketing of the 2014 production linked to the closure of borders by some neighboring countries. In this context and despite the fall in commodities' prices⁸ expected to bolster economic activity in Guinea and strengthen Guinea's public finance and external accounts, 2015 real GDP would contract by 0.3 percent reflecting a broad-based deterioration in conditions in manufacturing, construction, commerce, transport, and a further weakening in agricultural production.⁹

12. The implications for Guinea's medium-term economic prospects are more uncertain still. Under the baseline, staff expects GDP to rebound in 2016, on the back of a broad-based recovery in activity based on the eradication of the Ebola epidemic in 2015. Over the medium term, economic prospects would remain positive, as supply bottlenecks are progressively reduced—especially in the energy sector¹⁰ and infrastructure—reforms to boost agriculture and improve the business climate are implemented, and large prospective mining projects come on stream. But this is far from certain since serious risks cloud the medium-term outlook. The most significant of these risks are (i) the Ebola epidemic persisting beyond 2015 and (ii) continued fall in commodity prices that could reduce

⁸ Guinea's balance of payments and fiscal accounts are expected to improve significantly from the fall in oil prices that will reduce the cost of oil imports as well government energy subsidies (fuel and electricity). The impact of the fall in other commodities prices will be limited by the execution of long-term sales contracts already negotiated in the bauxite sector (the main contributor to GDP, exports and government revenues).

⁹ The authorities estimate that the Ebola epidemic will be brought under control during the first half of the year allowing growth to rebound to 2.1 percent (MEFP ¶15).

¹⁰ The construction of the Kaleta hydroelectric dam is progressing according to plans. The dam is projected to increase Guinea's electricity generation capacity by 240 MW to 520 MW and could start operations in late 2015 or early 2016. Higher access to electricity will however depend on progress in building transmission lines from the dam to Conakry.

investors' appetite for developing Guinea's large mining potential. There are also uncertainties about the sociopolitical situation in the run-up to presidential elections due in the second half of 2015. The recent wage increase will increase medium-term financing gaps and debt, and impair budget flexibility if not addressed by expenditure rationalization measures.

B. Fiscal Policy

13. Fiscal policy in 2015 will be on an expansionary footing to help eradicate the Ebola outbreak, while preserving the macroeconomic stability gains of recent years. The 2015 program¹¹ targets an increase in the fiscal deficit from 5.7 percent of GDP in 2014 to 6.6 percent. Government efforts will focus on maintaining a strong tax effort, containing non-Ebola related current spending, and maintaining a strong public investment effort. Specifically:

- Fiscal revenues are expected to increase by 2.0 percent of GDP, mostly on the back of higher tax revenues on oil products (MEFP ¶18). With the decline in international oil prices and the government's intention to keep some of the windfall revenue, petroleum product tax revenues are expected to rise by 1.8 percent of GDP. Staff recommended passing through the decline in international prices to improve the legitimacy of the fuel price adjustment mechanism and the population's buy-in of the mechanism. The authorities expressed concerns that if the decline in international prices reversed in the near future an increase in domestic petroleum prices would risk a strong negative social reaction.¹² The government also expects to collect additional revenue (0.2 percent of GDP) from a new tax on telecommunications (MEFP ¶18), and from strengthened collection efforts (0.2 percent of GDP). The introduction of the new ECOWAS common external tariff (CET) is projected to have a marginal adverse effect on revenue.
- Expenditures are expected to increase substantially, primarily owing to the cost of the Ebola response plan (MEFP ¶19) and the wage bill (MEFP ¶20). Spending for the Ebola response plan in 2015 is projected at just over \$200 million out of a total of \$350 million (the remainder was executed in 2014) amounting to 3.2 percent of GDP. The wage bill is projected to increase by 0.8 percent of GDP, primarily reflecting the implementation of a 40 percent staggered general increase in base wages following the agreement with unions in January 2015 (MEFP ¶20),¹³ the establishment of new institutions mandated under the Constitution, the implementation of new pay scales for certain civil service groups¹⁴ and recruitment in priority sectors—health,

¹¹ The 2015 budget was approved by Parliament on December 18. The program projections build on the budget and include the impact of the January 7 agreement with unions on a general base wage increase of 40 percent and of the steeper decline in international oil prices than envisioned in the budget.

¹² Subsequently in early January 2015 the government and unions agreed to review the situation of international oil price and consider some pass-through of lower international prices into domestic pump prices.

¹³ The agreement was reached after the approval of the budget. To maintain the wage bill within the envelope approved by the National Assembly, the government will implement offsetting measures, including postponing recruitments in non-priority sectors and the implementation of the new pay scales for certain categories of civil servants, as well as accelerating the implementation of the results of the biometric survey of civil servants.

¹⁴ The new pay-scales stem from previous commitments agreed by the government.

education, and security. The authorities explained that the decision to increase wages reflects the need to maintain social stability. However, staff emphasized that ad-hoc large real wage increases, unrelated to productivity gains, threaten macroeconomic stability and negate their ability to boost public infrastructure and human capital. Subsidies to the public electricity company (EDG) will fall to GNF250 billion, from GNF 534 billion in 2014, owing to the fall in international oil prices and a 15 percent increase in electricity tariffs programmed for 2015. Domestically-financed public investment is expected to rise by 0.3 percent of GDP and would be concentrated on roads, and electricity transmission and distribution networks.

14. To help finance the budget, the government will use domestic bank financing for the first time since the inception of the ECF-supported program.¹⁵ To support the economy and ensure its response plan is executed satisfactorily, the government intends to issue domestic debt instruments (including bonds in a range of maturities) amounting to as much as 2 percent of GDP, and drawdown unused resources remaining from the World Bank and AfDB budget supports disbursed in late 2014. The authorities have also created a special budget account (BAS) to channel the resources for Ebola-related spending (MEFP ¶22), for which the authorities have received financing pledges of about 2.7 percent of GDP in the form of grants and concessional loans. In addition, exceptional revenues of \$80 million (1.1 percent of GDP) from the sale of mining concessions¹⁶ would fund earmarked investment projects. To close the remaining financing gap, the government has requested that under the current ECF review, IMF financial support equivalent to 25 percent of Guinea's quota (about \$41 million) be provided in the form of budget support. The authorities will continue their efforts to ensure their response plan against Ebola is fully financed. However, if such financing is not forthcoming, the program adjustor will provide a mix of additional domestic financing and adjustment measures, and the authorities will adopt a revised budget for the second half of the year.

15. The authorities consider the financing strategy appropriate in order to achieve their three main objectives: combat the Ebola epidemic, maintain a strong investment effort, and provide support to the economy. Nevertheless, the government recognizes the risks for this strategy and intends to closely monitor developments and stands ready to implement measures if available financing falls short of their objective. The authorities intend to manage these risks, including by strictly adhering to their cash-based budget execution to ensure spending remains within available financing. To ensure that the new domestic bond issuance is well-managed and does not pose a risk to fiscal sustainability, especially roll-over risks, the authorities have requested technical assistance from the World Bank and the Fund to help prepare the issuance in the context of a medium-term debt strategy.¹⁷ While staff supported this financing strategy at this stage, it underscored the need to keep

¹⁵ Domestic financing in the program was limited to the drawdown of exceptional revenue deposited at the central bank in 2011.

¹⁶ The new exceptional financing (originally expected in 2014) is expected to be received from the sale of 3 bauxite blocs; the minimum bid for each bloc is \$200 million for a total equivalent to 9.0 percent of GDP (EBS14/244). Under the program, any amounts above the programmed amounts would be used to reduce the use of domestic bank financing.

¹⁷ The technical assistance is expected to be delivered off-site.

developments under close review. Staff and authorities reached understandings that the strategy and the need for additional measures would be a focal point of the next ECF review.

C. Monetary and Exchange Rate Policies

16. Monetary policy will be gradually relaxed to provide adequate liquidity and support to the economy (MEFP ¶23). Against the backdrop of subdued growth and inflation pressures and increasing international reserves (estimated at 4 months of imports by end-2014¹⁸), the BCRG sees scope for a gradual easing of monetary policy, including to provide enough liquidity to meet the government's funding requirements without crowding out private sector credit. In this context, staff supports the BCRG's planned increase in foreign exchange sales (and the resulting reduction in BCRG net foreign assets) to sterilize the large programmed increase in net domestic government financing (GNF 1000 billion), to the extent that this does not compromise international reserves objectives.¹⁹ Given the downward pressure on the Guinean franc, staff reiterated its advice to improve the role of market mechanisms in determining the exchange rate by widening the exchange rate band around the auction rate for banks from 3 percent to 5 percent.

17. An update of the 2012 safeguards assessment is currently underway. While staff welcome recent ratification of a new investment policy to guide reserves management, preliminary findings indicate the need to strengthen oversight mechanisms, including via re-engagement of the Investment Committee, and enhanced Audit Committee oversight of audit and control mechanisms. In addition, the BCRG needs to accord priority to enhancing financial statement transparency through the adoption of International Financial Reporting Standards (IFRS).

D. Structural Reform

18. The government continues to view structural reform as a priority and essential for higher growth and poverty reduction. To ensure further timely progress, the new monitoring and coordination mechanisms introduced earlier this year will be further strengthened. Notwithstanding the additional pressures on administrative capacity created by the Ebola epidemic, and delays in the delivery of technical assistance, the authorities intend to press ahead with their reform agenda which they see as key for higher growth and for Guinea to benefit from its natural resource wealth. Mindful of the pressures on capacity, staff and the authorities reached understandings that no new structural benchmarks (SBs) would be introduced in the ECF-supported program at this time and that the focus should be on completing the remaining existing benchmarks (MEFP ¶25-¶36; Table 3).

¹⁸ The significant estimated over-performance in reserves accumulation in 2014 reflects the receipt of Ebola-related assistance that was not spent in 2014, which is included in the spending and absorption plans for 2015.

¹⁹ Projections currently reflect GNF 1000 billion in additional BCRG foreign exchange sales aimed at full sterilization of the impact of increased domestic government financing. However, the BCRG acknowledges that the need and scope for this level of intervention will depend on prevailing liquidity and demand conditions, as well as the pace of reserves accumulation and public expenditure over 2015. The BCRG will adjust its policy stance accordingly.

E. Poverty Reduction Strategy

19. The government produced an Annual Progress Report (APR) for 2013 on the implementation of the Poverty Reduction Strategy Paper III (2013–15) in December 2014 (MEFP 137–39). The APR was prepared through extensive consultations with all stakeholders. Progress in poverty reduction was modest because of weak economic growth and sociopolitical difficulties; as a result the main objectives of the PRSP will be difficult to achieve. Nevertheless, public financial management reforms are estimated to have already delivered some improvements in the delivery of education and health services. In the context of the preparation of the APR for 2014, which is expected to be completed by mid-2015, and to inform the preparation of a successor PRSP, the government sought feedback from stakeholders, including Bank and Fund staff (Box 2). It has also started the formulation of a PRSP covering 2016–20, which will draw on the two APRs. The new PRSP will take into account the implications of the Ebola epidemic for the health sector, and will be aligned with the next National Development Program and the government's long-term development strategy (Vision Guinea 2035) which are being prepared.

Box 2. Guinea: First Annual Progress Report (APR) on PRSP Implementation

The Guinean authorities adopted their **Poverty Reduction Strategy Paper (PRSP 2013–15)** in May 2013. The PRSP is articulated around four strategic axes to address Guinea's fragility and set the stage to transform Guinea into an emerging economy over the next 15–25 years. Under the baseline scenario, economic growth was projected to average 5 percent and the preceding rise in poverty was to be halted and reversed. The baseline was founded on a high public investment effort, an ambitious structural reform agenda in the mining and electricity sectors, and improvements in the business environment.

The draft 2013 annual progress report (APR) was circulated to donors for comments in early 2014 and discussed with civil society in May 2014, but the Ebola outbreak stalled the process. The report was finalized in December 2014 and incorporates stakeholders' inputs. The APR describes achievements under each of the four strategic axes of the PRSP.

While progress was achieved, the results fell short of objectives in several dimensions. Progress continued in macroeconomic stabilization, but lagged in key structural areas signaled as priorities in the JSAN, notably in the mining and electricity sectors. In other areas, such as reforming the public administration, only initial steps have been taken. While new household data is not available, the weak growth outcomes suggest poverty has increased, in the absence of a robust social safety net.

Discussions with authorities and stakeholders

Bank and Fund Staff: Regarding the APR, the socio-economic context for the implementation of the PRSP provides much detail on the economic performance of the economy. However, data are often different from those reported in other government reports, which muddy the assessment of implementation performance. In addition, the exposition of the international environment could be better tailored to Guinea, focusing on the main trade partners of the country and key commodities. The assessment of progress on governance and human capital (Axis I) would have benefited from a succinct discussion of the 2012 survey on corruption to identify challenges perceived by the population and measure progress. Concerning the discussion of the weak growth performance (Axis II), the APR could have elaborated on the role played by the delays in implementing the structural reform agenda. For example, with respect to the lack of progress in the electricity sector and road construction, the comment in the 2013 Joint Staff Advisory Note (JSAN) on the PRSP that effective public financial management and clear institutional arrangements for higher public spending to translate into better infrastructure services was essential, remains valid notwithstanding recent progress in these areas. In future APRs, the inclusion of an updated medium-term macroeconomic framework and objectives that take into account past implementation would be useful; it would also be helpful if the discussion of budget execution was linked to the PRSP. Likewise, the discussion on external sector developments would benefit from an analytical view on Guinea's competitiveness.

Box 2. Guinea: First Annual Progress Report (APR) on PRSP Implementation (concluded)

Stakeholders: *Donors regretted the weak institutional framework* for monitoring the PRSP as well as the lack of data available to them to monitor implementation. They also encouraged the government to increase budget allocations to social sectors in line with its stated priorities. Donors called for improvements in the statistical apparatus and a speeding up of the production of implementation reports to provide timely inputs into the formulation of future policies. The authorities reported that **CSOs** emphasized the slow progress in governance, and their capacity constraints that prevent them from monitoring implementation of the strategy.

Authorities: They acknowledged that in 2013, implementation lagged because of the adverse shocks suffered by Guinea and the delays in finalizing discussions on the large mining projects. They noted, however, that social outcomes are better than reported because of large private-sector contributions that are not reported in the official data.

The authorities intend to prepare the next APR covering 2014 in early 2015, which would inform the preparation of the next five-year plan (2016–20) and lay the ground for “Guinea: Vision for 2035”, the prospective study on the “aspirations of the Guinean population”.

PROGRAM MONITORING, FINANCING, AND RISKS

20. The authorities are requesting an extension of the current arrangement through end-December 2015 and an augmentation in access. The extension would provide policy continuity during a difficult period in which the economy is suffering from the impact of the Ebola epidemic and through the forthcoming election period, as well as help catalyze additional donor financing. The authorities have requested that access under the current ECF arrangement be increased by 42.1 percent of quota (SDR 45.135 million). Of this amount, they requested that 25 percent of quota (SDR 26.775 million) be disbursed upon completion of the 5th review as budget support to address the urgent fiscal needs stemming from their strategy to eliminate Ebola. To ensure transparency and safeguard the use of the additional Fund resources, these resources will be used through the special account (BAS) for Ebola-related external support. For the remaining amount, they requested that it will be disbursed under a 7th review. Staff supports these requests.

21. The requested extension of the arrangement would entail one additional review. Proposed quantitative performance criteria for end-June 2015, for the 7th review, and structural benchmarks for the seventh review are annexed to the authorities’ MEFP. The definitions of the variables monitored are provided in the Technical Memorandum of Understanding (TMU).

22. The program is fully financed, although developments in this regard will need to be closely monitored. The financing need is to be filled by official bilateral and multilateral partners’ pledges to support the authorities’ Ebola response plan. The authorities also reiterated their commitments to implement adjustment measures if Ebola-related financing falls short. As regards HIPC debt relief and related relief initiatives, most bilateral agreements with official creditors have been signed except for non-Paris Club members, most of which have yet to respond to the

government's invitation to discuss.²⁰ In the case of private creditors, staff assesses that the authorities are making good faith efforts to reach a collaborative agreement to resolve outstanding arrears consistent with the Fund's lending into arrears policy.²¹ The residual balance of payments financing need is expected to be fully covered by IMF disbursements and donor loans and grants to finance the Ebola response plan.

23. A concerted international effort will be needed to ensure that the financing pledges are fully disbursed. The authorities are actively seeking additional sources of external support and have established a special account for Ebola-related external support to assure a transparent use of these resources. As discussed above, the authorities are also taking steps to ensure that the spending is kept in line with available resources.

24. Guinea's capacity to repay its obligations to the Fund is adequate (Table 8). The total amount of credit outstanding from the Fund, once the augmented ECF arrangement is fully disbursed will amount to 188 percent of quota. While repayments to the Fund are projected to rise over the medium term, they would still be at a low level relative to exports of goods and services and fiscal revenue. Given that the augmentation under the 5th ECF review (Table 9) will be used to provide budget support, the authorities are preparing a framework agreement between the government of Guinea and the central bank (BCRG) on their respective roles and responsibilities for servicing financial obligations to the Fund. The accompanying debt sustainability analysis shows that the new IMF financing and additional donor support would not change Guinea's risk of debt distress.

25. Risks to the program are primarily domestic and tilted to the downside. A prolonged presence of the Ebola epidemic could further disrupt economic activity. The renewal of sociopolitical tensions and political uncertainty in the run-up to the 2015 presidential elections could discourage investors and affect growth prospects. Also, prospective growth and investment could be adversely affected by continued delays in structural reforms. Continued weakness in international markets for iron ore could delay new investments in the mining sector and affect medium-term growth prospects. On the upside, the government is committed to eliminating the Ebola epidemic as quickly as possible and, despite the difficult environment, pressing ahead with structural reform to develop Guinea's considerable potential. In addition, the recent decline in international oil prices is expected to benefit the economy. The Risk Assessment Matrix (Table 10) elaborates on these risks and possible policy responses.

²⁰ The remaining bilateral agreements with Paris Club creditors are expected to be signed in the near future. Non-Paris Club official creditors under the HIPC initiative that have not yet delivered HIPC relief account for \$88.5 million of end-2013 debt (5.6 percent), all of which is in arrears.

²¹ Private creditors that have not yet delivered HIPC relief account for \$65.6 million of end-2013 debt (4.2 percent), all of which is in arrears.

STAFF APPRAISAL

26. The Ebola epidemic has had a severe negative impact on Guinea's economy in 2014, which is expected to persist in 2015. Many lives have been lost and per capita income growth is expected to decline. Even as fiscal revenues have fallen short the government has faced higher financing needs to fight the epidemic. Despite the challenges faced by the authorities economic policy has continued to be implemented prudently.

27. Program execution under the ECF arrangement has been satisfactory despite the complicated environment. Fiscal and monetary policy has been implemented in a disciplined fashion, with fiscal deficits being kept in line with available financing and an uptick in inflation has been avoided. All end-June 2014 performance criteria and indicative targets were met. Preliminary data indicate that most indicative targets at end-September have been met; the targets for the net domestic assets of the central bank and the target floor for priority sector spending are estimated to have been missed—in the latter case because of lower-than-expected public investment. However, the implementation of structural benchmarks has been delayed, reflecting Ebola-related pressures on capacity and delays in planned technical assistance.

28. Staff supports the authorities' fiscal stance for 2015. It considers the fiscal goals of ensuring adequate resources to fight the Ebola epidemic, maintain a strong investment effort to strengthen growth prospects, and providing support to the economy as appropriate. Nevertheless, it will be important to ensure that adequate resources are available to achieve the budget goals. In this respect, a concerted effort by the international community will be needed. On the part of authorities, it will be essential that the execution of the budget is kept in line with available resources. In this respect, staff welcomes the authorities' intention to continue to manage the budget on a cash basis. Staff recommends medium-term expenditure rationalization to restore budgetary flexibility and improve long-term fiscal sustainability in the wake of the general wage increase.

29. The issuance of medium- and shorter-term bonds is an important element of the budget financing strategy. The issuance should be designed so as to avoid a bunching of maturities and rollover risk and to preserve fiscal debt sustainability. In this regard, staff welcomes the authorities' plans to formulate the bond issuance in the context of a medium-term debt strategy with Bank and Fund technical assistance.

30. The additional budget cost of the Government's Ebola Response is expected to be largely foreign-financed. In this regard, staff welcomes the creation of a special budget account for Ebola-related spending, which will ensure transparency and provide assurances to donors that their support is put to good use.

31. A gradual relaxation of monetary policy to support the economy is desirable. Staff also supports the central bank stepped up sales in the foreign exchange market. However, the relaxation of monetary policy and foreign exchange interventions should be consistent with the program's inflation and reserve targets. Given the risk of private sector payment difficulties in the deteriorated economic environment, it will be important to monitor closely the health of the financial sector.

32. Staff welcomes the authorities' commitment to press ahead with structural reform. It would underscore the need for completing their reform agenda supported by the ECF arrangement regarding public finance management, and the business environment. A strengthening of the management of the public electricity utility company is critical to reduce the shortfall in energy supply, and reduce budget subsidies and free up fiscal space for other priority needs. Thus staff urges that a management contract become operational as quickly as possible.

33. Staff welcomes the publication of the first APR for 2013 the PRSP II (2013–15). While economic difficulties and shocks in 2013–14, have hampered the government's efforts to reduce poverty, staff welcomes the progress made in education and health sector outcomes in 2013. Staff encourages the government to take on board the lessons from the 2013 APR in the preparation of the APR for 2014 and the successor PRSP, in particular as regards the institutional framework for monitoring implementation. In the aftermath of the Ebola epidemic it will be important to take due account in the next PRSP of the medium-term needs to strengthen the health sector and social safety nets.

34. Staff recommends completion of the fifth review and the disbursement of an amount equivalent to SDR 45.135 million under the ECF arrangement and of the financing assurances review. It supports the authorities request for an augmentation in access to Fund resources, the extension of the current ECF arrangement to end-December 2015, and that SDR 26.775 million (25 percent of quota) of the disbursement be made directly in the form of budget support. It recommends the setting of the proposed PCs for June 2015 and indicative targets for March and September 2015.

Table 1. Guinea: Key Economic and Financial Indicators, 2013–17

	2013	2014			2015		2016	2017
		Prog. ¹	Prog. ²	Est.	Proj. ²	Prog.		
National account and prices								
GDP at constant prices	2.3	3.5	2.4	0.4	4.3	-0.3	6.5	8.3
GDP deflator	6.3	7.0	7.4	7.5	5.4	8.1	9.1	9.3
GDP at market prices	8.7	10.7	10.1	7.9	9.9	7.8	16.2	18.3
Consumer prices (average)								
Average	11.9	9.7	10.1	9.7	6.5	9.1	9.6	9.4
End of period	10.5	8.5	9.4	9.1	5.9	9.7	9.5	9.2
External sector								
Exports, f.o.b. (US\$ terms)	-5.4	-2.2	-6.5	0.7	2.6	6.8	6.9	9.3
Imports, f.o.b. (US\$ terms)	-6.7	-4.6	-1.9	-4.9	14.5	-2.2	20.6	38.2
Average effective exchange rate (depreciation -)								
Nominal index	3.1	...	...	...	...	...	...	...
Real index	12.7	...	...	...	...	...	...	...
Money and credit								
Net foreign assets ³	-0.3	-4.9	-8.8	-1.6	8.1	-9.9	...	...
Net domestic assets ³	14.4	15.7	14.9	14.6	0.9	21.5	...	...
Net claims on government ³	10.2	8.9	11.1	5.9	0.0	9.4	...	...
Credit to no-ngovernment sector ³	9.7	9.7	10.4	9.5	1.8	12.7	...	...
Reserve money	15.7	12.6	5.2	1.6	12.0	-9.8	...	...
Broad money (M2)	14.1	10.7	6.1	13.1	9.1	11.6	...	...
Interest rate (short term T-bill)	10.9	...	...	...	...	...	...	...
(Percent of GDP)								
Central government finances								
Total revenue and grants	19.8	24.9	23.9	25.7	21.3	23.4	23.2	23.3
Revenue	18.4	19.3	18.7	18.7	19.2	20.7	20.4	20.5
Of which: Non-mining revenue	14.9	15.3	14.6	14.8	16.1	17.9	17.7	17.6
Grants	1.5	5.6	5.2	7.0	2.1	2.7	2.7	2.7
Total expenditure and net lending	25.1	28.9	29.8	30.1	24.0	33.6	27.2	26.2
Current expenditure	16.2	15.6	17.2	18.1	16.6	20.5	17.4	17.0
Of which: Interest payments	1.1	1.1	1.1	1.1	1.1	1.1	1.4	1.2
Capital expenditure and net lending	8.9	13.0	12.2	11.7	6.7	12.6	9.8	9.2
Overall budget balance								
Including grants	-5.2	-4.0	-5.9	-4.3	-2.7	-10.1	-4.1	-2.9
Excluding grants	-6.7	-9.6	-11.2	-11.4	-4.7	-12.9	-6.8	-5.7
Basic fiscal balance	-2.8	-4.0	-5.5	-5.7	-2.3	-6.6	-1.9	-1.3
National accounts								
Gross capital formation	21.0	15.4	13.5	9.3	18.9	10.3	26.6	37.7
Savings	-0.1	-1.6	-4.7	-8.8	0.8	-6.5	8.3	10.3
Current account balance								
Including official transfers	-21.1	-16.9	-18.1	-18.2	-18.0	-16.7	-18.3	-27.4
Excluding official transfers	-21.5	-18.8	-19.7	-19.7	-19.2	-18.1	-19.7	-28.7
Overall balance of payments	0.5	-0.3	-1.7	-0.2	1.6	-6.6	2.7	1.3
Memorandum items:								
Exports, goods and services (US\$ millions)	1,541.1	1,532.1	1,468.1	1,550.0	1,537.4	1,651.2	1,761.7	1,920.4
Imports, goods and services (US\$ millions)	2,705.1	2,660.9	2,701.7	2,677.1	2,953.6	2,648.5	3,193.9	4,286.9
Overall balance of payments (US\$ millions)	29.0	-19.6	-117.8	-14.0	122.1	-475.3	212.9	111.0
Net foreign assets of the central bank (US\$ millions)	448.9	403.9	358.9	416.0	495.9	201.9	202.4	204.3
Gross available reserves (months of imports) ⁴	3.6	3.7	3.7	4.2	3.5	3.1	4.5	4.5
External public debt, incl. IMF (percent of GDP)	25.3	...	...	28.7	...	32.9	34.6	34.5
Total public debt, incl. IMF (percent of GDP)	39.1	...	...	42.5	...	47.9	47.1	44.9
Nominal GDP (GNF billions)	43,048.2	47,669.0	47,387.7	46,462.8	52,187.1	50,084.4	58,202.6	68,846.2

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

¹ Program as established at the time of the 4th ECF Review.² Program as established for the RCF purchase request.³ In percent of the broad money stock at the beginning of the period.⁴ In months of the following year's imports excluding imports for large foreign-financed mining projects.

Table 2a. Guinea: Fiscal Operations of the Central Government, 2013–17¹
(Billions of Guinean Francs; unless otherwise indicated)

	2013	2014				2015		2016	2017		
		Jun.		Sep.		Dec.					
		Prog. ²	Act.	Prog. ³	Prel.	Prog. ³	Est.	Proj. ³	Prog.		
Total revenue and grants	8,544	5,337	4,912	8,117	7,131	11,328	11,951	11,103	11,729	13,484	16,022
Revenue	7,905	4,419	4,343	6,633	6,501	8,843	8,683	10,031	10,356	11,889	14,136
Mining sector	1,489	616	686	1,121	1,029	1,451	1,326	1,408	1,392	1,596	1,998
Non-mining sector	6,130	3,669	3,473	5,201	5,107	6,931	6,899	8,377	8,578	9,844	11,606
Direct taxes	1,484	920	797	1,115	1,129	1,530	1,495	1,707	1,608	1,869	2,311
Indirect taxes	4,646	2,749	2,676	4,086	3,978	5,401	5,404	6,670	6,970	7,975	9,296
Taxes on goods and services	2,943	1,771	1,671	2,547	2,474	3,468	3,444	3,776	4,715	5,355	6,196
Taxes on international trade	1,703	978	1,005	1,539	1,504	1,932	1,960	2,893	2,255	2,620	3,099
Non-tax revenue	286	134	185	311	365	461	458	247	386	449	531
Grants	639	918	569	1,484	630	2,485	3,268	1,072	1,372	1,595	1,887
Project grants	462	773	200	890	261	1,765	1,765	482	705	819	969
Budget support	177	145	369	594	369	720	710	590	668	776	918
Ebola-related	...	...	...	0	0	...	792	...	0	...	...
Expenditures and net lending	10,785	6,277	5,048	9,687	8,191	14,132	13,971	12,505	16,808	15,850	18,036
Current expenditures	6,954	3,230	3,269	5,635	5,313	8,168	8,420	8,680	10,287	10,124	11,709
Primary current expenditures	6,461	2,998	3,038	5,250	4,900	7,630	7,894	8,112	9,744	9,332	10,887
Wages and salaries	2,102	1,086	1,136	1,751	1,734	2,355	2,356	2,890	2,947	3,616	4,277
Goods and services	2,499	1,004	1,001	1,879	1,725	2,599	2,689	3,122	3,126	3,376	3,993
Subsides and transfers	1,860	908	888	1,620	1,387	2,081	2,021	2,100	2,056	2,340	2,616
Ebola-related	...	...	12	215	54	595	827	104	1,613	...	...
Interest on debt	493	232	230	385	413	538	526	568	543	792	823
Domestic debt	421	178	185	291	334	434	434	415	415	539	549
External debt	72	54	46	94	79	104	93	153	128	253	274
Capital expenditure	3,822	2,842	1,745	3,958	2,803	5,800	5,445	3,509	6,327	5,683	6,311
Domestically financed	2,184	1,663	1,334	2,560	2,118	3,213	2,861	2,287	3,280	3,027	3,580
Capital transfers	17	10	13	12	20	30	27	105	48	56	0
Externally financed	1,620	1,169	399	1,386	664	2,557	2,558	1,117	3,000	2,601	2,731
Net lending & restructuring expenditure	9	205	34	94	76	164	106	317	194	43	15
Basic fiscal balance ⁴	-1,188	-635	-260	-1,574	-947	-2,628	-2,638	-1,204	-3,324	-1,108	-895
Percent of GDP	-2.8	-1.5	-0.6	-3.7	-2.0	-5.5	-5.7	-2.3	-6.6	-1.9	-1.3
Overall balance											
Excluding grants	-2,880	-1,858	-704	-3,054	-1,690	-5,289	-5,288	-2,474	-6,452	-3,961	-3,900
Including grants	-2,241	-940	-136	-1,570	-1,060	-2,804	-2,020	-1,402	-5,079	-2,366	-2,014
Financing	2,241	940	122	1,395	1,006	1,902	2,020	1,402	3,435	1,375	1,356
Domestic financing	1,042	704	112	1,163	821	1,318	596	1,280	1,536	-185	-141
Bank financing	1,011	879	43	1,077	652	1,162	768	0	1,394	-75	-75
Central bank	901	879	-28	890	650	1,162	768	0	394	0	0
Commercial banks	110	0	71	187	2	0	0	0	1,000	-75	-75
Nonbank financing	209	-175	69	86	169	156	-173	1,280	142	-110	-66
Borrowing/Amortization of domestic debt (net)	200	-103	0	-158	-64	-284	-285	-285	-285	-130	-90
Change in arrears	0	-72	36	240	206	5	106	-200	-150	776	918
Exceptional revenue	0	0	...	...	...	435	0	1,750	560	0	0
Other	9	0	33	4	27	1	7	15	17	20	24
External financing (net)	1,200	235	10	232	185	584	1,425	122	1,899	1,560	1,497
Drawings	1,509	533	198	495	403	1,065	1,791	635	2,295	2,073	2,107
Project	1,268	396	198	495	403	792	792	635	2,295	1,782	1,762
Program	242	137	0	0	0	273	999	0	0	291	344
Ebola-related	...	...	...	...	...	...	0	...	0	...	...
Amortization due	-341	-298	-212	-289	-250	-492	-421	-513	-396	-513	-610
Debt relief ⁵	6	720	0	57	0	889	4	214	1,079	0	0
Change in arrears (- = reduction) ⁵	26	-720	24	-31	32	-878	50	-214	-1,079	0	0
Financing gap	0	0	13	175	54	902	0	0	1,644	991	658
Possible financing (incl. debt relief)									1,644	991	658
IMF									288		
Ebola-related donor pledges									1,357		
Other/Adjustment measures									...	991	658
Memorandum items:											
Nominal GDP	43,048	43,048	46,463	43,048	46,463	47,388	46,463	52,187	50,084	58,203	68,846

Sources: Guinean authorities; and Fund staff estimates and projections.
¹ Based on GFSM 1986 due to data availability limitations.
² Program as established at the time of the 4th ECF Review.
³ Program as established for the RCF purchase request.
⁴ Revenue minus expenditure excluding interest on external debt and foreign-financed investment.
⁵ For 2014 and 2015 (projected), debt relief is on outstanding loans fully in arrears owed to non-Paris club official and commercial creditors.

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

¹ Based on GFSM 1986 due to data availability limitations.

² Program as established at the time of the 4th ECF Review.

³ Program as established for the RCF purchase request.

⁴ Revenue minus expenditure excluding interest on external debt and foreign-financed investment.

⁵ For 2014 and 2015 (projected), debt relief is on outstanding loans fully in arrears owed to non-Paris club official and commercial creditors.

Table 2b. Guinea: Fiscal Operations of the Central Government, 2013–17¹
(Percent of GDP; unless otherwise indicated)

	2013	2014						2015		2016	2017
		Jun.		Sep.		Dec.		Proj. ³	Prog.		
		Prog. ²	Act.	Prog. ³	Prel.	Prog. ³	Est.				
Total revenue and grants	19.8	12.4	10.6	18.9	15.3	23.9	25.7	21.3	23.4	23.2	23.3
Revenue	18.4	10.3	9.3	15.4	14.0	18.7	18.7	19.2	20.7	20.4	20.5
Mining sector	3.5	1.4	1.5	2.6	2.2	3.1	2.9	2.7	2.8	2.7	2.9
Non-mining sector	14.2	8.5	7.5	12.1	11.0	14.6	14.8	16.1	17.1	16.9	16.9
Direct taxes	3.4	2.1	1.7	2.6	2.4	3.2	3.2	3.3	3.2	3.2	3.4
Indirect taxes	10.8	6.4	5.8	9.5	8.6	11.4	11.6	12.8	13.9	13.7	13.5
Taxes on goods and services	6.8	4.1	3.6	5.9	5.3	7.3	7.4	7.2	9.4	9.2	9.0
Taxes on international trade	4.0	2.3	2.2	3.6	3.2	4.1	4.2	5.5	4.5	4.5	4.5
Non-tax revenue	0.7	0.3	0.4	0.7	0.8	1.0	1.0	0.5	0.8	0.8	0.8
Grants	1.5	2.1	1.2	3.4	1.4	5.2	7.0	2.1	2.7	2.7	2.7
Project grants	1.1	1.8	0.4	2.1	0.6	3.7	3.8	0.9	1.4	1.4	1.4
Budget support	0.4	0.3	0.8	1.4	0.8	1.5	1.5	1.1	1.3	1.3	1.3
Ebola-related	...	...	...	0.0	0.0	...	1.7	...	0.0	...	...
Expenditures and net lending	25.1	14.6	10.9	22.5	17.6	29.8	30.1	24.0	33.6	27.2	26.2
Current expenditures	16.2	7.5	7.0	13.1	11.4	17.2	18.1	16.6	20.5	17.4	17.0
Primary current expenditures	15.0	7.0	6.5	12.2	10.5	16.1	17.0	15.5	19.5	16.0	15.8
Wages and salaries	4.9	2.5	2.4	4.1	3.7	5.0	5.1	5.5	5.9	6.2	6.2
Goods and services	5.8	2.3	2.2	4.4	3.7	5.5	5.8	6.0	6.2	5.8	5.8
Subsidies and transfers	4.3	2.1	1.9	3.8	3.0	4.4	4.3	4.0	4.1	4.0	3.8
Ebola-related	...	...	0.0	0.5	0.1	1.3	1.8	0.2	3.2	...	...
Interest on debt	1.1	0.5	0.5	0.9	0.9	1.1	1.1	1.1	1.1	1.4	1.2
Domestic debt	1.0	0.4	0.4	0.7	0.7	0.9	0.9	0.8	0.8	0.9	0.8
External debt	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4
Capital expenditure	8.9	6.6	3.8	9.2	6.0	12.2	11.7	6.7	12.6	9.8	9.2
Domestically financed	5.1	3.9	2.9	5.9	4.6	6.8	6.2	4.4	6.5	5.2	5.2
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.0
Externally financed	3.8	2.7	0.9	3.2	1.4	5.4	5.5	2.1	6.0	4.5	4.0
Net lending & restructuring expenditure	0.0	0.5	0.1	0.2	0.2	0.3	0.2	0.6	0.4	0.1	0.0
Basic fiscal balance ⁴	-2.8	-1.5	-0.6	-3.7	-2.0	-5.5	-5.7	-2.3	-6.6	-1.9	-1.3
Overall balance											
Excluding grants	-6.7	-4.3	-1.5	-7.1	-3.6	-11.2	-11.4	-4.7	-12.9	-6.8	-5.7
Including grants	-5.2	-2.2	-0.3	-3.6	-2.3	-5.9	-4.3	-2.7	-10.1	-4.1	-2.9
Financing	5.2	2.2	0.3	3.2	2.2	4.0	4.3	2.7	6.9	2.4	2.0
Domestic financing	2.4	1.6	0.2	2.7	1.8	2.8	1.3	2.5	3.1	-0.3	-0.2
Bank financing	2.3	2.0	0.1	2.5	1.4	2.5	1.7	0.0	2.8	-0.1	-0.1
Central bank	2.1	2.0	-0.1	2.1	1.4	2.5	1.7	0.0	0.8	0.0	0.0
Commercial banks	0.3	0.0	0.2	0.4	0.0	0.0	0.0	0.0	2.0	-0.1	-0.1
Nonbank financing	0.5	-0.4	0.1	0.2	0.4	0.3	-0.4	2.5	0.3	-0.2	-0.1
Borrowing/Amortization of domestic debt (net)	0.5	-0.2	0.0	-0.4	-0.1	-0.6	-0.6	-0.5	-0.6	-0.2	-0.1
Change in arrears	0.0	-0.2	0.1	0.6	0.4	0.0	0.2	-0.4	-0.3	1.3	1.3
Exceptional revenue	0.0	0.0	...	...	...	0.9	0.0	3.4	1.1	0.0	0.0
Other	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	2.8	0.5	0.0	0.5	0.4	1.2	3.1	0.2	3.8	2.7	2.2
Drawings	3.5	1.2	0.4	1.1	0.9	2.2	3.9	1.2	4.6	3.6	3.1
Project	2.9	0.9	0.4	1.1	0.9	1.7	1.7	1.2	4.6	3.1	2.6
Program	0.6	0.3	0.0	0.0	0.0	0.6	2.2	0.0	0.0	0.5	0.5
Ebola-related	...	...	...	...	...	...	0.0	...	0.0	...	...
Amortization due	-0.8	-0.7	-0.5	-0.7	-0.5	-1.0	-0.9	-1.0	-0.8	-0.9	-0.9
Debt relief ⁵	...	1.7	0.0	0.1	0.0	1.9	0.0	0.4	2.2	0.0	0.0
Change in arrears (- = reduction) ⁵	0.1	-1.7	0.1	-0.1	0.1	-1.9	0.1	-0.4	-2.2	0.0	0.0
Financing gap	0.0	0.0	0.0	0.4	0.1	1.9	0.0	0.0	3.3	1.7	1.0
Possible financing (incl. debt relief)	...	...	...	...	...	...	...	...	3.3	1.7	1.0
IMF	...	...	...	...	...	...	...	...	0.6	...	...
Ebola-related donor pledges	...	...	...	...	...	...	...	...	2.7	...	...
Other/Adjustment measures	...	...	...	...	...	...	...	...	...	1.7	1.0
Memorandum items:											
Nominal GDP	43,048	43,048	46,463	43,048	46,463	47,388	46,463	52,187	50,084	58,203	68,846

Memorandum items:

Nominal GDP 43,048 43,048 46,463 43,048 46,463 47,388 46,463 52,187 50,084 58,203 68,846

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

¹ Based on GFSM 1986 due to data availability limitations.

² Program as established at the time of the 4th ECF Review.

³ Program as established for the RCF purchase request.

⁴ Revenue minus expenditure excluding interest on external debt and foreign-financed investment.

⁵ For 2014 and 2015 (projected), debt relief is on outstanding loans fully in arrears owed to non-Paris club official and commercial creditors.

Table 2c. Guinea: Fiscal Operations of the Central Government, 2013–15¹
(Billions of Guinean Francs; unless otherwise indicated)

	2013	2014		2014		2014		2015			
		Mar.		Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	
		Prog. ²	Act.	Act.	Prel.	Est.	Prog.				
Total revenue and grants	8,544	2,395	2,004	4,912	7,131	11,951	2,630	5,946	8,827	11,729	
Revenue	7,905	2,095	1,903	4,343	6,501	8,683	2,151	4,969	7,706	10,356	
Mining sector	1,489	291	285	686	1,029	1,326	282	676	1,031	1,392	
Non-mining sector	6,130	1,718	1,536	3,473	5,107	6,899	1,811	4,144	6,382	8,578	
Direct taxes	1,484	328	251	797	1,129	1,495	290	849	1,269	1,608	
Indirect taxes	4,646	1,390	1,286	2,676	3,978	5,404	1,520	3,295	5,113	6,970	
Taxes on goods and services	2,943	866	810	1,671	2,474	3,444	1,072	2,267	3,492	4,715	
Taxes on international trade	1,703	524	475	1,005	1,504	1,960	448	1,028	1,621	2,255	
Non-tax revenue	286	86	81	185	365	458	58	149	293	386	
Grants	639	300	102	569	630	3,268	479	976	1,121	1,372	
Project grants	462	300	102	200	261	1,765	182	309	453	705	
Budget support	177	0	0	369	369	710	298	668	668	668	
Ebola-related	...	...	...	...	0	792	0	0	0	0
Expenditures and net lending	10,785	2,936	2,157	5,048	8,191	13,971	3,683	7,693	12,130	16,808	
Current expenditures	6,954	1,329	1,467	3,269	5,313	8,420	2,423	4,800	7,403	10,287	
Primary current expenditures	6,461	1,240	1,312	3,038	4,900	7,894	2,311	4,564	7,014	9,744	
Wages and salaries	2,102	585	539	1,136	1,734	2,356	610	1,304	2,115	2,947	
Goods and services	2,499	418	377	1,001	1,725	2,689	496	1,156	1,987	3,126	
Subsidies and transfers	1,860	237	392	888	1,387	2,021	416	935	1,440	2,056	
Ebola-related	...	...	4	12	54	827	790	1,168	1,472	1,613
Interest on debt	493	89	155	230	413	526	112	237	389	543	
Domestic debt	421	52	128	185	334	434	65	170	279	415	
External debt	72	37	28	46	79	93	47	66	110	128	
Capital expenditure	3,822	1,508	689	1,745	2,803	5,445	1,211	2,796	4,581	6,327	
Domestically financed	2,184	1,049	462	1,334	2,118	2,861	488	1,392	2,332	3,280	
Capital transfers	17	9	6	13	20	27	11	23	37	48	
Externally financed	1,620	450	221	399	664	2,558	711	1,381	2,213	3,000	
Net lending & restructuring expenditure	9	99	0	34	76	106	48	97	145	194	
Basic fiscal balance ³	-1,188	-354	-5	-260	-947	-2,638	-773	-1,276	-2,101	-3,324	
Percent of GDP	-2.8	-0.8	-0.0	-0.6	-2.0	-5.7	-1.5	-2.5	-4.2	-6.6	
Overall balance, commitment basis											
Excluding grants	-2,880	-841	-254	-704	-1,690	-5,288	-1,532	-2,723	-4,424	-6,452	
Including grants	-2,241	-541	-152	-136	-1,060	-2,020	-1,053	-1,747	-3,303	-5,079	
Financing	2,241	541	148	122	1,006	2,020	765	1,460	2,400	3,435	
Domestic financing	1,042	494	65	112	821	596	289	585	880	1,536	
Bank financing	1,011	639	166	43	652	768	394	794	1,194	1,394	
Central bank	901	639	102	-28	650	768	394	394	394	394	
Commercial banks	110	0	64	71	2	0	0	400	800	1,000	
Nonbank financing	209	-145	-101	69	169	-173	-104	-209	-313	142	
Borrowing/Amortization of domestic debt (net)	200	-45	0	0	-64	-285	-71	-143	-214	-285	
Change in arrears	0	-101	-115	36	206	106	-38	-75	-113	-150	
Exceptional revenue	0	0	...	...	...	0	0	0	0	560
Other	9	0	14	33	27	7	4	9	13	17	
External financing (net)	1,200	47	84	10	185	1,425	476	875	1,520	1,899	
Drawings	1,509	150	120	198	403	1,791	530	1,072	1,759	2,295	
Project	1,268	150	120	198	403	792	530	1,072	1,759	2,295	
Program	242	0	0	0	0	999	0	0	0	0	
Ebola-related	...	...	...	...	...	0	...	...	...	...
Amortization due	-341	-103	-43	-212	-250	-421	-54	-198	-240	-396	
Debt relief ⁴	6	350	0	0	0	4	57	57	57	1,079	
Change in arrears (- = reduction) ⁴	26	-350	7	24	32	50	-57	-57	-57	-1,079	
Financing gap	0	0	4	13	54	0	288	288	903	1,644	
Possible financing (incl. debt relief)							288	288	903	1,644	
IMF							288	288	288	288	
Ebola-related donor pledges							...	...	615	1,357
Other/Adjustment measures							...	...	...	...
Memorandum items:											
Nominal GDP	43,048.2	43,048.2	46,462.8	46,462.8	46,462.8	46,462.8	50,084.4	50,084.4	50,084.4	50,084.4	

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

¹ Based on GFSM 1986 due to data availability limitations.

² Program as established at the time of the 4th ECF Review.

³ Revenue minus expenditure excluding interest on external debt and foreign-financed investment.

⁴ For 2014 (program) and 2015 (projected), debt relief is on outstanding loans fully in arrears owed to non-Paris club official and commercial creditors.

Table 3a. Guinea: Central Bank and Deposit Money Banks Accounts, 2013–15¹
(Billions of Guinean Francs; unless otherwise indicated)

	2013	2014						2015			
		Jun.		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
		Prog. ²	Act.	Prog. ²	Est.	Prog. ²	Est.	Prog.			
Central bank											
Net foreign assets	3,163	3,021	3,012	3,012	3,086	2,513	2,916	2,573	2,132	1,780	1,430
Net domestic assets	3,815	4,392	4,171	4,171	5,217	5,318	4,642	4,048	4,628	5,109	5,389
Domestic credit	4,462	4,585	4,325	4,325	5,005	5,910	5,234	4,453	4,846	5,240	5,634
Claims on central government (net)	4,397	4,541	4,280	4,280	4,946	5,849	5,165	4,378	4,772	5,165	5,559
Claims on private sector	50	43	43	43	46	46	52	57	57	57	57
Liabilities to deposit money banks (-)	0	0	0	0	0	0	0	0	1	2	4
Claims on other public sector	15	1	2	2	13	15	16	18	18	18	18
Other items, net (assets +)	-647	-193	-154	-154	212	-592	-592	-405	-218	-131	-245
Reserve money	6,978	7,413	7,183	7,183	8,303	7,830	7,557	6,620	6,760	6,889	6,820
Currency outside banks	4,052	4,169	4,234	4,234	4,194	4,159	4,286	4,921	4,848	4,658	4,617
Bank reserves	2,508	2,760	2,557	2,557	3,499	3,254	2,652	1,180	1,493	1,911	1,983
Deposits	2,095	2,356	2,129	2,129	3,002	2,802	2,155	1,877	1,734	1,797	1,662
Required reserves	1,720	1,746	1,753	1,753	1,906	1,857	1,975	1,563	1,451	1,552	1,573
Excess reserves	376	610	376	376	1,096	945	181	314	282	245	89
Cash in vaults of deposit banks	413	405	428	428	497	452	497	303	159	115	320
Private sector deposits	418	484	392	392	610	418	619	519	419	319	219
Deposit money banks											
Net foreign assets	1,345	1,058	826	826	483	823	1,371	1,378	1,385	1,392	1,399
Bank reserves	2,508	2,760	2,557	2,557	3,499	3,254	2,652	1,180	1,493	1,911	1,983
Deposits at the central bank	2,095	2,356	2,129	2,129	3,002	2,802	2,155	1,877	1,734	1,797	1,662
Cash in vaults of deposits banks	413	405	428	428	497	452	497	303	159	115	320
Claims on central bank	0	0	0	0	0	0	0	0	0	0	0
Domestic credit	6,093	6,518	6,386	6,386	7,310	7,457	7,331	8,802	9,197	9,602	10,205
Credit to the government (net)	1,908	1,973	1,935	1,935	1,909	1,908	1,908	1,908	2,308	2,708	2,908
Claims on public enterprises	90	110	65	65	72	90	99	79	89	99	109
Claims on the private sector	4,096	4,435	4,386	4,386	5,329	5,459	5,325	6,816	6,800	6,795	7,189
Other items, net (assets +)	-1,349	-1,608	-1,004	-1,004	-1,762	-2,248	-1,482	-1,595	-1,707	-1,820	-1,933
Liabilities to the private sector (deposits)	8,598	8,728	8,766	8,766	9,530	9,286	9,873	9,766	10,367	11,085	11,654
<i>Memorandum items:</i>											
Net foreign assets of the central bank (US\$ million)	451	428	429	429	438	359	416	368	305	254	202
Net international reserves (GNF billion)	3,950	3,804	3,873	3,873	3,931	3,299	3,857	3,379	2,938	2,586	2,236
Net Interntional reserves (US\$ million)	564	539	552	552	557	461	550	482	419	369	319

Sources: Guinean authorities; and IMF staff estimates and projections.

¹ End of period.

² Program as established for the RCF purchase request.

Table 3b. Guinea: Monetary Survey, 2013–15¹
(Billions of Guinean Francs; unless otherwise indicated)

	2013	2014						2015			
		Jun.		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
		Prog. ²	Act.	Prog. ²	Est.	Prog. ²	Est.	Prog.			
Net foreign assets	4,490	3,838	3,838	3,348	3,569	3,335	4,287	3,951	3,517	3,172	2,830
Net domestic assets	8,578	9,554	9,554	10,069	10,765	10,527	10,491	11,255	12,117	12,890	13,661
Domestic credit	10,553	10,712	10,712	11,365	12,316	13,366	12,565	13,255	14,043	14,842	15,839
Claims on central government	6,305	6,215	6,215	6,335	6,855	7,756	7,073	6,285	7,079	7,873	8,467
Claims on public enterprises	105	67	67	80	86	105	115	97	107	117	126
Claims on private sector	4,144	4,429	4,429	4,949	5,375	5,505	5,377	6,872	6,857	6,852	7,246
Other items, net (assets +)	-1,975	-1,158	-1,158	-1,296	-1,551	-2,840	-2,074	-2,000	-1,926	-1,952	-2,178
Broad money (M2)	13,068	13,392	13,392	13,417	14,334	13,862	14,778	15,206	15,634	16,063	16,491
Currency	4,052	4,234	4,234	4,025	4,194	4,159	4,286	4,921	4,848	4,658	4,617
Deposits	9,016	9,158	9,158	9,392	10,140	9,703	10,492	10,285	10,786	11,404	11,873
ge in percent of beginning-of-period M2)				(Year-on-year change in percent of beginning-of-period M2)							
Memorandum items:											
Net foreign assets	-0.3	-6.7	-6.7	-8.7	-7.9	-8.8	-1.6	-4.1	-7.4	-10.1	-12.7
Of which: central bank	1.9	1.6	1.6	-4.6	1.5	-4.8	-1.8	-4.4	-7.8	-10.4	-13.1
Net domestic assets	14.4	19.3	19.3	11.4	23.5	14.9	14.6	20.5	27.1	33.0	38.9
Of which: central bank	6.9	4.6	4.6	-0.9	11.3	7.8	2.6	-1.9	2.5	6.2	8.4
Domestic credit	19.9	17.9	17.9	6.2	24.4	21.5	15.4	20.7	26.7	32.8	40.4
Net claims on government	10.2	8.5	8.5	0.2	12.0	11.1	5.9	-0.1	5.9	12.0	16.5
Credit to the private sector	9.7	9.4	9.4	6.2	12.5	10.4	9.5	20.9	20.8	20.7	23.7
Broad money (M2)	14.1	12.5	12.5	2.7	15.6	6.1	13.1	16.4	19.6	22.9	26.2
Reserve money (annual percentage change)	15.7	11.5	11.5	-9.7	23.5	5.2	1.6	-12.4	-9.2	-7.4	-8.3
Commercial bank credit to the private sector (annual percentage change)	35.4	37.3	37.3	19.7	41.6	33.3	30.0	28.0	27.7	27.6	35.0
Money multiplier (M2/reserve money)	1.8	1.9	1.9	2.0	1.7	1.8	2.0	2.3	2.3	2.3	2.4
Velocity (GDP/average M2)	3.5	3.7	3.7	3.5	3.5	3.5	3.3	3.2	3.1	5.1	3.2
Velocity eop (GDP/M2 eop)	3.3	3.5	3.5	3.5	3.2	3.4	3.1	3.3	3.2	3.1	3.0
Deposit dollarization	32.6	0.0	0.0	...	0.0	32.6	32.6	...	...	...	...
GDP at constant prices	2.3	2.4	0.4	2.4	0.4	2.4	0.4	-0.3	-0.3	-0.3	-0.3
Consumer prices (percentage change,eop)	10.5	9.4	9.1	9.4	9.1	9.4	9.1	9.7	9.7	9.7	9.7
Nominal GDP (percentage change)	8.7	10.1	7.9	10.1	7.9	10.1	7.9	7.8	7.8	7.8	7.8

Sources : autorités guinéennes et estimations et projections des services du FMI.

¹ End of period.

² Program as established for the RCF purchase request.

Table 4. Guinea: Balance of Payments, 2013–17
(Millions of U.S. Dollars; unless otherwise indicated)

	2013	2014	2015		2016	2017
		Proj.	Proj. ¹	Prog.		
Merchandise trade balance						
Exports, f.o.b.	1,474	1,484	1,403	1,584	1,693	1,849
Mining products	1,294	1,307	1,261	1,420	1,518	1,710
Other	180	177	142	164	175	139
Imports, f.o.b.	-2,011	-1,912	-2,156	-1,870	-2,256	-3,119
Food products	-262	-318	-247	-353	-231	-248
Other consumption goods	-284	-306	-317	-330	-324	-362
Petroleum products	-435	-407	-464	-264	-326	-381
Intermediate and capital goods	-1,029	-881	-1,128	-924	-1,375	-2,128
<i>Of which: Imports for large mining projects</i>	-87	-18	-333	-26	-409	-1,057
Services trade balance	-631	-698	-662	-711	-869	-1,098
Services exports	105	66	135	67	69	71
Services imports	-735	-765	-797	-778	-938	-1,168
<i>Of which: Imports for large mining projects</i>	-55	-24	-172	-28	-162	-380
Income balance	-436	-429	-315	-475	-441	-473
<i>Of which: Interest on public debt</i>	-10	-13	-22	-19	-35	-35
Transfers	268	351	388	275	422	456
<i>Of which:</i>						
Net private transfers	243	251	304	179	317	340
Official transfers	26	100	84	95	105	116
Current account						
Including official transfers	-1,336	-1,205	-1,343	-1,198	-1,451	-2,384
Excluding imports for large mining projects	-1,194	-1,163	-838	-1,144	-880	-948
Excluding official transfers	-1,361	-1,305	-1,428	-1,293	-1,556	-2,500
Capital account	79	263	84	191	126	139
Financial account	1,171	928	1,382	532	1,537	2,356
Public (medium and long-term)	169	193	17	271	212	190
Project-related loans	183	111	91	328	242	223
Program financing	35	140	0	0	40	44
Amortization due	-49	-59	-73	-57	-70	-77
Public (short-term)	0	0	0	0	0	0
Direct and other private investment (net)	174	54	567	70	830	1,879
<i>Of which: Large mining projects</i>	524	53	706	68	827	1,876
Private short-term	828	682	798	191	496	288
Errors and omissions	115	0	0	0	0	0
Overall balance	29	-14	122	-475	213	111
Financing	-29	14	-179	160	-347	-194
Change in net official reserves	-34	6	-179	160	-347	-194
<i>Of which:</i>						
Fund repayments	0	0	0	0	0	3
Change in gross official reserves	-61	-90	-179	160	-347	-192
Change in arrears (=reduction) ²	4	7	-31	-154	0	0
Debt relief ²	1	1	31	154	0	0
Financing gap	0	0	57	315	134	83
Ebola-related donor pledges	...	...	...	196	...	...
Other/adjustment measures	...	...	...	...	134	83
Expected Fund disbursement	0	0	57	119	0	0
Memorandum items:						
Current account balance (percent of GDP)						
Including official transfers	-21	-18.2	-18.0	-16.7	-18.3	-27.4
Excluding imports for large mining projects	-19	-17.5	-11.2	-16.0	-11.1	-10.9
Excluding official transfers	-22	-19.7	-19.2	-18.1	-19.7	-28.7
Overall balance (percent of GDP)	0	-0.2	1.6	-6.6	2.7	1.3
Exports-GDP ratio (percent)	25	23.4	20.6	23.1	22.3	22.0
Imports-GDP ratio (percent)	-44	-40.4	-39.6	-37.0	-40.4	-49.2
Gross available reserves (US\$ millions)	705	794.9	896.7	634.5	981.6	1,173.2
Gross available reserves (months of imports)	3	4.2	3.5	3.1	4.5	4.5
Nominal GDP (US\$ millions)	6,230	6,629	7,455	7,155	7,909	8,716
National currency per US dollar (avg.)	6,910	7,117	...	...	...	...

Sources: Guinean authorities; and IMF staff estimates and projections.

¹ Program as established for the RCF purchase request.

²For 2015 projected clearance of outstanding debt arrears to non-Paris Club official creditors and commercial creditors through debt relief.

Table 5. Guinea: Performance Criteria and Indicative Targets, 2014–15¹
(Billions of Guinean Francs; unless otherwise indicated)

	2014								2015							
	Jun.				Sep.				Dec.		Mar.	Jun.	Sep.	Dec.		
	PC	Adj. PC	Act.	Status	Indicative Targets	Adj. Targets	Act.	Status	PC	Adj. PC	Indicative Targets	PC	Indicative Targets	Indicative Targets		
Quantitative performance criteria																
Basic fiscal balance (floor; cumulative change for the year)	-635	-676	-248	Met	-1,570	-1,537	-893	Met	-2,628	-3,217	-880	-1,485	-2,338	-3,533		
Net domestic assets of the central bank (ceiling; stock)	5,018	4,910	4,171	Met	4,789	4,921	5,217	Not Met	5,318	5,318	4,047	4,628	5,109	5,389		
Net domestic bank financing of the government (ceiling; cumulative change for the year)	879	771	43	Met	1,077	1,208	652	Met	1,452	1,452	266	794	1,194	1,394		
Net international reserves of the central bank (floor; stock); US\$ million ²	459	459	552	Met	513	495	560	Met	516	516	360	297	247	194		
New non-concessional medium or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US\$ million ^{3, 4, 6}	0	0	0	Met	80	80	0	Met	80	80	80	80	80	80		
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US\$ million ⁴	0	0	0	Met	0	0	0	Met	0	0	0	0	0	0		
New external arrears (ceiling) ⁴	0	0	0	Met	0	0	0	Met	0	0	0	0	0	0		
Indicative targets																
Expenditure in priority sectors (floor) ⁵	2,167	2,167	2,276	Met	2,633	2,633	2,425	Not Met	4,706	5,609	1,262	2,643	4,137	5,695		
Memorandum items:																
Reserve money (ceiling)	7,441	...	7,183		7,306	...	8,303		7,830	7,855	6,570	6,709	6,838	6,766		
Net external assistance	94	...	136		237	...	73		1,453	2,042						
Change in the float	-72	...	36		240	...	206		5	106	-71.3	-142.6	-112.5	-150.0		

Sources: Guinean authorities; and IMF staff estimates and projections.

¹ Definitions and adjustors are included in the Technical Memorandum of Understanding (TMU).

² Calculated using program exchange rates.

³ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.

⁴ Continuous performance criterion.

⁵ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

⁶ The ceiling for 2014 is tied to new debt to finance the Kaleta hydroelectric dam - Conakry transmission line project.

Table 6. Guinea: Banking Sector Key Economic and Financial Soundness Indicators, 2010–14
(Percent)

Indicator	End Dec. 2010	End Dec. 2011	End Dec. 2012	End Dec. 2013	End Sep. 2014
Capital Adequacy					
Total capital to assets	7.8	8.2	11.6	11.8	12.5
Regulatory capital to risk-weighted assets (RWA)	17.0	14.6	18.2	15.6	18.0
Percentage of banks with $\geq 10\%$ regulatory capital to RWA	100.0	83.3	92.3	93.0	100.0
Share of these banks/total banking system assets	100.0	58.8	98.5	94.5	100.0
Percentage of banks $\geq 6\% \leq 10\%$ total capital to RWA	0.0	16.7	7.7	7.0	0.0
Share of these banks/total banking system assets	0.0	41.2	1.5	5.0	0.0
Asset Quality					
Nonperforming loans (NPLs) to total loans (incl. off-balance sheet)	5.9	3.2	4.8	6.5	6.3
NPLs net of provisions to capital	2.5	3.5	3.5	11.2	11.5
Earnings and Profitability					
Net income to average assets (ROA)	2.0	2.5	2.2	2.2	1.4
Net income to average capital (ROE)	35.1	41.3	28.8	27.8	17.0
Non-interest expenses to gross income	14.0	24.5	57.9	93.1	136.0
Personnel expenses to gross income	22.0	18.5	20.7	21.1	21.0
Expenses to income	29.6	26.5	29.1	31.5	31.1
Liquidity					
Liquid assets to total assets (liq. asset ratio)	75.9	69.0	67.3	62.3	65.3
Liquid assets to short-term liabilities	86.1	74.1	77.4	72.5	76.0
Loans to deposits	24.6	38.1	38.0	45.7	53.5
Liquid assets to total deposits	91.4	91.1	85.5	80.6	89.2
Sensitivity to Market/FX Risk					
Foreign exchange liabilities to total liabilities	22.0	28.0	33.0	26.5	20.8
Foreign currency loans to total loans	36.0	48.1	22.6	23.1	na

Source: BCRG, IMF staff calculations.

Table 7. Guinea: External Financing Requirements and Sources, 2013–15

	2013 Est.	2014 Proj.	2015	
			Proj.	Rev. Proj.
1. Gross financing requirements	1,456	1,432	1,696	1,253
External current account deficit	1,361	1,305	1,428	1,293
Capital account balance ¹	-12	-15	-15	-90
Debt amortization	49	59	73	57
Change in arrears, net ²	-4	-7	31	154
Gross reserves accumulation	61	90	179	-160
IMF repayments ²	0	0	0	0
2. Available financing	1,428	1,335	1,639	938
Foreign direct investment, net ³	1,002	735	1,364	260
Identified disbursements	311	600	244	524
Grants	92	348	153	196
Project	67	248	69	101
Program	26	100	84	95
Loans	218	252	91	328
Project	183	111	91	328
Program	35	140	0	0
Other flows	115	0	0	0
Debt relief ²	1	1	31	154
Debt rescheduling and cancellation (incl. on arrears) ²	1	1	31	154
3. Residual financing	28	96	57	315
ECF and RCF disbursement	28	96	57	119
Ebola-related donor pledges				196
Additional financing/Adjustment measures	...	...	...	...

Sources: Guinean authorities; and IMF staff estimates and projections.

¹ Excludes public transfers.

² Projected clearance of outstanding debt arrears to non-Paris Club official creditors and commercial creditors through debt relief.

³ Includes private short term financial flows.

Table 8. Guinea: Indicators of Capacity to Repay the IMF, 2014–25¹

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Projections											
Fund obligations based on existing credit												
Credit outstanding	119.08	119.08	119.08	117.24	107.56	94.71	70.99	47.28	25.40	10.86	0.00	0.00
Percent of quota	111.19	111.19	111.19	109.47	100.43	88.43	66.29	44.14	23.71	10.14	0.00	0.00
Repayment of principal	0.00	0.00	0.00	1.84	9.68	12.85	23.72	23.72	21.88	14.54	10.86	0.00
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.26	0.21	0.15	0.09	0.04	0.01	0.00
Fund obligations from prospective drawings under the ECF ²												
Credit outstanding	0.00	81.85	81.85	81.86	81.85	81.85	75.51	59.13	42.76	26.40	10.02	0.00
Percent of quota	0.00	76.42	76.42	76.43	76.43	76.43	70.50	55.22	39.93	24.65	9.36	0.00
Repayment of principal	0.00	0.00	0.00	0.00	0.00	0.00	6.35	16.37	16.37	16.37	16.37	10.02
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.20	0.20	0.17	0.13	0.09	0.05	0.01
Total obligations based on existing and prospective credit												
Credit outstanding	119.08	200.93	200.93	199.10	189.41	176.56	146.50	106.41	68.16	37.26	10.02	0.00
Percent of quota	111.19	187.61	187.61	185.90	176.86	164.86	136.79	99.36	63.64	34.79	9.36	0.00
Percent of gross foreign available reserves	22.53	47.63	30.79	25.53	20.70	16.53	11.90	7.08	4.26	2.21	0.54	0.00
Repayment of principal	0.00	0.00	0.00	1.84	9.68	12.85	30.06	40.09	38.25	30.91	27.23	10.02
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.46	0.41	0.32	0.22	0.13	0.06	0.01
Total payments to the IMF	0.00	0.00	0.00	1.84	9.69	13.31	30.47	40.40	38.47	31.04	27.29	10.03
Percent of exports of goods and services	0.00	0.00	0.00	0.14	0.71	0.95	1.20	1.01	0.72	0.50	0.39	0.13
Percent of external public debt service	0.00	0.00	0.00	3.04	13.40	17.60	40.75	80.08	80.52	67.15	63.53	23.15
Memorandum items:												
Disbursements	63.5	81.9										
Exports of goods and services, US\$ millions	1,550.0	1,651.2	1,761.7	1,920.4	2,058.8	2,113.4	3,827.2	6,032.0	8,032.3	9,357.1	10,645.5	11,803.0

Sources: Guinean authorities; and IMF staff projections.

¹ PRGT interest waived through end-2016. The following rates are assumed beyond 2016: projected interest charges between 2017 and 2018 are based on 0/0/0.25/0.25 percent per annum for the ECF, RCF, SCF, and ESF, respectively, and beyond 2018 0.25/0.25/0.5/0.25 percent per annum.

² Includes disbursement in 2015 of proposed augmentation of use of Fund resources 42.1 percent of Quota (45.135 million) under the current ECF arrangement.

Table 9a. Guinea: Original Schedule of Disbursements and Timing of Reviews Under the ECF Arrangement, 2012–15¹

Percent of quota	Millions of SDRs	Date of Availability	Condition for Disbursement
17.143	18.360	February 24, 2012	Executive Board approval of the three-year arrangement under the ECF.
17.143	18.360	August 15, 2012	Observance of all relevant performance criteria, including the performance criteria for June 2012 and completion of the first review under the ECF arrangement.
17.143	18.360	February 15, 2013	Observance of all relevant performance criteria, including the performance criteria for December 2012 and completion of the second review under the ECF arrangement.
17.143	18.360	August 15, 2013	Observance of all relevant performance criteria, including the performance criteria for June 2013 and completion of the third review under the ECF arrangement.
17.143	18.360	February 15, 2014	Observance of all relevant performance criteria, including the performance criteria for December 2013 and completion of the fourth review under the ECF arrangement.
17.143	18.360	August 15, 2014	Observance of all relevant performance criteria, including the performance criteria for June 2014 and completion of the fifth review under the ECF arrangement.
17.143	18.360	February 15, 2015	Observance of all relevant performance criteria, including the performance criteria for December 2014 and completion of the sixth review under the ECF arrangement.
120.000	128.520	Total	

Source: IMF staff.

¹ As approved at the time of the Request for a Three-Year Arrangement Under the ECF (see IMF Country Report No. 12/63, March, 2012)

Table 9b. Guinea: Proposed Schedule of Disbursements and Timing of Reviews Under the ECF Arrangement, 2012–15

Percent of quota	Millions of SDRs	Date of Availability	Condition for Disbursement
17.143	18.360	March 5, 2012 ¹	Disbursed following Executive Board approval of the three-year arrangement under the ECF.
17.143	18.360	October 5, 2012 ¹	Disbursed following Executive Board completion of the first review under the ECF arrangement.
17.143	18.360	May 20, 2013 ¹	Disbursed following Executive Board completion of the second review under the ECF arrangement.
17.143	18.360	February 26, 2014 ¹	Disbursed following Executive Board completion of the third review under the ECF arrangement.
17.143	18.360	August 11, 2014 ¹	Disbursed following Executive Board completion of the fourth review under the ECF arrangement.
42.100	45.135	August 15, 2014	Observance of all relevant performance criteria, including the performance criteria for June 2014 and completion of the fifth review under the ECF arrangement.
17.143	18.360	February 15, 2015	Observance of all relevant performance criteria, including the performance criteria for December 2014 and completion of the sixth review under the ECF arrangement.
17.143	18.360	September 30, 2015	Observance of all relevant performance criteria, including the performance criteria for June 2015 and completion of the seventh review under the ECF arrangement.
162.100	173.655	Total	

Source: IMF staff.

¹ Actual disbursement date.

Table 10. Guinea: Risk Assessment Matrix (RAM)

Sources of Risks	Relative Likelihood	Impact If Realized	Policy Response if Materialized
Growth slowdown in China	Low	Medium	Intensify structural reform and efforts to improve the overall business climate to promote investment in non-mining sectors. Allow moderate monetary easing to limit the impact on growth
Protracted period of slower growth in advanced and emerging economies	High (Advanced economies) High (Elsewhere)	Investment in large new (iron ore) mining projects would likely be delayed, lowering medium-term growth and government revenue	
A prolonged and uncontained outbreak of Ebola	Low to Medium	High Additionally to the human toll, investor sentiment and consumer confidence could deteriorate markedly, and investments in large-scale mining projects could be delayed. Medium-term growth would be affected negatively	Deploy countercyclical fiscal and monetary policies. The deterioration of the fiscal position should remain within the limits of available financing. Intensify structural reform
A deterioration in the domestic socio-political and security situation	Low to Medium	High Investment and growth would be negatively affected, and poverty would risk increasing; development of natural resources would be delayed. Program implementation would risk weakening and key structural reforms being postponed. Macroeconomic stability would be at risk	Refocus reform on areas less sensitive to socio-political environment. Aim at maintaining fiscal control.

Appendix I. Letter of Intent Republic of Guinea



Conakry, January 27, 2015

MINISTRY OF ECONOMY
AND FINANCE

CENTRAL BANK OF
REPUBLIC OF GUINEA

To:
Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., 20431
United States of America

Subject: Letter of Intent on Economic and Financial Policies

Madame Managing Director,

1. This fifth supplement to the Memorandum on Economic and Financial Policies reviews the implementation of the program supported by the IMF Extended Credit Facility (ECF) during the first half of 2014 and describes our policies for the remainder of 2014 and 2015.

2. The Ebola epidemic is expected to continue to have a significant adverse impact on Guinea's economy for most of 2015. The growth forecasts for 2014 and 2015 were substantially reduced. The effects of the epidemic were particularly strong in the trade and transport sectors, which are expected to contract in 2014 and 2015, while the manufacturing sector is projected to remain flat for both years. However, the agriculture sector is expected to continue its growth with the help of government interventions. Mining activity continued normally and is expected to post relatively strong growth in 2014. The Ebola shock and our efforts to contain its effects on the population and the economy generated a financing requirement of US\$191 million in 2014 that was covered with assistance from our partners. For 2015, the financing need is projected at US\$315 million.

3. The implementation of the ECF-supported program remained satisfactory. All the performance criteria at end-June 2014 were met, in addition to most of the quantitative targets at

end-June and end-September 2014. This performance reflects the continuation of prudent macroeconomic policies, which maintained inflation below 10 percent while supporting strong private sector credit growth. The exchange rate on the official market of the Guinean Franc with respect to the US dollar depreciated by about 2 percent on average during the second half of 2014, and international reserves are still above the program objective. However, the implementation of structural reforms met with difficulties and only two structural benchmarks were implemented.

4. The government is determined to continue implementing its ECF-supported program in 2015 to promote stronger, inclusive growth, as provided in the PRSP III, and eradicate the Ebola epidemic. To support growth, on one hand, we will loosen the monetary policy to an extent compatible with our economic stability objectives, and on the other hand, we will increase the fiscal deficit in line with available domestic financing and concessional external financing. We will continue to execute the budget on a cash basis in order to meet our fiscal objectives. These policies will help maintain inflation below 10 percent in 2015 and coverage of imports at roughly 3 months. Despite difficulties in mobilizing technical assistance, we will continue the structural reforms, particularly in the areas of public financial management, the business environment, and the electricity sector.

5. To ensure effective implementation of the emergency Ebola response plan, the government created a special earmarked budget (BAS) which will record a portion of the international community's financial assistance as well as the government's own resources allocated to fighting the epidemic. Also, with support from Fund staff, we will conduct an evaluation of fiscal safeguards to ensure that the international assistance dedicated directly to the budget will be used effectively and transparently in the fight against Ebola.

6. Based on the progress to date in program implementation, we request approval of the fifth review of the ECF-supported program. We request an extension of the ECF arrangement to end-December 2015 to support our macroeconomic policies and an increase in the Fund's financial support equivalent to 42.1 percent of our quota, 25 percent of which to be disbursed in the form of budget support in connection with the fifth review (thereby resulting in a sixth disbursement in an amount of SDR 45.135 million) and 17.1 percent under a seventh review. The increased access to Fund resources, which is expected to catalyze donor support, will support our international reserves, partly cover the budget and balance of payments financing requirements created by the Ebola epidemic, and enable us to maintain an adequate public investment effort. Fund support in 2015 should cover about one third of the projected balance of payments financing requirement.

7. The government remains convinced that the policies and measures described in the Memorandum on Economic and Financial Policies are sufficient to achieve the program objectives. However, it stands ready to take any additional measures that prove necessary to this end. The government will consult with Fund staff on the adoption of such measures, on its own initiative or at the request of the IMF Managing Director, before adopting such measures or in advance of revisions to the policies contained in the MEFP, in accordance with Fund policies on such consultations. The government undertakes not to introduce any measures or policies that would exacerbate Guinea's balance of payments difficulties, and to provide the Fund with any information required to monitor the implementation of program measures and achievement of program objectives.

8. In keeping with our policy of transparency in government operations, we authorize the Fund to publish this Letter of Intent, the Memorandum on Economic and Financial Policies, the Technical Memorandum of Understanding, and the Staff Report relating to the fifth review of the ECF-supported program.

Very truly yours,

_____/s/_____
 Mohamed Diaré
 Minister of Economy and Finance

_____/s/_____
 Lounceny Nabé
 Governor, Central Bank of the Republic of
 Guinea

Attachments:

- ✓ Fifth Supplement to the Memorandum on Economic and Financial Policies
- ✓ Technical Memorandum of Understanding

Attachment I. Guinea: Fifth Supplement to the Memorandum on Economic and Financial Policies

January 27, 2015

RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

A. Macroeconomic Developments

1. Economic developments since the fourth review indicate a more severe impact of the Ebola epidemic during the second half of 2014. The sectors most affected include transport, tourism, trade, and hotels and restaurants. We estimate real GDP growth in 2014 at 1.3 percent compared to the 2.4 percent growth projected in September. Inflationary pressures have emerged and slowed the downward trend of inflation, which stood at 9.3 percent at end- November 2014. The external account (including grants) improved, reflecting higher official transfers and a weaker demand despite higher food imports and lower agricultural exports following the closing of borders with certain neighboring countries. However, a drop in medium- and long-term capital and financial flows, mostly due to a sharp slowdown in foreign direct investment, and lower short-term capital inflows would translate into a decline of the overall position of the balance of payments. Foreign currency inflows from expatriate workers and business travelers declined, which increased exchange rate volatility as well as the parallel market premium. However, our prudent policies helped contain inflation and maintain the international reserves of the Central Bank of the Republic of Guinea (BCRG) at a satisfactory level, covering more than 4 months of imports at end-December 2014.

2. Implementation of the program supported by the Extended Credit Facility (ECF) continued to be satisfactory despite the difficult environment in 2014. All the ECF-supported program end-June 2014 performance criteria were met (Table 1). The available data indicate that most of the indicative targets at end-September 2014 were also met, and we expect our policies to enable us to achieve the performance criteria at end-December 2014. However, the government's mobilization on the fight against Ebola combined with difficulties in mobilizing technical assistance delayed the implementation of our structural reform agenda (Table 2).

B. Budget Execution

3. All the program fiscal objectives at end-June and end-September 2014 were met with the exception of the end-September indicative target for priority expenditures. The

continuation of cash-based budget execution helped maintain end-June expenditure within the limits of available financing. We executed only 80 percent of the planned investment expenditures financed from domestic resources in order to offset the shortfall of budget support and revenue. This generated a basic balance at end-June 2014 of -0.6 percent of GDP, largely better than the program performance criterion (-1.5 percent of GDP), and enabled us to meet the performance criterion on domestic financing of the budget. With the persistence of the Ebola epidemic, budget revenue at end-September 2014 fell short of projections by 1.4 percent of GDP, and budget support remained below projections. To offset this shortfall, the government continued to limit spending to ensure the achievement of program objectives. The regular review of the investment projects portfolio and measures to expedite the processing of related procurements helped increase the execution rate of domestically-financed investment expenditure. Cuts in investment spending led to the nonobservance of the program indicative targets for priority expenditures.

4. The 2014 supplemental budget incorporates the impact of the Ebola epidemic and is in line with the revised objectives of the ECF program. It projects a higher basic fiscal deficit than in the original budget by 1.3 percent of GDP. The revisions reflect the anticipated revenue shortfall and increased expenditure associated with the Ebola epidemic (Text Table 1 below). The increased spending also reflects the extension of the rental agreement for thermal generators to maintain the supply of electricity, which remains one of our key priorities. The supplemental budget includes exceptional revenue from the sale of bauxite blocks in Boffa, but the corresponding expenditures were not executed because the revenue was not received in 2014. According to preliminary information, the performance criteria at end-December 2014 would have been met through the continued implementation of a cash-based budget.

Text Table 1. Total Budget for the Ebola Response
(USD Millions)

Targeted Interventions	2014–15
Coordination, finance, logistics	95.0
Epidemiology, laboratory, research	175.1
Prevention	22.0
Social mobilization, communication	32.5
Food distribution and social protection	24.2
Total	348.8
<i>Memorandum item</i>	
Special Budget Account for 2015	230.4

Source: Guinean authorities.

C. Monetary and Exchange Rate Developments

5. All of the monetary program targets for end-June and end-September 2014 were met except the end-September indicative target on BCRG's net domestic assets. The central bank's end-June 2014 net domestic assets were met with a significant margin, reflecting sound management of public finances and strict avoidance of monetary financing of the budget. Net international reserves also exceeded the program objectives for the period, partly due to higher-than-anticipated inflows of foreign currency. This performance was achieved in the context of a gradual relaxation of monetary policy, with the reduction of the policy rate by three percentage points to 13 percent, roughly six months after the required reserves ratio was reduced by two percentage points to 20 percent. Improved bank liquidity helped increase credit to the private sector by 30 percent in 2014 and reduce the interest rate on Treasury bonds from 11 percent at end-2013 to 9 percent at end-2014. The exchange rate between the Guinean franc (GNF) and U.S. dollar remained stable, but the premium relative to the official rate increased, reflecting greater uncertainty in the exchange market.

6. The health of the financial system remains satisfactory and has improved slightly since 2013. Between end-2013 and end-September 2014, nonperforming loans declined from 6.5 percent to 6.3 percent, while the average bank solvency ratio rose from 15.6 percent to 18.0 percent. The improved bank solvency reflects the strengthening of banks' capital through the implementation of the first tranche of the banks' capital increase in June 2014. A benchmarking with certain partners helped amend the insurance code to take account of changes in the local context and international regulations. The revised draft code is under technical review. Reflections on the regulations of banking-insurance and microfinance have already begun, and consultations with market actors are planned for the near future.

7. The external current account deficit (grants included) is expected to improve from 21.1 percent in 2013 to 18.1 percent of GDP in 2014 thanks to a rise in official transfers and a lower import demand, despite higher food imports and a decline in agricultural exports due to restrictions on cross-border trade with some neighboring countries. However, a drop in medium-term capital and financial flows, mostly due to a sharp slowdown in foreign direct investment, and lower short-term capital inflows, would translate into a weakening of the overall balance of payments.

D. Implementation of Structural Reforms

8. The government has improved governmental coordination, but the Ebola epidemic complicated the mobilization of technical assistance and delayed structural reforms. The technical unit for program monitoring (CTSP) was strengthened with the appointment of the executive secretary in June 2014 and an assistant in September 2014. The government prepared a priority action plan for 2014–15, which was the subject of consultation with donors in October 2014. However, the Ebola epidemic slowed the implementation of the reforms because of difficulties in mobilizing technical assistance missions while discussions with private partners have had to be conducted via teleconference or videoconference. Progress has been achieved despite these constraints:

9. In public finance:

- The preliminary draft law on the financial governance of public enterprises was adopted by the Council of Ministers in December 2014 (**end-September 2014 structural benchmark**). Also, the decree on the governance framework of public finances, the second implementing regulation of the budget framework law (LORF), was signed on October 31, 2014.
- Consultations were launched with the main autonomous entities, namely the postal and telecommunications regulatory agency (ARPT) and the company tasked with the management of government buildings to clarify their relations with the Treasury and transfer their accounts to the Treasury single account at the BCRG (**end-September 2014 structural benchmark**). A fact-finding mission was conducted in countries of the sub-region.
- The adoption of the new budget nomenclature by the October 9, 2014 signature of the order on budget nomenclature (**end-September 2014 structural benchmark**) will enable completing the revision of the government's chart of accounts.
- The production of the government's management and administrative accounts for 2011 and 2012 (**end-December 2014 structural benchmark**) was partially implemented. The 2011–13 management accounts were produced in December 2014. The production of the administrative accounts was delayed because of the line ministries' lack of experience in the elaboration of these accounts, previously done at the central level by the national Budget Directorate.
- In addition, on November 6, 2014 the Council of Ministers adopted the draft revised customs code, and the selection criteria for investment projects were submitted to the Special Investment Fund management committee chairman on September 30, 2014.

10. The government continued to implement the medium-term action plan adopted in March 2014 to improve debt management. A decision concerning referral to the National Public Debt Committee (CNDP) (created in March 2014) that will meet at least once per quarter was signed on September 8, 2014. The decision was followed by the first CNDP meeting on October 31, 2014. However, certain actions have been delayed, such as the preparation of the medium-term debt strategy, debt sustainability analyses, completion of the public debt policy statement, and training on the procedures manual. The technical assistance missions planned in this area were postponed due to the Ebola epidemic. The rescheduling of those missions is under discussion with the technical and financial partners. Progress was made regarding the audit of domestic debt with the recruitment in December 2014 of the consultant to conduct the audit on which a schedule for clearing domestic payment arrears by distinguishing arrears relating to fiscal years 2011–13 from arrears for fiscal years 2005–10 will be based (**end-December 2014 structural benchmark**).

11. Progress in the mining sector relate to SOGUIPAMI and the petroleum code. The government has redefined the role of SOGUIPAMI, in line with recommendations from IMF technical assistance and the study on the role of SOGUIPAMI prepared with World Bank assistance and approved by the surveillance council. The draft decree on SOGUIPAMI's new role and its relationships with the public administration (**end-September 2014 structural benchmark**) is being finalized. The draft petroleum code, prepared with support by an international firm with AfDB financing and validated on July 18 2014 during a workshop with donors, the private sector and the civil society, was adopted by the National Assembly in December 2014.

12. In the electricity sector, the financing agreement for the Electricity Sector Rehabilitation Project (PRSE) was signed with the World Bank in July 2014, and the international call for tenders to select a private partner for the Électricité de Guinée (EDG) management contract was issued on August 20, 2014 (**structural benchmark for end-December 2014**), a later date than planned due to difficulties in mobilizing technical assistance following the Ebola epidemic. Similar difficulties were experienced in mobilizing the consultant to assist the government in the revision of the Electricity Law and implementing regulations of the law on public private partnerships. The executive board of EXIM Bank of China has just approved the financing of the transmission line Manéah-Tombo (about US\$ 91 million of which 85 percent financed by EXIM Bank of China).

13. Civil service reforms have also progressed. The biometric census of government officials and long-term contractual employees was completed in August 2014; the preliminary results indicate that 11 percent of paid civil servants did not complete biometric identification forms. Significant progress was made toward the adoption of the civil service reform plan, based on the results of the biometric census, and the action plan for the State Reform and Modernization

Program (PREMA) (**end-December 2014 structural benchmark**) with the validation on November 12, 2014 of the reform plan, its timeline and costs during a workshop with the technical and financial partners, the unions, and the civil society. Activities relating to the framework of governing provisions and position descriptions were also begun, with assistance from the World Bank.

14. The reforms to improve the business environment continued. The justice reform plan adopted in July 2014 includes a component designed to protect land tenure and the enforcement of commercial contracts as well as a timetable for the creation of an Economic Section. The draft 10-year action plan to implement the justice reforms was prepared with technical assistance from the European Union and was the subject of discussions between the public authorities, civil society, and technical and financial partners in December 2014. The validation of the action plan by the steering committee chaired by the President of the Republic, initially planned for December 2014, is now expected for the first quarter of 2015. The Presidential Council on Investment and Public-Private Partnership (CPI-PPP) was established by decree on October 17, 2014. The council is tasked with reducing delays for investors, simplifying administrative procedures, and instituting norms consistent with international standards. The advisory committee to the council is composed of 30 members from the administration, the private sector, and civil society and foreign figures and investors with recognized experience in the area.

ECONOMIC AND FINANCIAL POLICIES AND STRUCTURAL REFORMS FOR 2015

A. Macroeconomic Outlook

15. The economic outlook for 2015 is less favorable than initially anticipated. Our economy will continue to be affected by travel restrictions, notably the closing of borders with certain countries and the economic disruptions relating to the effects of the Ebola epidemic. However, we anticipate that the epidemic will be contained during the first half of 2015 based on our efforts supported by our partners. In that context, growth is expected to reach 2.1 percent in 2015 compared to 4.1 percent initially projected. Inflation should remain close to the 2014 level, because upward pressure on food prices in the context of weak agricultural production will be offset by the moderating effect of weaker domestic demand. The BCRG's reserves are expected to remain at a comfortable level of three months of imports in a context of exchange rate stability. Growth is expected to recover in 2016, in particular with the recovery of investment in the mining sector.

16. Our economic policies are designed to consolidate the progress in macroeconomic stabilization. The policies will continue to focus on poverty reduction, in line with the objectives of the PRSP III, and the elimination of the Ebola epidemic and mitigation of its effects. Fiscal policy will be prudent and will seek to absorb the impact of the Ebola epidemic and support the economy, in line with available financing. We will strive to better coordinate the use of external assistance and our own resources in order to increase the effectiveness of the overall response to the Ebola crisis. We will continue to implement a cash-based budget to ensure the control of budget execution needed to achieve our objectives. We also intend to relax monetary policy to support private sector growth and make domestic resources available to support the fiscal policy effort undertaken to eradicate the Ebola epidemic. Our exchange policy will continue to focus on the stability of our national currency and maintaining BCRG's international reserves at an adequate level.

B. Fiscal Policy

17. The 2015 budget approved by the Parliament on December 18 2014 takes into account the increase in expenditure generated by the impact of the Ebola epidemic and aims to maintain an adequate public investment effort to sustain growth. In the context of relatively weak growth that reduces the tax base and constrains revenue collection, this objective will result in a larger fiscal deficit. The basic balance deficit is expected to stand at 6.6 percent of GDP compared to an estimated 5.7 percent of GDP in 2014. The deficit implies a financing gap of roughly GNF 1,644 billion, reflecting the increase in the cost of the response plan against Ebola, partly covered by the IMF budget assistance, loans and grants of funders, and domestic financing. We are continuing discussions with partners to cover the financing of the response plan. In case the needed financial resources do not become available, we expect to take domestic adjustment measures.

18. Revenues under the 2015 budget are estimated at 20.7 percent of GDP, or an increase of 2.0 percentage points of GDP relative to 2014. Mining receipts are expected to decrease slightly as a percentage of GDP due to weaker profits generated by the mining companies in 2014 and an anticipated decline in the prices of Guinea's mineral exports. The ratio of direct taxes to GDP should remain constant, while indirect taxes are expected to rise significantly due to the delayed pass-through of changes in international oil prices onto pump prices, the introduction of the new tax on telecommunications (TARTEL), and improved management of the revenue-collecting agencies. On the other hand, taxes on international trade are expected to decline with the implementation of the Common External Tariff (CET).

Text Table 2. Impact of Measures to Increase Revenue		
	GNF billions	Percent of GDP
TARTEL	80	0.2
Administrative measures	100	0.2
Customs administration	50	0.1
Tax administration	50	0.1
Petroleum revenue	901	1.8
Total	1,081	2.2

19. The 2015 budget projects significantly increased spending, largely due to expenses associated with the Ebola epidemic. In consultation with our partners we have updated the cost of the Ebola response plan, which is now estimated at US\$348.7 million, of which roughly US\$118 million was executed in 2014 (¶4, Text Table 1). Salary and wage expenditure budgeted in 2015 would increase in light of the creation of new institutions provided by the Constitution, the introduction of special regimes for certain categories of civil servants, and hiring in the health (0.1 percent of GDP), education (0.2 percent of GDP), and security (0.04 percent of GDP) sectors. The projections for the wage bill were revised to reflect the recent agreement with unions (¶20). The subsidies to EDG will fall from 1.1 percent of GDP in 2014 to 0.5 percent of GDP thanks to the fall in international oil prices and the tariff adjustment planned in the second half of the year after the expected improvements in electricity production and access materialize (¶34). Domestically-financed investment spending should increase to 6.5 percent of GDP, or an increase of 0.3 percentage points of GDP compared to 2014. This increase should enable us to maintain our support for infrastructure building.

20. The recent agreement reached with unions maintains the parameters of the 2015 budget. The government obtained on 7 January 2015 an agreement with the unions who demanded a 300 percent general wage increase for civil servants. To preserve social stability and the gains of reforms, including in the context of the satisfactory implementation of the ECF program, the government has decided to grant in 2015 an increase in the basic salary of 40 percent (20 percent in April, 10 percent in July and 10 percent in October). The financial impact of this increase is estimated at GNF 261 billion¹ (0.5 percent of GDP) compared to the 2015 budget projection. To finance this increase, the government will (i) cancel recruitments planned this year for nonpriority sectors (GNF 153 billion), (ii) implement the conclusions of the biometric census (GNF 30 billion), and

¹ This amount also includes GNF 17 billion corresponding to an increase in the basis of the evaluation of the 2015 wages using 2014 outturns (clarify)

(iii) revise the financial impact of the application of specific statutes in light of end-2014 outcomes (GNF 78 billion). These measures will help achieve savings of GNF 261 billion and offset the financial impact in 2015 of the increase in basic wages.

21. In light of the impact of the Ebola epidemic on revenue, the government will use bank financing to avoid a drastic budgetary adjustment and to support the economy. The budget expects external financing comprising mainly grants and concessional loans of 10.0 percent of GDP, of which 5.4 percent of GDP in the form of grants. The government will also issue bills and bonds on the local market for a maximum projected amount of GNF 1,000 billion (2 percent of GDP). To ensure the sound management of this issuance and medium-term fiscal sustainability, the government has requested technical assistance from the Fund and the World Bank to prepare a medium-term debt strategy (MTDS). In addition, the government expects to receive at least US\$600 million from the sale of bauxite blocks in Boffa, of which US\$80 million is expected to support investment expenditure under the 2015 budget. In the event these exceptional receipts are realized, the government will reduce its use of domestic financing.

22. The government has decided to establish a special earmarks budget (BAS) for an amount of GNF 1,613 billion (US\$230 million) for the management of the funds allocated for the fight against Ebola, in accordance with provisions of the LORF and the General Fiscal Management and Public Accounting Regulations (RGGBCP) concerning the allocation of revenue. The governance structure of the BAS, developed with technical assistance from the Fund, is intended to ensure transparency in the use of donor support through the production of regular implementation reports and periodic audits by an internationally recognized firm, which we will recruit by June 2015.

C. Monetary and Exchange Policies for 2014–15

23. The BCRG will continue the gradual and prudent relaxation of the monetary policy stance while taking into account inflation developments. The BCRG will assist the government in mobilizing financing to mitigate the effects of Ebola, in particular through the sale of securities to the public. The BCRG will reduce the policy rate and the required reserves rate to ensure sufficient liquidity in the banking system so as to ensure that the planned bank financing of the public deficit does not crowd out the private sector. To contain the adverse effects of bank financing on inflation, the BCRG will sterilize the financing by increasing currency sales in the interbank foreign exchange market (MIC) without compromising the international reserves objective of about 3 months coverage of imports. It will maintain its policy of exchange rate stability and launch the operations of the international reserves investment committee in order to fully implement the new investment policy and the intended control procedures.

24. Several other measures are planned to strengthen the banking and financial sector. The BCRG plans to implement an "open market" window by end-March 2015, to encourage the interbank market in national currencies with the implementation of the market convention which was developed with and circulated to banks for opinion. The other measures aim at setting up an information system on credit to improve the credit bureau, with assistance from the World Bank. Measures are also planned to consolidate the microfinance sector and the protection of depositors, including: (i) drafting a new microfinance law by end-December 2014; finalizing the directives by end-June 2015; (iii) adoption by the government of the National Inclusive Finance Strategy by end-June 2015; (iv) strengthening of microfinance institutions (MFI) through training and supervision; (v) the establishment of a credit information repository to more effectively manage the MFI portfolio by end-December 2015; and (vi) the preparation of the directive concerning mobile financial services by end-March 2015. In regard to insurance, the efforts will focus on finalizing the revised insurance code by end-June 2015 and consultations with actors concerning banking-insurance and micro-insurance.

C. Structural Reforms

25. The government will work to complete the program's structural reform agenda. The Council for Economic Coordination and Reforms (CCER) and the technical support committee (CTA) to the CCER will redouble their efforts to accelerate the adoption of the texts being drafted and implement the priority action plan defined in October. The strengthening of the CTSP will also be completed by the hiring of experts and the equipping of its new offices by end-February 2015, with technical assistance from the World Bank, the African Development Bank, and the European Union. The key structural measures are intended to strengthen public financial management, reform the civil service, improve the business environment, strengthen the reform of the mining sector, and restore the financial viability of the electricity sector while increasing the supply of electricity. At the center of the government's priorities is the eradication of the Ebola epidemic based on the response plan piloted by the national Ebola coordination mechanism, in consultation with our partners.

Public Financial Management

26. The government will continue the implementation of the priority actions provided in the Public Finance Reform Plan (PREFIP) adopted in May 2014. To this end, the government will deepen the reforms designed to modernize the revenue-collecting agencies and will implement the following structural reforms:

- Implementation of the new procurement code by ministerial decision, which will set the thresholds for public procurements and harmonize the standard documents for tender offers with those of donors (**prior action**).

- Alignment of the fiscal and accounting management practices of public entities collecting public revenue with the provisions of the LORF and the RGGBCP by end-March 2015 **(reformulated and reprogrammed structural benchmark)**.
- Production of the administrative accounts for fiscal years 2011–13 by end-April 2015 **(reformulated and reprogrammed structural benchmark)**, at the end of the training session of the financial affairs divisions of line ministries planned for the first quarter of 2015. For fiscal years 2005–10, the government will draw from Mali's experience in processing transactions from exceptional periods and will produce cumulative management accounts based only on available figures.
- Approval of a timetable for clearing domestic payment arrears, distinguishing arrears for budget years 2011–13 from 2005–10 arrears, by end-June 2015 **(reprogrammed structural benchmark)**.
- Effective implementation of the new VAT credit refund mechanism, by (i) organizing meetings with the mining companies to present the new mechanism, and (ii) finalizing the multiyear program for clearing arrears by end-March 2015.
- Continue the strengthening of the Medium-Size Taxpayer Unit (SME) through training, internal organization, monitoring of statistics, and the implementation of a support committee by June 30, 2015.

27. Other reforms to address budget programming and preparation and public

expenditure management envisage: (i) the adoption of a budget execution manual of procedures by end-March 2015; (ii) the start of work by end-September 2015 to prepare for implementation of the new budget nomenclature, planned for 2016; and (iii) the preparation of a manual of procedures for ex ante financial control. In addition, the PREFIP provides for the reform of the general legislation, procedures, information systems, and controls through:

- the start of training programs on the laws and regulations (LORF, RGGBP, draft law Governance) at headquarters and regional offices by March 2015,
- the adoption of standards and the new accounting framework by end-March 2015,
- continued reform of the Treasury single account (CUT), in particular through the creation of a central account of the BCRG and signature of the new CUT account agreement, already prepared, by end-March 2015,
- the preparation of new budget documents in connection with the changeover by end-September 2015 to the requirements under the LORF beginning in 2016,

- the drafting of new directives on the preparation of the TOFE in line with the IMF 2001 GFSM, by September 2015, and,
- the completion of the recruitment and training of financial inspectors by end-December 2015.

Civil service

28. The results of the biometric census that we expect to complete in the very near future will continue to inform our civil service reform strategy. Based on the results of the biometric census, we will adopt by March 2015 a civil service reform plan and the action plan for the State Reform and Modernization Program (PREMA) (**reprogrammed structural benchmark**). The key steps remaining to complete the biometric census include: (i) physical controls in all departments and units for three months combined with the distribution of biometric cards to employees and the installation of electronic readers in all departments and units (November 2014 through January 2015), and (ii) cleanup of data files in 2015 (the pension beneficiaries file, with 50,000 records, and the contractual employees file, with 10,000 records). The other measures planned by end-June 2015 relate to: (i) the installation and start of operations of regional inspectors; and (ii) the creation of a system of ongoing control of staffing, the application of laws and regulations concerning the organization and operations of organizational units, and the work of Human Resources Management.

Business environment

29. The reforms will focus on improving the business environment, including the implementation of the action plan for the justice reform program. The Private Investment Promotion Agency (APIP) will complete a business promotion strategy and business plan by end-March 2015, with assistance from an international consultant to be selected with support from the World Bank. For the judicial sector, the revision of the criminal code and code of criminal procedures will be completed by end-June 2015, and a new judiciary organization, which provides, inter alia, for specialized sections (Chambre Économique) to handle commercial matters will be implemented by end-September 2015.

Mining sector

30. Mining reforms will aim to complete the legal and regulatory framework and adapt the structure of the Department of Mines to its new environment. We aim to finalize the implementing regulations for the mining code and revise the mining contracts before end-May 2015. The institutional audit of the Department of Mines planned by end-June 2015 will facilitate the alignment of its structure with the new mining sector reforms, in particular the new

mining code, the new petroleum code, the process of reviewing mining contracts and rights, and the modernization of the cadastre, and will also adapt the department's missions to the new challenges and issues of national mining development.

31. We will finalize by the end of the first quarter of 2015 the initial operation of SOGUIPAMI. A decree to implement the recommendations on SOGUIPAMI's new role and relations with the public administration will be adopted by end-February 2015 (**reprogrammed structural benchmark**). SOGUIPAMI will not engage in financial activities, including in indebtedness of any form. SOGUIPAMI will not possess in its own right shares of mining companies which are active in the mining operations, or in the infrastructure, and cannot alienate state holdings and assets nor collateralize them. The statutes of SOGUIPAMI will be modified to reflect the provisions of the new decree on the role and the relations of SOGUIPAMI with the administration, established on the basis of the recommendations of a consultant hired with the assistance of the Work Bank. We will closely monitor the development of SOGUIPAMI and will make sure that these operations will not expose public finances to significant risks.

32. The study on the division of artisanal exploitation areas into parcels, and the study on the organization of artisanal gold exploration financed by the World Bank through the Mining Sector Governance Support Project (PAGSEM), will begin in March 2015. The modernization of the mining cadastre is continuing based on the results of the audit of the geological and mining information system (SIGM) conducted in 2014. The second and final phase of the project began with the selection of the consultant to identify and install geodetic references by end-March 2015. The new SIGM will be deployed and operational no later than end-December 2015.

33. The government plans to establish a one-stop mining window (GUM) by end-June 2015. The GUM will be responsible for the reception and quick processing of all requests for permits and other administrative steps required to conduct large, integrated mining projects. It will have exceptional powers to receive and diligently process all requests for permits in accordance with applicable regulations, in cooperation with the responsible departments of the administration.

Energy sector

34. The government plans to step up the pace of energy sector reforms by year-end. The selection of the partner in the EDG's management is expected to be completed by end-March 2015 (**reprogrammed structural benchmark**), and the start of a management contract will begin as soon as possible after that date. With respect to the seven priority projects, after the July 2014 signature of the financing agreement for the Electricity Sector Rehabilitation Project (PRSE) with the World

Bank, negotiations on the financing agreement with the European Investment Bank (EIB) were concluded and the EIB board of directors validated the provision of a loan. The government will also pursue measures to improve the EDG's financial position, in particular by readjusting electricity rates during second semester of 2015, as improved access will be possible only after the entry into service of Kaleta. Work on the revision of the electricity law and the implementing regulations under the public-private partnership law will continue and are expected to be completed in 2015. The coming on stream of the Kaleta plant in June 2015, will increase hydropower production by 560 GWh in 2015, or 39.5 percent of total production in 2014.

Agriculture sector

35. The government will continue agricultural reforms to improve yields and production. It will continue to support the sector through the distribution of quality seed and fertilizer, improved equipment for farmers, and capacity-building for the agencies in charge of agronomic research, outreach, and statistics. These efforts will create the conditions to make further investments beginning in 2015 in the processing, storage, and marketing of agricultural products. Efforts will also be undertaken to resume exports of coffee, with the completion of the Zياما coffee certification process, as well as fruits, vegetables, and cotton. The government will accelerate work on irrigation and water control facilities as well as the integration of isolated production areas, with support from the technical and financial partners. The market information system and monitoring of food imports will be enhanced and integrated in the Development Strategy Bureau to ensure the continuity of this function. The decision-making bodies of the National Chamber of Agriculture will be renewed with the organization of elections to its representative body by end-June 2015 following a revision of the institution's governing texts.

36. The proposed framework agriculture law will be shared among the various sector's actors in regional workshops. The promulgation of the law, planned by end-June 2015, will lay the legal foundation for the transformation of traditional agriculture and secure land tenure for private investment. With assistance from technical and financial partners, the government will identify options by end-March 2015 to strengthen the revolving account it finances, in particular through a review of the level of subsidies for agricultural inputs and equipment. In consultation with its partners, including the World Bank, the government will also identify key measures to ensure the sustainability of the revolving account by end-March 2015.

D. First Annual PRSP Implementation Report

37. The first report on the implementation of the 2013-2015 PRSP III was prepared on the basis of extensive consultation with all the stakeholders. The implementation of the PRSP III in 2013 produced mixed results, reflecting an unfavorable national and international context (political instability, decline in commodities prices) and weak performance in sectors that are drivers of growth such as mining. The performance in 2013 suggests that the strategy's overall objectives will be difficult to achieve. For example, the objective of average growth of 5 percent appears unrealistic taking into account the weak growth of 2.3 percent posted in 2013, although investments in infrastructures supporting growth have increased substantially. However, we note that investments in the energy sector did not produce the expected results due to the poor condition of the outdated network, commercial management problems, and other factors. In regard to overall governance, notable efforts were made, specifically in the areas of justice, strengthening the rule of law and the management of public finances.

38. Despite the unfavorable environment and exogenous shocks, the government expanded access to social services. In education, the overall primary enrollment ratio increased from 82 percent in 2010/2011 to 86 percent in 2012/2013 and the gross enrollment ratio increased from 78 percent to 82 percent over the same period. In regard to health, we find an improvement of the prenatal consultation ratio, support for the implementation of free obstetrical care, a reduction of infant mortality through the vaccination of 186,533 children under age one, and the increased availability of drugs and medical products at healthcare facilities. These improved health outcomes were facilitated by improved access to safe drinking water, with an increase of close to 5 percent of the volume of potable water produced. However, these results remain below the government's objectives for 2013–15.

39. The government has begun preparations for a new PRSP covering 2016–20. The new PRSP will be aligned with the next National Development Program (PND). The PRSP will be based on the 2013 annual implementation report and the report for 2014 which will be finalized in mid-2015 to incorporate progress made and lessons learned as well as the consequences of the Ebola epidemic and requirements identified. In parallel, the PND will be based on our long-term strategy, Vision Guinée 2035, which is expected to be completed in the first half of 2015.

E. Program Financing

40. The government estimates the 2015 program financing requirement to be fully covered. Most of the financing will come from external resources. Following the achievement of the HIPC completion point in 2012, nearly all of the Paris Club and multilateral creditors have signed bilateral debt relief agreements or can be expected to sign them in the near future. In addition, the government has pursued debt-relief discussions with official non-Paris Club creditors. However, the majority have yet to respond to our requests for discussions. The government also invited commercial creditors to open discussions to clear arrears, including through debt reduction, in accordance with the Fund's lending into arrears policy; however, many of them have not yet responded. The Fund's disbursements under the ECF arrangement will cover the residual balance of payments financing needs.

41. The authorities will continue to give priority to concessional loans and grants in mobilizing external financing to ensure the sustainability of the public debt. However, financing certain projects, in particular the large infrastructure and energy projects, with concessional resources could prove difficult in light of the limited availability of concessional resources from donors.

42. The government will deepen reforms to improve debt management in 2015 and will accelerate the reforms in the action plan to strengthen public debt management. Progress in this area will depend largely on the resumption of technical assistance. In that context, emphasis will be given to formulating the medium-term debt strategy, with technical assistance from the IMF and the World Bank; training in debt sustainability analysis; completing the wide dissemination of the national public policy; and effectively implementing the debt procedures manual with the help of a European Union technical assistance mission. An AFRITAC technical assistance mission will also be mobilized for debt sustainability analyses and to support the programming of domestic debt issuances.

PROGRAM MONITORING

43. The government will continue its efforts to improve the statistics system to ensure the regular production and supply of good quality statistical data. The 2006–11 national accounts were adopted and are currently being disseminated. The production of the national accounts for 2012 (final) and 2013 (interim) is planned for end-January 2015 using 2010 as the base year. The government will request technical assistance from the Fund to develop a series of economic indicators to be monitored periodically through the use of the macroeconomic summary table (*Tableau de Bord de l'Économie*) and a methodology to develop annual growth estimates based on monthly indicators. Program monitoring will be continued through the new entities created for this purpose (the CCER, the CTA, and the CTSP), which are now operational. The CTSP, for which capacity-building activities are planned, will fully discharge its role consistent with its new structure.

44. The government requests an extension of the ECF arrangement to end-December 2015 to support our macroeconomic policies. We also request an increase in financial support from the Fund of 42.1 percent of our quota, equivalent to about US\$65 million (SDR 45.135 million), of which 25 percent of the quota to be disbursed in the form of budget support in connection with the fifth review, and 17.1 percent of the quota to be disbursed in connection with the seventh ECF review. The increased access to Fund resources, which is expected to rally support among donors, will strengthen our international reserves. The total Fund support amounted to US\$96 million in 2014; in 2015 Fund support is expected to cover about 18 percent of the 2015 budget financing needs.

45. The program will be monitored semiannually by the IMF Executive Board based on the quantitative indicators and structural benchmarks (Tables 1–3 below). Those indicators are defined in the Technical Memorandum of Understanding (Attachment II). The sixth program review, based on the performance criteria at end-December 2014, should be completed no later than May 2015, and the seventh program review based on the performance criteria at end-June 2015 is should be completed no later than November 2015

46. During the program period, the government will refrain from (i) introducing or intensifying exchange restrictions on the making of balance of payments or transfers relating to current international transactions; (ii) introducing or modifying multiple currency practices; (iii) entering into any bilateral payment agreement that is inconsistent with Article VIII of the IMF Articles of Agreement; and (iv) imposing or intensifying import restrictions for balance of payments purposes. Moreover, the authorities undertake to adopt, in consultation with Fund staff, any new financial or structural measures that may prove necessary for the program's success. The government undertakes to provide the Fund with any information required to monitor the implementation of program measures and for the achievement of program objectives.

Table 1. Guinea: Performance Criteria and Indicative Targets, 2014–15

	2014								2015			
	Jun.				Sep.				Dec.	Mar.	Jun.	Sep.
	PC	Adj. PC ¹	Act.	Status	Indicative Targets	Adj. Targets ¹	Prel.	Status	PC	Indicative Targets	PC	Indicative Targets
Quantitative performance criteria												
Basic fiscal balance (floor; cumulative change for the year)	-635	-676	-260	Met	-1,570	-1,537	-947	Met	-2,628	-773	-1,276	-2,101
Net domestic assets of the central bank (ceiling; stock)	5,018	4,910	4,171	Met	4,789	4,921	5,217	Not Met	5,318	4,048	4,628	5,109
Net domestic bank financing of the government (ceiling; cumulative change for the year)	879	771	43	Met	1,077	1,208	652	Met	1,452	394	794	1,194
Net international reserves of the central bank (floor; stock); US\$ million ²	459	459	552	Met	513	495	557	Met	516	482	419	369
New non-concessional medium or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US\$ million ^{3, 4, 6}	0	0	0	Met	80	80	0	Met	80	80	80	80
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US\$ million ⁴	0	0	0	Met	0	0	0	Met	0	0	0	0
New external arrears (ceiling) ⁴	0	0	0	Met	0	0	0	Met	0	0	0	0
Indicative targets												
Expenditure in priority sectors (floor) ⁵	2,167	2,167	2,276	Met	2,633	2,633	2,425	Not Met	4,706	1,252	2,616	4,124
Memorandum items:												
Reserve money (ceiling)	7,441	...	7,183		7,306	...	8,303		7,830	6,620	6,760	6,889
Net external assistance	94	...	136		237	...	72		408	196	404	933
of which , Ebola-related grants	...	...	...		...	...	0		792	...	...	615
Change in the float	-72	...	36		240	...	-214		5	-71	-143	-113

Sources: Guinean authorities; and IMF staff estimates and projections.

¹ Definitions and adjustors are included in the Technical Memorandum of Understanding (TMU).

² Calculated using program exchange rates.

³ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or

⁴ Continuous performance criterion.

⁵ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

⁶ The ceiling for 2014 is tied to new debt to finance the Kaleta hydroelectric dam - Conakry transmission line project.

Table 2. Guinea: Structural Benchmarks for the ECF-Supported Program for 2014

Measure	Date	Implementation status	Macroeconomic rationale
Structural benchmarks			
Adopt the proposed law on public entities to conform to the new Budget Framework Law (LORF) and the General Regulations on Fiscal Management and Public Accounting (RGGBCP).	End-September 2014	Not met Completed December 15, 2014 (¶19)	Limit risks for the government budget; strengthen central control of external public debt
Transfer the accounts of autonomous public entities to the Treasury single account at the BCRG	End-September 2014.	Not met (¶19)	Ensure budget integrity and improve cash flow management
Adopt and implement the recommendations of the study on the SOGUIPAMI's role and relations with the public administration	End-September 2014	Not met Reprogrammed (¶11 and ¶31)	Maintain government control of assets in the mining sector; protect government revenue; and limit financial risks
In consultation with donors, adopt a new budget nomenclature, including a functional classification	End-September 2014.	Not met Completed October 9, 2014 (¶19)	Improve the monitoring of poverty reduction efforts
Produce the government's end-year Treasury account and the budget execution account for 2011 and 2012	End-December 2014.	Not met Management accounts only were produced. Reformulated and reprogrammed (¶19 and ¶26)	Improve public financial management and transparency
Adopt a civil service reform plan based on the results of the biometric census under way and the action plan for the State Reform and Modernization Program (PREMA)	End-December 2014	Not met. Plans validated with donors and civil society in November 2014 (¶13 and ¶28) Reprogrammed	Control the wage bill and improve the administration's productivity
Recruit a management partner for EDG with assistance from the World Bank and the IFC	End-December 2014.	Not met (¶12 and ¶34)	Increase electricity production and reduce fiscal risks
Approve a timetable for clearing domestic payment arrears, distinguishing arrears for budget years 2011–13 from 2005–10 arrears	End-December 2014	Not met (¶10 and ¶26)	Support the Guinean private sector and enhance the government's credibility

Table 3. Guinea: Prior actions and Structural Benchmarks for the ECF-Supported Program for 2015

Measure	Date	Implementation status	Macroeconomic rationale
Prior actions			
Set by ministerial decision the thresholds for public procurements and harmonize the standard documents for tender offers with those of donors (¶ 26)			Ensure the transparency and effectiveness public expenditure
Structural benchmarks			
Adopt and implement the recommendations of the study on the SOGUPAMI's role and relations with the public administration (¶31)	End-February 2015		Maintain government control of assets in the mining sector; protect government revenue; and limit financial risks
Ensure compliance of the fiscal and accounting management of public bodies receiving public revenue with the provisions of the LORF and RGBCP (¶26)	End-March 2015		Ensure budget integrity and improve cash flow management
Adopt a civil service reform plan based on the results of the biometric census under way and the action plan for the State Reform and Modernization Program (PREMA) (¶28)	End-March 2015		Control the wage bill and improve the administration's productivity
Recruit a management partner for EDG with assistance from the World Bank and the IFC (¶34)	End-March 2015		Increase electricity production and reduce fiscal risks.
Produce the administrative accounts for 2011–13 (¶26)	End-April 2015		Improve public financial management and transparency
Approve a timetable for clearing domestic payment arrears, distinguishing arrears for budget years 2011–13 from 2005–10 arrears (¶26)	End-June 2015		Support the Guinean private sector and enhance the government's credibility

Attachment II. Guinea: Technical Memorandum of Understanding

January 27, 2015

INTRODUCTION

1. **This memorandum sets out the understandings** between the Guinean authorities and staff of the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria and indicative targets for the program supported under the ECF, as well as the related reporting requirements.
2. **The quantitative performance criteria, indicative targets, and cut-off dates** are detailed in Table 1 of the Fifth Supplement to the Memorandum of Economic and Financial Policies.

KEY DEFINITIONS

3. **Unless otherwise indicated, the government is defined** as the central government of the Republic of Guinea and does not include local governments, the Central Bank of the Republic of Guinea (BCRG), or any other public entity with autonomous legal personality, notably administrative public entities (*établissements publics administratifs*).

A. Quantitative Performance Criteria

4. **The basic fiscal balance** is calculated as the difference between government revenue, excluding grants, and **basic government expenditure**. The definitions of the bolded terms above are consistent with the definitions used in the government fiscal reporting table (TOFE), for which the calculation method is described in Section E below.
5. **Net domestic assets** (NDA) of the BCRG are, by definition, equal to the difference between reserve money (defined below) and the BCRG net foreign assets (NFA). NFA are equal to the difference between BCRG gross foreign assets, including foreign assets that are not part of reserve assets, and BCRG foreign liabilities (i.e., $NDA = \text{Reserve Money} - NFA$, based on the BCRG balance sheet).
6. **Domestic bank financing of the government**, or net domestic bank credit to the government from banks, comprises: (i) central bank financing of the Treasury, i.e., the change in the net position of the Treasury with the central bank (NTP1), including the HIPC account and accounts for exceptional resources, such as the Special Investment Fund (SIF), but excluding changes in the net position of "satellite" government accounts with the central bank (PNT2); and (ii) commercial bank financing of the Treasury, which includes changes in the stock of Treasury bills held by banks, but excludes changes in the net position of "satellite" government accounts held in commercial banks.

7. Net international reserves (NIR) of the BCRG are, by definition, equal to the difference between the reserve assets of the BCRG (i.e., the external assets readily available to and controlled by the BCRG as per the sixth edition of the IMF's Balance of Payments Manual) and the foreign exchange liabilities of the BCRG to residents and nonresidents (including the foreign exchange deposits of the local banks with the BCRG and off-balance sheet liabilities). These foreign exchange liabilities, which are used to calculate the NIR, do not include long-term liabilities, such as SDR allocations. In the context of the program, the gold holdings of the BCRG will be valued at the price of gold on the on June 30, 2014 (US\$1,315 per oz.) for the second half of 2014, on the price in effect on December 30, 2014 (US\$1,206 per oz.) for the first half of 2015, and on the price in effect on June 30, 2015 for the second half of 2015. For the test dates, the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates in effect, namely: on June 30, 2014, for the second half of 2014, the exchange rates between the U.S. dollar and the Guinean franc (7,017.4097 GNF/US\$), SDR (1.5456 US\$/SDR), Euro (1.3535 US\$/EUR), and other currencies as published in International Financial Statistics; on December 31, 2014, for the first half of 2015, the exchange rates between the U.S. dollar and the Guinean franc 7,227.6632 GNF/US\$), SDR (1.4699 US\$/SDR), Euro (1.2324 US\$/EUR), and other currencies as published in International Financial Statistics; and for the second half of 2015, the exchange rates in effect on June 30, 2015.

8. In the context of the program, the gold holdings of the BCRG will be valued at the price of gold in effect on June 28, 2013 for the second half of 2013, on December 31, 2013 (US\$1,205.9 per oz.) for the first half of 2014 and at the price in effect on June 30, 2014, for the second half of 2014. For the test dates, the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates in effect, namely: on June 28, 2013, for the second half of 2013, the exchange rates between the U.S. dollar and the Guinean franc (6808.8444 GNF/US\$), SDR (1.5039 US\$/SDR), Euro (1.3080 US\$/EUR), and other currencies as published in International Financial Statistics; on December 31, 2013, for the first half of 2014, the exchange rates between the U.S. dollar and the Guinean franc (7005.8314 GNF/US\$), SDR (1.5400 US\$/SDR), Euro (1.3783 US\$/EUR), and other currencies as published in International Financial Statistics; and for the second half of 2014, the exchange rates in effect on June 30, 2014.

9. Medium- and long-term external debt contracted or guaranteed by the government or the central bank is defined as the amount of external debt (see subsection C below) contracted by the government or the central bank for a period of one year or more during the period under review. A debt is considered concessional if its grant element is at least 35 percent, the net present value (NPV) of the debt being calculated with a discount rate of 5 percent.¹ This definition does not apply to financing granted by the IMF.

¹ A more detailed discussion of the concessionality concept and a calculator to estimate the grant element of a financing package are available at the IMF website at <http://www.imf.org/external/np/pdr/conc/index.htm>.

10. Short-term external debt contracted or guaranteed by the government or the central bank is defined as the stock as of a specific date of external debt contracted or guaranteed by the government or the central bank with an initial contractual maturity of less than one year. Excluded from this definition for the purposes of the program are normal import-related suppliers' credits and foreign currency deposits at the central bank.

11. New external arrears include all external debt-service obligations (principal and interest) arising from loans contracted or guaranteed by the government or the BCRG that are due but not paid on the due date, and unpaid penalties or interest charges associated with these loans. For the purposes of this performance criterion, an obligation which has not been paid within 30 days after falling due will be considered a "program" arrear. Arrears not to be considered as arrears for the performance criteria, or "non-program" arrears, are defined as: (i) arrears accumulated on the service of an external debt for which there is a request for rescheduling or restructuring; and/or (ii) litigious amounts.

12. The float is the flow of expenditures accepted by the Treasury that is not yet paid. **The net change in the float** is the difference between the accumulation and the payments.

B. Indicative Target and Memorandum Item

13. Expenditure in priority sectors, an indicative target for the program, includes spending under Title 2 (wages and salaries), Title 3 (goods and services), Title 4 (transfers and subsidies), and Title 5 (domestically financed investment) by the Ministries of (i) Justice; (ii) Agriculture; (iii) Fisheries and Aquaculture; (iv) Livestock; (v) Public Works and Transport; (vi) Urban Planning, Housing, and Construction; (vii) Health and Public Hygiene; (viii) Social Affairs, Advancement of Women, and Children; (ix) Pre-University Instruction and Civic Education; (x) Labor, Technical Education, and Professional Training; (xi) Higher Education and Scientific Research; (xii) Literacy and Promotion of National Languages; and (xiii) Energy and Environment. This expenditure also includes spending under Title 6 (financial investment and capital transfers) by the Ministry of Health and Public Hygiene as well as utility charges for water, electricity, and telephone (Title 3) of the ministries listed above. However, they exclude spending under Title 4 (transfers and subsidies) of the Ministry of Higher Education and Scientific Research.

14. Reserve money, a memorandum item, comprises deposits from local banks and the private sector to the BCRG (including bank reserve requirements) denominated both in Guinean francs and in foreign currencies, Guinean francs in circulation, and Guinean francs in the vaults of local banks. The amounts in foreign currencies will be converted to Guinean francs at the program exchange rate (as defined above in the paragraph on net international reserves).

C. External Debt

15. The term “external debt” is understood as specified in point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund arrangements.² External debt is defined with respect to the residency of the creditor. For purposes of the program, “debt” will be understood to mean current, i.e., not contingent, liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. External debt can take a number of forms, the primary ones being the following:

- loans, i.e., advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ or suppliers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements, official swap arrangements, swaps, or leases);
- suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- leases, i.e., arrangements under which property is provided that the lessee has the right to use for periods of time which are usually shorter than the total expected service life of the property, without transfer of ownership, while the lessor retains the title to the property. For the purpose of this memorandum, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

16. Under this definition of debt, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are also debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

17. The government and the central bank agree not to contract or guarantee any nonconcessional external debt on the terms defined in paragraphs 8 and 9 above, with the exception of debt in the form of reschedulings and those specified in paragraph 17 below. To this end, the government undertakes to consult with IMF staff on the terms and concessionality of all proposed new loan agreements before contracting or guaranteeing any external debt.

18. The performance criteria for new nonconcessional medium-term external debt includes a provision in 2014–15 relating to financing for a project to expand, rehabilitate, and modernize the electricity network between the Kaleta hydroelectric dam and Conakry. The

² See “Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements” approved by the Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009.

amount stipulated under this provision is US\$80 million. The government will inform the Fund prior to contracting a loan to finance the project, and will provide information on the terms of the loan as well as a summary of the project to be financed and its profitability, including an independent evaluation.

D. Adjustments to the Program Performance Criteria

19. The quantitative performance targets are calculated on the basis of projected amounts of (i) net external assistance; (ii) exceptional revenues from the mining sector (see table below); (iii) the change in "program" arrears; and (iv) the net change in the float. For program purposes, net external assistance is defined as the difference between: a) cumulative budgetary assistance (grants and loans), the impact of debt relief granted by external creditors, and the net change in "non-program" arrears; and b) cumulative payments of external debt service due after relief, for loans on which debt relief is secured. The net change in "program" arrears represents the cumulative "program arrears" in respect of the current debt maturity dates, less the cumulative cash payments to pay down these arrears.

TMU Text Table 1. Guinea: External Assistance, Program Arrears, Exceptional Mining Receipts, and Expenditure Float, 2014–15

(GNF billions, cumulative, from the beginning of the fiscal year)

	2014												2015			
	Mar.			Jun.			Sep.			Dec.			Mar.	Jun.	Sep.	Dec.
	Prog.	Act.	Diff.	Prog.	Prel.	Diff.	Prog.	Prel.	Diff.	Prog.	Rev. Prog.	Diff.				
Net external assistance ¹	-140	-64	133	94	136	42	237	72	-165	408	2,042	589	196	404	933	1,500
Budget support	0	0	0	446	369	-77	594	369	-225	993	2,502	464	298	668	668	668
Grants	0	0	0	309	369	60	594	369	-225	720	1,503	-262	298	668	668	668
Loans	0	0	0	137	0	-137	0	0	0	273	999	726	0	0	0	0
Ebola-related grants and loans (2015)	...	...	...	...	...	...	...	...	...	...	...	...	0	0	615	1,357
External debt service	-140	-71	124	-352	-258	94	-383	-328	55	-596	-513	83	-101	-264	-350	-524
Interest	-37	-28	65	-54	-46	8	-94	-79	15	-104	-93	11	-47	-66	-110	-128
Principal	-103	-43	60	-298	-212	86	-289	-250	39	-492	-421	71	-54	-198	-240	-396
Net change in non-program arrears and debt relief	0	7	8	0	25	25	26	32	6	11	54	43	0	0	0	0
Net change in non-program arrears	-218	7	226	-720	25	745	-31	32	63	-878	50	928	-57	-57	-57	-1,079
Debt relief	218	0	-218	720	0	-720	57	0	-57	889	4	-885	57	57	57	1,079
Program arrears	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional mining revenue	0	0	0	0	0	0	0	0	0	435	0	-435	0	0	0	560
Change in the float	-101	-104	-3	-72	36	108	240	206	-34	5	106	101	-38	-75	-113	-150

Sources: Guinean authorities and IMF staff calculations.

¹ For Dec. 2014 corrected for an incorrect sign on interest payments at the time of the RCF request.

20. The floor for NIR, the ceilings NDA of the BCRG and bank financing of the government, and the floor for the basic fiscal balance will be adjusted if net external assistance, the net change in "program" arrears, exceptional mining revenues, and/or the net change in the float differ from the projected amounts.³

21. Adjustment for net external assistance:

- *If net external assistance exceeds the program projections*, the floor for the basic fiscal balance will be adjusted downward by an amount equal to the surplus external assistance (enabling the entire surplus to be used for supplementary expenditures). The floor for NIR and the ceilings on BCRG NDA and bank financing of the government will not be adjusted.
- *If net external assistance is below program forecasts*, the floor on NIR will be adjusted downward by 80 percent of the shortfall, and the ceilings for NDA of the BCRG and bank financing of the government will be adjusted upward by 80 percent of the shortfall. The floor for the basic fiscal balance will be adjusted upward by 20 percent of the shortfall (requiring a fiscal adjustment equivalent to 20 percent of the shortfall).

22. Adjustments related to the net change in "program" arrears:

- *If the net change in "program" arrears exceeds program projections*, the floor for NIR will be adjusted upward by an amount equal to the surplus net change in arrears. The ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to the surplus net change in arrears. The floor for the basic fiscal balance will not be adjusted.
- *If the net change in "program" arrears is below the program projections*, the floor on NIR will be adjusted downward by 80 percent of the difference and the ceilings for NDA of the BCRG and bank financing of the government will be adjusted upward by 80 percent of the difference. The floor for the basic fiscal balance will be adjusted upward by 20 percent of the difference (requiring a fiscal adjustment equivalent to 20 percent of the difference).

23. Adjustments for exceptional mining receipts

- *The 2015 budget includes US\$80 million in exceptional mining receipts for investment financing.*
- *For exceptional mining receipts of between US\$80 million and US\$125 million, the floor for NIR will be adjusted upward and the ceilings on BCRG NDA and bank financing of the government will be adjusted downward by 80 percent of the surplus, while the floor for the basic fiscal balance will be adjusted downward by 20 percent of the surplus (allowing use of up to US\$16 million of the surplus for investment expenditures).*

³ The surpluses or shortfalls will be calculated using the program exchange rate.

- *For exceptional mining receipts in excess of US\$125 million, the floor for NIR will be adjusted upward and the ceilings on BCRG NDA and bank financing of the government will be adjusted downward by an amount equal to 100 percent of the surplus in excess of US\$125 million, while the floor for the basic fiscal balance will not be adjusted (i.e., the surplus beyond US\$125 million will be retained in the Special Investment Fund, which will reduce the use of domestic financing to finance the deficit).*

24. Adjustments for net change in the expenditure float:

- *If the net change in the float exceeds the projected amounts under the program, the ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to the excess.*

E. Definitions for the Fiscal Reporting Table (TOFE)

25. Government revenue includes tax and nontax revenue. It does not include external grants, the proceeds of privatizations, or exceptional mining revenues (the latter two being recorded as financing by agreement of the parties). Tax and nontax revenue are defined in accordance with Section IV.A.1 of the 1986 edition of the IMF's Government Finance Statistics Manual (GFS), using the following categories. For tax revenue, the main categories are taxes on income, profit, and dividends (Title 1); taxes on property (Title 2); taxes on international trade (Title 3), including import duties, export duties (*droit fiscal de sortie*), the surtax on consumption, the liquidation levy (*redevance de liquidation*), and penalties related to international trade; taxes on goods and services (Title 4), including general sales taxes, value-added taxes on domestic sales and on imports, the single tax on vehicles (TUV), the business tax (TAF), taxes on petroleum products, and export taxes on mining products, including taxes on mining products, taxes on diamonds, and the tax on precious metals. Other tax revenues (Title 5) include stamp taxes and registration fees. Tax receipts also include the taxes borne by the government for the purchase of externally financed capital goods. Nontax revenue consists of royalties and dividends (excluding revenue from the sale of telephone licenses), administrative duties and fees, and fines and forfeitures (Title 6), other nontax revenue (Title 7), including incidental revenues, and capital revenues (Title 8). Capital revenues include the proceeds from the sale of government assets, but exclude privatization proceeds.

26. Government expenditure is measured at the stage of acceptance by the Treasury, regardless of the execution procedure followed. In the case of both the regular procedure and the simplified delegated spending authority procedure, expenditures are accepted by the Treasury immediately after the payment order is issued. In the case of simplified procedures and delegated spending authority or payments without prior issuance of a payment authorization, the Treasury accepts the expenditure at the time that payment is ordered and in such cases no expenditure is measured on the basis of the adjusting payment orders (*mandatements de régularisation*) when the adjustment to a payment order basis is done. Government expenditure includes all expenditure of the central government, including subsidies and transfers to autonomous public entities, and loans granted or on-lent by the government to public enterprises and other sectors of the economy, net of repayments on such loans.

27. Basic expenditure is defined as total fiscal expenditure less expenditure on interest on the external debt and expenditure financed by external grants or loans or by counterpart funds.

28. External financing comprises: (i) disbursements of external loans; (ii) principal owed on government external debt; (iii) relief and rescheduling of government external debt, net of HIPC assistance obtained from multilateral institutions, which is considered part of grants; and (iv) the net change in external arrears (interest and principal, to be shown separately).

F. Reporting Requirements for Program Monitoring

29. The information on implementation and/or execution of the structural benchmarks under the program (as specified in Table 3 of the Supplement) will be reported to the IMF's African Department within two weeks of the planned date of implementation. The status of the implementation of other structural measures included in the program will be transmitted within 30 days of the end of each month.

30. The authorities will report the information summarized in Table 1 below to the IMF's African Department by the deadlines set in this table. Barring any indication to the contrary, the data will take the form as discussed between the authorities and the IMF. The authorities will supply the Fund with any additional information that its staff may request for program monitoring purposes.

Table 1. Guinea: Data Reporting Requirements for Program Monitoring

Category of Data	Table/Report	Frequency	Deadline
Financial and monetary data	Central bank balance sheet, consolidated commercial bank balance sheet, monetary survey (at the current exchange rate as well as at the program exchange rate)	Monthly	30th of the month for the previous month
	Detailed net treasury position (NTP) and net government position (NGP)	Monthly	30 th of the month for the previous month
	Interest rates and stock of government and central bank securities (BDT and TRM)	Monthly	30 th of the month for the previous month
	Prudential indicators for commercial banks	Quarterly	One month after the end of the quarter
	Foreign exchange budget	Monthly	30 th of the month for the previous month
Fiscal data	Status report, including a detailed statement of revenue, expenditure, and cash-flow operations	Monthly	30 th of the month for the previous month
	Monthly report of the high-level technical committee on revenue monitoring	Monthly	15 th of the month for the previous month
	General Treasury balances	Monthly	30 th of the month for the previous month
	Cash-flow plan	Monthly	30 th of the month for the previous month
	Government fiscal reporting table (TOFE)	Monthly	30 th of the month for the previous month
	Use of exceptional mining revenues	Quarterly	30 th of the month after the end of the quarter
	Execution of budgetary expenditures from HIPC resources and other priority expenditures	Monthly	30 th of the month for the previous month
	Balance of current expenditures, VAT credits to be refunded, and domestic debt arrears	Monthly	30 th of the month for the previous month
	Nonbank financing, indicating operations in Guinean francs and those in foreign currencies	Monthly	30 th of the month for the previous month

Table 1. Guinea: Data Reporting Requirements for Program Monitoring (concluded)			
Category of Data	Table/Report	Frequency	Deadline
Real sector data and prices	Consumer price index, Conakry	Monthly	30 th of the month for the previous month
	National accounts	Annually	Summary estimates three months after the end of the year
Balance of payments data	Imports by use and exports by major product, trade balance	Quarterly	Three months after the end of the quarter
	Price and volume indices of imports and of exports	Quarterly	Three months after end of quarter
	Consolidated balance of payments estimates	Annually	Summary estimates: six months after the end of year
External debt	Debt service due before and after debt relief	Monthly	30 th of the month for the previous month
	Debt service paid	Monthly	30th of the month for the previous month
	Debt service reconciliation table	Monthly	30th of the month for the previous month
	End-of-month outstanding debt and stock of daily debt service outstanding (after relief) and unpaid, stock of daily arrears according to the program definition	Monthly	30th of the month for the previous month
	Drawings on new loans	Monthly	30th of the month for the previous month
External grants and loans	Disbursements	Quarterly	30th of the last month of the quarter for the previous quarter
	Monthly transfers of debt relief amounts under the HIPC Initiative, by creditor	Monthly	30th of the month for the previous month



GUINEA

January 28, 2015

FIFTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, FINANCING ASSURANCES REVIEW, AND REQUESTS FOR AN AUGMENTATION OF ACCESS AND EXTENSION OF THE CURRENT ARRANGEMENT—INFORMATIONAL ANNEX

Prepared By

African Department
(In Consultation with Other Departments)

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RELATIONS WITH THE FUND

As of December 31, 2014

Membership Status: Joined: September 28, 1963

Article VIII

General Resources Account:	SDR Million	%Quota
Quota	107.10	100.00
Fund holdings of currency	107.03	99.93
Reserve Tranche Position	0.08	0.07

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	102.47	100.00
Holdings	160.32	156.46

Outstanding Purchases and Loans:	SDR Million	%Quota
RCF Loans	26.78	25.00
ECF Arrangements	92.30	86.19

Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ECF	Feb 24, 2012	Feb 23, 2015	128.52	91.80
ECF ^{1/}	Dec 21, 2007	Dec 20, 2010	69.62	24.48
ECF ^{1/}	May 02, 2001	May 01, 2004	64.26	25.70

Projected Payments to Fund ^{2/}

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

	<u>2015</u>	<u>2016</u>	<u>Forthcoming</u> <u>2017</u>	<u>2018</u>	<u>2019</u>
Principal			1.84	9.68	12.85
Charges/Interest	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.26</u>
Total	<u>0.00</u>	<u>0.00</u>	<u>0.30</u>	<u>9.69</u>	<u>13.11</u>

¹ Formerly PRGF.

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

Implementation of HIPC Initiative:

	Enhanced
I. Commitment of HIPC assistance	<u>Framework</u>
Decision point date	Dec 2000
Assistance committed	
by all creditors (US\$ Million) ^{3/}	639.00
Of which: IMF assistance (US\$ million)	36.01
(SDR equivalent in millions)	27.80
Completion point date	Sep 2012
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	27.80
Interim assistance	11.30
Completion point balance	16.49
Additional disbursement of interest income ^{4/}	7.45
Total disbursements	35.25

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

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

Decision point: Point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance: Amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point: Point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessment

An update of the 2012 Safeguards Assessment of the Central Bank of the Republic of Guinea (BCRG) is currently underway in the context of the RCF approved in September 2014. The 2012 assessment

found that risks of misuse and misreporting remained high. To mitigate risks to the program, staff proposed, inter alia, that: (i) the Board of the BCRG approve an investment policy and guidelines for the management of international reserves (approved on June 13, 2014 as a Prior Action for the 4th Review of the ECF); (ii) external auditors continue to verify monetary data; (iii) the BCRG publish audited annual financial statements within statutory deadlines; and, (iv) the BCRG adopt and implement internationally-recognized financial reporting standards. These measures are needed in the short run, but equally important are steps to exercise better oversight on controls and to strengthen the autonomy of the central bank. The BCRG is working towards the implementation of these and other Safeguards Assessment recommendations.

Exchange Rate Arrangement

Guinea's exchange rate arrangement is classified as a managed float system with no predetermined path, after an interruption of the system during 2009–10; the *de facto* arrangement is classified as "stabilized". The system includes a multiple currency practice as the value of the official rate lags the weighted average commercial bank rate on which it is based by one day. A technical assistance mission from the Fund (MCM) visited Conakry in 2011 and made suggestions on the exchange rate system, including on the lag between the official and commercial banks rate. A resident advisor financed by the IMF is assisting the BCRG in implementing the recommendations. Guinea has accepted the obligations under Article VIII, sections 2, 3 and 4 of the IMF's Articles of Agreement.

Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on February 24, 2012.

Technical Assistance 2011–14**Calendar Year 2011**

Provider	Main topic	Dates
AFW	Needs assessment (fiscal, real, financial sectors)	Feb 2011
Fiscal affairs		
FAD	Stocktaking and update of PFM strategy	Apr-May 2011
AFW	PFM capacity building	April 2011
AFW	Revenue Administration	April 2011
FAD	Diagnostic Revenue Administration	May 2011
AFW	PFM capacity building	May 2011
AFW	Customs administration	May 2011
AFW	Tax arrears management and other tax administration issues	May-June 2011
FAD	PFM: Budget Execution	Aug-Sep 2011
AFW	PFM: Chart of public accounts implementation	Sep 2011
AFW	Customs: strengthening of human resources management	Oct 2011
FAD	Tax policy: general and mining	Oct 2011
AFW	Public Debt	Oct-Nov 2011
AFW	Tax arrears and other tax administration issues	Nov 2011
AFW	PFM capacity building	Nov 2011
FAD	PFM: legal framework, installation of resident advisor	Nov-Dec 2011
FAD	FAD resident advisor to the Treasury	Dec 2011-Mar 2013
Monetary and Capital Markets		
AFW	Banking supervision	Feb 2011
AFW	Banking supervision	Mar-Apr 2011
MCM	Foreign Exchange Management	Jul 2011
AFW	Banking supervision and regulation	Oct-Nov 2011
Statistics		
AFW	National accounts	Feb 2011
AFW	Public finance statistics	Mar 2011
AFW	National accounts	Apr 2011
AFW	Real Sector Statistics/Assistance with 1993 SNA implementation	Jul 2011
AFW	Real Sector Statistics/National Accounts implementation	Dec 2011

Source: IMF staff.

Calendar Year 2012

Provider	Main topic	Dates
Fiscal affairs		
FAD	Government accounting, chart of accounts, budget organic law.	February 2-15, 2012
FAD	Mining and General tax policy	February 9-10, 2012
FAD	Cash management plan, Treasury Single Account, commitment plan, budget organic law, chart of accounts.	March 3-15, 2012
FAD	Mining tax policy	April - May 2012
AFW	Treasury management	May - June 2012
AFW	Customs administration	June 14-25, 2012
FAD	Legal framework of public financial management	June - July, 2012
FAD	Mining tax policy	July 1-14, 2012
FAD	Mining tax policy	September 1-10, 2012
FAD	Agreement on central bank advances	September 3-14, 2012
FAD	Legal framework of public financial management	October 1-15, 2012
FAD	Public expenditure	October 1-14, 2012
AFW	Customs administration	November 14-23, 2012
FAD	Public expenditure	December 1-21, 2012
AFW	Tax administration	December 12-23, 2012
FAD	Public financial management (resident advisor)	2012-2013
Legal		
LEG	Legal drafting assistance on mining taxation	August 30-September 11, 2012
Monetary and Capital Markets		
AFW	Bank Supervision and Regulation	January 2012
MCM	Central Banking (resident advisor)	Feb 2012-Feb 2013
AFW	Bank Supervision and Regulation	February 2012
AFW	Bank Supervision and Regulation	March 2012
AFW	Bank Supervision and Regulation	September 2012
AFW	Bank Supervision	Oct-Nov 2012
Statistics		
AFW	Real sector statistics, national accounts	Feb-Mar 2012
STA	Balance of payments	Mar-Apr 2012
AFW	National accounts	September 2012
STA	Migration to GFSM 2001	September 2012
AFW	National accounts	November 2012

Source: IMF staff.

Calendar Year 2013

Provider	Main topic	Dates
Fiscal Affairs		
FAD	Manual on budget execution (1/2)	January 28-February 15, 2013
FAD	Budget preparation framework (1/2)	January 29-February 1, 2013
FAD	TSA implementation (follow up)	February 6-15, 2013
FAD	Budget preparation framework (2/2)	March 4-8, 2013
FAD	PEFA assessment	March 20-April 3, 2013
FAD	Extrabudgetary entities framework	April 29-May 3, 2013
FAD	Manual on budget execution (2/2)	April 15-26, 2013
FAD	Public financial management	April 8-19
FAD	PEFA dissemination and reform strategy	May 15-22, 2013
FAD	Tax administration	June 17- 28, 2013
FAD	Public financial management	September 2-13, 2013
FAD	VAT credit refund in the mining sector	November 18-22, 2013
FAD	Customs Administration	December 9-13, 2013
FAD	Public financial management	December 9-20, 2014
FAD	Public financial management (Resident advisor)	2013
Money and Capital Markets		
AFW	Bank Supervision and Regulation in Guinea	February 4-22, 2013
AFW	Analysis of Debt Portfolio	April 8-19, 2013
AFW	Bank Supervision	May 13-24, 2013
AFW	Bank Supervision	December 1-13, 2013
AFW	Bank Supervision and Regulation in Guinea	December 2-13, 2013
MCM	Central Banking (Resident advisor)	2013
Legal		
LEG	Central Banking Legislation	March, 2013
Statistics		
AFW	Migration to GFSM 2001	April 8-19, 2013
AFW	National accounts	May 13-24, 2013
AFW	Government finance statistics	May 22-31, 2013

Source: IMF staff.

Calendar Year 2014

Provider		Main Topic	Dates
Fiscal Affairs			
FAD		Fiscal forecasting and budgeting	February 10-24, 2014
FAD		VAT refund mechanisms for the mining sector and PFM governance	January 29 - February 6, 2014
FAD		Budget classification	June 2-13, 2014
AFW		Public financial management	June 9-20, 2014 ¹
FAD		Natural resources	September 1-10, 2014 ¹
AFW		Tax administration	September 15-19, 2014 ¹
FAD		Public financial management strategy and medium term framework	September 15-29, 2014 ¹
FAD		Public financial management (Resident Advisor)	2014 - 2015 ¹
Monetary and Capital Markets			
MCM		Reserve management	January 30 - February 7, 2014
AFW		Bank supervision	March 3-14, 2014
MCM		Monetary and FX operations and policies	September 1-12, 2014 ¹
AFW		Public debt management	September 1-12, 2014 ¹
MCM		Medium-term debt strategy	September 8-12, 2014 ¹
MCM		Central banking (Resident Advisor)	2013 - 2014
Statistics			
AFW		National accounts	January 6-17, 2014
STA		Financial soundness indicators	April 14-18, 2014
STA		Government finance statistics	October 1-10, 2014 ¹

Source: IMF Staff.

¹ Planned.

JOINT WORLD BANK-FUND MATRIX

(As of December 2014)

Title	Products	Expected delivery date
World Bank work program in the next 12 months	Operations:	
	Mineral Sector Governance Project	Ongoing
	Budget Support Lending (DPO)	Q4 2015
	Economic and Sector Work:	
	Public Expenditure Review (investment budget execution, state-owned enterprises and public establishments, internal debt, procurement)	Q4 2015
	Poverty Note	Q3 2015
	Technical assistance/other analytical:	
	Support to MOP on the Core Welfare Indicators Questionnaire survey (CWIQ) and PRS III	Ongoing
	Economic and Poverty Monitoring	Ongoing
	Support on EITI implementation	Ongoing
IMF work program in the next 12 months	Program:	
	ECF Fifth review under the ECF	February 2015
	ECF Sixth review under the ECF	July 2015
	Technical Assistance:	
	Mining and general tax policy	Ongoing
	Public financial management	Ongoing
	Monetary and exchange rate policy	Ongoing
	Banking supervision	Ongoing
	National and fiscal accounts, balance of payments	Ongoing
Fund requests to the Bank	Assessment of the investment projects financed with the exceptional mining resources	Ongoing
	Assessment of the electricity reform plan and the budgetary implications	Ongoing
	Assessment of reforms in agriculture and the budget implications	Ongoing
	Assessment of the next steps on the new mining code and renegotiation of mining contracts	Ongoing
	Information sharing on the financing of the large iron ore project	Ongoing
	Information sharing on the PRSP III	Ongoing
Bank requests to Fund	Regular updates on macro-economic and fiscal projections	Ongoing
	Consultations on program structural benchmarks	Ongoing
	Surveillance of fiscal impact of mining sector reforms	Ongoing
Joint Bank-Fund products	Joint Staff Assessment Note on the PRSP III	Q4 2014
	Joint Bank-Fund Support for Medium-Term Debt Strategy	Q1 2015

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK, 2011–14

(As of December 2014)

1. **The Bank's Country Strategy Paper (CSP) 2012–16, approved by the Board on March 1, 2012, focuses on two pillars:** (i) economic and financial governance, and (ii) infrastructure for development. Under the first pillar, the Bank will assist in building public financial management capacity, improving governance in the extractive sector and strengthening the central government's budget. Under the second pillar, the Bank will contribute to reducing the power generation gap and further developing transport infrastructure. The mid-term review of the CSP which was delayed due to the Ebola crisis will be undertaken during the second semester of 2015. This will provide an opportunity for dialogue on the Bank's support to Guinea through the implementation of the PRSP, taking into account the fight against Ebola, the socio-economic recovery process, and outcomes of the Abu Dhabi Conference for the period 2015 to 2016.
2. **Lending Operations:** During the donor and investment conference in Abu Dhabi, AfDB announced UA 163 million (\$250 million) additional resources in targeted support to the country's development program during the 2014–16 period through the mobilisation of all its financial and technical assistance instruments/vehicles.
3. **In the governance sector,** the Bank has already approved a budget support allocation of UA20 million in 2011 and support of UA 2.5 million through the Fragile State Facility (FSF). In addition, the Bank restructured some non-performing projects and reallocated UA 7.5 million to an economic governance project in 2011. This was to improve the country's public finance management while supporting the reforms aimed at enhancing governance, especially in the extractive sector. The FSF support also covers public administration capacity building, particularly in statistics and strategic planning. At the end of 2013 the Bank approved an institutional support project of UA 11.4 million focused on improving governance in mining contract management and on enhancing public investment and project management. A budget support operation (UA 12 million) targeting the private sector environment and PPPs frameworks, governance (mining, PFM, and public investment management) was approved by the board in end-June 2014 and UA 6.39 million was disbursed end December 2014. The Bank intends to submit to board approval by end June 2015 a capacity building project targeting public finance reforms (including budget preparation and implementation), scaling-up and enhancing the government capacity to manage the Simandou Mining project (mining one stop shop, local content policy, communities, etc.), and improvement of private sector and business environment.
4. **In the energy sub-sector,** two projects were signed at the end of 2013 and began implementation in 2014. The first project is the second Conakry Electrical Networks Rehabilitation and Extension Project (PRREC.2) for UA 11 million. The second project is the Côte d'Ivoire-Liberia- Sierra Leone-Guinea power regional interconnection project for UA

40.2 million that will see the construction of 1,360 km of 225 kV transmission lines and 12 sub-stations. In 2015, the Bank will contribute to financing the interconnection project of the Gambia River Basin Development Organization (OMVG) involving the construction of a dam and a 240 MW hydro-power plant at Kaleta already financed by the government with a loan from China. Implementation of these three projects will result in: (i) an increase in the average electricity access rate; (ii) a reduction in the kWh generating cost; (iii) a reduction in the number of power outages; (iv) the creation of temporary and permanent jobs; and (v) a reduction in greenhouse gas emissions.

5. In the transport sub-sector, the Board approved in December 2014 the road development and Transport Facilitation Programme within the MRU including the road Danané (Côte d'Ivoire)-Frontier of Guinea and from the frontier to N'zoo-Lola (Guinea). This road is part of a regional project including these key roads: Zantiébougou-Kolondiéba-Kadiana-Frontier of Côte d'Ivoire (140 km) linking Bamako to Abidjan and San-Pédro through the axe Tengréla-Boundiali-Séguéla-Daloa; and Duekoué-Guiglo-Bloléquin-Toulepleu-Frontier of Liberia. These roads are part of the Transafrican Dakar-Abidjan-Lagos road. The Bank intends also to finance Boké (Guinea)-Quebo (Guinea-Bissau) Road, which is part of the ECOWAS Regional Transport Programme. Because of their integrative role, construction of these roads is in line with the New Partnership for Africa's Development (NEPAD) Short-Term Action Plan, whose core objective is to have interstate roads without any impediment to the free movement of goods and persons.

6. Support to Private sector operations. During the 2014-2016 period, the Bank will support specific private sector operations with high and transformative impact. At the request of the government, AfDB envisages to contribute to efforts to mobilise resources for financing the infrastructure part of the Simandou mining project. In this regard, AfDB intends to provide an A loan of about UA 200 million equivalent to USD 300 million which will leverage at least a USD 900 million B loan. Africa50 will also contribute to the financing of this project at a later stage. AfDB will also support capacity building and provide technical assistance in order to allow the government to fulfil its commitment pertaining to the implementation of the Simandou project.

7. Non-Lending Operations: To deepen the analysis and understanding of the country's main challenges and fuel strategic reflexion, the Bank will finalize in 2014 in collaboration with UNDP, and under the first FSF programme, an economic and sector works (ESWs) on the following themes: (i) study on financial sector reforms; (ii) private sector profile; (iii) studies relating to the management of the Port of Conakry. The Bank will enhance its dialogue and provide specific technical assistance on PPP (PPP law and PPP Unit) and on mining sector governance. The Bank will also continue to support implementation of PRSP (direct support to CTSP and SP-SRP in charge of coordinating the monitoring of the implementation of economic reforms programs and the PRSP), post-Abu Dhabi commitments implementation, and the link between macroeconomic/budget framework sector policies and the public investment plan. The Bank will continue its support through the FSF programme to the National Statistics Development Strategy (NSDS) and the conduct of the Third General Population and Housing Census (RGPH-III).

8. Trust Funds: In addition to the ADF and FSF allocations, the Bank could mobilize supplementary resources from the ADB private sector window (including enclave operations in the

mining sector infrastructure), and the Trust Fund resources to finance complementary operations in the sectors covered in the 2012–16 Country Strategy Paper (CSP) and that are important for the country's development. For example, through the Rural Water Supply and Sanitation Initiative, a strategy could be prepared in that area. Other instruments also available are the Partial Risk Guarantee Instrument, the Global Environment Fund, and the Africa Carbon Facility and Green Fund.

9. Response to the Ebola crisis. The AfDB has adopted a regional approach to address the Ebola crisis. In April 2014, the Bank provided an emergency support of USD 2 million UA equivalent to USD 3 million grant to support Mano River Union (MRU) countries affected namely Guinea, Liberia and Sierra Leone. In July 2014, the AfDB approved a UA 40 million equivalent to USD 60 million grant for countries fighting against Ebola. In October 2014 the AfDB approved UA 100 million sector budget support in order to support the three most affected countries. AfDB approved also in October 2014 a UA 7.7 million Technical Assistance Capacity Building Programme to support the national and foreign health workers programs. The total Bank's support for Guinea amounts to UA 35 million (USD 52 million) and aims to help the government enhance the immediate response but also structure a medium to long term plan.

10. African Development Bank and Fund staff collaboration: sharing of information on the ECF-supported program, the macroeconomic situation, the budget, progress in structural reform, planned missions, and mission reports.

Table 1. ADF 13 (2011–16) and FSF Operations Programming
(UA million)

Lending Operations					
	Year	ADF 12/13	FSF (Pillar III)	Regional Funds	Total
Pillar I –Economic and Financial Governance Support					
Budget support	2011	20.0			20.0
Targeted support	2011		2.5		2.5
Budget support	2014/15	12.0			12.0
Targeted support for capacity building	2015		TBD		
Sub-Total		32.0	2.5		34.5
Pillar II –Infrastructure Support (Energy, Transport, etc.)					
CLSG Interconnection (electricity)	2013	16.0		24.2	40.2
Rehabilitation of electric power networks	2013	11.0			11.0
Institutional support project - Public investment management and mining	2013	11.4			11.4
Mano River Union road (CI-Liberia, linked to Mali)	2014	13.06		20.27	33.33
OMVG	2015	20.0		30.0	50.0
Rural water supply infrastructure	2016				
Boké-Quebo road (postponed)	2017				
Sub-Total		71.46		74.47	145.93
Total		103.46	2.5	74.7	147.1
Economic and Sector Work					
Study on financial sector reforms,	2013		x		
Private sector profile	2014		x		
Guinea Vision 2035	2014		x		

MILLENNIUM DEVELOPMENT GOALS¹

	1990	1995	2000	2005	2012 Sub- Saharan Africa	2012	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger							Halve
Employment to population ratio, 15+, total (%)	69	69	69	69	65	70	
Employment to population ratio, ages 15-24, total (%)	51	51	51	51	47	52	
GDP per person employed (constant 1990 PPP \$)	...	...	...	...	4035	...	
Income share held by lowest 20%	3	5	...	6	...	...
Malnutrition prevalence, weight for age (% of children under 5)	...	...	29	23	...	16	13
Poverty gap at \$1.25 a day (PPP) (%)	63	30	...	15	21	...	...
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	93	64	...	43	48	...	...
Vulnerable employment, total (% of total employment)	...	...	...	...	...	...	...
Goal 2: Achieve universal primary education							100
Literacy rate, youth female (% of female ages 15-24)	...	...	...	...	60	22	100
Literacy rate, youth male (% of males ages 15-24)	...	...	...	...	76	38	
Persistence to last grade of primary, total (% of cohort)	32	...	...	70	58	54	100
Primary completion rate, total (% of relevant age group)	20	19	31	55	69	61	100
Total enrollment, primary (% net)	26	...	45	65	...	76	100
Goal 3: Promote gender equality and empower women							100
Proportion of seats held by women in national parliament (%)	...	...	9	19	69	19	100
Ratio of female to male primary enrollment (%)	45	51	67	80	93	84	100
Ratio of female to male secondary enrollment (%)	32	...	...	50	83	63	
Ratio of female to male tertiary enrollment (%)	9	...	...	23	61	37	
Share of women employed in the non-agricultural sector (% of total non-agr. emp.)	...	...	...	...	...	...
Goal 4: Reduce child mortality							>75% reduction
Immunization, measles (% of children ages 12-23 months)	35	61	42	51	72	58	
Mortality rate, infant (per 1,000 births)	142	124	104	84	59	65	
Mortality rate, under 5 (per 1,000)	241	209	171	135	64	101	78
Goal 5: Improve maternal health							>75% reduction
Births attended by skilled health staff (% of total)	...	...	...	38	50	45	
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,100	1,000	950	800	560	690	
Contraceptive prevalence (% of women ages 15-49)	...	...	...	9	24	6	
Goal 6: Combat HIV/AIDS, malaria and other diseases							Halt/reverse
Incidence of tuberculosis (per 100,000 people)	248	249	234	211	255	178	Halt/reverse
Prevalence of HIV, female (% ages 15-24)	...	...	...	...	3	1	Halt/reverse
Prevalence of HIV, male (% ages 15-24)	...	...	...	...	1	0	Halt/reverse
Prevalence of HIV, total (% ages 15-24)	0	1	1	2	1	2	Halt/reverse
Tuberculosis case detection rate (% of all forms)	13	18	27	34	58	56	Halt/reverse
Goal 7: Ensure environmental sustainability							
CO2 emissions (kg per PPP \$b of GDP)	0	0	0	0	0	0	
CO2 emissions (metric tons per capita)	0	0	0	0	1	0	
Forest area (% of land area)	30	29	28	27	5	27	
Improved sanitation facilities (% of population with access)	8	11	13	15	30	19	57
Improved water source (% of population with access)	52	58	63	68	64	75	72
Marine protected areas (% of total surface area)	3	...	46	46	12	46	
Net ODA received percapita (current US\$)	48	53	17	21	51	30	
Goal 8: Develop a global partnership for development							
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	20	24	15	13	3	9	
Internet users (per 100 people)	0	0	0	1	15	1	
Telephone lines (per 100 people)	0	0	0	0	1	0	
Fertility rate, total (births per woman)	7	6	6	6	5	5	
Other goals and indicators							
GNI per capita, Atlas method (current US\$)	430	470	380	340	1557	440	
GNI, Atlas method (current US\$ billions)	3	4	3	3	1557	5	
Gross capital formation (% of GDP)	25	21	20	20	21	18	
Life expectancy at birth, total (years)	50	52	51	53	56	56	
Literacy rate, adult total (% of people, ages 15 and above)	...	...	...	...	60	25	
Population, total (millions)	6	8	9	10	912	11	
Trade (% of GDP)	65	46	53	70	65	92	

Sources: World Development Indicators database, June 2014, and Guinean authorities (Third Poverty Reduction Strategy Paper, March 2013).

^{1/} Figures in italics refer to periods other than those specified.

STATISTICAL ISSUES

As of December 31, 2014

Guinea: Statistical Issues Appendix	
I. Assessment of Data Adequacy for Surveillance	
<p>General: Data provision is broadly adequate for surveillance with some key data shortcomings in national accounts and fiscal sector.</p>	
<p>National Accounts: Real sector statistics are incomplete, and published with insufficient timeliness to support economic policymaking. Statistics on economic activities are published less frequently and less regularly; the monthly bulletin of the Guinean economy is trying to include the limited available macroeconomic variables. Monthly surveys of mining, industrial and agricultural production are produced with delays. Employment and population statistics are only published annually. A program supported by international partners, expected to lead to the implementation of the 1993 SNA based on the ERETES software—national accounts compilation software, was interrupted in 2009. The regional technical assistance center (West AFRITAC) resumed technical assistance to Guinea in 2011 and sent several missions to Conakry to work with the authorities on compiling a new series of national accounts for 2006–11 following the 1993 SNA, with 2006 as the new base year. The new series compiled in MS Excel was released in August 2014 along with brief analyses on main aggregates and methodological notes. Following AFRITAC West's recommendation, the National Institute of Statistics plans to implement the 2008 SNA with 2015 as new benchmark year.</p>	
<p>Price Statistics: The monthly consumer price index (CPI) is being published in a timely manner with 2002 as base year.</p>	
<p>Government Finance Statistics: The Ministry of Economy and Finance compiles comprehensive monthly budgetary central government data on a cash basis for revenue and on commitment and cash bases for expenditure based on national presentation not comparable to international standards. During 2009–10, many operations executed on behalf of the government were not recorded under the government financial operations tables (TOFE). The new government took corrective measures to produce an accurate presentation of the situation. Provision of monthly data to AFR has resumed, and within a short period in recent months. AFR also receives treasury plans. The budget includes the bulk of all government operations, although it excludes a number of "satellite" accounts that are not directly incorporated into the budget. Following the adoption of the law on Treasury Single Account in 2011, efforts are now underway to incorporate those satellite accounts, including autonomous government agencies, into the budget and the government finance statistics.</p>	
<p>Monetary and Financial Statistics: During 2009–10, many government accounts were created at the central bank and commercial banks outside the control of the treasury, creating large inconsistencies between the government finance statistics and monetary accounts statistics. The new government is closing these accounts and bringing all government operations under the net position of the treasury. Central bank and deposit money bank accounts as well as the monetary survey are compiled and shared with AFR on a monthly basis. Some delays have been experienced with regard to data from the commercial banks, which still needs to be improved. Coordination between the central bank and the ministry of finance is improving, reducing discrepancies between monetary and fiscal data. However, the ongoing migration to a new central bank's accounting system has led to frequent data changes and to delays in the provision of monetary statistics. Monetary data used to assess program performance are certified by an independent external auditor on a regular basis. The Banque Centrale de la Republique de Guinee (BCRG) does not report monetary data and data on Financial Soundness Indicators to STA. In January 2014, STA provided technical assistance (TA) to the BCRG to start reporting monetary data using the recommended standardized report forms (SRFs). Another TA mission is scheduled for the 2015 fiscal year.</p>	
<p>Balance of payments: A technical assistance mission from the IMF statistical department visited Conakry in April 2012 to assist in improving balance of payments statistics. The National Committee for the Harmonization of Balance of Payments Statistics has been reactivated since 2008, and the balance of payments survey has been implemented with a response rate of over 75 percent. Exchange rates are published daily. The central bank has compiled balance of payments and international investment position statistics in line with the fifth edition of the <i>Balance of Payments Manual</i>. The Balance of Payments section has not taken advantage of all the data sources within the central bank to compile the balance of payments and international investment position statistics.</p>	
II. Data Standards and Quality	
Guinea participates in the General Data Dissemination System since 2003, but the metadata have not been updated since then.	No data ROSC is available..

Table of Common Indicators Required for Surveillance

(As of January 15, 2015)

	Date of Latest Information	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange Rates	1/15/2015	1/15/2015	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	11/30/2014	1/08/2015	M	M	M
Reserve/Base money	11/30/2014	1/08/2015	M	M	M
Broad Money	11/30/2014	1/08/2015	M	M	M
Central Bank Balance Sheet	11/30/2014	1/08/2015	M	M	M
Consolidated Balance Sheet of the Banking System	11/30/2014	1/08/2015	M	M	M
Interest Rates ²	12/31/2014	1/15/2015	M	M	M
Consumer Price Index	11/30/2014	1/08/2015	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ - General Government ⁴	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing ³ - Central Government	11/30/2014	1/08/2015	M	M	M
Stocks of Central Government and Central Government - Guaranteed Debt ⁵	12/31/2013	1/08/2014	A	A	A
External Current Account Balance	6/30/2014	11/03/2014	Q	NA	A
Exports and Imports of Goods and Services	6/30/2014	11/03/2014	Q	NA	A
GDP/GNP	12/31/2011	3/1/2014	A	A	A
Gross External Debt	12/31/2013	1/08/2014	A	A	A

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds³ Foreign, and domestic bank and non-bank financing.⁴ The general government consists of the central government (budgetary and extra-budgetary funds, and social security funds) and state and local governments.⁵ Including currency and maturity composition.⁶ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Not Available (NA).



GUINEA

January 28, 2015

FIFTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, FINANCING ASSURANCES REVIEW, AND REQUESTS FOR AN AUGMENTATION OF ACCESS AND EXTENSION OF THE CURRENT ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By
**Abebe Selassie and
Peter Allum (IMF) and
John Panzer (IDA)**

Prepared by the International Monetary Fund and
International Development Association

Guinea continues to face a moderate risk of debt distress.¹ Under the baseline scenario, all debt indicators are below their policy-dependent thresholds. However, stress tests point to vulnerabilities to macroeconomic shocks, in particular to negative shocks to growth, exports, FDI and fiscal performance. There is limited scope to take on additional debt over and above the projected amounts over the medium term. New borrowing in the next five years should be monitored closely and guided by prudent debt management. It would remain important to rely primarily on concessional sources of external financing; the planned strengthening of debt management would be important to ensure a sound forward-looking debt strategy. Compared to the last DSA, in the current DSA the Ebola epidemic is assumed to persist throughout most of 2015 resulting in the following differences: (i) a larger detrimental impact on the economy, (ii) a higher level of external borrowing in the short term to finance a larger budget deficit resulting from the Ebola outbreak and a higher level of public investment, (iii) an increase in access under the ECF arrangement of 42.1 percent of quota (SDR 45.135 million), and (iv) the one-off use of net bank financing in 2015 of about 2.0 percent of GDP. The current DSA also incorporates: (i) the budgetary impact of the 2015 civil service salary increase, (ii) the decline in the world oil prices—an increase in budgetary revenues and lower import bill, and (iii) the cancellation in 2012 of French claims under debt-for-development swaps (C2D).

¹ In the LIC-DSA framework Guinea is rated a weak policy performer with a Country Policy and Institutional Assessment (CPIA) average rating for 2011–13 of 2.93.

INTRODUCTION

1. This debt sustainability analysis (DSA) is a full joint Bank-Fund LIC-DSA; the last LIC-DSA (an update) was considered by the Executive Board in September 2014 as part of Guinea's request for a disbursement under the Rapid Credit Facility (RCF).² For the first time, the DSA excludes French claims which were cancelled in 2012 under debt-for-development swaps. Guinea continues to be assessed as being a weak policy performer and at a moderate risk of debt distress. As a result of higher estimates of the negative economic effects of the Ebola epidemic in 2014 and its persistence through much of 2015, as well as the impact of the 2015 civil service increase, there is some deterioration in some external debt indicators in the near term compared to the last DSA update. However, the steep fall in world oil prices will have a positive impact through higher budget revenues³ and a lower oil import bill.

BACKGROUND

2. A significant share of Guinea's external debt (13.9 percent or \$219 million) at end-2013 represents official claims under C2D debt-for-development swaps (Contrats de Désendettement et Développement). In the context of providing HIPC initiative debt relief France effectively cancelled its outstanding ODA claims on Guinea, and this is being carried out through the C2D process; at end-2012 exclusion of C2D claims reduces the debt stock by 15.5 percent. The C2D mechanism involves returning the debt service due on these claims in the form of grants for the government to use for development projects. This is done through two agreements: one provides for the cancellation of the claims and the other covers the amounts each year that are to be paid as debt service and returned as grants for development projects; this process began in 2012 and is projected to take place through 2020.⁴ For accounting purposes, these claims/debts remain on the creditor/debtor debt stock balance sheets and are reduced in line with the annual debt service payments made under the C2D agreement. For this reason, staff had included the stock of C2D debt in previous DSAs, but following clarification with the relevant authorities that these claims are effectively cancelled this debt and associated debt service payments are excluded in the current DSA beginning in 2012.⁵

² The DSA was prepared jointly by the staff of the IMF and Bank, in collaboration with the authorities of Guinea. The 2014 DSA for the disbursement under the Rapid Credit Facility can be found in IMF Country Report No. 14/298, September 2014. The last full DSA was issued in Guinea's HIPC Completion Point document (see IMF Country Report No. 12/295, October 2012).

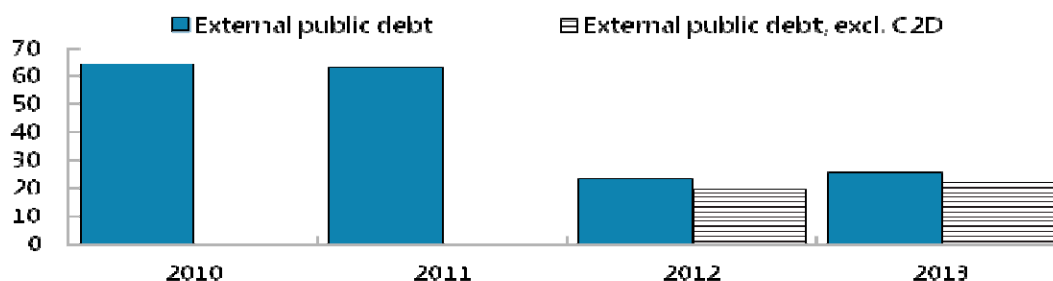
³ Domestic petroleum product prices are administered and the budget benefits from the lower import parity price.

⁴ In practice this is being done through successive 3-year agreements specifying the amounts due by Guinea on these claims and the use of the amounts for project spending. Guinea pays the debt service due to France which is then returned in the form of grants for use as specified in the C2D agreement.

⁵ However, in the staff report the debt service associated with the C2D process is recorded in the fiscal and external tables to capture the gross cash-flows (debt service and grants) associated with C2D and the annual corresponding reduction in external debt. At end-2013, C2D obligations accounted for 13.9 percent of outstanding external debt. During 2014–20 projected C2D related debt service flows on average account for slightly over 30 percent of total debt service on outstanding loans as of end-2013.

3. Following Guinea's attainment of the enhanced HIPC initiative in 2012, external debt sustainability and vulnerability to shocks improved, and this provided space for the government to increase its external borrowing to finance investments. In 2012, as a result of debt relief stemming from the enhanced HIPC initiative and MDRI, the stock of public and publicly guaranteed (PPG) external debt (excluding C2D debt) fell sharply by 63 percent, and then rose by 23 percent in 2013; at end-2013, the debt stock was \$1.36 billion (excluding C2D) (Table 1); the increase is primarily accounted for by disbursements for the construction of the Kaleta hydroelectric dam. In terms of GDP the ratio of PPG external debt fell in 2012, from 61.6 percent in 2011 to 19.6 percent in 2012 and then rose slightly to 21.8 percent in 2013. At end-2013, Guinea had outstanding external debt arrears of \$186 million (11 percent of total debt) which are virtually all to non-Paris Club official bilateral creditors and commercial creditors. The authorities have invited these creditors for discussions on debt relief and a normalization of the arrears, however thus far most creditors have not responded to these invitations nor have requested payment of the arrears.⁶

Figure 1. Guinea: Stock of External Public Debt, 2010–13
(Percent of GDP)



Sources: Guinean authorities. IMF staff calculations.

Table 1. Guinea: Structure of External Public Debt (Nominal)

	end-2013	end-2013	end-2013
	US Dollars (millions)	Percent of Total	Percent of GDP
Total	1,358.5	100.0	21.8
<i>Total, incl. C2D</i>	1,577.3	116.1	25.3
Multilateral Creditors	588.3	43.3	9.4
IMF	85.6	6.3	1.4
World Bank	168.1	12.4	2.7
AfDB Group	95.1	7.0	1.5
IsDB	122.2	9.0	2.0
EU	0.0	0.0	0.0
Other Multilateral Creditors	117.3	8.6	1.9
Official Bilateral Creditors	704.6	51.9	11.3
Paris Club (excl. C2D)	70.0	5.2	1.1
Non-Paris Club	498.0	36.7	8.0
Arab Funds	136.6	10.1	2.2
Commercial Creditors	65.6	4.8	1.1
Memo			
Arrears ^{1/}	186.1	13.7	3.0

Sources: Guinean authorities and IMF and World Bank estimates.

1/ The arrears are primarily to some non-Paris Club official bilateral creditors (\$88.5 million) and commercial creditors (\$65.6 million) and concern debt outstanding on which there is no remaining debt service obligations falling due. The Guinean authorities have invited these creditors for discussions on debt relief and a normalization of the arrears. In addition, there are some arrears to a Paris Club creditor for which a resolution is under discussion with the Guinean authorities.

⁶ The status of these arrears under the IMF's policy concerning lending into arrears (LIA) and arrears to official creditors has not changed since the (last) 4th review under the ECF arrangement.

4. Public domestic debt (central government) was equivalent to 13.9 percent of GDP at end-2013. The debt stock is approximately divided equally between outstanding central bank advances and treasury bills held by domestic banks. Following the large increase in borrowing from the domestic banking system in 2009–10, the authorities have sharply curtailed new borrowing; up to 2014 the program supported under the current ECF arrangement has provided for no new net bank financing other than the drawdown of exceptional mining revenues on deposit at the central bank.

UNDERLYING ASSUMPTIONS

5. The baseline macroeconomic assumptions underlying this DSA are summarized in Box 1 and Table 2. In the staff's baseline projection, growth during 2014–15 reflects the negative impact of the Ebola epidemic. Subsequently growth during 2016–20 is underpinned by large-scale foreign direct investment in the mining sector. An ensuing increase in mining exports as well as non-mining sector growth reflecting the expansion of agriculture, electricity supply, and improvements in the business environment and economic infrastructure would support growth of slightly over 4 ½ percent a year in the long run.

6. The borrowing assumptions are consistent with the government's debt policy. External financing needs would be met primarily from concessional sources; over the long run with rising income levels and exports a gradual shift to non-concessional sources is envisaged, including some recourse to commercial borrowing in the outer years of the projection horizon. Under this borrowing framework, the share of new borrowing from concessional multilateral financing falls progressively from 60 percent to 30 percent. A framework, in which the share falls to 10 percent, does not substantially alter the conclusions of the DSA given debt indicators are well below their respective thresholds in the latter half of the projection period. As regards outstanding external arrears, the LIC-DSA, in line with the government's objective, assumes these would be cleared through a combination of partial cancellation and rescheduling. In line with the program, in 2015 the government's financing need would be met in part from the banking sector (bank financing would amount to about 2.0 percent of GDP) using a mix of existing short-term and new longer-term funding instruments (3- to 5-year bonds); subsequently the government would resume its policy of no new net bank financing, and the 2015 issuance would be progressively, and in decreasing amounts, rolled over and repaid over a ten year period. Net repayments are assumed to resume in the future, including in the longer term on past advances from the central bank. The fiscal and external financing gaps (excluding prospective IMF disbursements) identified in 2015 under the program, are assumed to be filled by external grants. Financing gaps in 2016–17 are assumed to be covered by external borrowing.

Box 1. Guinea: Macroeconomic Assumptions for 2013–34

Medium- and long-term macroeconomic assumptions rely heavily on a control of the Ebola outbreak by end-2015, on a large mining project expected to start production in 2020, and on a continuation of strong macroeconomic policies.

Real GDP growth: Output growth averaged 3 percent during the first half of the 2000s, plunged in 2009–10 as a result of the political crisis, rebounded to about 4 percent in 2011–12 as the political and economic situation started to stabilize, before slowing down to 2% in 2013, amid renewed political tensions. In 2014, the Ebola outbreak imposed a heavy toll on the economy with zero growth projected on average during 2014–15 as activity in agriculture and services is significantly affected by the epidemic. Reflecting the eradication of Ebola by end 2015 and a return to more normal levels of economic activity as well as the start of foreign investment activities in the mining sector, growth is expected to rebound strongly to an average of 7.4% during 2016–2019. After the post-Ebola rebound, growth (including the Simandou iron ore project) is projected at 7.7% during 2020–22 as production from a major mining project begins and ramps up. Once mining production reaches full capacity, growth tails off and is projected at an average of 4.5 percent per year after 2022. Non-mining sector growth is projected to stabilize at about 4.7 percent per year in the long run. The reform programs and actions currently undertaken would unlock growth potentials, including support to the agriculture sector; improvement of electricity supply; improvement of the business environment; and integration of the mining activities to the local economy.

Inflation: Inflation has gradually declined from 21 percent in December 2010 to 9 percent in December 2014 and is projected to fall to 7 percent by 2019. In the long run, as measured by the GDP deflator in U.S. dollar terms, inflation is projected to be around 6½ percent, close to CPI inflation projections in Guinea.

Fiscal policy: Following the deterioration of the macroeconomic outlook after the Ebola epidemic the overall fiscal balance is expected to deteriorate to 10.6 percent of GDP in 2015, reflecting mainly the costs of containing the Ebola epidemic and other current spending, including the establishment of new institutions mandated under the Constitution and a 40 percent general wage increase granted in 2015. From 2016 onwards, the deficit is expected to decline to an average of 4.8 percent in the final years of the current decade and to 2.1 percent of GDP in the outer years of the projection period. The initial sharp drop in the deficit reflects the end of spending to eradicate Ebola and a decline in capital expenditures; the latter is in line with available financing as no further exceptional mining revenues are projected after 2015, a return to a policy of no new net bank financing following the one-off funding operation in 2015, and the winding down of several large externally financed projects in the energy sector. Increased revenues from the mining sector beginning in the mid-2020s are assumed to allow for a further increase of domestically-financed investment and total investment expenditures would rise gradually to 11 percent of GDP in the long run. Current spending would gradually decline as a share of GDP and be on average 15 percent of GDP after 2030.

External current account balance (excluding official transfers): The significant fall in world oil price will have a positive impact on the external accounts in 2015 and the medium-term. The current account deficit is expected to expand sharply to over 40 percent of GDP by 2020, as imports for the mega mining project ramp up during its construction phase. Subsequently, the current account is projected to move into surplus as mining sector investment (imports) declines and mining exports come on stream. Over the long run mining exports stabilize and as non-mining GDP continues to expand as structural reforms take hold so also do imports continue to grow, and the external current account moves back into deficit. The international reserve position is projected to fall to 3 months of imports by end-2015, but is expected to recover quickly and over the long run to remain at 4.5 months of imports.

External financing: Official financing (grants and loans) is expected to fall sharply after 2015: grants would fall as grant financing of the government's Ebola response plan ends and loans would decline with the winding down of several large-scale energy sector projects and the assumption of new IMF arrangements. Over the long run the external borrowing would decline as growing domestically-financed investment financed on the back of the rise in mining sector revenues would substitute for externally financed investment. Over time, the share of concessional loans is expected to decline, from 60 percent during 2014–18, to 40 percent during 2019–26 and 30 percent during 2027–34.

Foreign direct investment: Net FDI is expected to surge during 2016–20 reaching over 40 percent of GDP in 2018–20, owing to the rapid buildup in mining related activities. Subsequently net FDI falls and gradually declines over the long run. At the same time, net outflows on the income account increase, as the repatriation and distribution of profits from the mining sector rises.

Table 2. Guinea: LIC DSA Macroeconomic Assumptions
(Percent of GDP excl. megaprojects, unless otherwise indicated)¹

	Previous LIC DSA (RCF 2014)					Current LIC DSA ²				
	2014	2015	2020	2025	2034	2014	2015	2020	2025	2034
Nominal GDP (\$ Million)	6,770	7,455	11,313	18,683	30,664	6,638	7,155	12,174	19,997	33,084
Real GDP (Percentage change)	2.4	4.1	7.4	5.0	4.5	0.4	-0.3	8.2	5.0	4.5
Nominal GDP, excl. megaprojects (\$ Million)	6,770	7,455	10,270	14,044	25,064	6,638	7,155	11,131	15,358	27,487
Real GDP, excl. megaprojects (Percentage change)	2.4	4.1	4.2	4.4	4.9	0.4	-0.3	5.1	4.4	4.8
Fiscal Accounts										
Revenue and grants ²	23.9	21.3	21.4	23.2	24.0	25.3	25.7	23.5	25.2	24.9
Primary Expenditure	28.7	22.9	22.8	23.1	24.9	28.9	32.5	23.9	25.5	25.3
Of which : Capital expenditure and net lending	12.6	7.3	9.7	10.2	12.2	11.9	13.0	8.7	10.1	10.5
Primary Fiscal Balance	-4.8	-1.6	-1.4	0.0	-1.0	-3.6	-6.7	-0.5	-0.3	-0.3
New external borrowing ³	5.6	2.6	3.5	1.3	1.2	5.3	7.5	2.2	1.8	1.6
Grant element of new external borrowing (%)	38.1	35.5	42.0	42.0	35.2	37.9	40.8	42.0	42.0	35.2
Balance of Payments										
Exports of goods and services	21.7	20.6	35.1	82.8	52.4	23.4	23.1	34.4	76.9	48.7
Imports of goods and services	-39.9	-39.6	-52.1	-72.6	-47.8	-40.3	-37.0	-75.5	-60.5	-46.8
Current account (including transfers) ²	-18.1	-18.0	-18.8	-11.5	-8.0	-18.1	-14.0	-41.2	8.9	-7.8
Foreign direct investment	5.6	10.1	12.1	7.0	4.1	0.9	1.0	43.7	5.9	4.4

Source: Guinean authorities, IMF and World Bank staff estimates.

¹ The LIC-DSA and Figures 1-2 and Tables 3-6 use total GDP in the calculations and the ratios expressed in terms of GDP. The ratios to GDP in this Table 2 are expressed in terms of GDP excluding Simandou and are consistent with tables in the main text, figures, and tables in the Staff Report.

² Thi For current LIC DSA this differs from the Staff Report because it excludes C2D related grants and assumes 2015 financing gap excluding possible IMF disbursements is closed with grants

³ Includes publicly guaranteed external borrowing.

7. The key changes in the baseline macroeconomic assumptions relative to the previous (RCF) DSA are as follows.

- Real GDP growth is projected to be sharply lower during 2014–15, reflecting a reassessment of the negative impact of the Ebola epidemic.
- Fiscal expenditures in 2015 are higher reflecting the 40 percent civil service salary increase and the cost of fighting the Ebola epidemic; the additional cost of the government's Ebola response plan is assumed to be met largely by grants. Capital expenditures in 2015, in part financed by higher external borrowing, are higher reflecting the government's intention to maintain a strong investment effort. In addition, interest payments on domestic debt are higher beginning in 2016 through to the mid-2020s, reflecting the large domestic debt issuance in 2015 and subsequent repayment period. During the 2020s, primary expenditures are slightly higher with a shift in favor of current expenditures. This is intended to allow for a rise in spending (primarily on current expenditures) to reinforce the health sector in the aftermath of the Ebola epidemic; capital expenditures are lower because of lower projected external borrowing. Revenues benefit from the drop in oil prices.
- The sharp decline in world oil prices has a positive impact (reduction) on the oil import bill.
- During 2015–25 domestic debt is higher reflecting the government's projected use of net bank financing in 2015 which is subsequently repaid over the following 9 years (see preceding paragraph).
- Debt projections incorporate debt relief given by the Islamic Development Bank in late 2014 to complete its contribution (as designated by the common reduction factor) under the HIPC initiative following Guinea's HIPC completion point. The debt relief amounts to

SDR 17.73 million in present value terms and involves a rescheduling of debt service maturities over a period of 25 years.

- The DSA incorporates the authorities request for an increase in access under the current ECF arrangement of 42.1 percent of quota (SDR 45.135 million) which would be disbursed in 2015.
- In the external accounts, exports are higher reflecting upward revisions in artisanal diamond exports from 2014 onwards and higher gold exports in the longer run. Imports are somewhat lower because of lower oil prices over the medium term but broadly similar as a share of GDP in the long run, primarily reflecting lower GDP; a sizeable element of imports is driven by the mining sector in which the level of activity is determined by supply factors rather than by GDP growth.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

8. The results of the external DSA confirm that Guinea's debt dynamics are sustainable (Figure 2; Tables 3a and 3b).⁷ They also confirm that Guinea's risk of debt distress has not changed and remains at a moderate level. The exclusion of C2D debt and related debt service leads to a slight improvement in the indicators. To provide an appropriate basis for comparison, including assessing whether changes in the borrowing and macroeconomic projections would lead to a change in Guinea's risk of debt distress, the previous DSA was rerun excluding C2D (Figure 4). A comparison of the debt indicators in the current and previous DSAs illustrates the impact of the changes in the projections while removing the effect of excluding C2D.⁸

9. The baseline debt indicators have worsened somewhat over the medium term but over the longer run have improved slightly compared to the previous DSA. Under the baseline all debt indicators remain below the policy-dependent variables. The relatively large external debt dynamic residuals in some years (see Table 3), after taking into account exceptional financing (debt relief and non-FDI financial account non-debt creating inflows), reflect weaknesses in the coverage of balance of payments data. This also implies that the results and conclusions should be interpreted with a measure of caution.⁹ During the period 2014–19 compared to the previous DSA (excluding C2D) the amount of new borrowing is higher, including the augmentation in IMF financing. The higher borrowing and the lower level of GDP results in a worsening of the debt stock and debt service indicators, notwithstanding the higher level of exports. During this period the PV of debt-to-exports ratio approaches its policy dependent threshold (100 percent) reaching a maximum in 2019 of 99.3 percent. However, if the 2015 financing gap, other than prospective IMF disbursements, was

⁷ In the LIC-DSA framework Guinea is rated a weak policy performer with a Country Policy and Institutional Assessment (CPIA) average rating for 2011–13 of 2.93.

⁸ In addition, a comparison of the current DSA Debt indicators including and excluding C2D is provided in Figure 5.

⁹ In 2014 the residual is in part accounted for sizeable short-term private sector capital inflows (typically bank loans to fund operations) and a high level of project capital grants which are not captured in the decomposition of debt dynamics. In 2015 the residual is largely accounted for by debt relief (2.2 percent of GDP), a large drawdown in reserves (2.2 percent of GDP) and a one-off payment for mining rights recorded in the financial and capital account (1.1 percent).

closed by loans, this policy-dependent threshold would be temporarily breached; the debt indicator would reach 100 percent in 2016 and then rise to a maximum of 104.6 percent in 2019 and then fall sharply as mining exports rise sharply. This highlights the limited scope for the government to take on more external debt, before the projected rise in mining sector exports and fiscal revenues, and the need for concessional external resources during the next five years. The government is aware of the risks associated with non-concessional external borrowing, and with respect to the 2015 financing gap it has indicated that in the event there is a shortfall in the amount of concessional external financing needed to cover the gap, domestic adjustment measures will be implemented to close the gap.

10. The stress test indicators have for the most part worsened, but under the extreme shock scenario have improved. Except for the historical scenario, as in the previous DSA the PV of debt-to-GDP and debt-to-exports indicators breach the policy-dependent threshold, but only temporarily returning below the thresholds by 2020; the PV of debt-to-revenues does not breach the threshold unlike the previous DSA. The improvement in the extreme shock scenario primarily owes to the higher projected level of exports;¹⁰ in addition for the export related indicators the extreme shock scenario is an export shock whereas in the previous DSA it was a combination shock. Under the historical scenario there is a sustained breach of the policy-dependent thresholds starting in the 2020s. In the staff's view this finding is the result of an unrealistic stress test, which assumes a high external current deficit regime over the second half of the DSA horizon. This scenario is based on a historical average value and standard deviation for the external current account deficit that is atypically large because of a few outliers. During the period up to the early 2020s this results in lower trajectory of the debt indicators than under the baseline which is based on larger projected external current account deficits albeit with higher levels of foreign direct investment. However over the second half of the projection period, under the baseline mining sector foreign direct investment falls sharply while mining exports increase substantially, resulting in much smaller current account deficits. The successful large-scale exploitation of Guinea's natural resource wealth represents a structural break from the past and, there is little reason to expect a high current account deficit to persist unless it reflects large foreign direct investment inflows. The worsening of the historical scenario after 2019 relative to the last DSA owes primarily to a downward revision in factor income outflows (mining sector dividend payments) and a related change in the debt dynamics residuals, particularly during 2020–25, which triggers the onset of a path of unsustainable debt accumulation.¹¹ The stress tests do however indicate that Guinea's remains vulnerable to adverse shocks to growth, exports, foreign direct investment flows and fiscal performance.

¹⁰ In the combination shock, the shock to exports is applied to the growth in export value in 2015. As the decline in export value is lower than in the previous DSA the resulting deterioration in the current account and the increase in the accumulation of debt is lower than in the previous DSA.

¹¹ In the previous DSA high dividend outflows led to offsetting large positive short-term capital inflows in the balance of payments and generated sizeable negative residuals in the debt dynamics in the baseline. Under the historical scenario the baseline residuals are retained and had the effect of dampening the impact on the debt dynamics with a fixed non-interest current account deficit at its historical average value. Under the current balance of payment projections and DSA the large dividend outflows during 2020–25 were considered unrealistic and were revised downwards, resulting in a lower short-term capital inflows (in the balance of payments) and positive debt dynamic residuals in the DSA. Thus with the same fixed non-interest current deficit as in the last DSA the residuals increase the pace of debt accumulation during 2020–25 and trigger an unsustainable path of debt accumulation thereafter.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

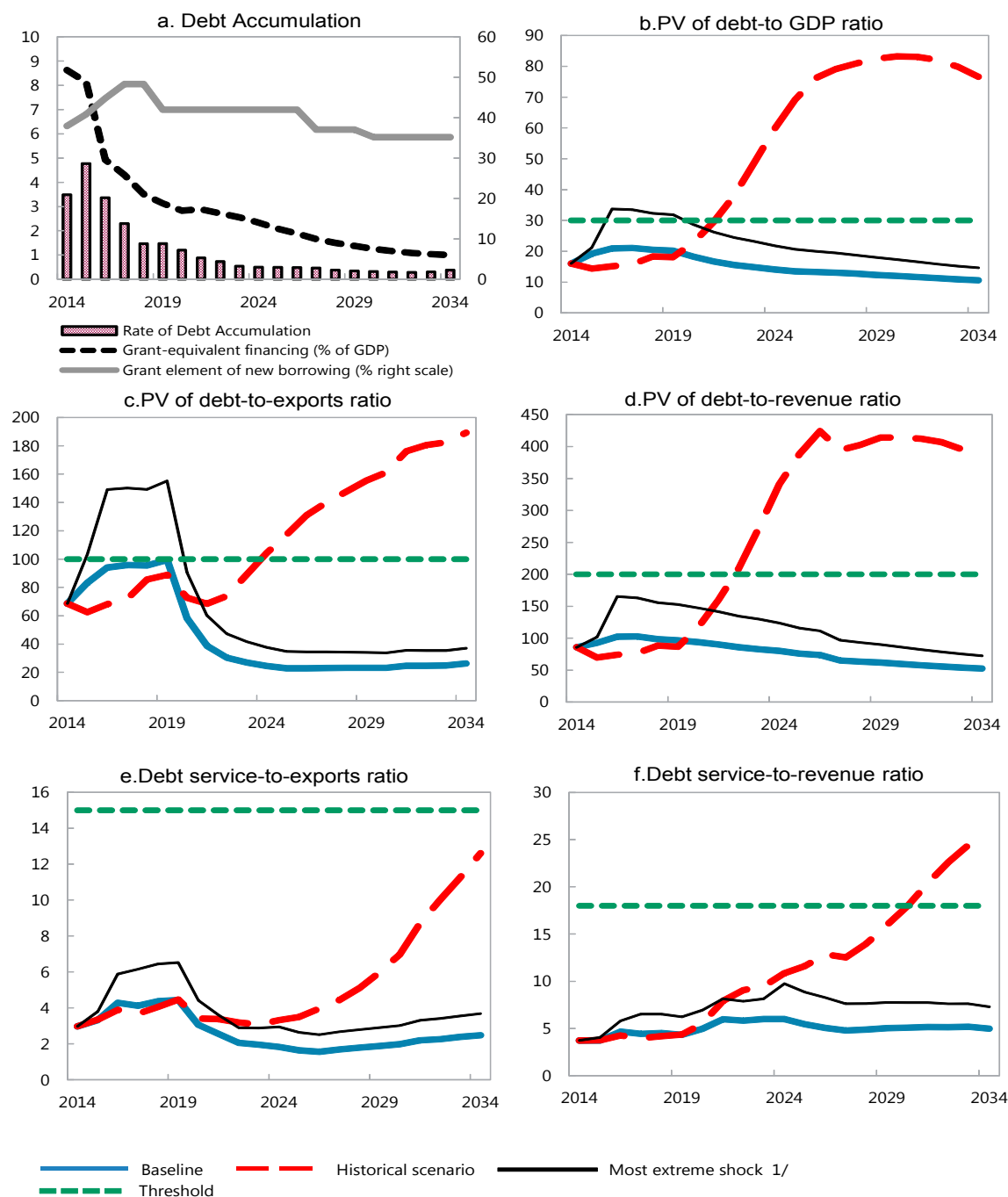
11. The inclusion of domestic debt in the DSA worsens the debt burden indicators, including compared to the previous DSA, although the domestic debt burden is expected to decrease over time (Figure 3, Tables 4a and 4b).

Under the baseline all debt indicators remain below the policy-dependent variables and therefore the addition of domestic debt does not point to a heightened risk of debt distress. In the short term public debt indicators deteriorate because of the projected one-off recourse to domestic net bank financing in 2015. Subsequently this impact is unwound over the following 9 years as the 2015 debt issuance is gradually repaid. The stress test indicators of public debt point to the need to refrain from continuing the use of domestic financing in the short term on top of that undertaken in 2015. As in the previous DSA, the public debt position is vulnerable notably with respect to policy reversals in maintaining fiscal discipline and shocks to growth. Under the unchanged primary balance scenario, the deterioration in the debt indicators is larger than in the previous DSA because the projected primary balance in 2014 (the reference year for fixing the primary balance) is somewhat larger and projected GDP lower. The staff does consider this stress test to be an unlikely scenario and not informative, given the government's commitment to sound fiscal policies as well as the scope to expand fiscal expenditures on the back of the large rise in mining sector revenues and gradually reduce the primary balance over time.

12. Guinea remains at a moderate risk of debt distress. This is unchanged from the previous DSA in September 2013 (adjusted to exclude C2D obligations). In the baseline scenario, all debt indicators remain below their respective policy-dependent thresholds. However, stress tests indicate that Guinea debt external debt outlook continues to be vulnerable to macroeconomic shocks, in particular to growth, exports, foreign direct investment flows and fiscal performance. The inclusion of domestic debt leads to a temporary deterioration in debt indicators because of the sizeable one-off net issuance of domestic debt in 2015, but does not significantly change the conclusions of the external DSA, in particular as regards vulnerabilities to the public debt outlook. However, the projected continuation of a strong and much-needed public investment effort results in projected baseline borrowing that provides limited scope to take on additional debt above projected amounts in the medium term without risking a temporary breach of the PV of debt-to-exports ratio threshold; in recent years public investment had been in part been financed by the drawdown of sizeable exceptional mining sector revenues in 2011 in lieu of borrowed resources. This highlights the need for sound macroeconomic policies and prudent debt management, including reliance primarily on external financing on concessional terms, to maintain a sustainable external position. A strong structural reform effort and improvements in the business environment will also be needed to realize Guinea's growth potential, particularly in the mining and agriculture sectors, and improve fiscal and export revenue performance. It would continue to be important to rely primarily on concessional sources of external financing; the planned strengthening of debt management would be important to ensure a sound forward-looking debt strategy.

13. The authorities concurred with the analysis and conclusions of this DSA, including the exclusion of the C2D debt and debt service.

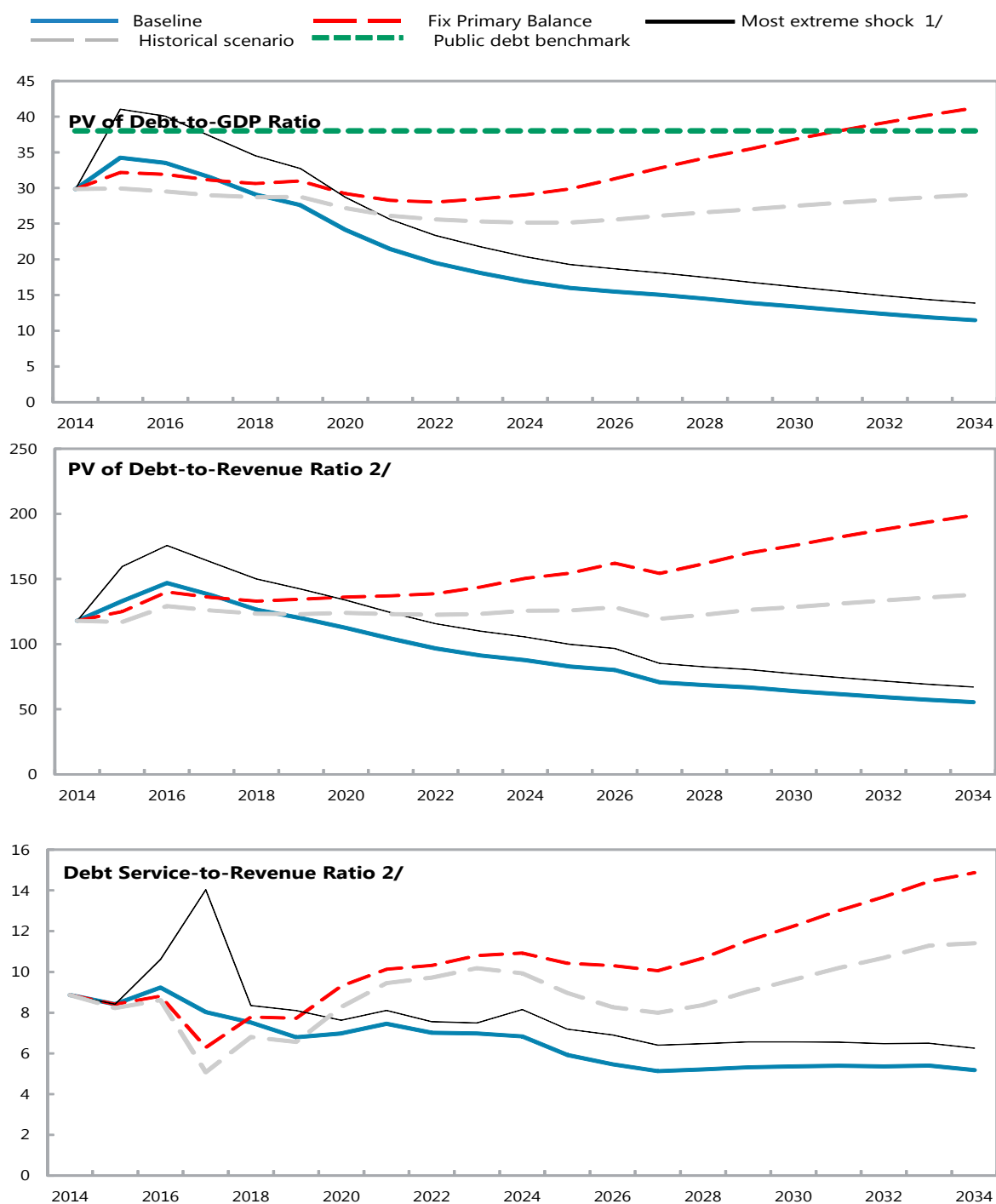
Figure 2. Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2014–34¹



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b, it corresponds to a Combination shock; in c, to a Exports shock; in d, to a Combination shock; in e, to a Exports shock and in figure f, to a Combination shock

Figure 3. Guinea: Indicators of Public Debt Under Alternative Scenarios, 2014–34¹



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.

2/ Revenues are defined inclusive of grants.

Table 3a. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2011–34¹
(Percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections						2014-2019 Average		2020-2034 Average	
	2011	2012	2013			2014	2015	2016	2017	2018	2019			2024	2034
External debt (nominal) 1/	67.5	19.4	22.1			25.9	31.0	34.1	34.4	33.3	32.5			22.2	16.4
<i>of which: public and publicly guaranteed (PPG)</i>	67.5	19.4	22.1			25.9	31.0	34.1	34.4	33.3	32.5			22.2	16.4
Change in external debt	-3.2	-48.1	2.7			3.8	5.1	3.1	0.4	-1.2	-0.8			-1.2	-0.4
Identified net debt-creating flows	10.6	11.3	16.7			17.2	13.1	6.0	3.2	-1.0	3.8			-14.6	2.1
Non-interest current account deficit	17.9	28.0	21.3	10.4	9.3	17.9	13.6	17.9	27.0	43.1	51.0			-8.9	6.2
Deficit in balance of goods and services	18.6	27.0	18.7			17.0	13.9	18.1	27.2	43.6	50.7			-11.2	-1.6
Exports	32.2	30.6	25.3			23.4	23.1	22.3	22.0	21.4	20.3			57.4	40.5
Imports	50.9	57.6	44.1			40.3	37.0	40.4	49.2	65.0	71.1			46.2	38.9
Net current transfers (negative = inflow)	-8.5	-6.1	-4.3	-6.5	1.7	-5.3	-6.6	-5.3	-5.2	-5.0	-4.8			-3.2	-1.6
<i>of which: official</i>	-2.2	-1.0	-0.4			-1.5	-4.1	-1.3	-1.3	-1.3	-1.3			-1.2	-0.4
Other current account flows (negative = net inflow)	7.8	7.1	6.8			6.3	6.3	5.1	5.0	4.5	5.1			5.5	9.5
Net FDI (negative = inflow)	-5.6	-11.4	-2.8	-5.3	3.2	-0.9	-1.0	-10.5	-21.6	-41.8	-45.6			-4.9	-3.7
Endogenous debt dynamics 2/	-1.7	-5.4	-1.7			0.1	0.4	-1.4	-2.1	-2.2	-1.6			-0.8	-0.5
Contribution from nominal interest rate	1.0	0.7	0.2			0.2	0.4	0.4	0.4	0.4	0.4			0.3	0.3
Contribution from real GDP growth	-2.7	-2.3	-0.4			-0.1	0.1	-1.8	-2.6	-2.6	-2.0			-1.1	-0.7
Contribution from price and exchange rate changes	0.0	-3.7	-1.5			...	...	...	...	...	...			...	...
Residual (3-4) 3/	-13.8	-59.3	-14.1			-13.4	-7.9	-2.9	-2.9	-0.2	-4.7			13.4	-2.5
<i>of which: exceptional financing</i>	-1.6	-39.9	0.0			0.0	-2.2	0.0	0.0	0.0	0.0			0.0	0.0
PV of external debt 4/	...	...	13.4			16.0	19.2	21.0	21.1	20.5	20.2			14.1	10.6
In percent of exports	...	...	53.0			68.7	83.2	94.1	95.8	95.5	99.3			24.5	26.3
PV of PPG external debt	...	...	13.4			16.0	19.2	21.0	21.1	20.5	20.2			14.1	10.6
In percent of exports	...	...	53.0			68.7	83.2	94.1	95.8	95.5	99.3			24.5	26.3
In percent of government revenues	...	...	73.0			85.8	92.9	102.6	102.8	98.5	96.8			80.1	52.7
Debt service-to-exports ratio (in percent)	13.4	13.7	2.8			3.0	3.3	4.3	4.1	4.4	4.4			1.8	2.5
PPG debt service-to-exports ratio (in percent)	13.4	13.7	2.8			3.0	3.3	4.3	4.1	4.4	4.4			1.8	2.5
PPG debt service-to-revenue ratio (in percent)	25.8	20.8	3.8			3.7	3.7	4.7	4.4	4.5	4.3			6.0	5.0
Total gross financing need (Billions of U.S. dollars)	0.9	1.2	1.2			1.2	1.0	0.7	0.5	0.2	0.7			-2.4	1.2
Non-interest current account deficit that stabilizes debt ratio	21.1	76.1	18.6			14.1	8.5	14.8	26.6	44.3	51.8			-7.7	6.6
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.9	3.8	2.3	2.6	1.4	0.4	-0.3	6.5	8.3	8.4	6.4	4.9	5.3	4.5	5.1
GDP deflator in US dollar terms (change in percent)	0.0	5.9	8.1	4.4	15.4	6.1	8.1	3.8	1.8	1.7	1.6	3.8	3.4	1.5	2.8
Effective interest rate (percent) 5/	1.4	1.2	0.9	1.4	0.3	1.1	1.6	1.6	1.3	1.3	1.3	1.4	1.4	1.6	1.5
Growth of exports of G&S (US dollar terms, in percent)	12.9	4.4	-8.5	6.6	13.5	-1.8	6.5	6.7	9.0	7.2	2.7	5.0	13.8	-1.9	15.1
Growth of imports of G&S (US dollar terms, in percent)	49.7	24.6	-15.4	14.0	20.4	-2.5	-1.1	20.6	34.2	45.7	18.1	19.2	4.7	1.6	4.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	37.9	40.8	44.8	48.4	48.4	42.0	43.7	42.0	35.2	38.7
Government revenues (excluding grants, in percent of GDP)	16.8	20.1	18.4	...	...	18.7	20.7	20.4	20.5	20.8	20.9	...	17.6	20.2	19.2
Aid flows (in Billions of US dollars) 7/	0.2	0.1	0.1	...	...	0.6	0.6	0.5	0.5	0.4	0.4	...	0.5	0.4	...
<i>of which: Grants</i>	0.2	0.1	0.1	...	...	0.4	0.4	0.2	0.2	0.2	0.2	...	0.3	0.2	...
<i>of which: Concessional loans</i>	0.0	0.0	0.0	...	...	0.1	0.3	0.3	0.3	0.2	0.2	...	0.2	0.3	...
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	...	...	8.6	8.1	4.9	4.3	3.5	3.1	...	2.3	1.0	1.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	...	...	72.3	64.6	61.1	67.5	72.4	69.9	...	73.3	53.7	66.8
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.1	5.6	6.2	...	...	6.6	7.2	7.9	8.7	9.6	10.4	...	18.6	33.1	...
Nominal dollar GDP growth	4.0	9.9	10.6	...	...	6.5	7.8	10.6	10.2	8.1	8.1	8.9	8.9	6.1	8.1
PV of PPG external debt (in Billions of US dollars)	...	...	0.8	...	...	1.0	1.4	1.6	1.8	1.9	2.0	...	2.5	3.4	...
(Pvt-Pvt-1)/GDPt-1 (in percent)	...	...	...	...	...	3.5	4.8	3.4	2.3	1.5	1.5	2.8	0.5	0.4	0.5
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0	...	...	0.0	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	...
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.4	...	...	16.0	19.2	21.0	21.1	20.5	20.2	...	14.1	10.6	...
PV of PPG external debt (in percent of exports + remittances)	...	...	53.0	...	...	68.7	83.2	94.1	95.8	95.5	99.3	...	24.5	26.3	...
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.8	...	...	3.0	3.3	4.3	4.1	4.4	4.4	...	1.8	2.5	...

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b. Guinea: Sensitivity Analysis for Key Indicators of Public Debt 2014–34

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of debt-to GDP ratio								
Baseline	16	19	21	21	20	20	14	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	16	14	15	16	18	18	60	77
A2. New public sector loans on less favorable terms in 2014-2034 2	16	21	23	25	24	25	19	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	16	19	21	21	21	20	14	11
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	16	21	25	25	24	24	16	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	16	23	29	29	28	28	19	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	16	19	26	26	25	25	17	12
B5. Combination of B1-B4 using one-half standard deviation shocks	16	21	34	34	32	32	22	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	16	26	28	28	27	27	19	14
PV of debt-to-exports ratio								
Baseline	69	83	94	96	95	99	25	26
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	69	62	68	72	86	89	104	189
A2. New public sector loans on less favorable terms in 2014-2034 2	69	90	105	111	114	122	34	46
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	69	82	91	93	92	97	24	26
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	69	103	149	150	149	155	38	37
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	69	82	91	93	92	97	24	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	69	84	118	119	118	123	30	29
B5. Combination of B1-B4 using one-half standard deviation shocks		89	141	141	140	145	35	34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	69	82	91	93	92	97	24	26
PV of debt-to-revenue ratio								
Baseline	86	93	103	103	99	97	80	53
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	86	70	74	77	88	87	341	380
A2. New public sector loans on less favorable terms in 2014-2034 2	86	100	114	120	118	119	110	91
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	86	90	103	103	99	98	81	53
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	86	101	124	123	117	115	94	57
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	86	111	140	141	135	134	110	72
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	86	94	129	128	122	120	97	58
B5. Combination of B1-B4 using one-half standard deviation shocks	86	102	165	163	156	153	124	73
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	86	127	137	137	132	131	108	71

Table 3b. Guinea: Sensitivity Analysis for Key Indicators of Public Debt 2014–34 (concluded)

Debt service-to-exports ratio								
Baseline	3	3	4	4	4	4	2	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	3	3	4	4	4	4	3	13
A2. New public sector loans on less favorable terms in 2014-2034 2	3	3	4	5	5	6	2	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	3	3	4	4	4	4	2	2
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	3	4	6	6	6	7	3	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	3	3	4	4	4	4	2	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	3	3	4	5	5	5	2	3
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	5	6	6	6	3	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	3	3	4	4	4	4	2	2
Debt service-to-revenue ratio								
Baseline	4	4	5	4	5	4	6	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	4	4	4	4	4	4	11	25
A2. New public sector loans on less favorable terms in 2014-2034 2	4	4	5	5	6	6	7	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	4	4	5	5	5	4	6	5
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	4	4	5	5	5	5	7	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	4	5	7	6	6	6	8	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	4	4	5	5	5	5	8	6
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	6	7	7	6	10	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	4	5	6	6	6	6	8	7
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	36	36	36	36	36	36	36	36
Sources: Country authorities; and staff estimates and projections.								
1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.								
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.								
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).								
4/ Includes official and private transfers and FDI.								
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.								
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.								

Table 4a. Guinea: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–34
(Percent)

	Actual			Average	s/ Standard Deviation	s/ Standard Deviation	Estimate						Projections				
	2011	2012	2013				2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average	
Public sector debt 1/ of which: foreign-currency denominated	77.8 67.5	31.9 19.4	35.9 22.1				39.7 25.9	46.0 31.0	46.7 34.1	44.8 34.4	41.9 33.3	39.9 32.5		25.0 22.2	17.3 16.4		
Change in public sector debt	-21.9	-45.9	4.0				3.8	6.3	0.6	-1.8	-2.9	-2.1		-1.6	-0.5		
Identified debt-creating flows	-10.4	-42.0	3.0				2.6	4.7	0.1	-1.9	-2.9	-2.1		-1.6	-0.5		
Primary deficit	-0.7	1.9	4.3	1.6		4.8	3.6	6.6	3.1	2.1	0.8	0.7	2.8	0.2	0.3	0.2	
Revenue and grants	20.2	22.5	19.6				25.3	25.7	22.8	22.9	23.0	23.0		19.3	20.7		
of which: grants	3.4	2.4	1.2				6.6	5.1	2.4	2.4	2.3	2.2		1.7	0.5		
Primary (noninterest) expenditure	19.5	24.4	23.9				28.9	32.4	25.9	25.0	23.8	23.7		19.5	21.0		
Automatic debt dynamics	-8.1	-10.8	-1.3				-1.0	-1.9	-3.0	-4.0	-3.7	-2.7		-1.8	-0.8		
Contribution from interest rate/growth differential	-7.7	-3.4	-0.5				-0.3	-0.1	-3.1	-3.9	-3.8	-2.7		-1.5	-0.8		
of which: contribution from average real interest rate	-4.0	-0.5	0.2				-0.1	-0.2	-0.3	-0.4	-0.3	-0.2		-0.1	-0.1		
of which: contribution from real GDP growth	-3.7	-2.9	-0.7				-0.1	0.1	-2.8	-3.6	-3.5	-2.5		-1.3	-0.8		
Contribution from real exchange rate depreciation	-0.4	-7.4	-0.8				-0.7	-1.8	0.2	-0.1	0.1	-0.1		...	...
Other identified debt-creating flows	-1.6	-33.2	0.0				0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Privatization receipts (negative)	0.0	0.0	0.0				0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Recognition of implicit or contingent liabilities	0.0	0.0	0.0				0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Debt relief (HIPC and other)	-1.6	-33.2	0.0				0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0				0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Residual, including asset changes	-11.4	-3.9	1.0				1.2	1.6	0.6	0.1	0.0	0.0		0.0	0.0		
Other Sustainability Indicators																	
PV of public sector debt	...	...	27.2				29.8	34.2	33.5	31.5	29.1	27.6		16.9	11.5	
of which: foreign-currency denominated	...	...	13.4				16.0	19.2	21.0	21.1	20.5	20.2		14.1	10.6	
of which: external	...	...	13.4				16.0	19.2	21.0	21.1	20.5	20.2		14.1	10.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...				...	...	...	...	...	...		...	...
Gross financing need 2/	4.7	7.1	6.0				5.9	8.8	5.2	3.9	2.5	2.2		1.5	1.4		
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	138.8				118.0	133.0	147.0	137.5	126.5	119.9		87.6	55.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	148.1				159.7	165.5	164.1	153.4	140.2	132.2		96.2	56.9	
of which: external 3/	...	...	73.0				85.8	92.9	102.6	102.8	98.5	96.8		80.1	52.7	
Debt service-to-revenue and grants ratio (in percent) 4/	26.9	23.2	8.6				8.9	8.4	9.2	8.0	7.5	6.8		6.8	5.2		
	32.4	25.9	9.2				12.0	10.5	10.3	8.9	8.3	7.5		7.5	5.3		
Primary deficit that stabilizes the debt-to-GDP ratio	21.2	47.8	0.3				-0.2	0.3	2.4	3.9	3.7	2.8		1.8	0.8		
Key macroeconomic and fiscal assumptions																	
Real GDP growth (in percent)	3.9	3.8	2.3	2.6		1.4	0.4	-0.3	6.5	8.3	8.4	6.4	4.9	5.3	4.5	5.1	
Average nominal interest rate on forex debt (in percent)	1.4	1.2	0.9	1.4		0.3	1.1	1.6	1.6	1.3	1.3	1.3	1.4	1.4	1.6	1.5	
Average real interest rate on domestic debt (in percent)	-12.5	-1.2	2.1	-5.5		6.7	-0.2	-1.5	-1.8	-1.6	-0.5	0.6	-0.8	-0.2	-1.4	-1.2	
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.5	-11.5	-4.1	0.6		19.7	-3.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	19.7	13.0	6.3	17.5		9.5	7.5	8.1	9.1	9.3	8.5	7.3	8.3	8.6	6.5	7.9	
Growth of real primary spending (deflated by GDP deflator, in percent)	-26.7	29.9	0.2	0.4		13.4	21.4	11.6	-14.8	4.6	3.3	5.9	5.3	3.1	4.8	4.3	
Grant element of new external borrowing (in percent)	...	...	...	...		...	37.9	40.8	44.8	48.4	48.4	42.0	43.7	42.0	35.2	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4b. Guinea: Sensitivity Analysis for Key Indicators of Public Debt, 2014–34
(Percent)

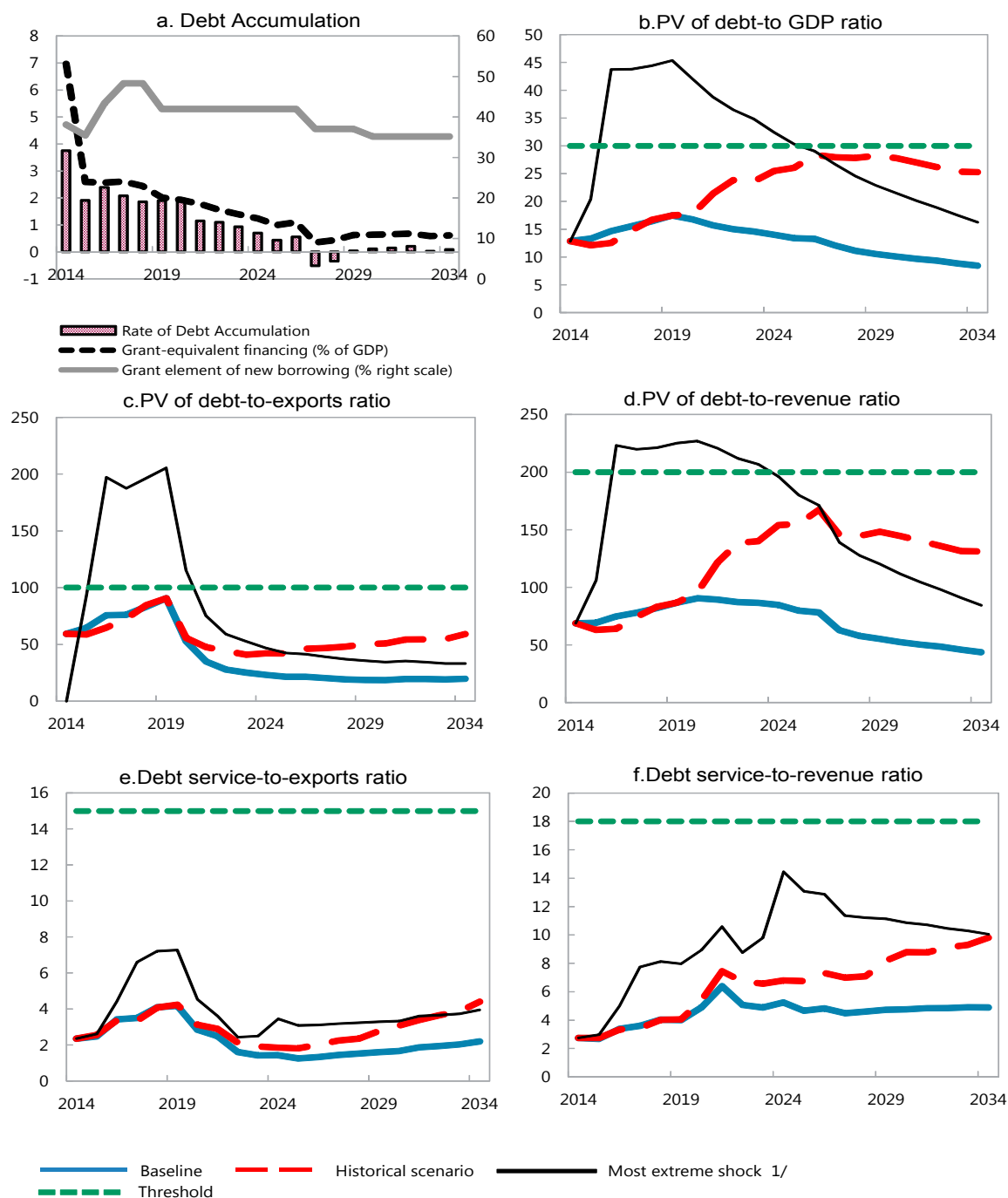
	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	30	34	34	31	29	28	17	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	30	30	30	29	29	29	25	29
A2. Primary balance is unchanged from 2014	30	32	32	31	31	31	29	41
A3. Permanently lower GDP growth 1/	30	34	34	32	30	29	19	19
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	30	34	35	33	31	30	21	19
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	30	34	36	33	31	29	18	12
B3. Combination of B1-B2 using one half standard deviation shocks	30	32	33	32	29	28	19	15
B4. One-time 30 percent real depreciation in 2015	30	40	38	35	32	31	19	15
B5. 10 percent of GDP increase in other debt-creating flows in 2015	30	41	40	37	35	33	20	14
PV of Debt-to-Revenue Ratio 2/								
Baseline	118	133	147	138	126	120	88	55
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	118	117	129	126	123	123	126	138
A2. Primary balance is unchanged from 2014	118	125	140	136	133	135	151	199
A3. Permanently lower GDP growth 1/	118	134	148	140	130	124	99	92
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	118	131	153	146	136	131	107	90
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	118	132	156	146	134	127	93	59
B3. Combination of B1-B2 using one half standard deviation shocks	118	124	145	137	128	122	96	74
B4. One-time 30 percent real depreciation in 2015	118	154	165	153	141	134	100	71
B5. 10 percent of GDP increase in other debt-creating flows in 2015	118	160	176	163	150	142	106	67
Debt Service-to-Revenue Ratio 2/								
Baseline	9	8	9	8	8	7	7	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	8	9	5	7	7	10	11
A2. Primary balance is unchanged from 2014	9	8	9	6	8	8	11	15
A3. Permanently lower GDP growth 1/	9	8	9	8	8	7	8	8
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	9	8	9	8	8	8	8	8
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	9	8	9	8	9	7	7	6
B3. Combination of B1-B2 using one half standard deviation shocks	9	8	9	7	8	7	7	6
B4. One-time 30 percent real depreciation in 2015	9	9	11	10	10	9	10	9
B5. 10 percent of GDP increase in other debt-creating flows in 2015	9	8	11	14	8	8	8	6

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

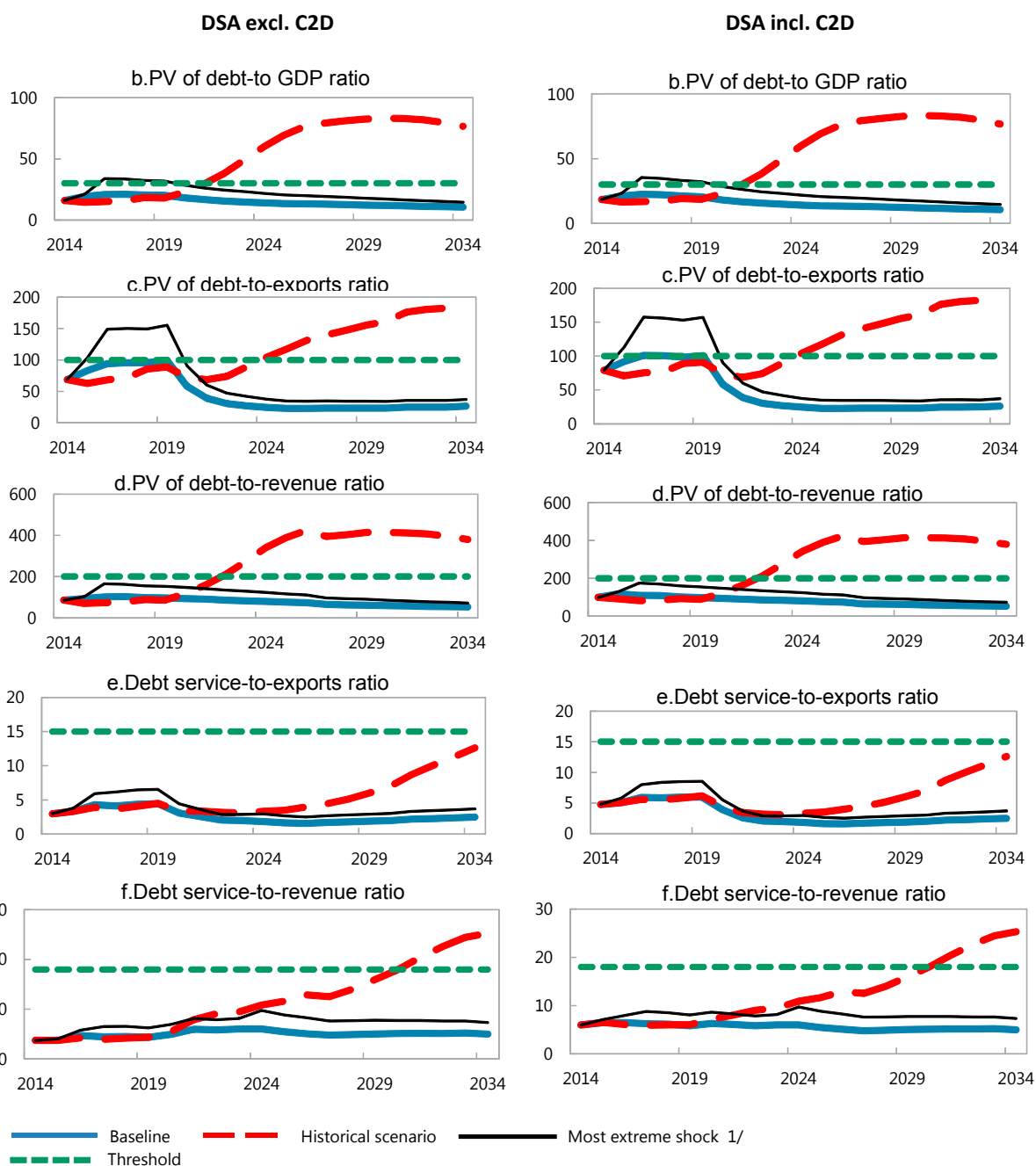
2/ Revenues are defined inclusive of grants.

Figure 4. Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios (DSA for the RCF disbursement 2014, excl. C2D), 2014–34¹



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b, it corresponds to a Combination shock; in c, to a Combination shock; in d, to a Combination shock; in e, to a Combination shock and in figure f, to a Combination shock

Figure 5. Guinea: Comparison of DSA Excluding C2D vs. Including C2D, 2014-34^{1/}

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock



INTERNATIONAL MONETARY FUND



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International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Completes Fifth Review Under ECF Arrangement for Guinea,
Extends Arrangement, and Approves US\$ 63.6 Million Augmentation**

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Guinea's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement. The Board's decision enables the immediate disbursement of SDR 45.135 million (about US\$63.6 million), bringing total disbursements under the arrangement to SDR 136.935 million (about US\$192.9 million).

In completing the review, the Board also approved a request for an extension of the current ECF arrangement to end-December 2015 and an augmentation of access under the ECF arrangement by SDR 45.135 million (about US\$ 63.6 million or 42.1 percent of quota) to help enhance international reserves, and cover the budget and urgent balance of payments needs resulting from the fight against the Ebola crisis.

The Executive Board approved the three-year ECF arrangement for Guinea on February 24, 2012, for SDR 128.52 million (see [Press Release No. 12/57](#)).

At the conclusion of the Executive Board's discussion, Mr. Naoyuki Shinohara, Chair and Deputy Managing Director, issued the following statement:

"Guinea has been experiencing a major humanitarian and economic crisis caused by the Ebola epidemic, but the authorities have responded appropriately. Growth in 2014 is estimated to have slowed markedly; and inflation continued to decline, despite the modest exchange rate depreciation, while international reserves were maintained at a satisfactory level. In a challenging environment, fiscal policy has remained prudent, despite a sizeable revenue shortfall and additional spending needs to combat the Ebola epidemic. Against this backdrop, poverty, which is already widespread, is estimated to have increased.

"Despite these challenges, program performance under the Extended Credit Facility (ECF) arrangement was satisfactory. All end-June 2014 performance criteria and indicative targets, and most indicative targets for end-September were met. However, progress in structural reform has been slow, in large part because of Ebola-related constraints on capacity and delays in the delivery of technical assistance.

“Uncertainties about the impact and duration of the Ebola epidemic dampen the near-term macroeconomic outlook, and real GDP is projected to contract in 2015. The 2015 budget, which appropriates resources to combat Ebola and maintain a strong public investment effort, envisages an expansion in the fiscal deficit. The January 2015 agreement on increases in civil service wages is within the limits of the 2015 budget, but will reduce budgetary flexibility over the medium term. Nevertheless, it is important to ensure that recruitment in the social sectors is implemented as planned. Going forward, the authorities should press ahead with their civil service reform to ensure that the wage bill remains affordable and creates space for priority expenditure.

“The international community’s continued assistance, through the provision of highly concessional loans and grants and technical assistance, remains critical. The authorities’ commitments to ensure transparency in Ebola-related spending and complete their structural reform agenda under the program, to help underpin a revival in growth in the period ahead, are reassuring.

“The Central Bank’s intention to relax monetary policy to provide adequate liquidity to the private sector is appropriate given the downturn in growth. Inflation is also expected to remain in check and international reserve coverage to remain satisfactory.

“Growth and poverty reduction goals will be spurred by key reforms to strengthen the business climate, including in the mining and electricity sectors and through improved monitoring and supervision of the banking sector. Sustained efforts are also needed to strengthen the health sector and social safety nets.

“Executive Directors approved the completion of the fifth review and the disbursement of an amount equivalent to SDR 45.135 million under the ECF arrangement, including SDR 26.775 million as budget support to help meet part of the fiscal cost of the Ebola response, as well as the financing assurances review. They approved the authorities’ request for an extension of the current arrangement to end-2015, and augmentation in access.”

**Statement by Ngueto Tiraina Yambaye, Executive Director for Guinea and
Siradiou Bah, Senior Advisor to Executive Director
February 11, 2015**

I. INTRODUCTION

Our Guinean authorities would like to express their appreciation to the Executive Board, Management and Staff for their continued support to Guinea in its efforts to address the challenges caused by the Ebola Virus Disease and also in its continued efforts to implement the ECF-supported program. Despite the difficult environment made worse by unfavorable export commodities prices, our authorities remain committed to the objectives of the program. This commitment has enabled them to meet all quantitative criteria and targets set for end-June and end-September 2014. However, the implementation of structural reforms advanced at a slower pace than envisaged, with only two structural benchmarks being satisfied, due notably to the constraints resulting from the authorities' increased focus on the fight against the Ebola Virus Disease.

The ongoing Ebola epidemic has placed a heavy toll on the Guinean population and economy. Recent data indicate that around three thousand people have been infected, with the number of deaths estimated at over 1700 by end-2014. On the economic front, activities have been heavily impacted following the closing of borders by neighboring countries, displacements of population, sharp decline in agricultural output, transport, trade, tourism and foreign investments. As a result, growth is estimated to have slowed down sharply in 2014 and the fiscal deficit has widened in response to revenue shortfalls and higher Ebola - related spending, including external assistance. The central bank has maintained its prudent approach which helped to bring inflation down to below 10 percent from 12 percent in 2013, and international reserves increased above the program's objective.

In the fight against the Ebola epidemic, the authorities have steadily increased their efforts to contain its expansion, taken care of the patients and sustained the public health system. With the assistance of the international community, they have established a vigorous health plan to respond to the Ebola shock and have created a special earmarked budget (BAS) that will record the related international community's financial assistance as well as the government's own resources to fight the epidemic. Our Guinean authorities take this opportunity to express their appreciation to the international community, their development partners and to the Fund for their strong support through policy advice and financial assistance to fight this epidemic.

In spite of the difficult environment they face, the Guinean authorities remain strongly committed to continue implementing their ECF-supported program and meet its objectives to strengthen macroeconomic stability, promote stronger and inclusive growth and end the Ebola crisis. Based on the good performance achieved in implementing the program, the Guinean authorities are requesting the Executive Board to approve the fifth review of ECF-supported arrangement. They are also requesting an extension of the ECF-arrangement to end-December 2015 to further support their reform agenda as well as an increase in the

Fund's financial support of 42.1 percent of quota of which 25 percent of the quota disbursed in the form of budget support under the fifth review and the remaining 17.1 percent will be disbursed in connection with the seventh ECF review. The increased access will enhance international reserves; help cover the budget and balance of payments financing needs resulting from the fight against the Ebola crisis.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER PROGRAM

The continued implementation of prudent policies under the ECF-supported program has led the authorities to enhance macroeconomic stability and advanced in structural reforms despite the severe impact of the epidemic of Ebola in the second half of 2014 and capacity constraints resulting from difficulties to mobilize the needed technical assistance. All performance criteria for end-June 2014 were met and most of indicative targets for end-September 2014 have also been met. According to preliminary information, the performance criteria at end-December 2014 have also been met.

In the fiscal sector, the authorities have continued implementing the cash-based budget which has helped them to maintain expenditure within the limit of available financing. With the persistence of the Ebola crisis, budget revenue fell short of projections at end-September 2014 and budget support remained below projections. To offset this shortfall, the authorities continued to limit spending to ensure the achievement of program objectives. In this context, cuts in investment spending resulted to the nonobservance of the program indicative targets for priority expenditures. Nevertheless, good progress was made in strengthening public finance with the adoption of the draft law on the financial governance of public enterprises, the signature of the decree on the governance framework of public finances governance, the adoption of the new budget nomenclature and the adoption of the revised draft of the custom code. In addition, the authorities are implementing the medium-term action plan for the debt management improvement. Remarkable inroads were also achieved in the civil service reforms with the biometric census completed in August 2014.

With regard to the monetary area, all program targets were met except the end-September indicative target on the central bank's net domestic assets. Net international reserves exceeded the program objectives. This performance resulted from a gradual relaxation of monetary policy with the reduction of policy rate to 13 percent and the decline to 20 percent of reserves requirement ratio. This improvement led the credit to private sector to increase by 30 percent in 2014. The health of the financial system has improved since 2013 with the decline of the nonperforming loans and the rise of the bank solvency ratio. The authorities are also in discussions with stakeholders on new regulations for banking-insurance and microfinance.

The Guinean authorities have pursued their **structural reforms** to further improve the business environment. They adopted in July 2014 the justice reform plan designed, among others, to protect land tenure and the enforcement of commercial contracts. In October, they established the Presidential Council on Investment and Public-Private partnership to reduce delays for investors, simplify administrative procedures and institute norms consistent with international standards. With the technical assistance from development partners and IMF,

progress was made in the mining sector reforms. The role of *Société guinéenne de participation minière* (Soguiipami) and its relations with the public administration have been redefined. The National Assembly adopted the new petroleum code in December 2014.

PRSP Progress Report

The authorities published, in December 2014, the first annual progress report (APR) for 2013 on the implementation of the Poverty Reduction Strategy Paper (2013-15). The report underscored that shocks experienced in 2013-14 have hindered the authorities' efforts to reduce poverty. However, it also underlined that reforms in public financial management have led to improvements in the delivery of public services. The APR for 2014 will be completed by mid-2015 and will help in the preparation of a successor PRSP which will draw on the two APRs and take into account the implications of the Ebola epidemic on social sectors.

III. MACROECONOMIC OUTLOOK AND POLICY REFORMS FOR 2015

Our Guinean authorities are fully committed to continue their close relationship with the Fund and implement sound macroeconomic policies and structural reforms to foster a sustained growth and enhance fiscal and external sustainability. Given the heavy impact of the health disaster on the country, they are also mindful that the Ebola crisis will adversely impact the macroeconomic outlook in the near term. In this regard, they are determined, with the support of their development partners, to further intensify the fight against Ebola to eradicate its effects, improve their policies and increase their institutional and human capacities. In particular, fiscal policy will be cautious and seek to absorb the Ebola's effects and support growth in line with available financing. Monetary policy will be supportive of private sector growth and the exchange rate policy will continue to focus on the stability of the Guinean Franc, while maintaining the central bank's international reserves at an adequate level. The structural reforms aimed at improving the business and investment environment will be further strengthened.

Fiscal Policy

The National Assembly adopted on December 18, 2014, the 2015 Budget which takes into account the increase in expenditure due to the Ebola epidemic and aims at maintaining adequate investment efforts to sustain growth. The expected basic balance deficit is 6.6 percent of GDP compared to an estimated 5.7 percent of GDP in 2014. The revenues under the 2015 budget will stand at 20.7 percent of GDP or an increase of 2 percentage points of GDP relative to 2014 owing notably to a significant augmentation of indirect taxes, an improvement of the revenue collecting agencies and the introduction of the new tax on telecommunications. Expenditures in 2015 are projected to increase significantly due to expenses associated with the Ebola epidemic and the implementation in three steps of the agreement signed in early January 2015 with unions to augment the basic salary by 40 percent. To finance this increase, the authorities will cancel recruitments in 2015 for non priority sectors, implement the conclusions of the biometric census, and revise the financial impact of application of specific statutes.

Taking in to account the decrease in global oil prices, the authorities have, at end of January, adjusted downward the fuel price at the pump by 10 percent. This move will help strengthen the credibility of the price adjusting mechanism put in place early 2014. To finance the 2015 budget, the authorities expect external financing mainly in terms of grants and concessional loans and they intend also to issue bills and bonds on the local market for a maximum projected equivalent to 2 percent of GDP. To ensure the sound management of this issuance and medium-term sustainability, the authorities have requested technical assistance from the Fund and the World Bank to prepare a medium-term strategy. With regard to the BAS, the special earmark budget established for the fight against Ebola, the authorities have benefited from Fund's assistance to develop a governance structure to ensure transparency in the use of donors' support through the production of regular implementation reports and periodic audits by an internationally recognized firm.

In their efforts to enhance the country's debt sustainability, our authorities are committed to give priority to concessional loans and grants in mobilizing external financing. However, they are mindful that in a context of limited availability of concessional resources, the financing of large infrastructure projects could be difficult and will require increased efforts in identifying new ways to mobilize needed resources. Staff will be consulted on any decision made by the authorities.

Monetary and Financial Policies

The Guinean authorities will continue gradually and cautiously the relaxation of the monetary policy while taking into account inflationary developments. They intend to mobilize domestic financing to mitigate the Ebola effects through the sale of securities to the public. The interbank market in Guinean francs will be encouraged with the implementation of an open market window by end-March 2015. Moreover, the policy rate and the reserves requirements will also be reduced to ensure sufficient liquidity in the banking system to foster the banks' lending to the private sector. In addition, the currency sales in the interbank foreign exchange will be increased to contain the adverse effects of bank financing on inflation while achieving the international reserves objective.

In order to further strengthen the banking and financial sector, bold measures will be implemented in 2015. Besides the strengthening of the banking supervision, these measures include the adoption of the National Inclusive Finance Strategy, the strengthening of microfinance institutions, and the establishment of a credit information repository. The authorities plan also to finalize the revision of the insurance code and issue directives encouraging the development of mobile financial services.

Structural Reforms

The authorities will pursue their efforts to improve the business environment with a view to further promote the private sector development and harness the country's natural resources. The key structural measures are intended to strengthen the public financial management, reform the civil service, improve the investment environment, pursue the mining sector

reform and increase the electricity supply while restoring the financial viability of the electricity sector. The authorities' reforms in the agricultural sector will be pursued to improve yields and production with the capacity-building of agencies in charge of agronomic research, outreach and farmers' training and equipment.

IV. CONCLUSION

Despite the daunting challenges they face due notably to the Ebola crisis and the decline in commodities prices, our Guinean authorities are determined to speed up the implementation of their ECF-supported program and meet its objectives. Given that a good track record has been set under the program, the Guinean authorities would appreciate Directors' support for the completion of the fifth review, the extension of the ECF-arrangement and an increase in the Fund's financial support. With the IMF continued support, they are also hopeful that the international community will continue its strong support to help them meet the ongoing health challenges as well as in their efforts to achieve higher sustained and inclusive growth and to substantially reduce poverty.