Table 5. Guinea: Sensitivy Analysis for Key Indicators of Public Debt, 2005-25

	Estimate	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of Debt-to-GDP Ratio								
Baseline	74	67	58	55	51	46	33	23
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	74	71	66	66	65	63	56	44
A2. Primary balance is unchanged from 2004	78	74	67	66	64	61	52	40
A3. Permanently lower GDP growth 1/	74	67	59	55	52	48	36	30
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	74	69	63	60	56	52	40	32
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	74	72	67	62	58	52	37	25
B3. Combination of B1-B2 using one half standard deviation shocks	74	72	68	64	59	54	38	26
B4. One-time 30 percent real depreciation in 2006	74	91	79	74	70	64	47	31
B5. 10 percent of GDP increase in other debt-creating flows in 2006	74	76	66	62	57	52	37	25
NPV of Debt-to-Revenue Ratio 2/								
Baseline	577	497	430	400	365	321	210	127
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	577	529	488	483	465	435	352	261
A2. Primary balance is unchanged from 2004	603	548	499	484	459	424	333	239
A3. Permanently lower GDP growth 1/	577	499	434	406	373	330	229	183
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	577	512	462	435	402	359	253	194
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	577	533	493	454	412	362	234	151
B3. Combination of B1-B2 using one half standard deviation shocks	577	538	503	465	422	371	241	154
B4. One-time 30 percent real depreciation in 2006	577	679	584	544	498	443	297	187
B5. 10 percent of GDP increase in other debt-creating flows in 2006	577	566	490	452	410	360	234	151
Debt Service-to-Revenue Ratio 2/								
Baseline	38	45	24	22	24	23	21	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	47	46	26	24	27	27	25	19
A2. Primary balance is unchanged from 2004	47	47	26	23	25	25	23	15
A3. Permanently lower GDP growth 1/	47	45	25	23	24	24	21	14
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	47	46	26	24	26	25	22	14
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	47	45	26	23	25	24	21	13
B3. Combination of B1-B2 using one half standard deviation shocks	47	46	26	24	26	25	22	14
B4. One-time 30 percent real depreciation in 2006	47	48	28	25	27	26	23	14
B5. 10 percent of GDP increase in other debt-creating flows in 2006	47	45	27	23	25	24	21	13

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

Statement by the IMF Staff Representative
December 23, 2005

1. This statement reports on information that has become available since the issuance of the staff report for the 2005 Article IV Consultation and Staff-Monitored Program. This information does not change the thrust of the staff appraisal.

2. **Although Guinea met most of the quantitative criteria and structural benchmarks under the SMP for end-September 2005, inflation remains high and recently there were slippages in policy implementation.** Notwithstanding the decline in inflation in recent months, the authorities' year-end objective is likely to be exceeded by a wide margin. Monthly inflation has declined gradually from a peak of 6 percent in June 2005 to 0.8 percent in November; however, 12-month inflation is expected to reach close to 29 percent by end-2005, compared to the SMP objective of 19 percent. Recent indicators suggest that real GDP growth as well as balance of payments developments in 2005 remain in line with the expectations in the staff report.

3. **All but one of the end-September 2005 quantitative indicative targets under the staff-monitored program (SMP) were met (Table 1):**

- The fiscal primary balance improved to a surplus of 2.9 percent of GDP in the first nine months of 2005 compared to the target of 2.2 percent of GDP.

- The indicative target on central government noninterest current expenditure was exceeded, albeit by a small margin; the excess was mainly due to the faster than expected depreciation of the exchange rate.

- Net bank credit to the government contracted during the first nine months of 2004.

- Reserve money contracted by GNF 25 billion between March and September, compared to an expansion of GNF 29 billion under the SMP.

- The target on the stock of net foreign assets (NFA) of the central bank was met, in part owing to tax advances from the mining companies (discussed in the staff report) and the proceeds of the sale of a GSM telephone license to a foreign operator in the third quarter of 2005.

4. **All end-September SMP structural benchmarks were met (except for the continued presence of a multiple currency practice; Table 2):**

- A provision of the general rules on public accounting was amended to eliminate the possibility of extrabudgetary spending, and the government launched a call for bids for an audit of the computerized expenditure management system.

- The government adopted an action plan to combat corruption. As part of this plan, a draft anti-corruption law is being finalized. In addition, a number of measures are being taken to strengthen the ability of citizens to bring cases of corruption to the attention of the authorities and to increase public awareness of corruption. The anti-corruption plan is part of a broader strategy to promote good governance, which is being developed with the support of the World Bank and the European Union.

- Action plans were adopted to strengthen the financial situation of the water and electricity companies. These plans envisage actions to reduce widespread fraud, clarify financial relationships between the government and the utilities, ensure timely payment of government bills for water and electricity consumption, and prepare an opening balance for 2006.

- No new ad-hoc tax or customs exemptions (a continuous structural benchmark) were introduced.

- The external audit of the international reserve position of the central bank was completed by the external auditor, and the central bank forwarded its reactions by end-September. The auditor submitted his final report in October 2005.

5. **However, there were serious slippages in program implementation during October-November 2005, as a result of which several of the SMP's end-December 2005 quantitative targets may not be attained**. As of end-November, base money had almost reached the level of the end-December target and central bank NFA had dropped to their end-December program levels. Also, external arrears—which had contracted until September 2005—increased in October-November. The main problems were a very rapid expansion of central bank credit to the government (reflecting in part higher government expenditures that had been delayed from earlier in the year and reduced commercial bank financing to the government) and the absence of an efficient program monitoring mechanism.

6. **The authorities are taking measures to bring their program back on track.** These measures include efforts to place additional treasury bonds with the commercial banks, including by raising interest rates; purchasing foreign exchange in the market to rebuild central bank NFA; and reducing external arrears by end-December to below the program ceiling. The authorities will also take action to improve policy coordination between the fiscal and monetary authorities; in particular, they will set up the treasury and liquidity committees, as specified in their November 2005 MEFP.

7. **There was progress in the area of structural reform during the last quarter, and all but one of the end-December structural benchmarks under the SMP are likely to be achieved.** The benchmarks related to the audit of the 2004 accounts of the central bank, closing private accounts in the central bank, performing an inventory of cross-debts between the government and the public enterprises, and adopting a plan to settle these cross debts will be met. However, the benchmark relating to the audit of domestic government debt to the private sector is not expected to be completed on time. A number of other positive developments have taken place in the last few months. On the fiscal front, wage demands have been kept under control in the face of social pressure, the number of military personnel

was reduced substantially in the last quarter of 2005, and the civil service census is advancing as planned. Regarding monetary and exchange rate policy, the central bank is taking action to publish the reference exchange rate on a daily and weighted basis and to reinforce its foreign exchange department; it also raised reserve requirements. The government sold a significant proportion of its shares in the largest commercial bank to a key foreign investor. Also, three foreign investors have announced plans to develop large alumina refinery plants in Guinea. Finally, nationwide local elections took place on December 18, 2005; the elections were peaceful although voter participation seems to have been very low.

Table 1. Guinea: Quantitative Indicative Targets, 2004 -September 2005

	2004	2005				
		March	June		Sept.	
			Targets	Est.	Targets	Est.
	(In billions of Guinean francs)					
Central government primary balance (floor) 1/	-40.3	125.0	186.0	250.2	259.7	350.4
Net bank credit to the government (ceiling) 2/ 3/ 8/	240.5	50.3	120.5	-30.1	166.3	-33.9
Reserve money (ceiling) 9/	763.3	913.3	926.2	853.0	942.5	887.9
	(In millions of U.S. dollars)					
Stock of net foreign assets of the central bank (floor) 4/ 5/ 8/	-29.6	-22.7	-12.6	-16.2	-3.9	8.6
New nonconcessional medium- or long-term external debt contracted of guaranteed by the government or the central bank (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of short-term external debt contracted or guaranteed by the government or the central bank (ceiling) 5/	0.0	0.0	0.0	0.0	0.0	0.0
Stock of outstanding external payments arrears (ceiling) 6/	62.4	74.2	72.7	65.0	68.9	51.5
	(In billions of Guinean francs)					
Central government nonmining revenue 2/	765.0	246.4	498.0	554.5	742.7	845.0
Central government noninterest current expenditure 2/	791.0	156.5	388.3	381.9	598.2	620.2
Expenditure in priority sectors 2/ 7/	263.9	71.8	181.2	182.9	280.8	299.9
Change in domestic arrears (a "-" sign indicates repayment) 2/	21.4	4.7	4.7	4.7	0.0	-0.3
Memorandum items:						
External budgetary assistance (in millions of US dollars) 2/	0.0	0.0	0.0	1.0	0.0	1.0

1/ On a commitment basis; the domestic primary balance is defined as the difference between total revenue (excluding grants) and noninterest domestic expenditure, excluding foreign-financed capital expenditure.

2/ Cumulative from the beginning of the calendar year

3/ Subject to adjustment mechanisms for deviation in cash settlement of domestic arrears and disbursement of external budgetary assistance as specified in the Technical Memorandum of Understanding (TMU).

4/ Subject to adjustment mechanisms for accumulation of new external arrears and deviation in disbursement of external budgetary assistance as specified in the Technical Memorandum of Understanding (TMU).

5/ Excluding commercial credits.

6/ Excluding arrears under negotiation with creditors; monitored on a continuous basis.

7/ Priority sectors include public health, education, transport, road maintenance, justice, rural development, urban planning, and social affairs. This expenditure includes outlays funded by HIPC resources.

8/ The program targets have been revised downwards throughout by about US$23 million, following the adjustment to the central bank balance sheet on account of a foreign exchange transaction between the Central Bank and a private company. The targets from end-June are also adjusted upward for US$ 1 million of budgetary assistance obtained from China in June 2005 and which was not expected in the program.

9/ The reserve money is reported at program exchange rates: 3200 GNF/USD for end-June and 3276 GNF/USD for end-September.

Table 2. Structural Benchmarks for the 2005-06 Staff-Monitored Program

Areas	Measures	Implementation Date	Status of Implementation
Tax administration			
	• Adoption of an action plan with a timetable for strengthening tax and customs administrations, based on the recommendations of the IMF technical assistance missions.	End-June 2005.	Met.
	• Moratorium on new ad hoc tax or customs tariff exemptions.	On a continuous basis.	Met.
Expenditure control			
	• Establishment of a monitoring committee to review the operation of the computerized expenditure management system and prepare the terms of reference for a complete computer network audit.	End-June 2005.	Met.
	• Amend Article 31 of the General Rules on Public Accounting in order to eliminate the possibility of extra budgetary transactions.	End-September 2005.	Met.
	• Launch a call for bids for an audit of the computerized expenditure management system.	End-September 2005.	Met.
	• Closing of all accounts held by individuals on the books of the central bank.	End-December 2005.	
	• Completion of an audit of the government's domestic debt and of the cross debts between public enterprises and the government.	End-December 2005.	