INTERNATIONAL MONETARY FUND

Staff Country Reports

March 2012
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Guinea: 2011 Article IV Consultation and Requests for a Three-Year Arrangement Under the Extended Credit Facility, and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Guinea.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2011 Article IV consultation with Guinea and Requests for a Three-Year Arrangement Under the Extended Credit Facility, and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, the following documents have been released and are included in this package:

- The staff report for the combined 2011 Article IV consultation and Requests for a Three-Year Arrangement Under the Extended Credit Facility and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, prepared by a staff team of the IMF, following discussions that ended on **January 31, 2012**, with the officials of Guinea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on **February 13**, **2012**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its **February 24**, **2012**, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- A statement by the Executive Director for Guinea.

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

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INTERNATIONAL MONETARY FUND

GUINEA

Staff Report for the 2011 Article IV Consultation and Requests for a Three-Year Arrangement Under the Extended Credit Facility, and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries

Prepared by the African Department
(In consultation with other departments)

Approved by
Seán Nolan and Jan Kees Martijn

February 13, 2012

Background: Guinea is emerging from a prolonged period of social unrest and from military rule during 2009–10. Following presidential elections completed in December 2010, the new government adopted an economic stabilization program for 2011 that was monitored by Fund staff. Key economic objectives of the government are to create an environment conducive to development of the country's abundant natural resources to support sustained higher growth and poverty reduction and to reach quickly the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The exchange rate system is a managed float and Guinea has accepted the obligations under Article VIII. Guinea continues to have a multiple currency practice arising from the absence of a mechanism to prevent a potential deviation of the exchange rate used by the central bank for its transactions with the government from those used by the commercial banks.

Program Issues: Performance under the 2011 SMP has been good. The authorities are requesting a three-year (2012–15) arrangement under the Extended Credit Facility (ECF) in an amount equivalent to SDR 128.52 million (120 percent of quota) and an allocation of interim HIPC assistance of SDR 1.2852 million.

Mission: The staff team, comprising Messrs. Snoek (head), Ladd, Razafimahefa and Orav (all AFR), Dicks-Mireaux (SPR) and Wane (Resident Representative), visited Conakry during November 3–22, 2011 and the discussions were completed by video conference on January 31, 2012. The mission met with President Condé, Prime Minister Fofana, Ministers Yansané (Economy and Finance), Cissé (Planning) and other Cabinet members, along with Governor of the Central Bank of Guinea Nabé, other senior officials, and representatives of civil society, the press, and the donor community. Mr. Bah (OED) also attended the meetings.

Publication: The authorities have agreed to the publication of the staff report and the Letter of Intent, including its attachments.

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Abbreviations and Acronyms

AfDB	African Development Bank
AFRITAC	African Regional Technical Assistance Center
AML	Anti-money laundering
BCRG	Central Bank of the Republic of Guinea
CFT	Combating the financing of terrorism
CGER	Consultative Group on Exchange Rate
CPI	Consumer Price Index
ECF	Extended Credit Facility
EDG	Guinea Electricity
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
EREER	Equilibrium Real Effective Exchange Rate
ES	External Sustainability
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FIN	Finance Department
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GIABA	Inter-Governmental Action Group Against Money Laundering
GNF	Guinea Franc
HIPC	Heavily Indebted Poor Countries
IFAD	International Fund for Agricultural Development
MB	Macroeconomic Balance
MCM	Monetary and Capital Markets Department
MEFP	Memorandum of Economic and Financial Policies
MEF	Ministry of Economy and Finance
PFM	Public Financial Management
PPP	Public Private Partnership
PRS(P)	Poverty Reduction Strategy (Paper)
RCF	Rapid Credit Facility
SDR	Special Drawing Rights
SMP	Staff Monitored Program
TMU	Technical Memorandum of Understanding
UNDP	United Nations Development Program

EXECUTIVE SUMMARY

- **Guinea's outlook improved substantially during 2011** as the political situation stabilized, severe macroeconomic imbalances were reduced, and improved governance resulted in large windfall revenue from the mining sector and new investment in mining projects. Growth picked up, the rise in inflation was halted, and international reserves increased. Following sizeable depreciation early in the year, the official exchange rates stabilized and the gap between the official and market exchange rate narrowed.

- **The macroeconomic improvement in 2011 was mainly due to sharp fiscal adjustment**. The deficit on the budget's basic balance was reduced from 13 percent of GDP in 2010 to an estimated 2.5 percent, while monetary financing of the budget was avoided in an effort to reduce excess liquidity stemming from large central bank advances in 2009–10.

- **Performance under the 2011 staff-monitored program has been good**. The quantitative targets for June and September were met with wide margins, while provisional data indicate that performance was close to program targets for end-December despite a shortfall in budget support and higher public investment spending under a revised budget prepared in consultation with the staff. The adjustment in current spending was larger than envisaged. There was good progress with structural reform, including the adoption of a new mining code.

- **Key medium-term challenges are to reduce inflation while preparing the economy for an expected substantial increase in mining activity**. Planned new investment in the mining sector of 40 percent or more of GDP per year during 2012–14 should result in much higher levels of output and government revenue by the middle of the decade.

- **Medium-term fiscal policies aim at avoiding the use of domestic bank credit while ensuring (post-HIPC) debt sustainability**. Key objectives are to raise the revenue effort and redirect expenditure to the priority sectors while using the windfall revenue to increase public investment, especially in electricity and roads.

- **The government's medium-term structural reform agenda aims at developing Guinea's abundant natural resources** in mining, hydroelectricity, and agriculture, while improving government services, including utilities, and the business climate.

- **Staff supports the authorities' request that the Fund support their program for January 2012–December 2014 under the ECF** for an amount of SDR 128.52 million (120 percent of quota). Good performance under the program may allow Guinea to reach the completion point under the HIPC Initiative later in the second half of 2012.

I. A NEW BEGINNING

1. **Guinea's outlook has improved significantly over the course of 2011**. During 2010, the country transitioned from a military regime and underwent a tense election process. The new government inherited a stagnating economy and serious macroeconomic imbalances. One year later, an improved political environment and strong stabilization efforts have contributed to resurgent growth, a sharp decline in the fiscal deficit, and an improved international reserves position. The resolution of a long-standing dispute with a foreign mining company resulted in a one-off payment ($700 million, some 15 percent of GDP)[1] in 2011, improving the government's ability to start addressing urgent public-sector investment needs. The positive outlook for political stability and better governance has led to the start of large new private investment in the mining sector, raising the prospect that economic activity will expand sharply following the start of production by the middle of the decade.

2. **But major challenges remain**. A legacy of weak governance and intermittent periods of domestic unrest has left Guinea among Africa's poorest countries (Figure 1), a fragile state with weak institutions and limited technical capacity. The transition toward full constitutional rule remains to be completed by legislative elections; the consolidation of political stability also depends on security sector reform. Reducing still-high inflation will be important to maintain support for the stabilization and reform effort. Over the medium term, the recent windfall revenue and the expected boom in the mining sector present major challenges for Guinea to ensure that its natural resource wealth translates into broad-based poverty reduction and sustained and diversified economic growth.

II. RECENT ECONOMIC DEVELOPMENTS

3. **The government's main macroeconomic objective for 2011 was to sharply reduce the imbalances**. The abandonment of fiscal control under the 2009–10 military regime resulted in a large fiscal deficit, sharp monetary expansion, and external arrears. By end-2010, annual inflation was over 20 percent and climbing, the market exchange rate was depreciating rapidly, and external reserves covered less than 1 month of imports (Figure 2; Tables 1-4). In its economic program for 2011, which was monitored by Fund staff,[2] the government's stabilization policies focused on bringing inflation and the fiscal deficit under control, and on tightening monetary policy. Structural reform priorities included improving public financial management and governance in the mining sector.

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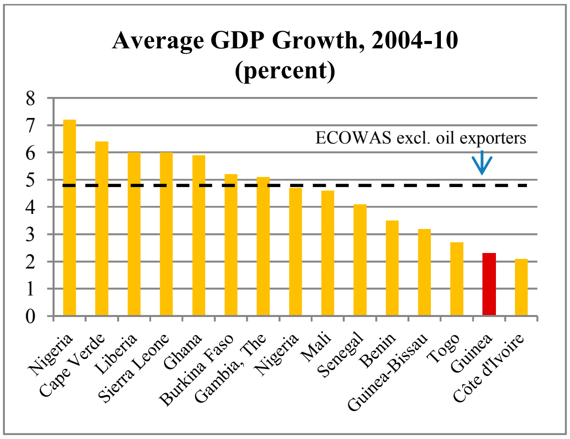
[1] Details of the payment are contained in Box 1 of the authorities' Memorandum of Economic and Financial Policies (MEFP—Attachment I of Appendix I).

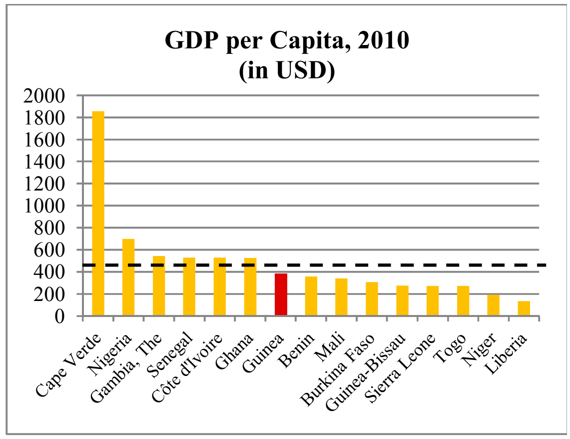
[2] The staff-monitored program (SMP), which covered the period January–December 2011, was approved by IMF Management on June 30, 2011 and issued to the Executive Board for information on July 1, 2011. http://www.imf.org/external/pubs/ft/scr/2011/cr11251.pdf .

Figure 1. Cross-Country Comparisons, 2004–10

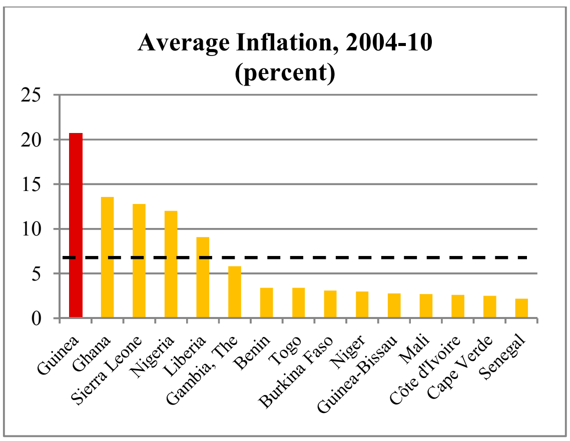
Guinea' recent growth performance is near the bottom for the region…



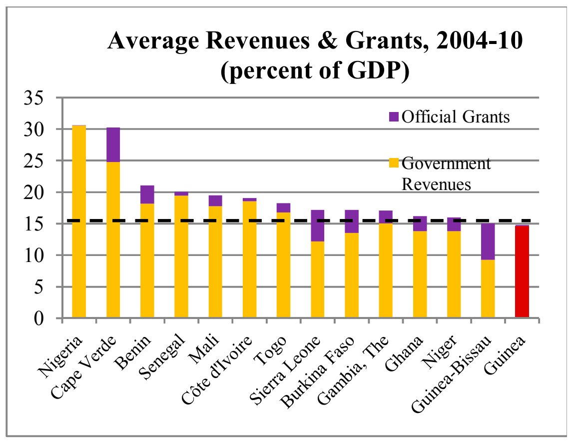
…helping pull GDP per capita down below the regional average.



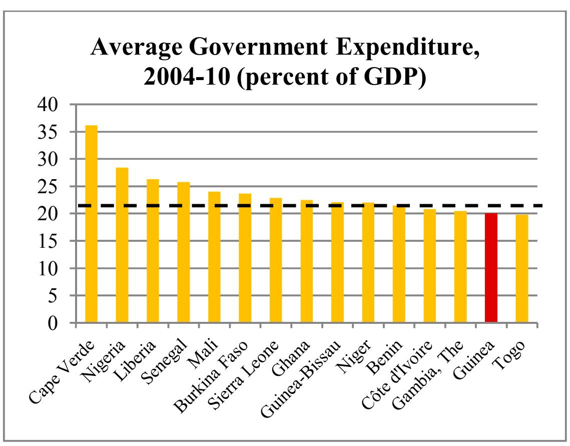
Guinea stands out in the region for its poor record on inflation.



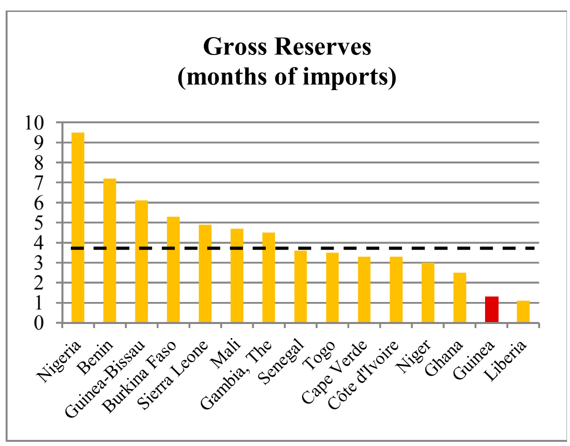
Tax revenue is in line with the regional average, but level of external grants is very low…



… limiting the budget envelope.



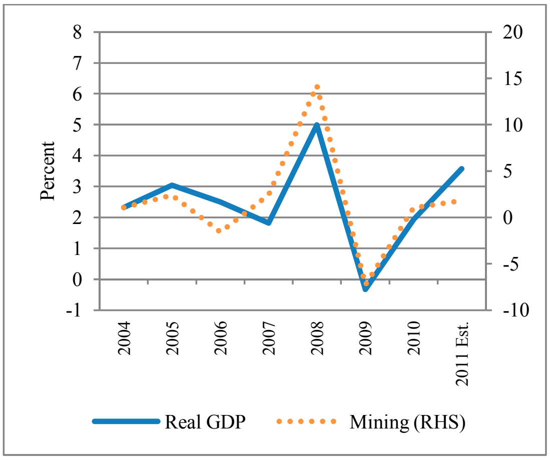
Reserve coverage has tended to be low.



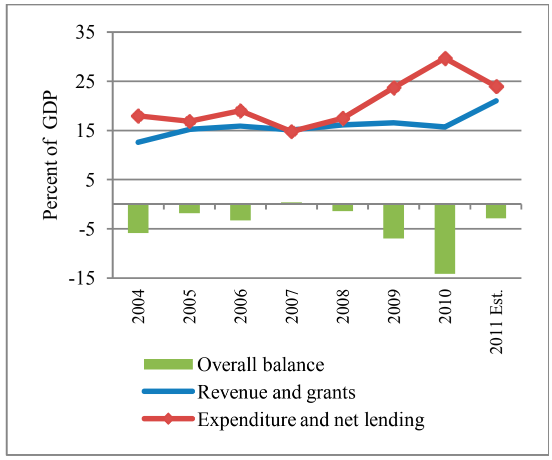
Sources: Guinea authorities and Fund staff estimates.

Figure 2. Recent Economic Developments, 2004–10

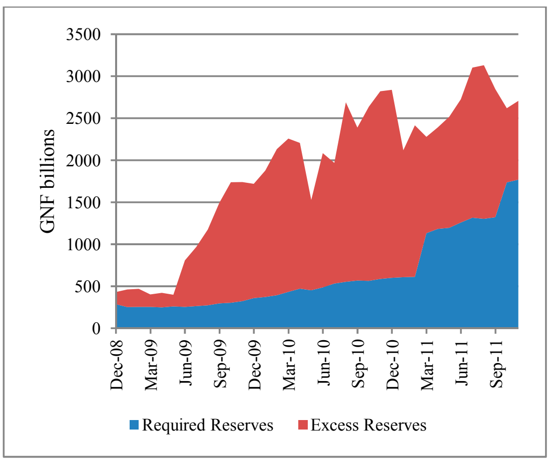
The rebound accelerated in 2011, despite a sluggish mining sector…



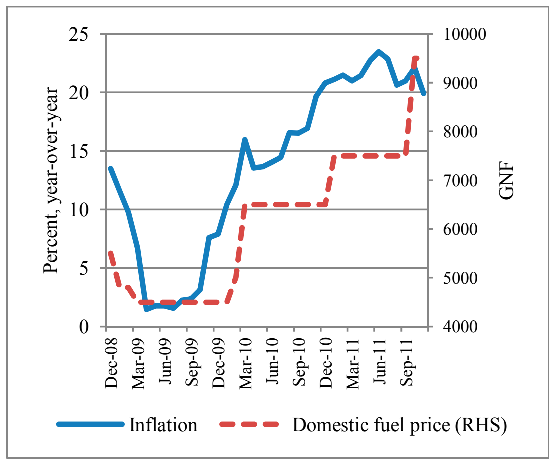
… as the macroeconomic stabilization effort re-established fiscal control.



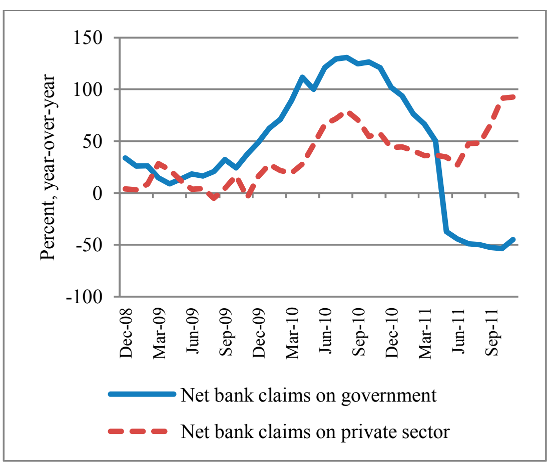
Excess liquidity has been reduced…



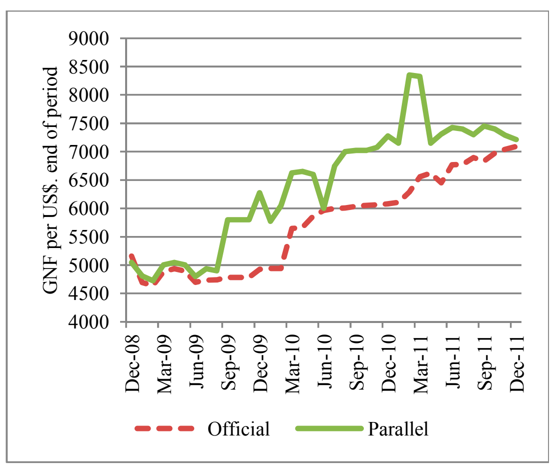
… and inflation—although high—has stabilized.



Central bank financing has been eliminated.



The parallel market premium has disappeared.



Sources: Guinea authorities and Fund staff estimates.

4. **Performance under the SMP has been good**. Real GDP growth rebounded on the back of the improved political situation and a sharp increase in agricultural production, the latter reflecting good climatic conditions and renewed government support for the sector. Strong adjustment and prudent use of the windfall revenue resulted in a sharp decline in the 2011 fiscal basic balance.[3] The program's indicative targets for June and September were met with considerable margins (Table 5); provisional data indicate that, because of a shortfall in expected budget support of about 0.8 percent of GDP and higher-than-programmed expenditure on capital projects, the outcome for end-December deviated slightly from the program targets. Inflation, at 19 percent (year-on-year), was slightly lower by December than at the same time in 2010. Reflecting the windfall revenue, gross official reserves increased to the equivalent of about 5 months of imports of goods and non-factor services by end-2011.

5. **Fiscal adjustment was stronger than programmed for the first nine months of 2011 (Text table 1**; **MEFP ¶ 6-7)**. Several tax measures were taken early in the year but revenue was lower than projected because of a delay in adjusting domestic fuel prices to higher import costs from July to October.[4] The suspension of large non-competitively tendered procurement contracts for goods and services and investment projects committed during 2009–10[5] and the elimination of low-priority spending through cash-based expenditure management, resulted in a sharp reduction in expenditure compared to 2010. Furthermore, the wage bill was less than anticipated because of a delay in new recruitment while strict application of public procurement regulations delayed the start of some capital projects. The contraction of expenditure more than offset the revenue shortfall, with the result that the budget's basic balance was in surplus by 0.5 percent of GDP during January–September, compared to a program target of a deficit of 1.3 percent of GDP (and a deficit of 8 percent of GDP during the same period in 2010).

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[3] The fiscal basic balance is calculated as revenue excluding grants minus expenditure excluding interest on external debt and foreign financed investment. The windfall revenue was recorded as non-bank financing.

[4] In case the government-set retail prices are below the calculated cost price (import costs and all applicable taxes), the government budget absorbs the difference by means of lowering the tax take, which is calculated monthly (see SPM, Box 2, page 9 http://www.imf.org/external/pubs/ft/scr/2011/cr11251.pdf .)

[5] During 2009–10, the military government concluded multi-year procurement contracts amounting to about 40 percent of GDP; a World Bank-financed audit indicated that most were engaged on a non-competitive basis, overpriced, and poorly executed (SPM, Box1 page 7 http://www.imf.org/external/pubs/ft/scr/2011/cr11251.pdf .)

Text Table 1. Guinea: Summary of Revenue and Expenditure, 2008–11
(Percent of GDP)

	2008	2009	2010		2011			
			Jan-Sept	Jan-Dec	Jan-Sept	Jan-Dec	Jan-Sept	Jan-Dec
					Prog.		Actual	Est
Revenue	15.6	16.2	11.8	15.3	12.9	17.2	12.5	17.7
Mining	3.6	3.3	3.0	3.8	3.1	4.2	3.3	4.5
Non-mining (excl. non-tax)	11.2	11.7	8.3	10.9	9.0	11.9	8.4	11.2
Non-tax revenue	0.9	1.3	0.4	0.7	0.9	1.1	0.8	2.0
Expenditure	14.0	21.8	19.8	27.9	14.2	19.2	12.0	20.2
Current expenditure	12.1	15.9	13.3	19.8	11.9	15.5	10.7	15.1
Wages	4.1	5.0	3.9	5.7	4.8	6.2	3.9	5.4
Goods and services	4.8	6.1	6.5	9.4	3.8	4.9	3.9	5.6
Subsidies and transfers	1.9	3.3	2.7	3.4	2.8	3.5	2.4	3.3
Interest domestic debt	1.3	1.5	0.3	1.3	0.5	0.9	0.5	0.9
Capital expenditure (domestically-financed)	1.9	5.8	6.4	8.1	2.3	3.6	1.3	5.1
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Basic balance	1.6	-5.6	-8.0	-12.6	-1.3	-2.0	0.5	-2.5

Sources: Guinen authorities and Fund staff estimates.

6. **Fiscal adjustment continued during the last quarter notwithstanding a pickup in capital expenditure**. In October, the interim parliament adopted a revised 2011 budget allowing the use of some of the windfall revenue to address urgent infrastructure needs, especially serious power shortages (MEFP ¶ 9).[6] However, actual use was lower than budgeted and current expenditure continued to be constrained during the last quarter. Revenue was boosted by a 27 percent increase in fuel prices in mid-October (reducing the gap between retail prices and calculated cost to about 10 percent) and stepped-up revenue collection efforts. As a result, the deficit on the basic balance is estimated at around 2.5 percent of GDP for 2011, somewhat higher than envisaged under the SMP but considerably lower than the revised budget target of 4.9 percent of GDP that had been discussed with staff. In the end, investment expenditure was higher than programmed under the SMP, but the adjustment in current spending is estimated to have been stronger than initially envisaged.

7. **The good fiscal performance supported a tight monetary policy stance**. Despite sharp increases in the central bank rate and in the reserve requirement in March and October (MEFP ¶ 11), liquidity in the banking system remained high. As the political situation has stabilized, currency in circulation has gradually been converted into bank deposits. Credit to

[6] The revised budget was prepared in consultation with the staff. Initially, the authorities intended to request a revision of the SMP's targets for end-December to reflect the impact of the revised budget. Given the short time left until year-end and indications that the overruns compared to the original targets under the SMP would be small, it was decided not to proceed with a formal revision.

the private sector almost doubled (from a very low level in 2009–10), but this expansion was more than offset by the decline in the banking system's net credit to the government. Broad money growth is estimated to have remained much below the increase in nominal GDP, reducing the liquidity overhang.

8. **After a rapid depreciation early in the year**, **the exchange rate stabilized (MEFP ¶ 11)**. The market exchange rate (the rate quoted by the exchange bureaus—Box 1) depreciated by almost 20 percent in the first two months of 2011. In March, the BCRG issued new regulations governing the bureaus following their temporary closure and started weekly foreign exchange auctions. Thereafter, the market rate appreciated and the official rate depreciated, reducing the gap between the two rates to about 2–3 percent by year-end; the real effective exchange rate is estimated to have remained broadly constant.

Box 1. The Foreign Exchange System

Guinea's foreign exchange system consists of the BCRG, thirteen commercial banks, and some 30 foreign exchange bureaus.

- *The BCRG* conducts the exchange transactions for the government using the daily official foreign exchange rate (called the reference rate), which is determined as the weighted average of the previous day's rates charged by commercial banks. Since March 2011, it also conducts weekly foreign exchange auctions of around $5 million, open to all commercial banks; the auction rate is the weighted average rate of winning bids.
- *The commercial banks* conduct foreign exchange transactions for their clientele. Banks often have insufficient resources, in which case, lacking an interbank market, clients have to buy foreign exchange from the exchange bureaus so that the bank can execute the foreign transfer. The commercial banks' buying and selling rates are to remain within a band of 3 percent around the auction rate.
- *The exchange bureaus* conduct the bulk (by amount) of the foreign exchange transactions in Guinea, although they are limited to cash transactions. Important suppliers of foreign exchange are informal gold and diamond exporters. The exchange bureaus set their own buying and selling rates.

9. **Guinea's relations with external donors and creditors improved in 2011**. All arrears with multilateral institutions were cleared (MEFP ¶ 10), allowing the resumption of budget support and project assistance. Guinea deferred the clearance of arrears and payment of current debt service to bilateral creditors until these obligations can be addressed in the context of a Paris Club rescheduling and the HIPC Initiative.

10. **The authorities made good progress with structural reform (MEFP ¶12)**. A key achievement was the adoption of a new mining code compatible with international standards in September 2011; the new code, prepared with donor assistance, increases transparency and is expected to raise Guinea's future revenue share. Progress was also made in preparing for reforms in the electricity sector. Helped by a broad group of external partners, including the Fund and AFRITAC West, the government started a major effort to strengthen public

financial management, including the adoption of legislation to establish a single treasury account. Progress was also made in cleaning up the civil service database and reform efforts were started in the judiciary and the security sector.

III. Outlook and Key Challenges—Consolidating Macroeconomic Stabilization and Preparing for the Mining Boom

11. **The Article IV consultation discussions focused on the measures needed to consolidate macroeconomic stabilization and lay the basis for accelerated and diversified growth**. The authorities and staff agreed that short-run policies should remain focused on bringing down inflation, important not only for growth but also for social stability and poverty reduction. For the medium term, the main challenge is to prepare the economy for a substantial increase in mining activity and revenue later in the decade, with special regard to ensuring that the natural resource wealth translates into inclusive growth and poverty reduction.

A. The Medium-Term Macroeconomic Outlook and Framework

12. **The medium-term macroeconomic outlook is driven by large investments in the mining sector (MEFP ¶19)**. Foreign direct investment (FDI) in the mining sector (Box 2), which could be as high as 40 percent of GDP or more per year during 2012–14, will raise output, imports, and the external current account deficit, and should boost employment with the construction of infrastructure such as railroads and ports. By 2015, investment is set to taper off and production to start, resulting in a sharp turnaround in the current account and higher government revenue, while mining-related employment will stabilize at a lower level. Against this background, the baseline scenario assumes real GDP growth in the range of 4–5 percent per year during 2012–14; a drop in inflation to the single digits; and maintenance of gross official reserves at a level at least equivalent to 2.5 months of imports (excluding imports for large mining projects).

Box 2. Mining Outlook and Major Investments

Guinea will remain a leading producer of bauxite and alumina, and become a leading producer of iron ore....

Commodity	Average Price[1], 2010 (US$ / tonne)	Annual Capacity, 2010 (Mt / year)	Production, 2010 (Mt / year)	Investment Projects, Approved or Underway (billion US$)	Estimated Incremental Production, 2018 (Mt / year)
Bauxite	146.72	19.3	13.7	0.3	3.5
Alumina	225.63	0.7	0.6	19.6	0.5
Iron ore	22.69	-	-	18.9	95

Sources: Guinea Ministry of Mines and Geology; U.S. Geological Survey; Staff estimates.

[1]Guinean basic (mine gate) price for bauxite and alumina. Import price (CIF Tianjin) for iron ore.

Approved projects in bauxite, alumina, and iron ore would entail some $40 billion in capital spending; the government is considering project proposals totaling a further $9 billion.

There is scope for increased output of bauxite and alumina within current capacity, and firms have increased production by 6 percent in 2011 (to October). The leading bauxite producer, *Compagnie de Bauxite de Guinée* (CBG), is undertaking a $300-million extension to its operation, adding 18 percent to its capacity by 2018. Other firms hold permits to explore nearly 100,000 km^2 for additional bauxite.

New iron ore mining investment and production are set to reshape the Guinean economy over the medium term. Construction of the first major iron ore project, on the northern concession of Mt. Simandou, is underway. The latest cost estimates, $13 billion (1/3 for mining and 2/3 for railroad and port transportation), amount to three times 2011 GDP and entail a surge in FDI-financed imports in the near term. Production is expected to begin in 2015, raising real GDP by 15 percent initially; with peak production set to be reached by 2020. Output would be higher if other approved or proposed projects were implemented. Other firms hold permits to explore over 50,000 km^2 for additional iron ore. That said, the value of mining exports and fiscal revenues will depend on prevailing prices; Guinea's output prices for bauxite and alumina, largely determined in long-term contracts, have been stable, but the international price of iron ore is volatile.

13. **The baseline scenario assumes a strong increase in public investment**, **mainly to remove infrastructure bottlenecks**. In addition to donor project assistance, the authorities intend to use part of the 2011 windfall revenue to boost investment, focused on electricity and roads. They shared the staff's concerns about ensuring effectiveness and sustainability of expenditure financed by one-off resources: (i) the windfall revenue will be used primarily for investment and spread over several years, during which its share in the financing of investment outlays will gradually decline; and (ii) the authorities are setting up a special investment fund (Box 4) to hold part of the 2011 windfall revenue and possible new such revenue to assist in its management. Given the uncertainties about possible government contributions to investments in the mining sector, the baseline assumes that all such investment is foreign financed.

14. **The outlook has both downside and upside risks**:

- *The main risk is renewed political instability*, especially in the run-up to legislative elections expected in 2012. Social unrest would affect both short- and long-term growth and complicate the implementation of the reform agenda. However, as indicated in the Letter of Intent (Appendix I), the authorities launched security sector reform and instituted political dialogue to reduce these risks.
- *Guinea remains vulnerable to developments in international markets.* Mineral exports account for more than 90 percent of total exports and about 20 percent of government revenue; two-thirds of non-mining imports are fuel and food. Given the uncertain international economic outlook, the risk of a decline in mineral prices is high, but the authorities indicated that existing long-term contracts would reduce the immediate impact on Guinea. The government's medium-term economic program, including the planned policies with regard to the automatic adjustment of fuel prices and the promotion of agricultural production, is an important mitigation against these risks.
- *Guinea's much improved fiscal and international reserves positions have strengthened its ability to deal with adverse shocks.* While the use of one-off revenue for financing a large deficit would be unsustainable in the long run, it does allow a gradual and efficient adjustment over the medium term.
- *Additional large one-off revenue from an ongoing review of contracts in the mining sector would further strengthen the external position.* Additional spending could aggravate bottlenecks because of limited implementation and absorptive capacity; the special investment fund is intended to mitigate this downside risk.

B. Short-Term Stabilization

15. **Reducing inflation remains a key objective for short-term macroeconomic policies *(*MEFP ¶ 21*)***. This will require a careful coordination of fiscal, monetary, and structural reform policies. Fiscal policy aims at avoiding taking up new credit from the banking system, but drawing down the savings from the 2011 windfall revenue may add to

domestic liquidity. While a large part of these funds will finance imports, the BCRG stated that it stands ready to offset possible effects on domestic liquidity by selling foreign exchange to the market.

16. **The BCRG agreed with staff on the importance of a market-determined exchange rate**. The staff recommended a sizable widening of the band around the auction rate within which banks are free to set their buying and selling rates. However, the authorities felt that the stable market exchange rate and the sharp decline in the gap between the official and market exchange rates indicated that their more cautious approach was effective. They plan to further improve the efficiency of the foreign exchange market, helped by Fund technical assistance, which could include a widening of the banks' trading band later in the year. The authorities shared the staff's exchange rate assessment (Box 3), stating that, in their view, structural weaknesses were the primary factor constraining external competitiveness.

C. Strengthening Public Financial Management and Increasing Priority Sector Spending

17. **The government's medium-term fiscal policy aims at (i) containing the budget deficit to facilitate inflation reduction and maintain debt sustainability**; **(ii) improving public financial management and the quality of spending while increasing allocations to priority sectors (MEFP ¶23–36)**. Guinea's public investment needs will remain high to remove infrastructure bottlenecks and, in line with the objectives of the poverty reduction strategy, to boost public services delivery. Given financing constraints, the authorities intend to increase available resources by raising the ratio of (non-mining) revenue to GDP to the regional average level, by reforming the tax system and improving tax administration. The authorities and staff agreed that it would also be important to contain the wage bill (employment has almost doubled since the mid-2000s), limiting subsidies by improving the efficiency of public utilities and reforming support to the agricultural sector, and reducing military expenditure through security sector reform. Outlays to the social sectors are expected to benefit from debt relief.

18. **Strengthening public financial management remains a high priority (MEFP ¶ 35–36)**. In this regard, the authorities intend to implement a comprehensive reform and capacity building strategy in close coordination with external partners, including the Fund and AFRITAC West.

Box 3. Assessing External Competitiveness in Guinea

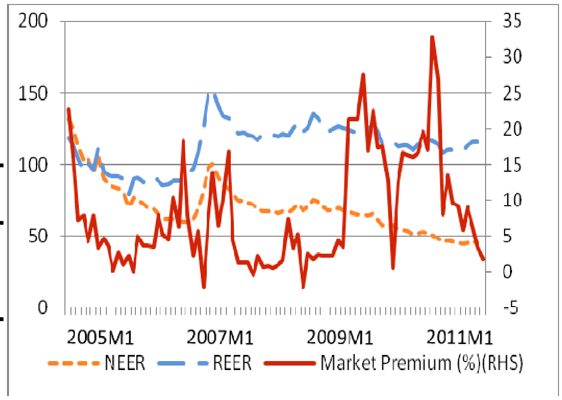
Guinea's real effective exchange rate (REER) has somewhat depreciated since the last Article IV consultation in 2007. The nominal effective rate (NEER) has depreciated by more than 50 percent since 2007 but its effect on the REER was almost completely offset by the acceleration in inflation in Guinea after 2009.

Guinea: CGER Exchange Rate Assessment

Trade Elasticities	MB	ES	EREER
CGER 1/	28	16	39

Source: IMF staff estimates

1/ Elasticities from the CGER analysis.



Quantitative estimates of Guinea's REER based on the CGER methodologies suggest some overvaluation of the real exchange rate, although the results differ significantly across the three approaches.[1] In 2007, the calculations suggested that the exchange rate was broadly in line with the economic fundamentals; the present projections suggest overvaluation in the range of 16–39 percent. Interpretation of these results is, however, complicated by the surge in imports and direct foreign investment in the mineral sector, which produces temporarily inflated (but financeable) current account deficits during 2012–15 that, in turn, explain the estimates of overvaluation. The staff assessment is that there is not serious misalignment of the real exchange rate at this juncture, although the situation will need to be kept under review over time. The fact that the premium between the market and official rates shrank from 30 percent in early 2011 to almost nil at year-end provides supporting evidence that the exchange rate is not seriously over-valued at this juncture.

Beyond the assessment of the exchange rate, structural bottlenecks are considered to be a key element in holding back Guinea's competitiveness. The country's long history of weak governance has played an important role in slowing the pace of development of Guinea's rich natural resource endowment. This is compounded by a poor infrastructure, including severe power shortages and an inadequate road network. Reflecting these factors, out of 183 countries, Guinea ranked 164 on the Corruption Perception Index and 179 on the Doing Business Indicator in 2011. It also ranked last in the sub-Saharan Africa region on investor protection.

1/ The MB methodology compares the projected medium-term current account balance with a "current account norm" estimated from the macroeconomic fundamentals; the EREER methodology estimates an equilibrium real exchange rate as a function of the macroeconomic fundamentals; the ES methodology employs as a benchmark the current account balance required to stabilize the net foreign asset position at its current level.

D. Structural Reform: Improving the Business Climate and Mobilizing Guinea's Natural Resources Wealth

19. **Discussions on structural reform focused on preparing the country to manage the prospective large inflows of mining resources (MEFP ¶ 22, 44)**. Staff and authorities concurred that, to avoid Dutch disease-type effects of large mining sector inflows and foster inclusive growth, structural reforms should focus on removing deep-rooted bottlenecks to investment and growth, including poor governance arrangements and a weak judicial system, severe power shortages, and an inadequate road infrastructure. In addition to increasing spending on education and health and strengthening government services, including by utilities (MEFP ¶48–50), the authorities intend to implement a comprehensive action plan to improve the business climate and governance (MEFP ¶53). The authorities noted that the reform agenda was ambitious but took adequate account of the existing weaknesses in administrative capacity.

20. **Government policy focuses on developing Guinea's large potential in mining (MEFP ¶45-47), hydroelectricity (MEFP ¶ 48–49), and agriculture (MEFP ¶51–52)**. While it will take time to strengthen institutions and technical capacity, these sectors offer "quick-wins" for economic growth, government revenue and employment. In the mining sector, reforms aim at raising its contribution to government revenue and at enhancing its attractiveness to foreign investors by improving transparency and ensuring a level playing field. Electricity sector reform will focus on improving supply and strengthening management and financial viability of the EDG and developing Guinea's large hydroelectric power potential. Reform efforts in the agricultural sector—which provides employment and income to the bulk of the population—will aim at ensuring food security and improving its competitiveness.

21. **The government also believes that Guinea's financial sector needs to play a larger role in the economy**. Credit to the private sector stagnated at around 5 percent of GDP for much of the last decade. During the second half of 2011, private sector credit growth accelerated sharply to around 70 percent year-on-year, largely due to an increase in demand for trade credit. While the level of nonperforming loans remains modest, the foundations of the banking system are weak, as reflected in preliminary financial soundness indicators prepared by the BCRG (Table 6), which show several banks failing to meet minimum capital requirements and high levels of risk concentration, particularly to oil importers. Staff supported efforts to quickly rebuild banking supervisory capacity and strengthen the regulatory framework (MEFP ¶ 41), with technical assistance from the Fund and Banque de France. The BCRG is to develop a comprehensive financial sector development plan during 2012. In the context of weak governance and institutions, and significant production of precious minerals, an effective implementation of the AML/CFT regime would contribute to improve the business climate and to enhance transparency and revenue collection in the gold and diamond sectors. Guinea's AML/CFT regime will be assessed by GIABA, a FATF-style regional body, in June 2012.

E. Debt Restructuring and Debt Sustainability

22. **The authorities attach great importance to attaining the HIPC completion point as soon as possible**. The updated debt sustainability analysis for low income countries (LIC DSA)[7] shows that, while Guinea has been in debt distress, the anticipated debt relief at the completion point would reduce the debt stock to a sustainable level. Following approval of the ECF arrangement, the authorities intend to seek a rescheduling from Paris Club creditors and other external official bilateral and commercial creditors, and have initiated discussions to that end.

23. **Guinea has made good progress with the implementation of the HIPC completion point triggers (MEFP ¶15)**. The PRSP 2007–10, as extended for 2011–12, has been implemented since early 2011 and informed the government's medium-term policies; a full-year report on its implementation is expected to be completed by end-March 2012.[8] Two remaining measures—the audit of large public procurement contracts and an update of the poverty database—are being completed with support from the World Bank and other donors. The completion point could be reached later in the second half of 2012 following at least six months of satisfactory performance under the ECF arrangement. By that time, the authorities also intend to have prepared a new PRSP covering the period 2013–15, preparations for which have started.

24. **The authorities stated that they have not yet made a decision on government participation in mining-related projects**, **which could involve very large financing needs**. Admitting that it would be difficult to find concessional financing for such large amounts, they indicated that they were investigating the possibility of public-private partnerships. The authorities agreed with staff on the importance of maintaining medium-term debt sustainability and on ensuring that the terms on any new debt should be concessional; they are committed to discussing possible new large borrowings, including for hydroelectricity projects, with the staffs of the Fund and the World Bank to ensure that post-HIPC debt sustainability indicators are met (MEFP ¶ 56).

IV. Discussions on an ECF-Supported Program

25. **The government's medium-term program (January 2012–December 2014)**, **for which it requests support under the ECF**, **seeks to address the development challenges outlined in Section III**. Building on the progress made under the SMP in 2011,

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[7] See supplement on Debt Sustainability Analysis.

[8] Work on an extension of the PRSP started in 2010 with support from the United Nations Development Program (UNDP) and the World Bank. The new government accepted the extended PRSP as the basis for its development policies in January 2011 and the document was presented to the interim parliament and the social and economic council in February and is published on www.srp-guinee.org.

fiscal and monetary policy aim at achieving a rapid decline in inflation to 12 percent year-on-year by end-2012 and a gradual decline into single digits thereafter. International reserves, which were boosted by the 2011 windfall revenue, will be negatively affected by the subsequent use of these resources over the program period, which will be partly offset by the support under the ECF; gross official reserves are targeted to remain at a level at least equivalent to 2.5 months of imports by end-2014. With regard to structural reform, many of the sector action plans will be completed during 2012 with implementation in ensuing years.

A. Fiscal Policy

26. **Fiscal policy will be guided by the need to maintain expenditure within the constraints of the objective for net domestic financing and limited availability of external financing while ensuring (post-HIPC) debt sustainability (MEFP ¶ 23–24**, **Text Table 2)**. Revenue is expected to benefit from the implementation of a plan for reforming tax policy and tax administration (a structural benchmark for end-June 2012), to be adopted by the government by mid-2012 (MEFP ¶ 25–26). On the expenditure side, policies aim at (i) containing the wage bill by reforming the civil service, supported by the World Bank (MEFP ¶ 29–30); and (ii) reducing subsidies (MEFP ¶ 31–32) while using the windfall revenue to increase infrastructure spending (MEFP ¶ 33). Driven by a sharp increase in domestically-financed investment expenditure and higher outlays on subsidies, the budget's basic balance deficit is projected to increase in 2012. Staff is of the view that, while there are some risks, the temporary increase is warranted given Guinea's urgent need to rebuild infrastructure and boost output and employment in agriculture. For one, the two large electricity sector projects that account for the sharp increase in investment outlays in 2012 are a key component of a donor-endorsed reform of the electricity sector, while allocations for subsidies are inflated by one-off outlays for legislative elections and transfers to the electricity company and agricultural subsidies that are the subject of reform measures during 2012. The basic balance deficit is projected to fall sharply in 2013 (by 3 points of GDP) as these exceptional outlays end.

27. **The overall deficit (including grants), moving largely in line with the basic balance**, **would decline sharply to 3.4 percent GDP in 2013 and remain at about that level over the medium term**. The projected deficit should be financeable from disbursements of existing loans, new concessional resources, debt relief, and the drawdown of bank deposits. This would help ensure fiscal and external sustainable positions; to anchor fiscal policy, a small basic primary surplus is projected beginning in 2013, which would generate resources to service interest payments. Net domestic bank financing will be limited to the drawdown of deposits from mining sector windfall revenue. Attainment of the HIPC completion point is estimated to result in debt relief of about 2.6–2.7 percent of GDP in 2013–14.

Text Table 2: Guinea: Fiscal Developments and Projections, 2010–14
(Percent of GDP)

	2010	2011 Prog.	2011 Est.	2012	2013	2014
Revenue	15.3	17.2	17.7	18.8	19.5	19.8
Non-mining revenue	11.5	13.0	13.2	15.1	15.6	15.9
Grants	0.4	3.5	3.4	3.2	3.0	3.1
Current expenditures	20.5	16.3	16.0	16.8	15.9	15.5
Wages and salaries	5.7	6.2	5.4	5.3	5.3	5.1
Goods and services	9.4	4.9	5.6	5.5	5.4	5.3
Subsidies and transfers	3.4	3.5	3.3	4.1	3.6	3.6
Interest on domestic debt	1.3	0.9	0.9	0.9	0.9	0.9
Interest on external debt	0.7	0.8	0.9	1.0	0.8	0.7
Investment expenditures	9.1	6.7	8.1	11.9	10.0	11.0
Domestically-financed	8.1	3.7	5.1	6.8	5.0	5.9
Externally-financed	1.0	3.0	3.0	5.1	5.0	5.1
Base balance	-12.6	-2.0	-2.5	-3.8	-0.7	-0.9
Overall balance	-14.0	-2.4	-2.9	-6.7	-3.4	-3.7
Domestic financing	14.0	3.4	4.5	5.7	1.6	1.5
External financing	0.2	-0.9	-1.5	0.9	1.8	2.1

Sources: Guinean Authorities and Fund staff projections

28. **The budget for 2012 was approved in line with the program (prior action)[9] by the interim parliament in December**. The main features are:

- *An increase in revenue in percent of GDP,* helped by the gradual closing of the gap between retail fuel prices and costs and the re-instatement of the monthly automatic adjustment mechanism for fuel prices by mid-2012 (structural benchmark for July 1, 2012). Administrative reforms planned for 2012 (MEFP¶ 27) are expected to boost revenue in following years.

- *The wage bill is to decline slightly as a share of GDP*. The effect of a general wage increase of about 10 percent in January 2012 and some planned new hiring in priority sectors is partly offset by savings from the retirement of almost 4,000 military in December 2011 and the removal of some 2,000 ghost workers from the payroll.

- *The increase in outlays on subsidies and transfers mainly reflects additional subsidies to the electricity company and the agricultural sector* (MEFP ¶ 31–32). Pending reform of the state-owned electricity company *Electricité de Guinée* (EDG) (MEFP ¶ 48–49), the government plans to provide a subsidy of about 0.6 percent

[9] Adoption of the 2012 budget as agreed with staff constituted a prior action for Board approval of the ECF arrangement.

of GDP in 2012 to finance the operating costs of additional thermal generating capacity. Subsidies to the agricultural sector are budgeted to increase by more than 30 percent, to almost 0.9 percent of GDP. However, reforms to be developed with external partners could lead to substantially lower net subsidies to the sector later in 2012 (MEFP ¶ 32, 51–52).

- *The budget includes a sharp increase in capital expenditure, financed by the 2011 windfall revenue and by renewed donor support*. Almost two-thirds of domestically-financed investment in 2012 (equivalent to $214 million) is to be financed from the 2011 windfall revenue; the bulk of this is in the electricity sector. Project financing by donors, notably the European Union (EU) and the World Bank, is also expected to rise sharply.[10]

29. **The deficit on the basic balance of 3.8 percent of GDP in 2012 is expected to be financed mainly by domestic resources and debt relief (MEFP ¶ 34)**:

- *Total domestic financing amounts to 5.7 percent of GDP*. Of this, 3.8 percent of GDP reflects the use of some of the 2011 windfall revenue (with a further amount—$250 million—of this revenue to be deposited in the Special Investment Fund—Box 4). The authorities expect additional exceptional mining sector revenue of at least $250 million (4.5 percent of GDP), half of which will, in the absence of external budget support, be used to finance the deficit, and the other half will be deposited in the Special Investment Fund.[11]

- *The 2012 budget does not anticipate new external budget support, which amounted to 2.3 percent of GDP in 2011.*

- *External debt service due in 2012 before new debt relief is projected at 4.1 percent of GDP*. Including the clearance of outstanding arrears, the overall financing gap would be 8.8 percent of GDP, which is expected to be filled by new debt relief (including HIPC and MDRI).

[10] A small part (about 15 percent) of the EU assistance is conditional upon the holding of parliamentary elections, which is also an important condition for the organization of a donor conference.

[11] The program targets will be partially adjusted in case of excess or a shortfall of new exceptional revenue (Technical Memorandum of Understanding, ¶ 20).

30. **With regard to public financial management**, the government intends to bring its legislative and legal framework in line with international and regional practices (MEFP ¶ 35–36). Drawing on recent technical assistance, measures planned for 2012 include the preparation of a new framework budget law; a new public procurement code; and new general government accounting regulations and chart of accounts.

Box 4. Public Investment and the Special Investment Fund (SIF)

The Guinean authorities face a challenge particular to low-income countries with large, non-renewable natural resource revenues: how to balance savings, investment, and consumption to maximize growth, while respecting the constraints on both the government's capacity to identify and execute high-return investment projects and the absorptive capacity of the economy in the short term.

The government collected an unexpected windfall of $700 million of one-off mining revenue in May 2011. Of this sum, the government committed $185.5 million in the 2011 budget, $145 million of which for urgent public investments, mostly in the electricity sector. The 2012 budget provides $214 million of these resources for public investment, again primarily in electricity. Also, $50 million may be committed to a possible recapitalization of the BCRG later in 2012. The authorities intend to reserve the remaining $250 million to help finance their medium-term public investment program (PIP) which is to be finalized by end-September 2012 (a structural benchmark under the ECF-supported program).

To strengthen control over the balance of the 2011 one-off revenue, and possible future one-off revenue, the 2012 budget law created a Special Investment Fund (SIF—MEFP Box 2). The SIF will take the form of a budgetary account in Guinea francs at the central bank; the counterpart in foreign exchange will be an integral part of the BCRG's international reserves. The SIF will be a source of funds for on-budget public investment projects, subject to *additional* governance and transparency requirements, beyond the general rules of public financial management.

The authorities, in consultation with Fund and World Bank staff, plan to adopt implementing texts that set criteria for SIF operations (structural benchmark for end-March 2012), including rules on deposits and commitments after 2012. The government will establish a SIF Steering Committee, with representatives of civil society and donors, to provide an additional check on the cost-effectiveness and financial sustainability of proposed projects. Foreign reserve management will take the projected use of the SIF financing into account (for which the BCRG has requested technical assistance from the World Bank). Once the implementing texts are adopted, the remaining $250 million of the 2011 one-off revenue will be transferred to the SIF.

The 2012 budget foresees additional one-off mining revenue of $250 million. The first $125 million collected will be available for general budget financing and the next $125 million will be transferred to the SIF. In the event that one-off revenues exceed the budget forecast, at least 75 percent of any amount beyond $250 million would also be transferred to the SIF.

B. Monetary and Exchange Policy

31. **The main objective of the BCRG's monetary policy is to reduce inflation through an orderly unwinding of the economy's remaining excess liquidity (MEFP ¶ 37)**. Developments in inflation and the stabilization of the market exchange rate by end-2011 indicate that the present policy stance is adequate. Nevertheless, the stock of broad money remains at historically high levels in relation to GDP and the BCRG stands ready to further tighten policy to achieve the inflation target, guided by its objective to achieve a decline in reserve money during 2012. To this end, in addition to using foreign exchange sales to absorb excess liquidity, the BCRG intends to further develop its range of instruments (MEFP ¶ 38). The authorities also plan to strengthen the BCRG's capital position in conjunction with accounting improvements and adoption of the International Financial Reporting Standards (MEFP ¶ 43).

32. **The much improved level of international reserves has increased the scope for their use to support monetary policy** (MEFP ¶39–40). In determining the size of the weekly foreign exchange auctions, the BCRG intends to take into account the possible need to offset the effect on domestic liquidity of the drawdown of the government deposits stemming from the 2011 windfall revenue, within the constraints of its international reserve target and Guinea's external competitiveness.

C. Structural Reforms

33. The reform agenda, which is in line with the extended PRSP, includes:

- **In the mining sector (MEFP ¶ 45–47)**, the process of adoption and publication of the implementing orders for the new mining code and a standard binding contract is to be completed by June 2012 (structural benchmark); there would be consultation with Fund staff before adoption of any amendments to the new mining code that would affect tax revenue (structural benchmark). The authorities will review and may renegotiate the existing mining concessions. Guinea is also pursuing its reintegration into the Extractive Industries Transparency Initiative process.

- **In the electricity sector (MEFP ¶ 48–49)**, the authorities' first priority is to reduce the severe shortages by adding generating capacity and strengthening the EDG. Following the recent round-table conference with donors to define the sector reform program (prior action), the government expects to adopt a comprehensive plan for the sector by end-March 2012 (structural benchmark). This plan will also focus on developing Guinea's abundant hydroelectric potential, including by reforming the institutional and legal framework by upgrading the law on public-private partnerships to international best practices.

- **Reform in the agricultural sector** will be based on a National Plan for Agricultural Investment and Food Security (PNIASA) (MEFP ¶ 51–52). This plan is expected to be approved by government early in 2012 and aims at ensuring food security by 2014 and becoming a food exporter thereafter. The authorities intend to gradually reduce input subsidies through harmonizing methods and procedures for assistance to the agricultural sector with those used by the World Bank and IFAD, staring with the 2012 agricultural season (structural benchmark for end-March 2012).

34. **Other reforms will be geared toward improving Guinea's general business environment (MEFP ¶ 53)**. The authorities attach great importance to raising Guinea's ranking under the World Bank Doing Business Indicators (179 out of 182). Policies will aim at streamlining the investment approval process; promoting private sector investment; reinforcing the judiciary by increasing its independence and through training; and the National Governance and Anti-Corruption Agency by adopting the anti-corruption law.

V. PROGRAM DESIGN, FINANCING, AND RISKS

A. External Arrears and Program Financing

35. **Guinea has arrears to official bilateral and commercial creditors**, **which it intends to regularize**, **and the program assumes a treatment of all arrears (MEFP ¶10**, **55)**. Guinea cleared its external debt service arrears with multilateral creditors during the first three quarters of 2011.[12] Discussions between the authorities and Paris Club creditors are underway, paving the way for negotiations with the authorities on a rescheduling of external debt service arrears and maturities by the end of April, and the staff is of the view that financing assurances for the program will be in place by mid-February. The authorities are also to approach other official bilateral creditors for a rescheduling of maturities and arrears on terms comparable to Paris Club creditors and in the context of the HIPC initiative. The government continues to be committed to engaging in good faith and collaborative discussions with it external commercial creditors with a view to reaching agreement on debt relief through an open and transparent dialogue based on the principle of inter-creditor equity. Staff believes that the government's strategy is consistent with the "good faith" criterion of the Fund's lending into arrears policy.

36. **External financing difficulties reflected**, **in part**, **the need to clear arrears with multilateral creditors and to rebuild official reserves from the very low level at end-2010**. While the international reserves position improved substantially in 2011 because of the windfall revenue, these resources will be depleted again over time as they are used to finance much needed public investment in support of the poverty-reduction policies. As a

[12] Guinea obtained financing assurances from the European Commission regarding remaining arrears on a European Development Fund loan managed by the European Investment Bank, which provides for their clearance when the HIPC completion point is reached.

result, notwithstanding a resumption of external financial support, primarily from multilateral creditors, external debt service arrears continued to be accumulated by the authorities.

37. **Looking forward**, **financing gaps during 2012–15 are expected to be filled by debt rescheduling and multilateral support**. Following substantial external budget support in 2011 from multilateral creditors to facilitate arrears clearance operations, support is expected to be primarily in the form of budget project grants and loans in the coming years. The bulk of debt relief is expected in 2012, reflecting the restructuring of arrears, and thereafter the projected HIPC completion point and provision of relief under the MDRI in the latter half of 2012. Some 90 percent of external debt (including arrears) is held by multilateral and Paris Club creditors who have signaled their intention participate under the enhanced HIPC Initiative. For other creditors, some have already signaled their willingness to participate and the authorities are engaging in a collaborative approach with the remainder to obtain their participation. With respect to the HIPC completion point triggers, those that still have to be met, including satisfactory performance under the program, are expected to be met in the latter half of 2012 (MEFP ¶15, 54). The remaining financing gaps are expected to be filled by disbursements under the ECF arrangement, and interim HIPC assistance (50 percent of eligible ECF principal repayment obligations in 2012).

B. Program Modalities

38. **The authorities have requested a three-year (2012–15) arrangement under the ECF**. Access is proposed at 120 percent of quota (SDR 128.52 million). This access is based on the staff's assessment of the overall financing needs (Table 7), and is consistent with the access norm for a country with outstanding credit below 100 percent of quota (Guinea's current outstanding credit is 25.3 percent of quota). Disbursements would be phased in equal semiannual tranches subject to completion of reviews (Table 8). Fund support would help maintaining an adequate reserve level as the 2011 windfall revenue is gradually used for growth-enhancing investment and catalyze support from donors, including through debt relief, and would permit the resumption of interim HIPC assistance from the IMF. The authorities have requested an allocation of interim HIPC assistance in the amount of SDR 1.2852 million, which would cover eligible debt service in 2012. Guinea has a track record of meeting its obligations to the Fund and an adequate capacity to pay (Table 9), which would be further strengthened, provided the country takes the needed action to secure HIPC debt relief. Program performance would be monitored on the basis of quantitative indicators (Table 10) and structural benchmarks (Table 11).

39. **The main risks to the program are domestic and reflect the post-conflict environment**. Progress has been made in returning to constitutional rule and improving the security situation. Nevertheless, the political situation remains fragile and the successful completion of the election cycle will be important. The government has tight financial constraints yet faces large potential resource needs to address urgent energy sector and infrastructure needs. In addition, tangible benefits from improved fiscal management and

reining in inflation are only beginning to emerge, testing the public's demanding expectations.[13] In this regard, the recent progress in expanding electricity supply and prospective decline in inflation bodes well. Lack of policy coordination and weak technical capacity will test the government's capacity to implement its ambitious development plans. However, the government has demonstrated a willingness to involve the donor community in its investment plans and is benefiting from the resumption of large-scale technical assistance, including from the Fund. Guinea also remains vulnerable to external shocks, particularly in the mining sector, food price increases, and a prolonged global slowdown in growth.

40. **Preliminary findings of an update of the 2007 safeguards assessment indicate that the governance and safeguards frameworks of the BCRG continue to require strengthening**. The January 2012 safeguards mission found limited capacity and infrastructure to manage reserves, a weak internal control environment, and shortcomings related to monetary data compilation. The mission proposed that, to mitigate risks to the prospective ECF-supported program, external auditors should continue to verify monetary data at test dates, the BCRG should publish audited annual financial statements within statutory deadlines (immediately for 2010—prior action), and the Board should approve an investment policy and guidelines (structural benchmark).

41. **Guinea's data provision has some shortcomings, but is broadly adequate for surveillance**. The authorities are resuming efforts, interrupted in 2009, to improve their capacity to compile and disseminate data. Data deficiencies include delays in the monetary survey (specifically, commercial banks), discrepancies between the monetary survey and the monthly fiscal accounts (which introduce uncertainty regarding the policy stance and routinely require considerable staff effort to reconcile), and the lack of standard financial soundness indicators. Guinea participates in the GDDS.

VI. Staff Appraisal

42. **The authorities have made strong progress in addressing the serious imbalances inherited from the 2009–10 military regime**. The new government's immediate and decisive actions to bring the fiscal situation under control were crucial in stabilizing inflation and the exchange rate. The improving political and governance environment was a major factor in the resumption of economic growth and renewed investor interest in developing Guinea's abundant natural resources. As a result, the country's medium-term outlook improved significantly during 2011.

[13] The World Bank is preparing a social safety net operation consisting of (i) income generating activities through labor intensive public works programs; (ii) addressing child malnutrition and girls' school dropouts; and (iii) institutional capacity building.

43. **Performance under the SMP has been good, notwithstanding some implementation difficulties**. While capacity constraints at times tested the authorities' ability to hold firmly to the goals of the SMP, performance remained on track: quantitative targets for June and September were met with substantial margins and the authorities made good progress with structural reform. Despite a shortfall in budget support and notwithstanding urgently needed additional investment expenditure, provisional data indicate that performance was also close to the program targets for end-December, while the adjustment in current expenditure—weeding out the excesses from 2009–10—was better than projected for 2011.

44. **Short-term policies rightly focus on reducing the still-high inflation rate**. Key in this regard will be close coordination of fiscal and monetary policies. Fiscal policy should aim at limiting net domestic bank financing of the government to the gradual drawdown of the deposits of the 2011 windfall revenue. The central bank should stand ready to counter a possible resulting increase in domestic excess liquidity by associated foreign exchange sales.

45. **The authorities should continue to improve transparency in the determination of the exchange rate and eliminate the existing multiple currency practice**. This will help build confidence in the Guinean franc and create a sound basis for successful reform of the foreign exchange market. Over the medium-term, the adoption and implementation of a comprehensive financial sector development plan will be important for supporting diversified economic growth. In this regard, the central bank's progress in rebuilding its capacity in banking supervision is encouraging.

46. **There is an urgent need for structural reforms that would allow Guinea to reap the maximum benefits from the development of its abundant natural resources**. The large new investments in the mining sector raise prospects of higher economic growth but Guinea's weak institutions and technical capacity could constrain the contribution of this growth to wide-spread poverty reduction. The government's structural reform agenda aims at removing bottlenecks in the economy to minimize the effects on competitiveness of other sectors once revenue from mining takes off. Given the limited implementation capacity, it will be important for the authorities to prioritize reforms, favoring those that provide quick returns for growth and poverty reduction; in this regard, a strong technical assistance effort by the development partners is essential.

47. **The 2011 windfall revenue and possible new such revenue in the future should be used cost-effectively and sustainably**. The recent establishment of a special investment fund was an important step as it should increase scrutiny of large investment projects. Staff stands ready, in coordination with the World Bank, to assist the authorities in developing the regulatory framework for the fund; this framework should cover all substantial windfall revenue and include clear rules for its use to help ensure transparency and good governance. Given Guinea's infrastructure needs, staff supports the gradual use of this revenue over the medium-term. The authorities are working closely with development partners to develop

sectoral action plans, most recently in the case of the electricity sector. Staff encourages the authorities to develop a comprehensive medium-term public investment program during 2012 in the context of a new PRSP.

48. **The authorities' ambition to participate directly in the large new mining and related infrastructure projects is understandable**. Nevertheless, the potential financing needs for government participation over and beyond a non-contributing share in these projects, as well as for large prospective hydroelectric projects, are very large and concessional financing will be difficult to find. It is vital that the authorities avoid non-concessional financing and maintain medium-term debt sustainability and staff recommends that the authorities seek assistance from the Fund and the World Bank before committing to possible new large debt. Given the challenges, the authorities should give high priority to strengthening debt management.

49. **Staff supports the authorities' request for assistance under the ECF in the amount of 120 percent of quota and for further interim HIPC assistance**. The ECF arrangement will allow Guinea to maintain an adequate level of international reserves as the 2011 windfall revenue from the mining sector is being used over the medium-term to finance urgently needed public investment. Guinea is a fragile state and there remain considerable risks of political instability in the run-up to legislative elections in 2012 and as long as the reform of the security sector is not completed. Moreover, Guinea remains vulnerable to declines in mineral prices, which would reduce government revenue and might delay the new investment in the sector. Nevertheless, the authorities' commitment to strong fiscal management and the much improved external reserves position mitigate these risks.

50. **It is proposed that during the ECF arrangement Guinea stay on a 24-month Article IV cycle in accordance with the decision on consultation cycles**.[14]

[14] Decision No. 14747-(10/96) (9/28/2010).

Table 1. Guinea: Selected Economic and Financial Indicators, 2008–16

	2008	2009	2010	2011			2012	2013	2014	2015	2016
				Prog.	Est Sep	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)										
National accounts and prices											
GDP at constant prices	4.9	-0.3	1.9	4.0		3.6	4.7	4.8	5.0	19.8	19.9
Excluding large mining project 1/	4.9	-0.3	1.9	4.0		3.6	4.7	4.8	5.0	5.0	5.0
GDP deflator	14.1	6.8	20.2	19.6		21.0	12.3	7.9	5.8	5.4	5.2
GDP at market prices	19.7	6.5	22.5	24.3		25.3	17.6	13.1	11.2	26.3	26.2
Consumer prices											
Average	18.4	4.7	15.5	19.6	21.1	21.4	15.0	11.2	7.3	6.0	5.9
End of Period	13.5	7.9	20.8	17.1	21.0	19.0	12.0	8.7	6.2	5.9	5.9
External sector											
Exports, f.o.b. (in US$ terms)	28.2	-21.3	15.3	17.9		11.7	11.4	3.5	5.4	74.3	51.9
Imports, f.o.b. (in US$ terms)	12.2	-19.8	28.2	28.5		18.3	72.3	10.6	3.6	15.2	8.6
Average effective exchange rate (depreciation -)											
Nominal index	-13.4	3.3	17.0	…		…	…	…	…	…	…
Real index	-2.2	7.1	8.2	…		…	…	…	…	…	…
Money and credit											
Net Foreign Assets 2/	14.3	4.7	-5.5	43.4	49.1	36.9	-9.6	…	…	…	…
Net Domestic Assets 2/	24.7	21.2	79.9	-36.6	-37.8	-21.4	15.6	…	…	…	…
Net Claims on government 2/	20.8	28.7	67.9	-38.0	-47.6	-30.1	5.4	…	…	…	…
Credit to nongovernment sector 2/	1.9	3.1	8.9	3.5	10.4	11.1	12.7	…	…	…	…
Reserve Money	13.8	81.7	73.0	1.7	-1.7	4.4	-7.5	…	…	…	…
Broad money (M2)	39.0	25.9	74.4	6.8	11.2	15.5	6.1	…	…	…	…
Interest rate (short term T-bill)	21.5	15.0	13.0	...	13.0	13.0	...	...	...	...	...
	(Percent of GDP)										
Central government finances 3/											
Total revenue and grants	16.1	16.5	15.7	20.7	15.0	21.1	22.0	22.5	22.9	25.2	26.8
Revenue	15.6	16.2	15.3	17.2	12.5	17.7	18.8	19.5	19.8	22.9	24.9
Of which: nonmining revenue	12.1	12.9	11.5	13.0	9.2	13.2	15.1	15.6	15.9	16.2	17.3
Grants	0.5	0.4	0.4	3.5	2.5	3.4	3.2	3.0	3.1	2.3	2.0
Total expenditure and net lending	17.5	23.7	29.7	23.1	13.8	24.1	28.7	25.9	26.6	28.7	30.3
Current expenditure	13.4	16.5	20.5	16.3	11.3	16.0	16.8	15.9	15.5	15.1	14.5
Of which: interest payments	2.6	2.1	2.0	1.8	1.1	1.8	1.8	1.6	1.6	1.5	1.0
Capital expenditure and net lending	4.0	7.2	9.1	6.7	2.6	8.1	11.9	10.0	11.0	13.7	15.7
Overall budget balance 4/											
Including grants (commitment)	-1.3	-7.1	-14.0	-2.4	1.2	-2.9	-6.7	-3.4	-3.7	-3.5	-3.4
Excluding grants (commitment)	-1.8	-7.5	-14.4	-5.9	-1.3	-6.4	-9.9	-6.4	-6.7	-5.8	-5.4
Basic fiscal balance	1.6	-5.6	-12.6	-2.0	0.6	-2.5	-3.8	-0.7	-0.9	0.2	1.7
National accounts											
Gross capital formation	17.5	11.4	10.6	18.1		15.0	37.3	44.1	43.9	33.7	17.7
Domestic savings	12.4	7.2	2.4	8.0		5.8	6.2	9.3	10.0	17.7	18.6
Current account balance											
Including official transfers	-10.3	-9.9	-12.4	-9.7		-6.6	-34.9	-38.8	-37.9	-19.1	-1.8
Excluding official transfers	-10.7	-9.9	-12.4	-12.1		-8.9	-35.0	-38.8	-37.9	-19.1	-1.8
Overall balance of payments	-0.9	5.3	-3.6	11.3		9.5	-5.9	-4.0	-4.0	3.2	0.8
	(US$ millions, unless otherwise indicated)										
Memorandum Items:											
Exports f.o.b.	1,470.8	1,157.4	1,334.9	1,508.6		1,490.6	1,660.8	1,718.2	1,811.8	3,158.9	4,798.0
Imports f.o.b.	1,366.1	1,096.1	1,404.9	1,677.0		1,661.4	2,862.5	3,165.3	3,279.2	3,777.2	4,103.4
Overall balance of payments	-42.4	245.9	-177.8	527.1		497.7	-323.7	-227.6	-241.3	232.0	69.5
Net foreign assets (central bank)	-14.1	97.9	44.3	603.6	754.4	590.6	381.6	357.3	324.8	684.4	843.7
Gross available reserves (months of imports) 5/	0.6	0.8	0.8	5.5	5.9	4.5	3.3	3.3	3.1	4.1	5.2
External debt stock (percent of GNFS exports)	197.6	261.2	225.0	200.6		200.1	169.8	162.9	154.5	90.7	63.3
Nominal GDP (GNF billions)	20,780	22,133	27,118	33,145		33,973	39,944	45,184	50,225	63,442	80,039

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

1/ Growth of GDP excluding the large iron ore project of Simandou, expected to start production in 2015.

2/ In percent of the broad money stock at the beginning of the period.

3/ Figures in 2015-16 are in percent of GDP excluding the large iron ore project of Simandou.

4/ The one-off mining revenue in 2011 is included under non-bank financing.

5/ In months of imports excluding imports for large foreign-financed mining projects.

Table 2a. Guinea: Fiscal Operations of the Central Government, 2008–16
(Billions of Guinean franc)

	2008	2009	2010	2011			2012	2013	2014	2015	2016
				Prog.	Est Sep	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	3,352	3,662	4,258	6,848	5,092	7,173	8,798	10,156	11,509	14,028	16,542
Revenue	3,249	3,582	4,155	5,687	4,245	6,012	7,526	8,795	9,968	12,742	15,336
Mining sector	738	725	1,032	1,383	1,117	1,518	1,489	1,741	1,981	3,741	4,648
Non-mining sector	2,511	2,857	3,123	4,303	3,128	4,494	6,037	7,054	7,987	9,000	10,689
Direct taxes	508	677	732	934	810	976	1,168	1,354	1,542	1,750	1,989
Indirect taxes	1,814	1,902	2,212	3,020	2,043	2,845	4,576	5,361	6,057	6,811	8,201
Taxes on goods and services	1,244	1,292	1,526	2,180	1,368	1,943	3,022	3,502	3,991	4,527	5,146
Taxes on international trade	570	610	685	840	675	902	1,554	1,858	2,067	2,284	3,055
Non-tax revenue	189	278	180	349	275	674	293	340	387	439	499
Grants	103	81	103	1,161	848	1,161	1,272	1,361	1,540	1,286	1,206
Project grants	103	81	103	381	262	381	1,223	1,361	1,540	1,286	1,206
Budget support	0	0	0	780	586	780	49	0	0	0	0
Total expenditures and net lending	3,627	5,240	8,049	7,650	4,698	8,175	11,465	11,703	13,343	15,970	18,663
Current expenditures	2,787	3,655	5,570	5,419	3,828	5,434	6,696	7,179	7,800	8,373	8,956
Primary current expenditures	2,237	3,195	5,023	4,838	3,464	4,837	5,961	6,436	7,016	7,551	8,337
Wages and salaries	860	1,109	1,551	2,061	1,319	1,824	2,124	2,384	2,559	2,754	3,062
Goods and services	988	1,361	2,546	1,618	1,319	1,891	2,182	2,423	2,666	2,869	3,130
Subsidies and transfers	388	725	926	1,159	826	1,122	1,655	1,629	1,792	1,928	2,144
Interest on debt	550	461	547	580	364	597	735	742	784	822	620
Domestic debt	274	326	356	304	168	304	352	398	442	489	298
External debt	276	135	191	276	196	293	383	345	341	333	322
Capital expenditures	837	1,577	2,479	2,227	870	2,737	4,759	4,512	5,529	7,582	9,690
Domestically financed	396	1,273	2,187	1,207	422	1,715	2,704	2,225	2,941	4,557	5,601
Capital transfer	5	19	13	15	8	17	16	19	21	23	25
Externally financed	436	285	279	1,006	441	1,006	2,039	2,269	2,567	3,002	4,063
Net lending & restructuring expenditure	3	8	0	4	0	4	11	12	14	15	17
Basic fiscal balance 1/	334	-1,239	-3,424	-663	183	-864	-1,518	-295	-466	106	1,058
in percent of GDP 2/	1.6	-5.6	-12.6	-2.0	0.5	-2.5	-3.8	-0.7	-0.9	0.2	1.7
Overall balance, commitment basis 3/											
Excluding grants	-379	-1,658	-3,894	-1,963	-453	-2,162	-3,939	-2,908	-3,374	-3,228	-3,326
Including grants	-276	-1,578	-3,791	-802	394	-1,001	-2,667	-1,547	-1,834	-1,942	-2,121
Financing	332	1,650	3,861	-1,966	-418	1,001	-857	376	493	1,015	1,241
Domestic financing	225	1,686	3,801	1,112	-102	1,525	2,291	720	755	776	-256
Bank financing	472	1,349	4,037	-3,943	-4,964	-3,120	650	913	966	1,009	0
Central bank, *of which*	50	1,364	2,871	-4,243	-5,087	-3,420	650	913	966	1,009	0
Special Investment Fund							-2,888	913	966	1,009	0
Commercial banks	422	-15	1,166	300	123	300	0	0	0	0	0
Nonbank financing	-247	337	-236	5,055	4,862	4,645	1,641	-193	-212	-233	-256
Privatization revenue	69	0	0	0	0	0	0	0	0	0	0
Amortization of domestic debt	-339	-39	-124	-206	-2	-206	-179	-197	-216	-238	-262
Change in arrears	-25	0	-157	0	0	0	0	0	0	0	0
Change in float	48	118	23	30	24	30	0	0	0	0	0
Exceptional revenue 3/	0	0	0	4,981	4,583	4,583	1,816	0	0	0	0
Other	0	258	22	251	185	237	4	4	4	5	5
External financing	108	-36	60	-3,077	-316	-524	-3,148	-344	-262	239	1,497
Drawings	333	204	177	624	517	624	815	907	1,027	1,715	2,858
Amortization due	-636	-443	-605	-1,151	-712	-1,166	-1,243	-1,252	-1,288	-1,476	-1,360
Debt relief and interim HIPC assistance	251	11	149	122	358	567	0	0	0	0	0
Change in arrears (- = reduction) 4/	159	192	340	-2,673	-478	-549	-2,721	0	0	0	0
Errors and omissions	-57	-73	-70	0	92	0	0	0	0	0	0
Financing gap	0	0	0	2,768		0	3,524	1,171	1,341	927	880
Possible financing (incl. debt relief) 5/				398		0	3,524	1,171	1,341	927	880
Of which: Debt relief and HIPC interim assistance 5/							3,524	1,171	1,341	927	880
Residual financing gap				2,369		0	0	0	0	0	0
Of which: forbearance on external debt				2,369		0					
Memorandum items:											
Nominal GDP	20,780	22,133	27,118	33,145	33,973	33,973	39,944	45,184	50,225	63,442	80,039
Nominal GDP excl. Simandou production	20,780	22,133	27,118	33,145	33,973	33,973	39,944	45,184	50,225	55,590	61,642

Sources: Guinean authorities; and Fund staff estimates and projections.
1/ Revenue minus expenditures excluding interest on external debt and foreign-financed investment.
2/ Figures in 2015-16 are in percent of GDP excluding the large iron ore project of Simandou.
3/ The one-off mining revenue in 2011 is included under non-bank financing.
4/ For 2011, the program assumed toleration of arrears by Paris Club and other bilateral creditors.
For the columns 2011 Est. Sep and 2011 proj, figures show actual accrual of arrears.
5/ For 2012 and following years, assumes Paris Club debt relief for end-2011 arrears and maturities falling due in 2012-14 on terms similar to those under the 2008 Paris Club agreement. Comparable terms are assumed for other bilateral creditors. HIPC/MDRI relief is assumed to be delivered effective October 2012.

Table 2b. Guinea: Fiscal Operations of the Central Government, 2008–16

(Percent of GDP, unless otherwise indicated)

	2008	2009	2010	2011			2012	2013	2014	2015	2016
				Prog.	Sep.	Est.	Proj.	Proj.	Proj.	Proj. 1/	Proj. 1/
Revenue and grants	16.1	16.5	15.7	20.7	15.0	21.1	22.0	22.5	22.9	25.2	26.8
Revenue	15.6	16.2	15.3	17.2	12.5	17.7	18.8	19.5	19.8	22.9	24.9
Mining sector	3.6	3.3	3.8	4.2	3.3	4.5	3.7	3.9	3.9	6.7	7.5
Non-mining sector	12.1	12.9	11.5	13.0	9.2	13.2	15.1	15.6	15.9	16.2	17.3
Direct taxes	2.4	3.1	2.7	2.8	2.4	2.9	2.9	3.0	3.1	3.1	3.2
Indirect taxes	8.7	8.6	8.2	9.1	6.0	8.4	11.5	11.9	12.1	12.3	13.3
Taxes on goods and services	6.0	5.8	5.6	6.6	4.0	5.7	7.6	7.8	7.9	8.1	8.3
Taxes on international trade	2.7	2.8	2.5	2.5	2.0	2.7	3.9	4.1	4.1	4.1	5.0
Non-tax revenue	0.9	1.3	0.7	1.1	0.8	2.0	0.7	0.8	0.8	0.8	0.8
Grants	0.5	0.4	0.4	3.5	2.5	3.4	3.2	3.0	3.1	2.3	2.0
Project grants	0.5	0.4	0.4	1.2	0.8	1.1	3.1	3.0	3.1	2.3	2.0
Budget support	0.0	0.0	0.0	2.4	1.7	2.3	0.1	0.0	0.0	0.0	0.0
Total expenditures and net lending	17.5	23.7	29.7	23.1	13.8	24.1	28.7	25.9	26.6	28.7	30.3
Current expenditures	13.4	16.5	20.5	16.3	11.3	16.0	16.8	15.9	15.5	15.1	14.5
Primary current expenditures	10.8	14.4	18.5	14.6	10.2	14.2	14.9	14.2	14.0	13.6	13.5
Wages and salaries	4.1	5.0	5.7	6.2	3.9	5.4	5.3	5.3	5.1	5.0	5.0
Goods and services	4.8	6.1	9.4	4.9	3.9	5.6	5.5	5.4	5.3	5.2	5.1
Subsidies and transfers	1.9	3.3	3.4	3.5	2.4	3.3	4.1	3.6	3.6	3.5	3.5
Interest on debt	2.6	2.1	2.0	1.8	1.1	1.8	1.8	1.6	1.6	1.5	1.0
Domestic debt	1.3	1.5	1.3	0.9	0.5	0.9	0.9	0.9	0.9	0.9	0.5
External debt	1.3	0.6	0.7	0.8	0.6	0.9	1.0	0.8	0.7	0.6	0.5
Capital expenditure	4.0	7.1	9.1	6.7	2.6	8.1	11.9	10.0	11.0	13.6	15.7
Domestically financed	1.9	5.8	8.1	3.6	1.2	5.0	6.8	4.9	5.9	8.2	9.1
Capital transfer	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Externally financed	2.1	1.3	1.0	3.0	1.3	3.0	5.1	5.0	5.1	5.4	6.6
Net lending & Restructuring expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Basic fiscal balance 2/	1.6	-5.5	-12.6	-2.0	0.5	-2.5	-3.8	-0.7	-0.9	0.2	1.7
Overall balance, commitment basis 3/											
Excluding grants	-1.8	-7.5	-14.4	-5.9	-1.3	-6.4	-9.9	-6.4	-6.7	-5.8	-5.4
Including grants	-1.3	-7.1	-14.0	-2.4	1.2	-2.9	-6.7	-3.4	-3.7	-3.5	-3.4
Financing	1.3	7.1	14.2	-5.9	-1.2	2.9	-2.1	0.8	1.0	1.8	2.0
Domestic financing (net)	0.8	7.3	14.0	3.4	-0.3	4.5	5.7	1.6	1.5	1.4	-0.4
Bank Financing	2.3	6.1	14.9	-11.9	-14.6	-9.2	1.6	2.0	1.9	1.8	0.0
Central bank, *of which*	0.2	6.2	10.6	-12.8	-15.0	-10.1	1.6	2.0	1.9	1.8	0.0
Special Investment Fund							-7.2	2.0	1.9	1.8	0.0
Commercial banks	2.0	-0.1	4.3	0.9	0.4	0.9	0.0	0.0	0.0	0.0	0.0
Nonbank financing	-1.5	1.2	-0.9	15.3	14.3	13.7	4.1	-0.4	-0.4	-0.4	-0.4
Privatization revenue	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of domestic debt	-1.6	-0.2	-0.5	-0.6	0.0	-0.6	-0.4	-0.4	-0.4	-0.4	-0.4
Change in arrears	-0.1	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	0.2	0.5	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Exceptional revenue 3/	0.0	0.0	0.0	15.0	13.7	13.5	4.5	0.0	0.0	0.0	0.0
Other	0.0	1.2	0.1	0.8	0.5	0.7	0.0	0.0	0.0	0.0	0.0
External financing	0.5	-0.2	0.2	-9.3	-0.9	-1.5	-7.9	-0.8	-0.5	0.4	2.4
Drawings	1.6	0.9	0.7	1.9	1.5	1.8	2.0	2.0	2.0	3.1	4.6
Amortization due	-3.1	-2.0	-2.2	-3.5	-2.1	-3.4	-3.1	-2.8	-2.6	-2.7	-2.2
Debt relief and interim HIPC assistance	1.2	0.0	0.5	0.4	1.1	0.3	0.0	0.0	0.0	0.0	0.0
Change in arrears (- = reduction) 4/	0.8	0.9	1.3	-8.1	-1.4	-0.2	-6.8	0.0	0.0	0.0	0.0
Errors and omissions			-0.3		0.1						
Financing gap	0.0	0.0	0.0	8.3		0.0	8.8	2.6	2.7	1.7	1.4
Possible financing				1.2		0.0	8.8	2.6	2.7	1.7	1.4
Of which: Debt relief and HIPC interim assistance 5/							8.8	2.6	2.7	1.7	1.4
Residual financing gap				7.1		0.0	0.0	0.0	0.0	0.0	0.0
Of which: possible forbearance on external debt				7.1							
Memorandum items:											
Nominal GDP (billions GNF)	20,780	22,133	27,118	33,145	33,973	33,973	39,944	45,184	50,225	63,442	80,039
Nominal GDP excl. Simandou production(bln GNF)	20,780	22,133	27,118	33,145	33,973	33,973	39,944	45,184	50,225	55,590	61,642

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

1/ Figures in 2015-16 are in percent of GDP excluding the large iron ore project of Simandou.

2/ Revenue minus expenditures excluding interest on external debt and foreign-financed investment.

3/ The one-off mining revenue in 2011 is included under non-bank financing.

4/ For 2011, the program assumed toleration of arrears by Paris Club and other bilateral creditors.

For the columns 2011 Est. Sep and 2011 proj, figures show actual accrual of arrears.

5/ For 2012 and following years, assumes Paris Club debt relief for end-2011 arrears and maturities falling due in 2012-14 on terms similar to those under the 2008 Paris Club agreement. Comparable terms are assumed for other bilateral creditors. HIPC/MDRI relief is assumed to be delivered effective October 2012.

Table 2c. Guinea: Statement of Operations of the Central Government 1/
(Billions of Guinean franc)

	2008 Real.	2009 Real.	2010 Real.	2011 Est.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
Revenue	3,352	3,662	4,258	7,173	8,798	10,156	11,509	14,028	16,542
Tax Revenues	3,060	3,304	3,975	5,339	7,233	8,455	9,581	12,302	14,837
Mining sector	738	725	1,032	1,518	1,489	1,741	1,981	3,741	4,648
Indirect taxes	1,814	1,902	2,212	2,845	4,576	5,361	6,057	6,811	8,201
Taxes on goods and services	1,244	1,292	1,526	1,943	3,022	3,502	3,991	4,527	5,146
Taxes on international trade	570	610	685	902	1,554	1,858	2,067	2,284	3,055
Direct taxes	508	677	732	976	1,168	1,354	1,542	1,750	1,989
Grants	103	81	103	1,161	1,272	1,361	1,540	1,286	1,206
Other revenue	189	278	180	674	293	340	387	439	499
Expenditure	3,625	4,975	8,027	3,351	9,635	11,687	13,325	15,950	18,641
Expense	2,793	3,675	5,583	5,451	6,712	7,198	7,821	8,396	8,982
Compensation of employees	860	1,109	1,551	1,824	2,124	2,384	2,559	2,754	3,062
Use of goods and services	988	1,361	2,546	1,891	2,182	2,423	2,666	2,869	3,130
Interest	550	461	547	597	735	742	784	822	620
Domestic	274	326	356	304	352	398	442	489	298
Foreign	276	135	191	293	383	345	341	333	322
Subsidies	77	168	294	282	351	378	415	447	497
Grants	125	272	254	465	783	611	672	723	804
Social benefits	100	141	167	164	275	318	349	376	418
Other expense	92	163	223	228	263	341	376	405	450
Net acquisition of nonfinancial assets	832	1,300	2,444	-2,100	2,922	4,489	5,504	7,554	9,659
Acquisitions of nonfinancial assets	832	1,558	2,466	2,721	4,742	4,493	5,508	7,559	9,665
Acquisitions of fixed assets, domestically financed	396	1,273	2,187	1,715	2,704	2,225	2,941	4,557	5,601
Acquisitions of fixed assets, externally financed	436	285	279	1,006	2,039	2,269	2,567	3,002	4,063
Disposals of nonfinancial assets	0	-258	-22	-4,820	-1,820	-4	-4	-5	-5
Gross Operating Balance	559	-12	-1,325	1,723	2,086	2,958	3,688	5,632	7,560
Net lending (+)/borrowing (–)	-273	-1,312	-3,769	3,822	-837	-1,531	-1,816	-1,922	-2,099
Net financial assets	-273	-1,312	-3,769	3,822	-837	-1,531	-1,816	-1,922	-2,099
Net acquisition of financial assets	3	8	0	3	11	12	14	15	17
Domestic	3	8	0	3	11	12	14	15	17
Net incurrence of liabilities	276	1,320	3,770	-3,819	847	1,543	1,829	1,937	2,115
Domestic 1/ 2/	168	1,356	3,709	-3,295	471	716	750	771	-262
Debt securities	-131	0	-157	0	0	0	0	0	0
Loans	238	1,310	3,913	-3,325	471	716	750	771	-262
Central bank	50	1,364	2,871	-3,420	650	913	966	1,009	0
Commercial banks	422	-15	1,166	300	0	0	0	0	0
Other	-233	-39	-124	-206	-179	-197	-216	-238	-262
of which: Amortization of domestic debt	-208	-39	-124	-206	-179	-197	-216	-238	-262
Equity and investment fund shares	69	0	0	0	0	0	0	0	0
Other accounts payable	-8	46	-47	30	0	0	0	0	0
Foreign	108	-36	60	-524	376	827	1,079	1,166	2,377
Loans, *of which*	108	-36	60	-524	376	827	1,079	1,166	2,377
Project	333	204	177	624	815	907	1,027	1,715	2,858
Amortization due	-636	-443	-605	-1,166	-1,243	-1,252	-1,288	-1,476	-1,360
Debt rescheduling	114	3	139	99	3,524	1,171	1,341	927	880
Change amort. arrears (- = reduction)	98	144	262	-81	-2,721	0	0	0	0

Sources: Guinean authorities and Fund staff estimates.

1/ Presentation according to the GFSM 2001.

Table 3a. Guinea: Central Bank and Deposit Money Banks Accounts, 2008–12 1/
(Billions of Guinean franc; unless otherwise indicated)

	2008	2009	2010	2011 Prog.	2011 Est	2012 Proj.
Central Bank						
Net foreign assets	-73	482	241	4,614	4,109	2,890
(US$ millions)	-14	98	44	604	591	382
Of which: net international reserves	-226	1,248	1,353	5,985	3,765	3,471
(US$ millions)	-44	253	222	783	541	458
Net domestic assets	2,293	3,553	6,741	2,488	3,178	3,854
Domestic credit	1,928	3,505	6,356	2,104	2,943	3,596
Claims on central government (net)	2,077	3,450	6,321	2,078	2,902	3,552
Of which: on the Treasury (PNT1)	2,241	3,618	6,489	2,246	3,069	3,720
Claims on private sector	9	10	6	6	6	6
Liabilities to deposit money banks (-)	-208	2	0	-10	-7	-5
Claims on other public sector	49	42	29	29	43	43
Other items, net (assets +)	365	48	384	384	235	259
Reserve Money	2,221	4,035	6,982	7,101	7,287	6,744
Currency outside banks	1,652	2,120	3,988	3,765	3,113	2,731
Bank reserves	537	1,885	2,961	3,302	3,939	3,968
Deposits	434	1,720	2,839	3,180	3,669	3,665
Required reserves	289	360	603	1,243	1,950	2,194
Excess reserves	145	1,360	2,236	1,938	1,719	1,471
Of which: in foreign exchange	102	111	136	158	194	211
Cash in vaults of deposit banks	103	164	122	122	271	303
Private sector deposits	32	30	33	34	234	45
Deposit Money Banks						
Net foreign assets	944	609	524	649	483	558
Bank reserves	537	1,885	2,961	3,302	3,939	3,968
Deposits at the central bank	434	1,720	2,839	3,180	3,669	3,665
Cash in vaults of deposits banks	103	164	122	122	271	303
Claims on central bank	208	-2	0	10	7	5
Domestic credit	1,690	1,829	3,541	4,199	4,981	6,508
Credit to the government (net)	714	699	1,865	2,164	2,164	2,164
Claims	825	816	1,936	2,235	2,235	2,235
Deposits	112	117	71	71	71	71
Claims on public enterprises	1	0	43	43	41	41
Claims on the private sector	975	1,129	1,633	1,993	2,777	4,303
Other items, net (assets +)	-338	-525	-678	-884	-784	-1,112
Liabilities to the private sector (deposits)	3,040	3,795	6,347	7,275	8,627	9,927

Sources: Guinean authorities; and Fund staff estimates and projections.
1/ End of period.

Table 3b. Guinea: Monetary Survey, 2008–12 1/

(Billions of Guinean franc; unless otherwise indicated)

	2008	2009	2010	2011 Prog.	2011 Est.	2012 Proj.
Net foreign assets	871	1,091	765	5,262	4,592	3,448
Net domestic assets	3,853	4,854	9,603	5,812	7,383	9,255
Domestic credit	3,826	5,331	9,897	6,312	7,932	10,109
Claims on central government	2,791	4,149	8,186	4,242	5,065	5,716
Claims on public enterprises	50	43	72	72	84	84
Claims on private sector	984	1,140	1,639	1,999	2,782	4,309
Other items, net (assets +)	27	-477	-294	-500	-549	-854
Broad money (M2)	4,724	5,945	10,368	11,074	11,975	12,703
Currency	1,652	2,120	3,988	3,765	3,113	2,731
Deposits	3,072	3,825	6,380	7,309	8,861	9,972
Of which: in foreign currency	1,342	1,065	1,371	1,420	2,253	2,536
	(Year-on-year change in percent of beginning-of-period M2)					
Memorandum items:						
Net foreign assets	14.3	4.7	-5.5	43.4	36.9	-9.6
Of which: central bank	2.1	11.7	-4.1	42.2	37.3	-10.2
Net domestic assets	24.7	21.2	79.9	-36.6	-21.4	15.6
Of which: central bank	5.9	26.7	53.6	-41.0	-34.4	5.6
Domestic credit	22.6	31.9	76.8	-34.6	-19.0	18.2
Net claims on government	20.8	28.7	67.9	-38.0	-30.1	5.4
Credit to the private sector	1.9	3.1	8.9	3.5	11.1	12.7
Reserve Money (annual percentage change)	13.8	81.7	73.0	1.7	4.4	-7.5
Commercial bank credit to the private sector (annual percentage change)	18.4	15.8	44.6	22.0	70.0	55.0
Money multiplier (M2/reserve money)	2.1	1.5	1.5	1.6	1.6	1.9
Velocity (GDP/average M2)	5.1	4.1	3.3	3.1	3.0	3.2
Deposit dollarization	43.7	27.8	21.5	19.4	…	25.4
GDP at constant prices (percentage change)	4.9	-0.3	1.9	4.0	3.6	4.7
Consumer prices (percentage change,eop)	13.5	7.9	20.8	17.1	21.0	12.0
Broad money (M2)	39.0	25.9	74.4	6.8	15.5	6.1

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

1/ End of period.

Table 4. Guinea: Balance of Payments, 2008–16
(Millions of U.S. dollars; unless otherwise indicated)

	2008	2009	2010	2011		2012	2013	2014	2015	2016
				Prog.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Merchandise trade balance	104.7	61.3	-69.9	-168.5	-170.8	-1201.7	-1447.0	-1467.4	-618.4	694.7
Exports, f.o.b.	1470.8	1157.4	1334.9	1508.6	1490.6	1660.8	1718.2	1811.8	3158.9	4798.0
Mining products	1380.4	1096.8	1266.0	1432.2	1412.3	1554.4	1603.0	1684.3	3014.5	4630.1
Other	90.5	60.7	68.9	76.4	78.3	106.4	115.2	127.6	144.3	167.9
Imports, f.o.b	-1366.1	-1096.1	-1404.9	-1677.0	-1661.4	-2862.5	-3165.3	-3279.2	-3777.2	-4103.4
Food products	-227.2	-204.1	-181.3	-204.1	-212.1	-213.4	-214.0	-215.3	-218.0	-218.2
Other consumption goods	-204.5	-190.6	-226.6	-251.1	-251.7	-267.2	-283.9	-302.7	-323.0	-345.1
Petroleum products	-355.7	-296.1	-298.5	-434.2	-426.8	-442.0	-446.3	-453.2	-463.5	-479.2
Intermediate and capital goods	-578.7	-405.3	-698.4	-787.7	-770.9	-1939.9	-2221.0	-2308.0	-2772.8	-3060.8
Of which : imports for large mining projects	-238.9	-83.0	-74.0	-252.6	-108.0	-1137.0	-1332.6	-1489.9	-1966.5	-1701.3
Services trade balance	-337.1	-258.6	-333.1	-304.0	-310.1	-505.9	-558.8	-582.3	-556.9	-621.4
Services exports	107.2	72.5	62.4	64.7	86.8	91.0	92.8	94.9	107.5	122.3
Services imports	-444.3	-331.1	-395.5	-368.8	-396.9	-596.9	-651.6	-677.2	-664.4	-743.6
Of which : imports for large mining projects	-39.3	-13.6	-12.2	-41.6	-17.8	-187.0	-219.2	-245.1	-183.2	-158.5
Income balance	-524.0	-505.6	-456.9	-414.1	-355.1	-479.0	-488.8	-502.6	-519.6	-538.3
Of which: interest on public debt	-61.0	-29.4	-35.3	-39.7	-44.9	-52.7	-43.9	-41.1	-38.4	-35.6
Transfers, *of which:*	290.2	246.2	251.0	433.7	493.0	266.6	258.0	259.0	300.8	308.2
Net private transfers	271.2	246.2	251.0	324.1	373.3	259.9	258.0	259.0	300.8	308.2
Official transfers	19.0	0.0	0.0	109.6	119.6	6.7	0.0	0.0	0.0	0.0
Current account										
Including official transfers	-466.1	-456.6	-608.9	-453.0	-343.0	-1920.0	-2236.6	-2293.2	-1394.0	-156.7
Excluding imports for large mining projects	-187.9	-360.0	-522.7	-158.8	-217.2	-595.9	-684.8	-558.2	755.6	1703.1
Excluding official transfers	-485.1	-456.6	-608.9	-562.6	-462.6	-1926.7	-2236.6	-2293.2	-1394.0	-156.7
Capital account	26.6	28.5	32.8	768.6	773.5	430.4	185.5	197.4	148.3	133.5
Of which : Rio Tinto payment	0.0	0.0	0.0	700.0	700.0	0.0	0.0	0.0	0.0	
Financial account	-210	59	-172	212	67	1166	1823.5	1854.5	1477.8	92.8
Public (medium and long-term)	-65.7	-50.0	-77.8	-74.0	-83.0	-58.8	-43.9	-31.5	27.6	165.8
Project-related loans	72.5	42.8	32.1	87.8	95.8	112.2	115.6	123.6	197.8	316.4
Amortization due	-138.2	-92.8	-109.9	-161.8	-178.9	-171.1	-159.5	-155.1	-170.2	-150.7
Public (short-term)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct and other private investment (net)	-162.2	-193.1	-279.8	127.1	82.2	1198.5	1660.8	1745.3	1452.1	102.3
Of which : large mining projects	378.5	138.2	107.7	419.3	307.3	1539.6	2015.4	2115.9	1828.8	797.7
Private short-term	18.0	302.2	185.9	158.5	68.1	26.3	206.6	140.6	-1.9	-175.3
Errors and omissions	607.0	614.8	569.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-42.4	245.9	-177.8	527.1	497.7	-323.7	-227.6	-241.3	232.0	69.5
Financing	42.4	-245.9	177.8	-916.9	-497.8	264.0	169.9	183.6	-260.8	-69.5
Change in net official reserves, of which	-20.4	-286.7	89.9	-558.4	-500.5	153.4	20.7	22.3	-367.7	-167.0
Fund repayments	9.1	-12.8	0.0	0.0	0.0	-4.0	-2.1	-7.6	-7.6	-7.6
Change in gross official reserves	-24.4	-273.9	89.9	-558.4	-500.5	157.4	22.8	29.9	-360.1	-159.4
Change in arrears 1/	54.5	40.3	65.2	-375.7	-78.2	-374.5	0.0	0.0	0.0	0.0
Debt relief and HIPC interim assistance 2/	8.3	0.5	21.8	17.2	80.9	485.1	149.3	161.4	106.9	97.5
Financing gap	0.0	0.0	0.0	389.8	0.0	59.7	57.7	57.7	28.8	0.0
Possible financing				389.0	0.0	0.0	0	0	0	0
Residual financing gap				0.8	0.0	59.7	57.7	57.7	28.8	0
Memorandum items:										
Current account balance (percent of GDP)										
Including official transfers	-10.3	-9.9	-12.4	-9.7	-6.6	-34.9	-38.8	-37.9	-19.1	-1.8
Excluding imports for large mining projects	-4.2	-7.8	-10.6	-3.4	-4.2	-10.8	-11.9	-9.2	10.3	19.2
Excluding official transfers	-10.7	-9.9	-12.4	-12.1	-8.9	-35.0	-38.8	-37.9	-19.1	-1.8
Overall balance (percent of GDP)	-0.9	5.3	-3.6	11.3	9.5	-5.9	-4.0	-4.0	3.2	0.8
Exports-GDP ratio (percent)	34.9	26.5	28.4	33.8	30.3	31.9	31.5	31.5	44.7	55.5
Imports-GDP ratio (percent)	-40.1	-30.8	-36.5	-43.9	-39.5	-62.9	-66.3	-65.4	-60.7	-54.7
External medium and long-term public debt	3,119	3,213	3,144	3,060	3,156	2,975	2,951	2,946	2,961	3,114
Debt-service ratio	11.4	8.8	10.3	12.8	14.1	12.7	10.9	9.5	5.8	3.3
Gross available reserves *(US$ millions)*	70	114	124	812	754	597	574	544	904	1,063
Gross available reserves (months of imports)	0.6	0.8	0.8	5.5	4.5	3.3	3.3	3.1	4.1	5.2
Nominal GDP (US$ millions)	4,517	4,635	4,929	4,659	5,212	5,499	5,758	6,045	7,315	8,863
National currency per US dollar (avg.)	4,600	4,775	5,502	7,114	6,518	…	…	…	…	…

Sources: Guinean authorities; and Fund staff estimates and projections.
1/ For 2011, the program assumed toleration of arrears by Paris Club and other bilateral creditors.
For the columns 2011 Est. Sep and 2011 proj, figures show actual accrual of arrears.
2/ For 2012 and following years, assumes Paris Club debt relief for end-2011 arrears and maturities falling due in 2012-14 on terms similar to those under the 2008 Paris Club agreement. Comparable terms are assumed for other bilateral creditors. HIPC/MDRI relief is assumed to be delivered effective October 2012.

Table 5. Guinea: Indicative Targets for 2011 Under the Staff-Monitored Program 1/

(Billions of Guinean francs unless otherwise indicated)

	2010	2011								
	end Dec.2/ Actual	end Mar. Actual	end Jun. Prog.	end Jun Actual	end. Jun Status	end Sep. Prog.	end Sep. Actual	end Sep. Status	end Dec. Prog.	end Dec7/ Est.
Quantitative targets										
Basic fiscal balance (floor) 3/	-3,424	-59	-330	616	Met	-429	183	Met	-663	-864
Net domestic assets of the central bank (ceiling)	6,741	6,741	1,760	-12	Met	2,045	1,495	Met	2,488	2,780
Domestic bank financing of the government (ceiling) 3/	4,037	-77	-4,682	-5,558	Met	-4,397	-4,964	Met	-3,943	-3,518
Net international reserves of the central bank (floor); US$ millions 3, 4, 5/	22	103	802	1,026	Met	774	927	Met	669	541
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 6/	n.a.	0	0	0	Met	0	0	Met	0	0
Stock of outstanding short-term external debt due or guaranteed by the government or the central bank (ceiling); US$ millions	n.a.	0	0	0	Met	0	0	Met	0	0
Memorandum items:										
Reserve money	6,982	6,979	6,984	7,167		6,998	6,863		7,101	6,889

Sources: Guinean authorities and IMF staff projections.
1/ Definitions are included in the technical memorandum of understanding (TMU).
2/ Flow over 2010 for fiscal criteria and stock for end-December 2010 for monetary and external debt criteria.
3/ Cumulative change from end-December 2010.
4/ Calculated using the program exchange rates.
5/ End-2010 figure excludes 2009 SDR allocation.
6/ 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.
7/ The end-december 2011 estimates are based on discussions between the authorities and staff during the November mission. Staff expects to receive updated figures during February 2012. Although the current estimates show some overruns compared to program targets, if the additional investments financed with the exceptional revenue and already discussed with staff are excluded, the performance is stronger than that envisaged under the program. On the basic fiscal balance, if those investments are excluded, the end-Dec 2011 figure would be a deficit of GNF 356 billion, smaller than the deficit envisaged under the program. For the net domestic assets of the central bank, the domestic bank financing of the government, and the reserve money, the valuation of the exceptional revenue uses the program exchange rate.

Table 6. Guinea: Financial Sector Soundness Indicators
(end-September 2011)

	Solvency 1/	Liquidity	Risk Concentration		Transformation coefficient
Description	Equity to credit, market, and operational risks 2/	Current assets versus liabilities	Large exposures to equity 3/	Large single client exposure to equity 4/	Resources over five years to liabilities over five years 5/
Regulatory norm	>10%	>100%	>8oo%	>25%	>60%
Bank 1	12.2	181.6	0	1	212.8
Bank 2	10.9	137.8	0	1	297.8
Bank 3	23.1	239.1	0	2	168.6
Bank 4	57.0	332.9	0	0	477.4
Bank 5	34.2	259.6	0	0	1,168.6
Bank 6	51.1	209.2	0	0	2,249.8
Bank 7	9.6	149.6	0	2	292.3
Bank 8	17.5	155.8	0	1	384.4
Bank 9	31.9	290.9	0	0	647.9
Bank 10	13.6	121.5	0	2	276.0
Bank 11	241.7	302.2	0	0	497.9
Bank 12	85.4	235.3	0	0	139.1

Source: Guinean authorities

1/ Compliance with the equity capital norm of GNF 50 million not shown above. At end-September, 5 banks did not fulfil this norm.

2/ Ratio of equity to risk-weighted financial assets and off-balance sheet liabilities.

3/ Number of banks breaching norm.

4/ Number of clients per bank breaching norm.

5/ The transformation coefficient assesses the ability of a bank to cover long-term uses with long-term resources.

Table 7. Guinea: External Financing Requirements and Sources, 2011–15
(US$ millions)

	2011 Est.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
1. Gross financing requirements	505	2,057	2,363	2,414	1,932
External current account deficit	463	1,927	2,237	2,293	1,394
Capital account balance	-715	-262	-12	-12	0
Debt amortization	179	171	160	155	170
Change in arrears, net 1/	78	375	0	0	0
Gross reserves accumulation	500	-157	-23	-30	360
Fund repayments	0	4	2	8	8
2. Available financing	505	1,997	2,306	2,356	1,903
Foreign direct investment, net	150	1,225	1,867	1,886	1,450
Identified disbursements	274	287	289	309	346
Grants	178	175	173	185	148
Project	58	168	173	185	148
Program	120	7	0	0	0
Loans	96	112	116	124	198
Project	96	112	116	124	198
Program	0	0	0	0	0
Other flows	0	0	0	0	0
Debt relief and debt rescheduling	81	485	149	161	107
Debt rescheduling and cancellation (incl. on arrears) 2/	81	485	149	161	107
3. Financing gap	0	60	58	58	29
4. Possible financing	0	0	0	0	0
5. Residual financing	0	60	58	58	29
Of which: ECF disbursement		58	58	58	29
IMF interim HIPC assistance		2			

Sources: Guinean authorities and IMF staff estimates and projections.

1/ For 2011, the program assumed toleration of arrears by Paris Club and other bilateral creditors.
For the columns 2011 Est. Sep and 2011 proj, figures show actual accrual of arrears.

2/ For 2012 and following years, assumes Paris Club debt relief for end-2011 arrears and maturities falling due in 2012-14 on terms similar to those under the 2008 Paris Club agreement. Comparable terms are assumed for other bilateral creditors. HIPC and MDRI relief is assumed to be delivered effective October 2012.

Table 8. Guinea: Proposed Schedule of Disbursements and Timing of Reviews Under the ECF Arrangement, 2012–15
(SDR millions)

In precent of quota	Amount	Date of availability	Condition for disbursement
17.1	18.36	February 24, 2012	Executive Board approval of the three-year arrangement under the ECF.
17.1	18.36	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.
17.1	18.36	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.
17.1	18.36	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.
17.1	18.36	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.
17.1	18.36	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.
17.1	18.36	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.
120.0	128.52	**Total**	

Source: IMF staff.

Table 9. Guinea: Indicators of Capacity to Repay the Fund, 2012–25

(SDR millions, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Projections							
Fund obligations based on existing credit														
Credit outstanding	24.48	23.10	18.21	13.31	8.42	3.52	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Percent of quota	22.86	21.57	17.00	12.43	7.86	3.29	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repayment of principal	2.57	1.38	4.90	4.90	4.90	4.90	3.52	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Charges and interest	0.05	0.05	0.10	0.09	0.07	0.06	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Fund obligations from prospective drawings under the new ECF														
Credit outstanding	36.72	73.44	110.16	128.52	128.52	126.68	117.50	100.98	77.11	51.41	27.54	11.02	1.84	0.00
Percent of quota	34.32	68.64	102.95	120.11	120.11	118.39	109.81	94.37	72.07	48.05	25.74	10.30	1.72	0.00
Repayment of principal	0.00	0.00	0.00	0.00	0.00	1.83	9.18	16.52	23.87	25.70	23.87	16.52	9.18	1.84
Charges and interest	0.00	0.00	0.23	0.31	0.32	0.32	0.30	0.27	0.22	0.15	0.09	0.04	0.01	0.00
Total obligations based on existing and prospective credit														
Credit outstanding	61.20	96.54	128.37	141.83	136.94	130.20	117.50	100.98	77.11	51.41	27.54	11.02	1.84	0.00
Percent of quota	57.14	90.14	119.86	132.43	127.86	121.57	109.71	94.29	72.00	48.00	25.71	10.29	1.71	0.00
Percent of gross foreign available reserves	16.15	26.49	37.17	24.71	20.28	16.55	13.72	10.87	8.13	5.31	2.79	1.09	0.18	0.00
Repayment of principal	2.57	1.38	4.90	4.90	4.90	6.73	12.70	16.52	23.87	25.70	23.87	16.52	9.18	1.84
Charges and interest	0.05	0.05	0.33	0.40	0.39	0.38	0.35	0.32	0.27	0.20	0.14	0.09	0.06	0.05
Total payments to the Fund	2.62	1.42	5.23	5.30	5.29	7.11	13.05	16.84	24.13	25.91	24.01	16.61	9.24	1.88
Percent of exports of goods and services	0.24	0.12	0.43	0.26	0.17	0.17	0.27	0.32	0.43	0.46	0.42	0.29	0.16	0.03
Percent of external public debt service	4.36	4.09	22.73	7.05	7.53	9.42	13.77	15.97	23.14	23.86	20.46	12.84	6.18	1.10
Memorandum items:														
Prospective purchases	36.72	36.72	36.73	18.36										
Exports of goods and services, US$ millions	1,751.84	1,811.00	1,906.79	3,266.40	4,920.31	6,606.73	7,556.72	8,171.35	8,858.13	8,935.44	9,018.02	9,106.67	9,202.39	9,306.31

Sources: Guinean authorities and IMF staff projections.

Table 10. Guinea: Performance Criteria (PC) and Indicative Targets, ECF 2012 1/

(Billions of Guinean francs unless otherwise indicated)

	2011		2012			
	end Sep. Actual	end Dec.2/ Est.	end Mar. Indicative Targets	end Jun. PC	end Sep. Indicative Targets	end Dec. PC
Quantitative Performance Criteria						
Basic fiscal balance (floor) 3/	183	-864	-1,102	-1,497	-1,418	-1,518
Net domestic assets of the central bank (ceiling)	1,495	3,178	4,484	3,385	3,541	3,854
Domestic bank financing of the government (ceiling) 3/	-4,964	-3,120	1,300	197	348	650
Net international reserves of the central bank (floor); US$ millions 4/	927	541	435	585	504	458
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 5/ 6/	0	0	0	0	0	0
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ millions 6/	0	0	0	0	0	0
New external arrears (ceiling) 6/			0	0	0	0
Indicative targets						
Expenditure in priority sectors (floor) 3/ 7/		2,100	1,765	2,501	3,208	3,910
Memorandum items:						
Reserve money	6,863	7,287	7,083	7,078	6,644	6,744

Sources: Guinean authorities and IMF staff projections.
1/ Definitions and adjustors are included in the technical memorandum of understanding (TMU).
Performance criteria for end-June and end-December 2012; indicative targets for end-March and end-September 2012.
2/ Flow over 2011 for fiscal criteria and stock for end-December 2011 for monetary and external debt criteria.
3/ Cumulative change from end-December 2011.
4/ Calculated using the program exchange rates.
5/ 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.
6/ Continuous performance criterion.
7/ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

Table 11. Guinea: Prior Actions and Structural Benchmarks, ECF 2012

Measure	Date	Rationale
Prior actions		
Adopt a 2012 budget law as discussed with November 2011 mission	Completed	Preserve program budget objectives
Provide IMF staff with a copy of the Rio Tinto contract with the government	Contract annex still pending	Promote transparency in government operations
Conduct a roundtable on the electricity sector in order to define the sector reform program	Completed	Reduce the burden of transfers and subsidies on the budget
Publish the central bank's 2010 audited financial statements on its website, together with the auditors' opinions	Completed	Promote accountability and transparency
Structural benchmarks		
Consult with the IMF before approving any modification to the new mining code or implementing regulations that could have a tax impact (MEFP ¶ 47)	Continuous	Protect budget revenue
Adopt a comprehensive plan for reform of the electricity sector (MEFP ¶ 49)	End-March 2012	Reduce the burden of transfers and subsidies on the budget
Harmonize the methods and procedures for assistance to the agriculture sector (distribution of inputs, seeds, and agricultural materials) as well as the extension and collection of agricultural loans, based on advice provided by the World Bank and IFAD (MEFP ¶ 32)[1]	End-March 2012	Ensure control of agricultural subsidies and improve the rate of collections for producer credits
Adopt implementing texts and general terms and conditions of operation for the implementation of the Special Investment Fund, based on advice provided by IMF and World Bank (MEFP, Box 2)[1]	End-March 2012	Improve public infrastructures while preserving the sustainability of public finances
Reintroduce the mechanism for regularly adjusting petroleum product prices based on changes in the international market prices and in the exchange rate (MEFP ¶ 27)	Continuous from July 1, 2012	Protect budget revenue and ensure budget sustainability
Adopt and publish implementing decrees for the new mining code as well as a standard mining contract (MEFP ¶ 47)	End-June 2012	Ensure a larger share for the government in Guinea's mining revenues

[1] The IMF is solely responsible for assessing compliance with the conditions.

Table 11. Guinea: Prior Actions and Structural Benchmarks, ECF 2012 (concluded)

Measure	**Date**	**Rationale**
Develop a plan to implement tax reforms (MEFP ¶ 26)	End-June 2012	Promote predictability in public finance reforms
Certify, by an independent external auditor, the statistical data on the program performance at test dates submitted to the IMF by the BCRG, and approve an investment policy and guidelines by end-December 2012 by the BCRG board of directors (MEFP ¶ 42, 43)	End-December 2012	Ensure appropriate utilization of resources entrusted to the BCRG
Based on an exhaustive list of companies benefitting from the investment code and their tax advantages, terminate the benefits of companies whose eligibility periods have expired, and adopt a revised investment code (MEFP ¶ 27)	End-August 2012	Reduce tax expenditures and improve the business environment
Adopt a medium-term public investment program, based on advice provided by the development partners (MEFP, Box 2)[1]	End-September 2012	Create a pipeline of viable projects that could receive funding from the SIF.

APPENDIX I—GUINEA: LETTER OF INTENT

Conakry, February 11, 2012

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C.

Madame Managing Director,

1. **The government issued from the 2010 presidential elections**, **the first free and democratic elections in Guinea**, **acted quickly and decisively to reverse the catastrophic situation inherited from the military regime**. To usher in peace and social cohesion, it launched a reform of the defense and security forces and instituted political dialogue to prepare for transparent legislative elections. During 2011, the government implemented significant structural reforms and corrective economic and financial measures that served to improve governance, accelerate real economic growth, halt the inflationary spiral, rebuild international reserves, and stabilize the Guinean franc exchange rate. In the area of public finance, it reduced the government deficit by over 10 percentage points of GDP. Finally, it established a new mining policy to promote transparency and discipline in the management of Guinea's natural resources, which encouraged investments in the mining sector. These unprecedented corrective measures were supported by the international community, including through an IMF staff-monitored program; budget support from the African Development Bank, the World Bank, and the European Union; and technical assistance from other partners.

2. **Despite the progress achieved**, **significant challenges remain for the years ahead**. Inflation, while stabilized, remains a matter of concern and the main short-term macroeconomic challenge. The heavy burden of external public debt and weak infrastructures, particularly in the electricity, water, transportation, and communications sectors, represent formidable challenges for the recovery of growth. Structural reforms are expected to prepare the Guinean economy for the massive investments expected in the mining sector in the coming years and increased mining production beginning in the middle of the decade.

3. **To consolidate the results achieved under the staff-monitored program, restore growth, and reduce poverty, the government has prepared an economic and financial program covering the period 2012–14**. The program is intended to reduce inflation and lay the groundwork for rapid and diversified growth. It will serve to realize the government's economic vision of mobilizing Guinea's agricultural, hydroelectric, and mining potential; increase the economy's competitiveness by improving the business climate, infrastructures, and social services; and strengthen good governance and anticorruption efforts.

4. **The attached memorandum of economic and financial policies (MEFP) describes the economic vision and policies the government is determined to implement during the program period**. The authorities request that the IMF support their three-year economic and financial program under the Extended Credit Facility (ECF). We request the IMF's financial support for this program equivalent to 120 percent of our quota share, or SDR 128.520 million, and a first disbursement of SDR 18.36 million (17.1 percent of quota) following Board approval of the arrangement. The government also requests continuation of the interim assistance provided by the IMF under the Heavily Indebted Poor Countries (HIPC) Initiative, in the amount of SDR 1.2852 million.

5. **The government is determined to achieve the completion point under the HIPC Initiative without delay**. It counts on the support of the development partners to substantially reduce the external debt burden at the completion point in order to ensure the sustainability of public finances, normalize Guinea's relations with its creditors, and refocus the government's budget priorities on poverty reduction spending. The government will spare no effort to achieve the structural completion point triggers soonest, with support from the development partners.

6. **The government is convinced that the policies and measures set forth in the attached memorandum will serve to achieve the program objectives**. However, it will take any additional measures that prove necessary to that end. The government will consult IMF staff with respect to the adoption of such measures, either on its own initiative or at the request of the IMF Managing Director, before adopting such measures or before modifying the policies set out in the memorandum, in accordance with IMF policy regarding such consultations. Furthermore, the government will refrain from assuming obligations that would compromise debt sustainability or the HIPC Initiative, including contracting or guaranteeing debt under non-concessional terms or more generally under terms that would jeopardize achievement of the objectives of debt sustainability after the HIPC Initiative completion point. The government agrees to provide the IMF with any information required to monitor the implementation of measures or the achievement of program objectives.

7. The government authorizes the IMF to publish this letter, the attached MEFP and technical memorandum of understanding, as well as the IMF staff report on the Article IV consultation and the request for an arrangement under the ECF.

Very truly yours,

/s/	/s/
Louncény Nabé	Kerfalla Yansané
Governor, Central Bank of the Republic of Guinea	Minister of Economy and Finance

Attachments: Memorandum of economic and financial policies
Technical memorandum of understanding

ATTACHMENT I—GUINEA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2012–14

Conakry, February 11, 2012

I. INTRODUCTION

1. **The military regime's lax economic, fiscal, and foreign exchange management during 2009–10 led to a disastrous situation marked by severe macroeconomic instability and the weakening of governance**. Insecurity and social tensions undermined confidence and put a damper on private investment and economic growth. The already weak economic and social infrastructure further deteriorated, social indicators worsened, and poverty became more acute. Governance problems led to loss of control over government revenue and expenditure. The basic fiscal balance declined from a surplus of close to 2 percent of gross domestic product (GDP) in 2008 to a deficit of almost 13 percent of GDP in 2010, which was entirely financed by money creation and the accumulation of external payments arrears. The rate of inflation spiraled to almost 21 percent by end-December 2010; international reserves almost depleted to less than one month of imports, the domestic currency depreciated considerably, and the gap between the official and parallel market exchange rates widened to close to 20 percent.

2. **The government of President Alpha Condé, resulting from the first free democratic elections in Guinea, acted quickly and decisively to correct the situation**. Since January 2011, it has undertaken significant structural reforms and unprecedented economic and financial recovery measures. To implement lasting peace and social cohesion, the government launched the reform of the security sector and engaged in dialogue on national reconciliation. To complete the transition to a normal constitutional situation, discussions are underway to organize legislative elections as soon as possible in 2012. A new mining code was adopted to improve transparency in the sector and to increase Guinea's share in mining resources. Public expenditure was controlled through rigorous implementation of a cash-based government expenditure management system through a monthly cash flow plan approved by a Treasury Committee chaired by the Prime Minister. This made it possible to avoid further advances to the Treasury by the Central Bank of the Republic of Guinea (BCRG). Furthermore a prudent monetary policy and proactive exchange policy halted spiraling inflation and curbed exchange rate fluctuations. These efforts were supported by the international community. To that end, discussions had been initiated with the International Monetary Fund for a Rapid Credit Facility program starting in early 2011. After some modifications resulting from the receipt of windfall mining revenue (see Box 1), these discussions finally resulted in the staff-monitored program covering the period January–December 2011, approved by IMF management on June 30, 2011 and presented for information to its Executive Board on July 1, 2011.

Box 1. Windfall Mining Revenue in 2011

On April 22, 2011, the government signed an agreement with the mining company Rio Tinto concerning the Simandou south concession (Blocs 3 and 4). Within the framework of that agreement, and in order to resolve all pending issues and finalize the new terms of the investment agreement, the Rio Tinto subsidiary SIMFER paid US$700 million to the Treasury in May 2011. This amount is deposited in an account with the BCRG. For 2011, the government committed to use US$145 million of these resources for priority and urgent investments, 70 percent of which in the electricity sector. US$40 million was intended for financing other budgetary spending under the supplementary budget approved by the CNT on October 15, 2011.

3. **The government's vision for the medium term is to consolidate economic and financial stabilization and to lay the foundations for sustained and shared real growth**. The consolidation of economic stabilization undertaken in 2011 is expected to promote better use of Guinea's mining, hydroelectric, and agricultural potential in the years to come. This requires major public investment efforts, to equip the country with essential infrastructure and build a solid foundation for private investment. These investments may be financed in part through mobilization of windfall mining revenue, which will be allocated on a priority basis to increasing the capacity to produce electrical energy and to developing the agriculture sector and transport infrastructure. Supplemented by other structural measures designed to improve the business climate, these investments could help diversify the Guinean economy and mitigate the adverse impact the rapid development of the mining sector could have on the other sectors of the economy through the "Dutch disease" syndrome.

4. **The government is determined to lay the foundations for strong economic growth to significantly reduce poverty**. To that end, the following specific goals will be pursued within the framework of implementing the Poverty Reduction Strategy:

- consolidate social peace by organizing peaceful elections and completing the reform of the security sector;
- reform the public sector to improve its productivity and intensify the efforts to improve governance and the business climate, including combating corruption and strengthening the judicial system;
- restore the confidence and credibility of the economic, financial, and monetary institutions by stabilizing inflation and the exchange rate;
- develop the potential of the mining sector and its synergistic growth with the other sectors of the economy;
- improve infrastructure by developing and implementing a public investment program in concert with development partners;

- increase agricultural production to attain food self-sufficiency in the medium term, to reduce the country's dependence on imports, and to increase agricultural exports in the long term;
- enhance the production and distribution of electrical energy by tapping the country's hydroelectric potential.

5. **This Memorandum on Economic and Financial Policies describes performance under the IMF Staff-Monitored Program in 2011 and the government's economic vision for the medium-term**. It gives greater details about the objectives of the economic and financial program for 2012 and describes medium-term financing and technical assistance needs, as well as program indicators and monitoring arrangements. The government is determined to reach completion point under the Heavily Indebted Poor Countries Initiative (HIPC Initiative) in 2012, one of the triggers of which is performance with regard to macroeconomic stability. The government also expects to complete implementation of the other triggers during the first quarter of 2012. In addition, it will continue to implement the Poverty Reduction Strategy Paper (PRSP), which has been extended to cover the 2011–12 period.

II. Performance Under the Staff-Monitored Program in 2011

6. **Performance under the Staff-Monitored Program has been very satisfactory**. All the quantitative and structural program benchmarks for end-June and end-September 2011 have been met (Tables 1 and 2). On the macroeconomic front, real growth increased to almost 4 percent in 2011, up from 1.9 percent in 2010, reflecting the normalization of the political and social situation and very good performance in the agricultural and mining sectors. The government accomplished fiscal consolidation and reduced its basic fiscal deficit, excluding investments funded with its windfall mining revenues, from 13 percent of GDP in 2010 to less than 1 percent of GDP in 2011. This unprecedented adjustment was made possible by the implementation of a rigorous fiscal policy and cash-based expenditure management system. Moreover, provisional data indicate that the money supply expanded by less than 10 percent during 2011 compared to 74 percent in 2010. These strict policies halted the upward trend in inflation by stabilizing the rise in the consumer price index at 19 percent at end-December 2011, year-on-year, and halted the rapid depreciation of the exchange rate. With the windfall mining revenue, international reserves were replenished to 4.5 months of imports of goods and services.

7. **Fiscal consolidation was the cornerstone of the government's macroeconomic stabilization policy**. In addition to cash-based budget execution, several other measures were vigorously implemented to increase revenue, control expenses, and take back control of the budget, in particular:

- With respect to revenue, ad hoc exemptions from customs tariffs were eliminated and the list of products subject to import verification was extended; excise taxes on beer and tobacco were increased; efforts to collect back taxes were intensified; and control of contributions from autonomous revenue-collecting agencies was strengthened, inter alia, through strict enforcement of the terms of contracts and licenses, enabling the government to recover exceptional nontax receipts in non-mining sectors representing more than 1 percent of GDP.

- A very important measure taken in early 2011 to control expenditures was the freeze of 2009–10 government contracts—totaling over 40 percent of GDP—that had been signed in violation of the government procurement code and overbilled. This step was taken following a World Bank-funded audit by experts from the French Audit Court. This financial support and technical assistance was provided as part of the work of the settlement committee that was established to review the contracts in question and make recommendations to the government on the final handling of the contracts concerned.
- In order to improve budget control, the government reinstated the procedure of competitive selection as the normal process for awarding government contracts (Ministerial Decree of March 11, 2011), and prohibited the signing of contracts without budget appropriation caps and without the signature of the Finance Minister.
- The government began to apply the law establishing the Treasury Single Account to all public structures, including government-owned companies.

8. **Budget execution at end-September 2011 was in line with the IMF staff-monitored program**. The budget approved in April 2011 by the interim legislative body, the National Transition Council (CNT), projected a deficit in the basic fiscal balance of 2 percent of GDP in 2011 and net bank financing of 3.6 percent of GDP. At end-September, the basic fiscal balance for the first nine months of the year was a surplus of 0.5 percent of GDP and the government reduced its net debt to the banking system, a key component of the authorities' efforts to control inflation, by over 1 percent of GDP excluding deposits of windfall revenue. These achievements exceed the program targets and benchmarks at that date by a wide margin.

9. **In October 2011 the CNT approved a revised budget authorizing the use of a portion of the windfall mining revenue in 2011**, **in particular**, **for investment projects in the electricity sector**. This was in response to citizens' high expectations for immediate improvements in living conditions as well as urgent needs. However, indications are that the government succeeded in reducing the basic fiscal deficit for 2011 to less than 1 percent of GDP, below the initial budget objective, excluding investments financed from windfall revenue, and to 2.5 percent of GDP if these investments are included. These results reflect a larger budget adjustment (excluding investments financed from windfall revenue) than provided in the staff-monitored program. To achieve those objectives, the government took a number of measures including (i) increasing fuel prices by 27 percent in October,

substantially reducing tax revenue losses generated by the gap between the cost of imports and retail prices; (ii) intensifying efforts to increase the financial contribution of autonomous revenue-collecting agencies to the government budget; (iii) reducing budget appropriations for current expenditures; and (iv) postponing several investment projects to 2012–13. Furthermore, although the budget support from the World Bank planned for the second half of the year (equivalent to nearly 0.8 percent of GDP) was not received, the government reduced its net borrowing from the banking system (excluding deposits of windfall mining revenue) in line with the staff-monitored program objective.

10. **Following normalization of Guinea's relations with its development partners, external budgetary assistance was resumed**. In 2011, after accumulating new arrears during the period 2009–10, the government began to normalize its financial relations with foreign creditors, despite funding constraints. The arrears owed to multilateral financial institutions were cleared in 2011. Arrears payable to the World Bank were cleared using its budgetary support. Some arrears to the European Investment Bank (EIB) were cleared with a grant. An agreement also was reached to clear the remaining arrears in order to reach the completion point under the HIPC Initiative. These actions, and the normalization of relations with Guinea's partners in general, made it possible to resume budgetary support and project assistance.

11. **The objectives of monetary and exchange policy were to mop up excess liquidity of the 2009–10 period and to stabilize inflation and the exchange rate of the Guinean franc**. The BCRG took a number of measures to achieve these goals, in particular:

- raising the policy rate from 16.75 to 22 percent on March 23, 2011, and increasing the reserve requirement rate by 7.5 percentage points, to 17 percent on March 23, and by an additional 5 points to 22 percent on October 19, 2011.
- improving the regulations for exchange bureaus. After the bureaus were closed in early March, the conditions for practicing the money changing profession were clarified (Instruction 025 of April 29, 2011) and the BCRG reopened the exchange bureaus on April 7. Since then, the exchange rates of these bureaus have been freely determined and the BCRG's official rate has been determined as the average of the commercial banks' rates for the preceding day; and
- reviving the interbank foreign exchange market (IFEM) in March 2011, allowing the allocation of about US$170 million to the banks to finance imports during 2011.

The BCRG set up a monetary programming committee to better monitor the evolution of the monetary situation. A monthly monetary and exchange policy bulletin has been prepared since June, with the intention to publish it in the press. The BCRG also began to build its banking supervision capacity with the assistance of the IMF Regional Technical Assistance Center for West Africa (West AFRITAC).

12. **In the area of structural reforms**, **the government has taken important measures to create the conditions for sound economic and financial management in the medium term**. Therefore:

- The government has implemented a new mining policy to ensure more transparent and stricter management of the country's natural resources. To that end, on September 9, 2011, it adopted and promulgated a new mining code conforming to international standards, with support from the *Agence Française de Développement* (AFD) and other development partners. The implementing texts and a standard contract are expected to be finalized in 2012. Furthermore, on March 1, 2011, Guinea resumed participation in the Extractive Industries Transparency Initiative (EITI Initiative), which it had voluntarily suspended in 2009, and the steering committee action plan is currently being implemented to complete the process of validating Guinea's EITI.
- With support from the World Bank and the AFD, an institutional audit of the energy sector was completed and submitted to stakeholders in September 2011 and will be used to define a sector reform program following the roundtable organized for this purpose on January 16–17, 2012. Discussions are under way with French utility *Electricité de France* (EDF) with a view toward providing technical assistance to its Guinean counterpart *Electricité de Guinée* (EDG).
- The reform of the justice and security services sectors was launched in 2011 through the organization of the forum on justice and the adoption of a program to restructure the armed forces, gendarmerie, and police. This restructuring includes, inter alia, a biometric census of the military, completed for the Conakry garrisons in October 2011 and in progress for garrisons in the interior; the retirement of 3,928 military personnel in December 2011; and the creation of a judicial framework for the military and adoption of the corresponding statute.
- The government launched a broad agricultural sector recovery program with a view to attaining food self sufficiency in the medium term and developing agricultural exports in the long term. It reinstated the structures for agricultural training and extension services and executed a major program to distribute inputs, seeds, and agricultural materials.
- With support from the World Bank and the International Finance Corporation (IFC), reforms were undertaken to promote the private sector in order to attract investors and facilitate the establishment of enterprises. To that end, a framework for public-private sector dialog became operational in May 2011 with the organization of a public-private roundtable. A private investment promotion agency (APIP) was established in November 2011 and implemented a one-stop window for creating enterprises in early December 2011. These actions will improve the business climate

and therefore Guinea's ranking in the next "Doing Business," which will make Guinea eligible for support from the Millennium Challenge Account (MCA). The export sector also benefitted from renewed access to the US markets, which had been suspended at end-2009, under the "African Growth and Opportunity Act" (AGOA) in October 2011.

- In the hotel and tourism sector, three hotels were privatized (Hôtel Kaloum, Hôtel du Niger and Hôtel Camayenne), thereby paving the way to increasing sector capacity within the next 18 months.

13. **In the context of poverty reduction**, **since it took office**, **the government has established an emergency program based on the Poverty Reduction Strategy Paper (PRSP)**. The PRSP II (2007–10) was extended to cover the period 2011–12 in order to achieve certain objectives that had not been reached under the military regime of 2009–10. The extension was presented to the members of government at a governmental seminar in January 2011 and to the interim legislature (*Comité National de Transition*—CNT) in February 2011. An implementation report covering the first half of 2011 was produced and shared with the Bretton Woods institutions. The PRSP III and a new poverty survey are being prepared.

14. **During 2011**, **the government took steps to address the urgent needs of the population**. In particular, the government established a system to facilitate access to some essential goods at affordable prices, such as rice, flour, sugar, and vegetable oil. This system operates in parallel with private sector operations. It includes imports and/or distribution services, which were initially provided by the government alone but are gradually being performed in partnership with the private sector. Over time, the government intends to divest these operations. Measures taken also include the ad hoc and temporary waiver of duties and taxes on the government's imports of these goods.

15. **Efforts to implement the structural triggers for the completion point under the HIPC Initiative are continuing with the help of the development partners (Table 3)**. The quarterly audits of public contracts through June-2009 have been completed. Contract audits for the second half of 2009 and for 2010 have mostly been completed, with the support of the World Bank and experts from the French Audit Court; work is underway with the aim to complete the remaining by February 2012. The government has launched the audit of contracts concluded in the first half of 2011. The Anti-corruption Agency reports through end-2010 have been produced and published on the Poverty Reduction Strategy (PRS) website and the report for 2011 will be prepared and published by end-March 2012. With respect to health indicators, Ministry of Health and World Bank data have been harmonized thereby enabling Guinea to achieve this trigger of the HIPC completion point.

16. **Despite the progress made in 2011**, **major challenges lie ahead**. Despite the stabilization in 2011, inflation remains a matter of concern and the main macroeconomic challenge in the short term. The very heavy burden of the external public debt and weak infrastructure, particularly in the electricity, water, transport, and telecommunications

sectors, are major handicaps to the revival of growth. Structural reforms in particular are needed to prepare the economy for the massive investments expected in the mining sector in the coming years.

III. Economic and Financial Policies For 2012–14

17. **The government intends to adopt and implement an economic and financial program covering the period 2012–14 to consolidate the results obtained in 2011 under the Staff-Monitored Program**, **to resume growth**, **and to reduce poverty**. This program seeks to reduce inflation and to lay the foundations for accelerated and diversified growth. It is in line with the extended PRSP for 2011–12 and the 2011–15 five-year plan, which will serve as the basis for the PRSP III for 2013–16, now under preparation, which will establish the operational pillars for the support from Guinea's development partners. The government's economic vision consists of mobilizing the country's agricultural, hydroelectric, and mining potential, increasing the competitiveness of the economy by improving infrastructure and social services (education, public health) and by strengthening good governance and anti-corruption efforts.

18. **The government will continue to make every effort to receive the support of the international community for the program**. This support could take the form of enhanced technical and financial assistance and reduction of the foreign debt burden upon reaching the completion point under the HIPC Initiative.

A. Medium-Term Macroeconomic Objectives

19. **The medium-term macroeconomic framework is heavily influenced by mining sector megaprojects**. Foreign direct investments in the sector, particularly for the development of iron deposits, could represent over 40 percent of GDP per year on average during 2012–14. During that period, the economic impact of these investments will essentially produce a substantial increase in imports and the external current account deficit. When production and exports from the megaprojects begin in 2015, these deficits should decline markedly, while the real growth rate and government revenue should sharply increase.

20. **The main macroeconomic objectives of the program are to**: (1) achieve real growth of 4.7 percent in 2012—based on large investments in the mining sector, the effects of the recovery efforts and of public investment in the energy sector, support for the agricultural sector, and continued normalization of the political and social situation—and an average rate of 4–5 percent in 2013–14; (2) reduce inflation to an annual average of 15 percent in 2012 and close to 12 percent year-on-year by end-2012, and gradually aim for levels well below 10 percent in 2014; and (3) in order to protect against exogenous shocks, maintain the level of exchange reserves above 2.5 months of imports (excluding imports for megaprojects financed by foreign investment).

21. **Macroeconomic policy will hinge on strengthening economic and financial policy coordination**. In the area of public finance, emphasis will be placed on mobilizing government revenue and strengthening public expenditure management. Given the weakness of the financial markets, fiscal policy will continue to play a key role in the strategy to reduce inflation. The budget deficit will be constrained by the goal to avoid net domestic bank financing (excluding the use of deposits of exceptional resources), the availability of financing from development partners, and the need to maintain debt sustainability both before and after reaching the completion point under the HIPC Initiative. The budget's windfall resources from the mining sector will be used mainly to finance infrastructure. Given the limited absorptive capacity of the economy, resource use will be planned over the medium term by continuing to adjust the basic fiscal balance to levels compatible with available funding. Monetary policy should also be tightened to mop up excess liquidity and curb inflation. A proactive exchange policy should limit erratic fluctuations and prevent mining investments from driving up the real exchange rate and diminishing the competitiveness of the non-mining sectors of the economy.

22. **Structural reforms will be continued to ensure good governance and improve the economy's capacity to manage the mining boom**. The reform of the mining sector will be pursued in particular by renegotiating mining contracts in a spirit of partnership. Far-reaching reforms of the energy sector will be undertaken with a view to increasing the supply of electrical energy while strengthening technical, commercial, and financial management of the EDG, including a tariff adjustment. The government will also conduct sector studies with a view to reorganizing public enterprises, including those in the transportation and telecommunications sectors, and implement a credible, realistic public investment program in the medium term in line with the Poverty Reduction Strategy and the five-year plan. The business climate will also be improved by strengthening the judicial system and the legal and institutional framework of the private sector. With support from the development partners, reform of the defense and security forces will continue through retirement programs followed by support and training measures. The government reform and modernization program will continue, notably with improved procedures, government-wide automation, and capacity building and efforts to increase the proportion of young and female employees. Finally, the agricultural sector will be developed, in collaboration with the development partners, with a view to achieving food self-sufficiency and to developing agro-industry.

B. Fiscal Policy

23. **The government's fiscal policy will reflect three basic pillars**: **(i) increased mobilization of government revenue**; **(ii) control and improvement of the quality of public spending and its reorientation towards the priority sectors**, **within the limits of available resources**; **and (iii) caps on the budget deficit and debt while maintaining fiscal and public debt sustainability**. With respect to revenue, the goal is convergence towards the ECOWAS standard in 2014, i.e., a tax ratio of 20 percent of GDP, compared with close to 17.5 percent in 2011. After an increase in 2012, current expenses should

decrease slightly as a percentage of GDP by 2014. By contrast, investment expenses will increase sharply in 2012 and remain at a high level above 10 percent of GDP in 2013–14, reflecting the use of the windfall revenue collected in 2011 and a resumption of assistance from development partners. Mainly as a result of the increase in domestically-financed investment, the basic fiscal deficit will increase from 2.5 percent of GDP in 2011 to 3.8 percent in 2012, but will fall to around 1 percent of GDP in 2013 and 2014.

24. **With respect to financing, the objective is to prevent budget-based monetary expansion—other than the growth associated with the use of deposits of windfall revenue—and to maintain the public debt at a sustainable level**. In order to support efforts to reduce inflation as quickly as possible, the budget will not be financed with advances from the BCRG, and the proceeds of bond and debt issues will be used to reduce the outstanding balance of these advances. Deposits of the windfall earnings of 2011 will be gradually used over the medium term. The medium-term macroeconomic framework is based on the principle that, after IMF approval of the Extended Credit Facility (ECF) arrangement, Guinea's remaining arrears on its external debt and its debt service obligations falling due during the program period will be rescheduled by its Paris Club creditors. The government also expects comparable treatment from other bilateral creditors within the framework of the HIPC Initiative. The residual financing requirement should be met after reaching the completion point under the enhanced HIPC Initiative in 2012. After the legislative elections—which should mark the end of the transition to a normal constitutional situation—a donor conference is expected to mobilize additional external resources.

Revenue

25. **The tax ratio will be increased through strict compliance with the existing laws and regulations combined with reforms of tax administration and policy**. Concerning tax revenue from the mining sector, the government will implement the new mining code strictly and transparently and the standard mining contract after its completion in 2012 (see paragraph 47). This is expected to stabilize current mining revenue at around 4 percent of GDP by 2014. Fuel taxes—which contribute close to 15 percent of revenue—will be safeguarded by the controlled implementation of a system of flexible prices at the pump, in an attempt to gradually eliminate petroleum product revenue losses.

26. **The Ministry of Economy and Finance (MEF) will develop a plan to implement tax reforms by end-June 2012 (structural benchmark)** based on technical assistance received in 2011 from development partners, including the IMF. These reforms will consist of enhancing the efficiency of tax policy and tax administration.

- The steps for reforming tax policy will include mainly: (i) simplification of the tax system by consolidating certain duties and taxes, taking their yield into account; (ii) changing the tax brackets for taxpayers; (iii) making the minimum income tax progressive; (iv) expanding the VAT to medium-sized enterprises; (v) making payroll taxes consistent with corporate taxes; and (vi) gradually decentralizing taxation based on capacity at the local level.

- Tax administration reforms will be based on: (i) greater segmentation of the taxpayer population through the creation of large, medium-sized, and small enterprise directorates; (ii) transition from a system of administrative assessment to a system of voluntary filing; (iii) restructuring of the tax and customs administration to separate the management, steering, and monitoring of operational functions; (iv) strengthening of reporting, survey, and supervision activities to combat tax fraud and tax evasion; (v) enhanced auditing of autonomous government agencies to guarantee that they contribute to the government budget; (vi) accelerated computerization and connection with offices outside Conakry and with users (VERITAS, carriers, importers); and (vii) redeployment of customs officers to land border stations. The objectives of these reforms are listed in the performance contracts and are accompanied by the relevant audited performance indicators to measure the efforts made by the various units independent of the economic situation.

27. **For 2012**, **the government will take the following measures**:

- The mechanism for regularly adjusting fuel prices based on changes in international market prices and in the exchange rate will be reintroduced starting July 1, 2012 (**structural benchmark**) after gradually reducing losses from the beginning of the year. This will help considerably reduce revenue losses, which were estimated at over 3 percent of GDP between January and September 2011.

- The unit in charge of the investment code will be revived to closely track implementation of the code. It will draw up an exhaustive list of companies benefiting from the code and their tax advantages by end-March 2012, will terminate the benefits for companies for which the duration of eligibility has expired, and will revise the code for adoption by the government by end-August 2012 (**structural benchmark**) to limit the tax revenue cost while remaining competitive.

- Proposals for changing the rate and scope of certain taxes will be submitted to the government and parliament. The increase in fixed-rate and prorated business taxes will be adopted in the context of the general tax code. The rate of withholdings at source on nonwage income has already been raised from 10 to 15 percent in the context of the 2012 budget law.

- The system for reimbursing VAT credits will be improved to reduce complaints, accelerate refunds, and avoid impairing corporate cash flow.

- Regulatory and contractual exemptions will be reviewed by end-June 2012 to eliminate all exemptions that no longer serve the purposes for which they were granted. The government will refrain from granting exemptions other than those provided under ordinary law.

- A mobile scanner will be installed at the port of Conakry and a pallet scanner at the Conakry airport.
- The technical framework will be improved: secure and computerized taxpayer census; computerization of tax units and revenue stations and their online connection with other administrations.
- The government will conduct an institutional and regulatory audit of all revenue-generating services. The MEF will prepare an exhaustive list of these services and, by end-September 2012, will draw up performance contracts with the revenue authorities under the aegis of the ministries to which they are attached. The share of the revenue of autonomous agencies in the semi-public sector accruing to the government budget will be revised by end-December 2012, taking care to safeguard the financial equilibrium of these entities.
- The complete inventory of government-owned buildings will be completed by end-September 2012 and the approach to their management will be changed to ensure that the revenue they produce reaches the Treasury. The government will submit to parliament a draft law reviewing all texts allocating revenue from end-September 2012, with a view to placing them under the responsibility of the Finance Minister based on the "single pot" principle, while preserving the financial autonomy of the recipients.
- The tax audits begun in 2011 in partnership with the AFD will be completed with respect to effective collections and resolution of disputes. A complete list of delinquent taxpayers owing more than GNF 1 billion will be published every six months. To complete the legal mechanism of these verification actions, the tax appeal commission will come on stream during the first half of 2012. The investigation and research units at the National Tax Directorate and the General Customs Directorate will be strengthened in terms of their administrative positioning and the human and material resources made available to them.

Expenditure

28. **The government will continue efforts to control public expenditure, to improve the quality of expenditure**, **and channel spending toward priority social and economic sectors**. The increase in operating expenses will be mitigated, mainly by the expected increase in revenue. Key elements will be the stabilization (as a percentage of GDP) of the wage bill (which has almost doubled as a percentage of GDP since 2005) and rationalization of subsidies. The reform of the security sector should help redirect spending towards such priority sectors as health, education, justice, and infrastructure. Windfall mining revenue significantly increases investment potential. Aware of the challenges posed by these resources, the government has created a Special Investment Fund (SIF) to manage them (Box 2). Investments will also benefit from renewed aid inflows from development partners. The government attaches great importance to public financial management reform. With the

technical assistance from Guinea's partners, the medium-term objective is to revamp the legal, organizational, and technical framework of public financial management so that it can meet the challenges Guinea must face in managing macroeconomic and revenue volatility, to secure the allocation of public resources to economic growth and poverty reduction.

29. **The government will institute reforms to contain the public sector wage bill**. During the period 2012–14, the wage bill will be limited to around 5.3 percent of GDP. Based on the Government Reform and Administrative Modernization Program (PREMA) to be approved during first quarter 2012, the government will adopt, by end-2012, a civil service reform plan for the following years aimed at controlling the number of government employees and enhancing civil service productivity. These measures will create the fiscal space to address the increasingly pressing social demands for new hiring in the basic public services—health, education, roads, water, energy, sanitation, etc.—while stabilizing the wage bill as a percentage of GDP.

30. **The budget for 2012 includes a 16 percent increase in the wage bill**, which would allow for partially adjusting wages to the increased cost of living. That notwithstanding, controls on staffing and hiring restrictions based on the government's financial capabilities will help stabilize the wage bill as a percentage of GDP. The measures implemented in 2011 will be continued, particularly the biometric census, the elimination of duplicate records and deceased persons from the payroll, the effective implementation of provisions concerning retirement, and the harmonization of civil service staff and payroll files and their availability online. The government will also launch priority actions under the PREMA, namely:
(i) redefining the government's missions; (ii) streamlining public administration;
(iii) enhancing the coordination and effectiveness of government work; and
(iv) consolidating the decentralization process.

31. **The government will continue to rationalize subsidies**. Spending on subsidies and transfers has risen considerably since 2008. In the medium term, financial support from the government will be allocated mainly to mitigating the negative impact of the reforms on the underprivileged population and reducing inequalities. Social safety nets will be developed through targeted spending on poverty reduction and the development of human capital. Although spending on subsidies and transfers will once again increase in 2012, to 4 percent of GDP, because of agricultural subsidies and transfers to the electricity company (EDG), the government proposes to stabilize them at around 3.4 percent of GDP in 2013–14 based on the expected results of security reform, the cleanup of the student subsidy register, rationalization of government interventions in the agriculture sector, and reform of the electricity sector.

32. **Two important components of the government's policy to streamline subsidies will come from reforms in the electricity and agricultural sectors**.

- Given the operating conditions of the semi-public electricity company (EDG), the government should subsidize the cost of operating new thermal plants, estimated at 0.6 percent of GDP in 2012 (see paragraph 49 electricity sector reform). Because of the magnitude and urgency of the power supply problem, the government organized a roundtable on January 16–17, 2012 with its main development partners to draw up measures to overhaul the management of the EDG. The government will adopt the action plan resulting from this round table by end-March 2012, including the increase in electricity rates to keep subsidies in 2012 at the amount indicated above.

- The methods and procedures for assistance to the agricultural sector (distribution of inputs, seeds, and agricultural materials), as well as the extension and collection of agricultural loans will be harmonized, based on advice provided by the World Bank and IFAD by the start of the 2012 crop year (April 2012) with a view to controlling agricultural subsidies and improving the rate of collection of producer loans (**structural benchmark**).

33. **Investment expenditures are projected to remain high in the years to come to meet urgent needs**, **particularly in the energy and infrastructure sectors**. Investment financed domestically will rise to an average of 6 percent of GDP per year from 2012 to 2014, about two thirds of which are expected to be financed with windfall mining revenue in 2012–13 and one third in 2014, including the SIF (Box 2). In keeping with the PRSP and the five-year plan, investments will be mainly geared towards the electricity and infrastructure sectors. With the resumption of relations with the development partners, spending on investment projects financed with external resources is expected to increase rapidly in 2013–14.

34. **The government estimates that the 2012 budget can be financed**. In a context of declining budgetary assistance, financing requirements will be met with domestic resources and external debt relief (see paragraph 55 below). There will be no change in the Treasury's net position vis-à-vis the banking system during 2012 except for the use of deposits of windfall revenue. The 2012 budget provides for the use of US$215 million (about 4 percent of GDP) of the windfall revenue collected in 2011 and deposited with the BCRG. Also, of the US$250 million in windfall revenue anticipated in 2012, half is earmarked for financing general budget expenditure and the other half will be deposited in the SIF and will improve the Treasury's net position vis-à-vis the BCRG. For the purpose of developing the monetary and financial markets, the government intends to increase the balance of Treasury bills (usually subscribed by the commercial banks) by GNF 300 billion and will also issue bonds of GNF 300 million. To maintain zero banking system financing of government financial operations other than the use of deposits representing windfall revenue, the government will use those funds for an additional GNF 600 million in repayments to the BCRG.

35. **With respect to structural measures**, **public financial management will be modernized**. To that end, the government will review its legislative and regulatory framework to align it with international or regional standards. A new framework budget law will be drafted in 2012, adopted, and submitted to the parliament by end-June 2012; the new public procurement code will be approved and implemented by end-2012; the general government accounting regulations will be adopted by end-September 2012; a new budget

nomenclature will be prepared by end-September 2012 and a new government chart of accounts will be prepared by end-December 2012 for implementation in time for preparation and execution of the 2014 budget law; the general tax code will be revised; the book on tax procedures will be drafted; the customs and investment codes will be adapted to the changing national and international economic environment. All these reforms will be supported by capacity-building actions with assistance from the IMF, West AFRITAC, and other development partners.

36. **The government continues to ensure that government contracts are awarded transparently through competitive bidding processes**. To prevent the disastrous problems of 2009–10, public procurement regulations were strictly enforced in 2011. However, during the last quarter of 2011, the government was compelled by serious problems, urgent needs, and high expectations of populations in the agriculture and energy sectors to award two 2 major contracts through direct negotiation. The contracts related to the procurement of thermoelectric generators from Brazil to alleviate the shortfall in electricity product with respect to demand, and to the acquisition of tractors, combine harvesters and other agricultural equipment for the harvest. In 2012 and hereafter, the government will refrain from any negotiated transactions that violate the procurement code. With respect to the government contracts signed in 2009–10 that were frozen, the government decided to cancel those for which execution had not begun, and a contract adjustment committee was created to reclassify the others to make them compatible with budget provisions and subject to strict specifications.

C. Monetary and Exchange Policies

37. **The first priority of medium-term monetary policy will be to control inflation by regularly mopping up excess liquidity**. To that end, the BCRG will maintain a very rigorous monetary policy, limiting growth of base money to the inflation reduction target, including through revitalizing market instruments and interventions on the foreign exchange market. The BCRG will do everything possible to curb any inflationary pressures that may result from the rapid acceleration of mining megaprojects in 2012, in particular by sterilizing the equivalent amount in Guinea francs of inflows of foreign exchange intended to cover the local expenses of those projects. The BCRG will continue to increase the efficiency of the foreign exchange market and, more generally, develop the financial system, including its supervision. The government attaches great importance to the independence of the BCRG and will take necessary steps to strengthen its financial position following the excesses of 2009–10.

Box 2. Special Investment Fund

The 2012 budget law established the Special Investment Fund (SIF) to promote the efficient and sustainable use of the windfall mining revenue. The SIF will take the form of a special (fiscal) Treasury account at the BCRG denominated in Guinea francs. SIF funding will come mainly from windfall mining revenue, although development partners and other sources may also contribute to jointly finance projects. The SIF will finance projects in the Public Investment Program. This financing and the projects concerned will be subject to the general provisions of public financial management and will be part of the annual budget approved by the parliament. The government will establish an SIF Steering Committee, which will provide opinions on the quality of the projects proposed by the ministries for financing by the SIF, in particular in accordance with the public investment program and the objectives established for the five-year plan and PSRP, their efficiency and sustainability over the medium term. The Steering Committee will include representatives of the BCRG, government agencies, partners contributing to SIF-funded projects, and civil society. SIF counterpart funds in foreign currency will be managed by the BCRG in accordance with best international practices for asset management as part of its portfolio of foreign assets. The authorities intend to request technical assistance from the IMF and the World Bank with a view to adopting implementing texts and general terms and conditions of operation for implementation of the SIF by end-March 2012 (**structural benchmark**).

In March 2012, **the SIF will receive the equivalent of US$250 million in start-up funds from the 2011 windfall mining revenue**. In the 2012 budget, the government projects additional windfall revenue of US$250 million, half of which will also be used to fund the SIF. Given the limited absorptive capacity of the economy and government agencies, and the increasing complexity of sustainability issues, the challenges of efficient management of windfall revenue will increase in proportion with the amounts. If the government were to collect more than the expected US$250 million in windfall revenue in 2012, at least 75 percent of the additional amounts would be transferred to the SIF. In the event that this additional revenue should materialize, program objectives would be adjusted by 80 percent of the additional amount for net foreign reserves (upwards), for net domestic bank financing of government (downwards), and for net domestic assets of the BCRG (downwards), allowing for the immediate use of 20 percent of this revenue. In that connection, the government, based on advice provided by its development partners, will adopt a medium-term public investment program by end-September 2012 (**structural benchmark**), which will provide a portfolio of projects held in reserve for possible financing through the SIF. Notwithstanding this provision, the government will consult with IMF staff before using the additional windfall revenue in excess of the US$250 million provided in the 2012 budget to ensure that use of the revenue remains aligned with overall program objectives. If the government earns even more windfall revenue, it will prepare more comprehensive rules for allocating these receipts to the SIF.

38. **In 2012**, **the BCRG plans to strengthen its capacities to define and execute its monetary policy**. Following the increase in the required reserves ratio to 22 percent in October 2011, the BCRG intends to resume its interventions using its own financial securities (monetary regulation securities—TRM). Moreover, in close cooperation with the MEF**,** it will prepare a study on the consolidation and conversion of BCRG advances into Treasury bills and the use of Treasury securities to implement monetary policy. With IMF technical assistance, the BCRG plans to develop its tools for an improved assessment of liquidity conditions in the economy and thus better inform monetary policy. It will also continue providing better information to the economy through the monthly publication of its balance sheet and an analysis of the evolution of the monetary situation on its website and in the local newspapers.

39. **The exchange policy objective will be to improve the determination of rates by market forces**, **minimize daily fluctuations**, **and reduce the exchange premium between the official and informal markets**. The improved international reserves level will facilitate increased intervention in the interbank foreign exchange market (IFEM), although the BCRG is aware of the need to preserve external competitiveness. Moreover, to strengthen the Guinean economy's capacity to absorb external shocks, the monetary authorities will maintain gross international reserves at a level equal to at least 2.5 months of goods and services imports (excluding imports for major mining sector projects financed by foreign direct investment).

40. **The BCRG will continue to improve the operation of the foreign exchange market with a view to unifying the official and parallel markets and eliminating multiple exchange rates**. To better reflect market forces, further reduce the premium vis-à-vis the parallel market, and attract transactions to the formal market, the monetary authorities plan to initially expand the band around the reference rate within which the banks are required to buy and sell foreign exchange and subsequently eliminate it. The reference rate will continue to be determined as the weighted average of commercial bank rates. Based on the technical assistance recommendations of the IMF, the BCRG will increase the transparency of transactions in the weekly auctions (IFEM). It will also draft a memorandum clarifying the operating regulations for the IFEM (method of allocation and the fixing of exchange rates) approved by the Foreign Exchange Commission—by end-March 2012. It will ensure that the foreign exchange positions of primary banks comply with the regulations in force. The BCRG also plans to amend the foreign exchange regulation with IMF technical assistance. It will request further IMF technical assistance with a view to proposing new measures to eliminate the multiple currency practice. To ensure the success of its foreign exchange policy, the BCRG will seek to strengthen operational foreign exchange capacities through the establishment of a foreign exchange trading room and personnel training. To this end, a request for technical and financial assistance has been submitted to the World Bank.

41. **The BCRG attaches great importance to strengthening bank supervision**. With technical assistance from West AFRITAC, the BCRG increased the staffing of the financial

institutions supervision directorate by hiring 18 inspectors at end-2011. It will focus on training its personnel in 2012, with support from West AFRITAC and Banque de France. Implementation of this training program will quickly bring the BCRG's bank supervision capacity up to standards. The BCRG has also requested technical assistance from the IMF and West AFRITAC to strengthen the regulations governing bank supervision. In 2012, the BCRG plans to prepare a comprehensive financial sector development plan, including with a view to preparing for stronger economic growth in the second half of the decade, following the start of production of new mining reserves.

42. **The BCRG will continue its policy of modernization and increased transparency in the conduct of its operations**. The external audit of the BCRG 2011 financial statements will be completed by end-June 2012 and the results, including the auditor's opinion, will be published on its website by end-August 2012. During the program period, an independent external auditor will certify the accounting and the statistical data on the program performance at test dates submitted to the IMF by the BCRG. The audit of the information system was carried out by an independent firm and steps were taken to correct the shortcomings identified. In particular, a technical assistant was hired in November 2011 to assist the BCRG in reorganizing the IT directorate and strengthening the governance of the information system. In addition, a new IT master plan was adopted in December 2011.

43. **The BCRG will also continue to strengthen management and the financial position**. Following the January 2012 IMF mission to update the 2007 safeguards assessment, the BCRG will implement most of the recommendations during 2012, in particular, revitalization of the audit committee, the publication of audited financial statements, and strengthening of the external audit mechanism. Furthermore, the BCRG board of directors will approve an investment policy and guidelines by end-December 2012 (**structural benchmark)**. To strengthen capacity for the management of external assets—on the rise owing to windfall mining revenues—the BCRG requested technical assistance from the World Bank under its Reserve Advisory and Management Program (RAMP). Finally, the BCRG will request technical assistance to modify the accounting system to comply with the International Financial Reporting Standards (IFRS). This could necessitate an increase in the bank's capital, partly to cover the losses resulting from huge banknote orders in 2009–10. Pending the conversion of the financial statements to the IFRS, the government intends to recapitalize the BCRG by US$50 million during the second half of 2012. This amount will be drawn from windfall mining revenue.

D. Other Structural Reform Measures

44. **The principal medium-term objective in the area of structural reforms is to create an environment favorable to diversified economic growth by preparing the economy for the mining boom in the years ahead**. Following the normalization of the political and social situation and based on the fundamental improvement in governance the government is determined to achieve, foreign investors' interest in the development of Guinea's rich natural resources has quickly returned. Major investment projects to exploit

iron ore and convert bauxite into alumina are in the execution phase or in the advanced stages of preparation. The volume of investment in these megaprojects during the period 2011–14, including transportation infrastructures, is estimated at US$25 billion, or more than 5 times the 2011 GDP. The start of production, expected to occur toward the middle of the decade, will transform the Guinean economy. The challenge for these structural reforms will be to ensure that this transformation reduces poverty and contributes to improved living conditions for the Guinean people. The main reforms concern the mining sector, the energy sector, and promotion of the agricultural sector, as well as improvement of the business climate.

Mining policy

45. **Medium-term prospects for the mining sector depends on megaprojects currently under way to exploit iron ore and convert bauxite into alumina**. The longer-term development of the sector requires diversification of exploitation to other natural and nonrenewable resources such as petroleum, gold, uranium, nickel, and rare earths. The government's approach to development of Guinea's mining sector is based on the concept of Mines and Sustainable Integrated Development, which is based in turn on four pillars: (i) development of agriculture and the industrial fabric in mining zones and along the transportation routes for mining projects; (ii) protection of the environment through close monitoring of environmental management plans and appropriate control of the escrow fund for environmental protection; (iii) community development through institutional capacity building for local governments to ensure sound management of the mining companies' contribution and the preparation of community development agreements to be executed by mining companies and local governments; and (iv) regular surveillance of mining activities with a view to improving government revenue. In the petroleum sector, drafts of the revised petroleum code, the standard production-sharing contract, and the implementing regulations have already been prepared; the government expects to work with a prominent firm to finalize the texts by end-September 2012.

46. **The new mining policy is intended to ensure that the Guinean people benefit from the country's mining resources and to promote synergies with the rest of the economy**. The strategy for development of loading infrastructures for mining products will be implemented by positioning the government as owner of the loading infrastructures and integrating mining companies into the master infrastructure development plan prepared by the government, in order to achieve coherent economic development on the national scale and pool the use of infrastructures to ensure financial and economic profitability and promote economic integration of the areas where they are located. In view of their complexity and capacity, the megaprojects will require the government to train personnel in order to develop managers and technical teams capable not only of supervising and monitoring mining activity but also of directing or executing the construction and operation of mining projects. The government will improve governance through adherence to the principles developed by the international organizations active in this area. Guinea will strive to fully implement the principles of the EITI and the Kimberley Process to increase transparency and build

credibility in the management of mining revenue and ensure traceability of diamonds produced in Guinea in international trade. The practice of transparency and good governance will be maintained and reinforced with the development of megaprojects.

47. **In 2012**, **the mining policy will focus on**: **(i) finalizing the implementation of the new mining code through the adoption of implementing texts**; **(ii) auditing and revising existing contracts to comply to the extent possible with the new mining code**; **and (ii) rehabilitating the mining cadastre**.

- *In the context of implementing the new mining code, the government, with technical assistance from partners including the IMF, will finalize the implementing regulations.* To ensure that the government obtains an equitable share of the revenues from the exploitation of mining resources, implementing decrees for the new mining code, as well as a standard mining contract for Guinea, will be adopted and published by end-June 2012 (**structural benchmark**). To that end, the standard mining contract drafted in 2008 will be harmonized with the provisions of the new mining code. In view of the mining sector's significant role in Guinea's fiscal revenue and economy, the government will consult with the IMF before approving any modification of the new mining code or implementing regulations that could have an impact on tax revenue (**continuous structural benchmark**).
- *The existing mining contracts will be revised, based on mutually agreeable conditions, to ensure that all investors are treated equally under the country's mining legislation.* The prompt recruitment of specialized firms to advise the government on the revision of mining contracts will reassure companies currently operating in the sector and avoid penalizing the development of projects in progress. In this regard, the authorities selected independent firms to conduct an audit of the mining companies to ensure that their past activities were in compliance with all the provisions of the existing contracts. The audit is expected to be completed by end- 2012.
- *The mining cadastre will be audited and corrected to facilitate more rational management of mining resources to promote effective development of the sector.* The overhaul of the cadastre aims to establish a natural resources data file enabling the government to access information on the mining reserves identified. The file should support tracking of mining activities in order to inform users of all transactions in the sector. Following a competitive bidding process complying with the public procurement code, an independent external firm was selected to conduct the mining cadastre audit. The technical teams will soon be operational, and the audit is scheduled to be completed by end-June 2012.

Energy sector

48. **The medium-term policy for the energy sector is based on two components**: **(i) restructuring and rehabilitation of the sector**, **including the EDG semipublic monopoly**; **and (ii) development of Guinea's enormous hydroelectric potential**. Lack of maintenance and technical and commercial losses of more than 43 percent of production have led to the near-total unavailability of electricity in most areas of the country. Reform of the sector is one of the government's most important priorities, given the disastrous effect on economic growth and on living conditions in Guinea. Pending implementation of those reforms, the government has already begun to launch one of the major hydroelectric projects identified long ago, the Kaléta dam on the Konkouré River which, together with micro-dam projects, will not only increase the local availability of power but also offer the opportunity to export electricity to neighboring countries.

49. **In 2012**, **the emphasis will be on rehabilitating and restructuring the sector**. Following the energy sector audit, the government, with the support of development partners, will undertake an in-depth reform of the sector designed both to increase the supply of electric power and to strengthen the technical, commercial, and financial management of EDG, including the adjustment of tariffs. A recent sector roundtable with the development partners organized in Conakry on January 16–17, 2012 reviewed the consultant's audit report and the 2011–14 energy sector investment program, as well as the structure of governance and management of EDG. At the conclusion of this roundtable an action plan including the investment program, a tariff adjustment calendar, and rehabilitation measures aimed at reducing technical and nontechnical losses and strengthening the commercial and financial management of EDG was agreed. The government plans to adopt a comprehensive plan for reform for the sector by end-March 2012 (**structural benchmark**); this plan will include a tariff adjustment to ensure that budgetary support to EDG remains within the limit established in the budget law. The government will also choose a strategic partner to provide technical assistance for management.

50. **The government also intends to rehabilitate and improve management of the water sector**. To that end, an institutional audit of the sector is planned during 2012 and a roundtable of partners will be held thereafter with support from the AfDB and World Bank. As in the electricity sector, the process is expected to lead to the definition of a program for restructuring and investment in the water sector, including the selection of a strategic partner for technical assistance.

Agricultural sector

51. **The government's agricultural policy aims to ensure food security by 2014 and ultimately position Guinea as an exporter of agricultural products**. The government intends to make this vision a reality by modernizing family farms and promoting the agricultural private sector. The government's interventions, including financial support to

the agricultural sector, will be guided by the desire to improve economic efficiency and social equity in that sector. The main actions envisaged are:

- promote the development of a dynamic agricultural private sector by putting in place sustainable mechanisms for financing the sector;
- in cooperation with the development partners, strengthen agricultural infrastructures with a view to facilitating private investment in agro-industry;
- diversify food production beyond rice while sustainably developing rice cultivation by improving control of water resources; and
- increase productivity and yields per hectare in agricultural operations through a policy to encourage the use of improved inputs and seeds and the introduction of appropriate mechanization.

52. **The main policy objective for agriculture in 2012 will be to enhance the sustainability of assistance measures initiated in the sector in 2011**. In collaboration with the development partners, the Ministry of Agriculture drew up a National Agricultural Investment Plan (PNIA), soon to be adopted by the government. With the assistance of the World Bank, the government will continue refocusing public expenditure in accordance with the priorities of the PNIA. In addition, the current system for facilitating access to agricultural inputs will be gradually adjusted to ensure the effective competitiveness of the sector and optimize the use of budget subsidies. Initially, while also prefinancing and subsidizing seeds, fertilizer, and agricultural equipment, the government will ensure recovery of the producer’s share. Thereafter, the government will gradually reduce subsidies as agricultural production expands so as to reduce the fiscal burden and avoid supporting artificial competitiveness, which would be detrimental to the optimal development of the economy as a whole.

Improving the business climate

53. **The government is also in the process of finalizing an action plan to improve the business climate**. In 2011, Guinea was ranked 181 out of 183 countries worldwide in the Doing Business index. The objective is to improve Guinea's ranking by at least 10 places in the next three years. To this end, the government will:

- facilitate economic activity by promoting competition and public-private partnerships to establish key enterprises in strategic sectors such as energy. In 2012, it plans to strengthen the institutional framework for private investment, in particular by: (a) initiating the operations of the private investment promotion agency (APIP) and the one-stop window and building the respective capacities to respond to investor requests; and (b) streamlining private sector professional organizations. The government has requested technical and financial assistance from the World Bank and the IFC to carry out the reforms needed to promote the private sector, improve the business climate, and encourage investment in non-mining sectors of the economy. To this end, a policy letter for the promotion of private investment will be prepared with assistance from the development partners and adopted by the government by end-September 2012. At the same time, a coordination unit for private sector reforms will be established within the Ministry of Industry and Small and Medium Enterprises;

- enhance the credibility and authority of the judiciary with a view to increasing its independence, integrity, and accessibility to all. In 2012, the government will put in place a continuing education program for judges and judiciary personnel and strengthen capacities of associations of attorneys, auctioneers, and other officers of the court to execute court decisions.
- continue the practice of quarterly audits of major government contracts and strengthen the National Governance and Anti-Corruption Agency by adopting and promulgating the anti-corruption law transposing the anti-corruption provisions of the United Nations and African Union conventions in national laws. In 2012 the government will initiate a second survey to assess the extent of corruption in the country.
- Institute reforms of public enterprises and implement an improved monitoring mechanism. The government will adopt a strategy for withdrawal of the government from businesses by end-December 2012. A list of enterprises to be privatized will be drawn up by end-June 2012. The method of managing the 19 enterprises returned to the government's portfolio in 2011 will be redefined.

HIPC initiative

54. **The government attaches high priority to reaching the HIPC Initiative completion point as soon as possible**. It will make every effort to quickly meet the remaining triggers, including the satisfactory implementation of a program supported by the IMF under the ECF. Updating the poverty profile with data from the ongoing household survey will enable the authorities to fine-tune their policies to better protect the poor, while the publication of audit reports on government contracts exceeding GNF 100 million will further establish the culture of transparency in public financial management.

E. External Financing

55. **To fulfill its financing requirements in 2012 and normalize relations with external creditors, the government plans to seek debt relief from its creditors**. Following approval of the program by the IMF Executive Board, the government will approach Paris Club creditors to request debt rescheduling on exceptional terms similar to those accorded in 2008. With respect to bilateral non-Paris Club creditors with which arrears have been accumulated, the government plans to initiate discussions to reach agreement on treatment of the debt on terms comparable to those of the Paris Club and in the context of the HIPC

Initiative. Reaching the HIPC Initiative completion point will also permit coverage of a portion of the program financing requirements. Moreover, the government will request resumption of the interim assistance granted by the IMF under the HIPC Initiative, which will represent the fourth tranche of that assistance, amounting to SDR 1.2852 million. In the meantime, disbursements linked to the ECF-supported program will cover the remaining balance of payments requirements.

56. **To ensure prudent debt management**, **the authorities will mobilize only grants and concessional debts**. The project for the development of iron ore deposits in the Simandou 3 and 4 blocks provides for a government interest of up to 51 percent government in the infrastructure company associated with the project, which could require a contribution of over US$4 billion in financing from Guinea; the government will provide IMF staff with details on the financing of its contribution before end-June 2012. To ensure debt sustainability both before and after reaching the HIPC Initiative completion point, the authorities agree to submit any proposed new debt agreements or debt guarantees to the National Debt Directorate to ensure that the terms are concessional. The government further agrees to consult with IMF staff on the terms and concessionality of any new proposed debt agreements before contracting or guaranteeing any external debt. Regarding the service of debt to the IMF, the BCRG will keep a sufficient balance in its SDR account with the IMF to cover all payments falling due during the next quarter.

IV. Statistics and Technical Assistance Needs

57. **The government intends to pursue its efforts to improve the statistical system with a view to ensuring the regular production and provision of high-quality statistical data**. This will include the implementation of the National Statistics Development Strategy (SNDS). In particular, the authorities will pursue institutional reforms by finalizing the establishment of the National Statistics Institute through the appointment of its board of directors during first quarter of 2012. They will also work toward implementing the capacity building programs negotiated previously with the development partners.

58. **The government has identified a wide range of technical assistance needs in the area of macroeconomic management**. Institutional capacities, already weak, declined further during 2009–10, when normal procedures and regulations were largely bypassed. To make a fresh start, the authorities requested technical assistance from the partners, including the IMF and its regional center West AFRITAC. The latter two organizations have conducted several missions; since February 2011, they have provided recommendations in the areas of fiscal policy, tax and customs of ministration, public financial management, the foreign exchange market, monitor policy, bank supervision, and the national accounts.

59. **The government is determined to improve the coordination of technical assistance in order to maximize benefits**. The recent appointment of a technical assistant from the AFD to take charge of such coordination will allow for improved monitoring of donor actions to prevent duplication and develop synergies. The authorities have already

asked the development partners to better coordinate their actions. In this context, the European Union has joined with (i) the IMF, in regard to the modernization of the legal framework and the improvement of accounting management; (ii) the World Bank, in regard to the establishment of the public procurement regulatory agency; and (iii) France, for strengthening of the supervisory body. Other projects in which the principal partners are involved, in particular the AfDB, the World Bank, the United Nations Development Program(UNDP), the European Union, and the United States agency for international development (USAID) address crosscutting areas (training, automation of the Ministry of Economy and Finance, financial deconcentration and decentralization, capacity building with respect to economic and financial coordination, government reform and modernization); mobilization of domestic revenue (tax and customs) and external financing (debt and official development assistance, crucial in this period of heightened emphasis on achieving the triggers for the HIPC Initiative completion point and re-engaging with the international community); macroeconomic framing and cash flow and budget management; and the Ministry of Planning, the Ministry of Mines and Geology; the Ministry of Labor and Civil Service; and the High Commission on Government Reform and Administrative Modernization.

V. Program Monitoring, Assessment, and Supervision

60. **To monitor the implementation of measures and the attainment of its program objectives**, **the Guinean government has instituted a monitoring mechanism** consisting of a Reform Coordination Committee (CCR) and a Technical Support Committee for the CCR, as well as a Program Monitoring Technical Unit (CTSP) created as a unit of the Ministry of Economy and Finance. With this mechanism, the government, the BCRG, international financial institutions, and Guinea's development partners will receive periodic reports on the progress made, the outlook, and the measures envisaged.

61. **The program will be reviewed semiannually by the IMF Executive Board on the basis of quantitative monitoring indicators and structural benchmarks** (Tables 4 and 5 attached). These indicators are defined in the attached Technical Memorandum of Understanding (TMU), attached as (Annex 1). The first year of the program covers the period January to December 2012, and the first (second) program review based on the performance criteria as at end-June 2012 (end-December2012) is expected to be completed no later than October, 2012 (April 30, 2013).

62. **During the program period**, **the government agrees** not to introduce or increase restrictions on the balance of payments or transfers pertaining to current international transactions, introduce multiple currency practices, enter into bilateral payment agreements inconsistent with Article VIII of the IMF Articles of Agreement, or impose or increase any import restrictions for BOP balancing purposes. Furthermore, the authorities agree to adopt — in consultation with IMF staff—any additional financial or structural measures that prove necessary to the program's success.

Table 1. Guinea: Indicative Targets Under the SMP in 2011 1/

(Billions of Guinean francs unless otherwise indicated)

	2010	2011								
	end Dec.2/ Actual	end Mar. Actual	end Jun. Prog.	end Jun Actual	end. Jun Status	end Sep. Prog.	end Sep. Actual	end Sep. Status	end Dec. Prog.	end Dec7/ Est.
Quantitative targets										
Basic fiscal balance (floor) 3/	-3,424	-59	-330	616	Met	-429	183	Met	-663	-864
Net domestic assets of the central bank (ceiling)	6,741	6,741	1,760	-12	Met	2,045	1,495	Met	2,488	2,780
Domestic bank financing of the government (ceiling) 3/	4,037	-77	-4,682	-5,558	Met	-4,397	-4,964	Met	-3,943	-3,518
Net international reserves of the central bank (floor); US$ millions 3, 4, 5/	22	103	802	1,026	Met	774	927	Met	669	541
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 6/	n.a.	0	0	0	Met	0	0	Met	0	0
Stock of outstanding short-term external debt due or guaranteed by the government or the central bank (ceiling); US$ millions	n.a.	0	0	0	Met	0	0	Met	0	0
Memorandum items:										
Reserve money	6,982	6,979	6,984	7,167		6,998	6,863		7,101	6,889

Sources: Guinean authorities and IMF staff projections.
1/ Definitions are included in the technical memorandum of understanding (TMU).
2/ Flow over 2010 for fiscal criteria and stock for end-December 2010 for monetary and external debt criteria.
3/ Cumulative change from end-December 2010.
4/ Calculated using the program exchange rates.
5/ End-2010 figure excludes 2009 SDR allocation.
6/ 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.
7/ The end-december 2011 estimates are based on discussions between the authorities and staff during the November mission. Staff expects to receive updated figures during February 2012. Although the current estimates show some overruns compared to program targets, if the additional investments financed with the exceptional revenue and already discussed with staff are excluded, the performance is stronger than that envisaged under the program. On the basic fiscal balance, if those investments are excluded, the end-Dec 2011 figure would be a deficit of GNF 356 billion, smaller than the deficit envisaged under the program. For the net domestic assets of the central bank, the domestic bank financing of the government, and the reserve money, the valuation of the exceptional revenue uses the program exchange rate.

Table 2. Guinea: Structural Reforms Under the Staff-Monitored Program 1/

Ongoing Actions	**Macroeconomic Impact**	**Status**
No payment by the central bank for the account of the government without the prior signature of the Minister of Economy and Finance or his alternate/representative. (MEFP ¶6)	Restore budgetary control and procedures.	Observed until September 2011
No new tax and customs exemptions. (MEFP ¶8)	Restore budgetary control and ensure government revenue.	Observed, with the exception of essential goods
Monthly publication in the local media of a brief summary and analysis of the monetary outlook. (MEFP ¶21)	Inform economic agents about monetary developments.	Monthly memorandum on monetary and exchange policy prepared since June, and published in January 2012
No new extra-budgetary expenditure. (MEFP ¶18)	Restore budgetary control and prevent expenditure overruns.	Observed until September 2011
No net civil service recruitment in sectors other than health, education, and justice. Civil service recruitment will be offset by the elimination of ghost workers and duplicates. (MEFP ¶13)	Prevent a structural increase in wage expenditure (improve expenditure efficiency).	Freeze announced by joint (interministerial) decree of March 22, 2011
Execute a cash-basis budget with no BCRG financing in 2011. (MEFP ¶6, 16)	Enforce fiscal discipline and contain inflation.	Observed until September 2011
March 31, 2011		
Publication of a circular-letter reinstating the competitive selection process as the normal method of public procurement. (MEFP ¶18)	Enforce public financial management rules.	Completed per Ministerial Decree of March 11, 2011
April 30, 2011		
Adoption of the law on the Treasury single account. (MEFP ¶18)	Improve control of government funds and reduce borrowing costs.	Completed, Law 2011/002/CNT

Table 2. Guinea: Structural Reforms Under the Staff Monitored Program (concluded)

June 30, 2011		
Submission for government approval of a standard mining contract conforming to international best practices. (MEFP ¶28)	Improve the business environment in the mining sector and ensure government revenue.	Mining code adopted by CNT on September 9, 2011; implementation decrees and the standard mining contract will be adopted by end-June 2012.
June 30, 2011		
Publication of the decree promulgating the law on the Treasury single account. (MEFP ¶18)	Improve control over government funds and reduce borrowing costs.	Completed
September 30, 2011		
Submission by the Tax Directorate to the Minister of Economy and Finance of an interim report on the results of the tax audit of government contracts signed in 2009 –10. (MEFP ¶12)	Restore fiscal discipline and increase revenue.	A report is prepared and a tax audit is undertaken with the support from the *Agence Française de Développement* (AFD) .
October 31, 2011		
Publication of the central bank's audited financial statements on its website, together with the auditors' opinions.	Inform economic agents about the central bank's activities and its position.	Final audit report available and published on BCRG's website.
December 31, 2011		
An institutional audit of the energy sector will be carried out in partnership with the World Bank and the AFD. (MEFP ¶27)	Undertake a restructuring of the electricity sector, an obstacle to economic growth.	Report of the firm *Conseil Nodalis* finalized.

[1/] Guinea: Staff-Monitored Program; EBS/11/106 (July 1, 2011); Appendix I, Attachment I, Table 4.

Table 3. Guinea: Status of HIPC Initiative Completion Point Triggers

Triggers	Assessment
Poverty Reduction	
A full PRSP has been prepared through a participatory process and satisfactorily implemented for one year as evidenced by the IMF/World Bank Joint Staff Assessment of the country's annual progress report.	**Partially Implemented**. The first PRSP was adopted in 2002. Its implementation suffered as a result of macroeconomic instability and poor governance. The authorities issued the second PRSP in 2007; its implementation was interrupted by the military coup of December 2008. The new government formed after the presidential election at end-2010 extended the PRSP-II to the 2011–12 period. A midterm report was prepared in June 2011. The government will prepare a report of full implementation for 2011 for review by the World Bank and the IMF.
Improvement of the poverty database and monitoring resources by conducting a living standards measurement survey making it possible to define poverty thresholds and formulate indicators based thereon; establishment of a poverty monitoring system with the participation of key stakeholders.	**Partially Implemented**. A comprehensive poverty survey was conducted in 2002–03 (and finalized in 2004–05) followed by Core Welfare Indicators Questionnaire Survey (CWIQ), Demographic and Health Survey 2007/2008. Based on the systems of household surveys, conducted between 2002 and 2008, the poverty database was improved and updated. Five income thresholds were established, differentiated for rural and urban areas, together with poverty thresholds ranging from 37 cents to 50 cents a day. Based on the household survey, 54 poverty indicators were defined. The National Statistical Office has completed the first phase activities of the CWIQ II survey (in December 2011) and is working with the Bank/UNDP and AfDB on the second phase activities (including production of primary social statistics) to be completed no later than March 2012.
Maintain macroeconomic stability as evidenced by satisfactory implementation of the ECF-supported program.	**Not Implemented**. The PRGF-supported program approved on December 21, 2007 went off-track after the first review. The government built a strong track record under the IMF Staff-Monitored Program. Negotiations on an ECF-supported program are under way.
Design and take steps to create an appropriate regulatory framework for microcredit institutions.	**Implemented**. A new law establishing an appropriate framework for microcredit institutions was adopted in November 2005.
Governance and combating corruption	
Make publicly available a one-year progress report describing the resources and activities of the National Anti-Corruption Committee (CNLC).	**Implemented**. The 2002 and 2010 activity reports have been published. The 2011 report is scheduled for publication in March 2012.

Table 3. Guinea: Status of HIPC Initiative Completion Point Triggers (concluded)

Audit all government contracts for amounts greater than GNF 100 million and publish the results of these audits on a quarterly basis.	**Partially implemented**. The authorities did not begin this action promptly after the decision point. To make up for the delay, the government commissioned a comprehensive audit of government contracts for 2002–04; the final audit report was presented in 2007. To support a more operational and less costly system, a system of quarterly audits based on a sample of large government contracts was put in place in 2008. The report covering 2007 was published in October 2008. Reports on contracts signed in 2008 and the first six months of 2009 have been completed. Most of the audits for the second half of 2009 and for 2010 have been completed; the authorities are currently working with the World Bank to complete the remaining reports by February 2012. For 2011, the process has already begun, and the audit of contracts signed in the first six months is expected to be completed by end-March 2012.
Education	
Increase the gross enrollment rate of primary school students from 56 percent in 1999 to 62 percent in 2001 and 71 percent in 2002; the gross enrollment rate of girls should be 40 percent in 1999, 51 percent in 2001, and 61 percent in 2002.	**Implemented**. Gross enrollment gradually increased after 2002, reaching 79 percent in 2006 and 2007. Gross enrollment for girls increased even more, reaching 71 percent in 2006 and 2007 and significantly reducing the enrollment gap between boys and girls. Provisional data from the 2009-2010 Education Statistics Yearbook show that this target was also achieved during that period. The 2011 Education Statistics Yearbook is being prepared.
Increase the number of new primary school teachers hired by at least 1,500 a year for each year until the HIPC completion point, from an estimated base of about 15,000 primary school teachers in 2000.	**Implemented**. On average 1,673 primary school teachers have been trained and recruited each year from 2001 through 2007. In 2009–10, given the significant delay in reaching the completion point, hiring 1,500 new teachers every year no longer corresponds to the country's education needs and priorities. However, the newly elected Government has been working closely with Development Partners including the World Bank under the Education for All–Fast Track Initiative (EFA-FTI) to increase the number of primary school tearchers (and about 1500 teachers were hired between 2009–11 on average), thus meeting the trigger.
Health	
Increase rates of immunization (against diphtheria, tetanus, and whooping cough) for children under age one from 45 percent in 2000 to 50 percent in 2001 and 55 percent in 2002.	**Implemented**. Immunization rates were 52 percent in 2001 and 58 percent in 2002. The rates continued to increase to 85 percent in 2007. The report on health data in 2008–2011 is being prepared.
Improve the percentage of pregnant women benefiting from at least one prenatal consultation from 70 percent in 2000 to 80 percent in 2001 and 85 percent in 2002.	**Implemented**. Review of the Health Information System by WB staff (in 2012) shows that the trigger related to prenatal care consultations has been met (at 88% in 2010).

Table 4. Guinea: Performance Criteria (PC) and Indicative Targets, ECF 2012 1/

(Billions of Guinean francs unless otherwise indicated)

	2011		2012			
	end Sep. Actual	end Dec.2/ Est.	end Mar. Indicative Targets	end Jun. PC	end Sep. Indicative Targets	end Dec. PC
Quantitative Performance Criteria						
Basic fiscal balance (floor) 3/	183	-864	-1,102	-1,497	-1,418	-1,518
Net domestic assets of the central bank (ceiling)	1,495	3,178	4,484	3,385	3,541	3,854
Domestic bank financing of the government (ceiling) 3/	-4,964	-3,120	1,300	197	348	650
Net international reserves of the central bank (floor); US$ millions 4/	927	541	435	585	504	458
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 5/ 6/	0	0	0	0	0	0
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ millions 6/	0	0	0	0	0	0
New external arrears (ceiling) 6/			0	0	0	0
Indicative targets						
Expenditure in priority sectors (floor) 3/ 7/		2,100	1,765	2,501	3,208	3,910
Memorandum items:						
Reserve money	6,863	7,287	7,083	7,078	6,644	6,744

Sources: Guinean authorities and IMF staff projections.
1/ Definitions and adjustors are included in the technical memorandum of understanding (TMU).
Performance criteria for end-June and end-December 2012; indicative targets for end-March and end-September 2012.
2/ Flow over 2011 for fiscal criteria and stock for end-December 2011 for monetary and external debt criteria.
3/ Cumulative change from end-December 2011.
4/ Calculated using the program exchange rates.
5/ 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.
6/ Continuous performance criterion.
7/ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

Table 5. Guinea: Prior Actions and Structural Benchmarks, ECF 2012

Measure	Date	Rationale
Prior actions		
Adopt a 2012 budget law as discussed with November 2011 mission.	Completed	Preserve program budget objectives.
Provide IMF staff with a copy of the Rio Tinto contract with the government.	Contract annex still pending	Promote transparency in government operations.
Conduct a roundtable on the electricity sector in order to define the sector reform program.	Completed	Reduce the burden of transfers and subsidies on the budget.
Publish the central bank's 2010 audited financial statements on its website, together with the auditors' opinions.	Completed	Promote accountability and transparency.
Structural benchmarks		
Consult with the IMF before approving any modification to the new mining code or implementing regulations that could have a tax impact. (MEFP ¶ 47)	Continuous	Protect budget revenue.
Adopt a comprehensive plan for reform of the electricity sector. (MEFP ¶ 49)	End-March 2012	Reduce the burden of transfers and subsidies on the budget.
Harmonize the methods and procedures for assistance to the agriculture sector (distribution of inputs, seeds, and agricultural materials) as well as the extension and collection of agricultural loans, based on advice provided by the World Bank and IFAD (MEFP ¶ 32)[1]	End-March 2012	Ensure control of agricultural subsidies and improve the rate of collections for producer credits.
Adopt implementing texts and general terms and conditions of operation for the implementation of the Special Investment Fund, based on advice provided by IMF and World Bank. (MEFP, Box 2)[1/]	End-March 2012	Improve public infrastructures while preserving the sustainability of public finances.
Reintroduce the mechanism for regularly adjusting petroleum product prices based on changes in the international market prices and in the exchange rate. (MEFP ¶ 27)	Continuous from July 1, 2012	Protect budget revenue and ensure budget sustainability.
Adopt and publish implementing decrees for the new mining code as well as a standard mining contract. (MEFP ¶ 47)	End-June 2012	Ensure a larger share for the government in Guinea's mining revenues.

[1/] The IMF is solely responsible for assessing compliance with the conditions.

Table 5. Guinea: Prior Actions and Structural Benchmarks, ECF 2012 (concluded)

Measure	Date	Rationale
Develop a plan to implement tax reforms. (MEFP ¶ 26)	End-June 2012	Promote predictability in public finance reforms.
Certify, by an independent external auditor, the statistical data on the program performance at test dates submitted to the IMF by the BCRG, and approve an investment policy and guidelines by end-December 2012 by the BCRG board of directors. (MEFP ¶ 42, 43)	End-December 2012	Ensure appropriate utilization of resources entrusted to the BCRG.
Based on an exhaustive list of companies benefitting from the investment code and their tax advantages, terminate the benefits of companies whose eligibility periods have expired, and adopt a revised investment code. (MEFP ¶ 27)	End-August 2012	Reduce tax expenditures and improve the business environment.
Adopt a medium-term public investment program, based on advice provided by the development partners. (MEFP, Box 2)[1]	End-September 2012	Create a pipeline of viable projects that could receive funding from the SIF.

ATTACHMENT II—GUINEA: TECHNICAL MEMORANDUM OF UNDERSTANDING

February 2012

I. 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 4 of the Memorandum of Economic and Financial Policies (MEFP).

II. 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**. Definitions of bolded terms above are consistent with the definitions in the government flow of funds table (TOFE), for which the calculation method is described in Section IV below.

5. **Net domestic assets** (NDA) of the BCRG are, by definition, equal to the difference between **reserve money** (defined below) and net foreign assets (NFA) of the BCRG, both calculated at the program exchange rate, as indicated below. NFA are equal to the difference between the gross foreign assets of the BCRG, including foreign assets that are not part of reserve assets, and foreign liabilities of the BCRG. (In other words, NDA = 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; 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 fifth 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 gold price in effect on December 30, 2011 (US$1565 per oz.) for the first half of 2012 and at the price in effect on June 30, 2012 for the second half of 2012. For the test dates, the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates in effect on December 30, 2011**,** namely: for the first half of 2012, the exchange rates between U.S. dollar and the Guinean franc (7089.53 GNF/US$), SDR (1.5353 US$/SDR), Euro (1.2961 US$/EUR), and other currencies as published in *International Financial Statistics*; and for the second half of 2012, the exchange rates in effect on June 30, 2012.

8. **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. Debt is considered concessional if it has a grant element equivalent to 35 percent or more of the net present value (NPV). The net present value (NPV) of the debt is calculated using the average of the OECD commercial interest reference rates (CIRRs) for the previous 10 years for debts with a maturity of 15 years or more. For debts with a maturity of less than 15 years, the average OECD CIRRs for the previous six months (January 1 to June 30 or July 1 to December 31) are used to calculate the NPV. The same margins for different repayment periods (0.75 point if the repayment period is less than 15 years, 1 point if the repayment period between 15 and 19 years, 1.15 points if the repayment period is between 20 and 29 years, and 1.25 points if the repayment period is 30 years or more) are added to the two averages (over 10 years and over six month[1] This definition does not apply to financing granted by the IMF.

9. **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 are normal import-related suppliers' credits and foreign currency deposits at the central bank.

10. **New external arrears** include all 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.

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[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.

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.

B. Indicative Target and Memorandum Item

11. **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, Women Promotion and Children; (ix) Pre-University Instruction and Civic Education; (x) Labor, Technical Education and Professional Training; (xi) Higher Education and Scientific Research; (xii) Alphabetization 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 Public Health as well as utility charges for water, electricity, and telephone (Title 3 of the ministries listed above). However, they exclude spending under Title 4 of the Ministry of Higher Education and Scientific Research.

12. **Reserve money**, a memorandum item, comprises local banks' deposits and other private sector deposits with 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

13. The term "external debt" is understood as specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 31, 2009.[2] 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:

[2] See "Guidelines on Performance Criteria with Respect to Foreign Debt"—IMF Executive Board Decision No. 12274, as amended by Decision No. 14416-(09/91) (SM/09/215, Sup. 1, August 20, 2009).

- 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 one or more specified periods of time, which are usually shorter than the total expected service life of the property, 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.

14. 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 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.

15. The government and the central bank agree not to contract or guarantee any nonconcessional external debt under the conditions defined in paragraph 8 above, with the exception of debt in the form of reschedulings. 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.

III. Adjustments to program Performance Criteria

16. The quantitative performance targets are calculated on the basis of projected amounts of (1) net external assistance; (2) exceptional revenues of the mining sector (see table below); and (3) the net change of "program" arrears. 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.

Guinea: External Assistance and Exceptional Mining Revenues, 2012

(Millions of U.S. dollars, cumulative from end-December 2011)

	Mar.	June	Sept	Dec
Net external assistance	-22.17	-60.99	-85.00	-106.48
Budgetary assistance (grants + loans)	1.52	3.88	5.23	6.75
Impact of debt relief obtained	391.07	409.44	428.10	485.11
External debt service due	-40.21	-99.78	-143.79	-223.70
Interest	-8.46	-25.21	-35.92	-52.74
Principal	-31.75	-74.57	-107.87	-171.05
Net change in "non-program" arrears	-374.54	-374.54	-374.54	-374.54
Exceptional mining revenues expected	0.00	250.00	250.00	250.00

17. The floor for NIR, the ceilings on 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, and/or exceptional mining revenues differ from the projected amounts.[3]

18. **Adjustments for net external assistance**:

- *If net external assistance exceeds the program forecasts,* the floor for the basic fiscal balance will be adjusted downward by an amount equal to the surplus external assistance (allowing the entire surplus to be used for supplementary expenditures). The floor for NIR and the ceilings on NDA of the BCRG 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).

19. **Adjustment 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.

[3] The surplus or shortfalls will be calculated using the program exchange rates.

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 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).

20. **Adjustments for exceptional mining revenues**:

- *In the case of surplus exceptional mining revenues of up to US$500 million,* the floor for NIR will be adjusted upward and the ceilings on NDA of the BCRG 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 the surplus to be used for supplementary expenditures up to the amount of US$100 million or 2 percent of GDP).

- *For surplus exceptional mining revenues in excess of US$500 million,* the floor for NIR will be adjusted upward and the ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to 100 percent of the surplus beyond US$500 million, while the floor for the basic fiscal balance will not be adjusted (resulting in the saving of the surplus beyond US$500 million pending a review of the budget outlook and a cost-benefit and sustainability analysis before these excess revenues are committed).

- *In the case of shortfalls of exceptional mining revenues of up to US$125 million,* the floor for NIR will be adjusted downward and the ceilings on NDA of the BCRG and bank financing of the government will be adjusted upward by the total amount of the shortfall, while the floor for the basic fiscal balance will not be adjusted (the 2012 budget calls for a deposit of US$125 million from exceptional mining revenues, or 2 percent of GDP).

- *For shortfalls in exceptional mining revenues in excess of US$125 million,* the floor for NIR will be adjusted downward by the equivalent of 80 percent of the shortfall. The ceilings on NDA of the BCRG and bank financing of the government will be adjusted upward by the equivalent of 80 percent of the shortfall, while the floor for the basic fiscal balance will be adjusted by the equivalent of 20 percent of the shortfall (requiring a fiscal adjustment of up to the equivalent of 20 percent of the US$125 million (or up to 0.5 percent of GDP), which is the amount of new exceptional mining revenues that the 2012 budget has set aside for general budgetary financing).

IV. Definitions for Purpose of the TOFE

21. 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). 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, 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 the tax 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.

22. 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. For refunds of VAT credits, acceptance by the Treasury occurs when refund requests are transmitted by the National Tax Directorate to the National Director of the Treasury. 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.

23. **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.

24. **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).

V. DATA REPORTING FOR PROGRAM MONITORING PURPOSES

25. The information on implementation and/or execution of the structural benchmarks under the program (as specified in Table 5 of the SEFP) 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.

26. 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 mutually agreed upon by 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.
	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.

Table 1. Guinea: Data Reporting Requirements for Program Monitoring (concluded)

Category of Data	Table/Report	Frequency	Deadline
	Nonbank financing, indicating operations in Guinean francs and those in foreign currencies.	Monthly	30th of the month for the previous month.
Real sector data and prices	Consumer price index, Conakry.	Monthly	30th 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.	Annual	Summary estimates: six months after the end of year.
External debt	Debt service due before and after debt relief.	Monthly	30th 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 month 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.

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INTERNATIONAL MONETARY FUND

GUINEA

Staff Report for the 2011 Article IV Consultation and Requests for a Three-Year Arrangement Under the Extended Credit Facility, and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries

Informational Annex

Prepared by the African Department
(In consultation with other departments)

February 13, 2012

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V. GUINEA: RELATIONS WITH THE FUND

(As of December 31, 2011)

I. Membership Status: Joined: September 28, 1963. **Article VIII**

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	107.10	100.00
Fund holdings of currency (Exchange Rate)	107.03	99.93
Reserve Tranche Position	0.08	0.07

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	102.47	100.00
Holdings	61.45	59.97

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ECF Arrangements	27.05	25.26

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Dec 21, 2007	Dec 20, 2010	69.62	24.48
ECF [1/]	May 02, 2001	May 01, 2004	64.26	25.70
ECF [1/]	Jan 13, 1997	Jan 12, 2001	70.80	62.94

VI. Projected Payments to the Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	2.57	1.38	4.90	4.90	4.90
Charges/Interest	0.05	0.05	0.10	0.09	0.07
Total	2.62	1.42	4.99	4.98	4.97

[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.

VII. Implementation of HIPC Initiative:

(I) Commitment of HIPC assistance	Enhanced Framework
Decision point date	Dec 2000
Assistance committed by all creditors (US$ Million) [3/]	545.00
Of which: IMF assistance (US$ million)	31.40
(SDR equivalent in millions)	24.24
Completion point date	Floating
(II) Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	10.02
Interim assistance	10.02
Completion point balance	--
Additional disbursement of interest income [4/]	--
Total disbursements	10.02

[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.

VIII. **Implementation of Multilateral Debt Relief Initiative (MDRI)**: 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).

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

X. **Safeguards Assessment**

A safeguards assessment mission visited the Central Bank of the Republic of Guinea (BCRG) in January 2012 to update the findings of the 2007 assessment. Preliminary findings indicate that the governance and safeguard frameworks continue to require strengthening. In addition, the BCRG has limited capacity to manage reserves, the internal control environment is weak, and the compilation of program data is performed via predominantly manual processes. To mitigate risks, the mission proposed that external auditors continue to verify monetary data at test dates, the BCRG publish audited annual financial statements within statutory deadlines (immediately for 2010), and the Board approve an investment policy and guidelines.

XI. **Exchange Rate Arrangement**

Guinea is returning to a managed float system with no predetermined path, after an interruption of the system during 2009–10; the de facto arrangement is classified as "other managed arrangement". 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. The BCRG is analyzing the recommendations. Guinea has accepted the obligations under Article VIII, sections 2, 3 and 4 of the IMF's Articles of Agreement.

XII. **Article IV Consultation**

The last Article IV consultation was concluded by the Executive Board on December 21, 2007.

XIII. Technical Assistance 2011–12

Calendar Year 2011

Provider	Main tasks	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 on 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, Inception of resident advisor	Nov-Dec 2011
FAD	FAD resident advisor to the Guinean 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

Calendar Year 2012

Provider	Main tasks	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
Monetary and Capital Markets		
AFW	Bank Supervision and Regulation	Jan 2012
MCM	Central Banking (resident advisor)	Feb 2012-Feb 2013
AFW	Bank Supervision and Regulation	Feb 2012
Statistics		
AFW	Real sector statistics, national accounts	Feb-Mar 2012
STA	Balance of payments	Mar-Apr 2012

II. GUINEA: JOINT WORLD BANK-IMF WORK PROGRAM, 2012
(As of January 2012)

Title	Products	Expected delivery date
World Bank work program in the next 12 months	**Operations**:	
	Economic Governance and Capacity-Building TA Project	March 2012
	Agricultural and Food Security Project	Q1 2012
	Safety nets Program	May 2012
	Energy sector reform project	June 2012
	Economic and Sector Work:	
	Agriculture Sector Public Expenditure Review	Q4 2012
	PEMFAR I (Public Expenditure and Financial Accountability Review)	Q4 2012
	Electricity Sector Review	Q1 2012
	Technical assistance/other analytical:	
	Support to DNS on the Core Welfare Indicators Questionnaire survey (CWIQ)	March 2012
	Support to the Planning Ministry on the preparation of the PRS III	Q4 2012
	Economic and Poverty Monitoring	Ongoing
	Support on EITI implementation	Ongoing
IMF work program in the next 12 months	**Program**:	
	1st ECF review under ECF / HIPC completion point	TBD
	Second ECF review under ECF	TBD
	Technical Assistance:	
	Mining and general tax policy	Q1 2012
	Public financial Management	Q1 2012
	Monetary and exchange rate policy	Q1 2012
	Banking supervision	Q1 2012
	Safeguard (Central Bank)	Q1 2012
	National and balance of payments accounts	Q1 2012
Fund requests to the Bank	Monitoring of HIPC Completion Point triggers Assessment of the investment projects financed with the mining exceptional resources Assessment of the electricity reform plan and the budgetary implication Assessment of the next steps on the new mining code and the of the implementation regulation Review of the civil service reforms	Ongoing Ongoing Ongoing Ongoing Q2 2012
Bank requests to Fund	Regular updates on macro-economic and fiscal projections Consultations on program structural benchmarks	 Ongoing
Joint Bank-Fund products in the next 12 months	HIPC Completion Point	TBD

III. GUINEA: RELATIONS WITH THE AFRICAN DEVELOPMENT BANK, 2011–13

(As of January 2012)

1. **Lending Operations**: UA 20 million was allocated for the first Pillar, through the Budget Support Programme approved by the Bank's Board in May 2011. Guinea also has access to UA 2.50 million under FSF Window III that was allocated for implementing two capacity building programmes. The available balance on ADF 12 for 2011–13 estimated at UA 27.67 million was fully allocated to activities planned under Pillar II. In operational terms, this translates into the implementation of three (3) regional projects. This choice will enable the country to mobilize a supplementary UA 55.43 million in addition to the ADF 12 allocation under the regional operations envelope, thereby increasing the total amount accessible to Guinea over the 2011–13 period to UA 105.51 million (refer to table 1 below).

2. **In the governance sector**, the Bank has already approved budget support of UA 20 million[19] and FSF Targeted Support of UA 2.5 million, which will enable it to improve the country's public finance management while supporting the reforms aimed at enhancing governance especially in the extractive sector. The targeted support will also cover public administration capacity building, particularly in statistics and strategic planning.

3. **In the energy sub-sector**, two projects are scheduled for implementation by end 2013. The first is a contribution to financing the project of the Gambia River Basin Development Organization (OMVG) involving the construction of a dam and a 240 MW hydro-power plant at Kaleta. The second project is the Cote d'Ivoire-Liberia- Sierra Leone -Guinea power interconnection project that will see the construction of 1 360 km of 225 kV transmission lines and 12 sub-stations. Implementation of these two 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; (i) the creation of temporary and permanent jobs; and (vi) a reduction in greenhouse gas emissions.

4. **In the transport sub-sector**, the Bank intends to finance the Boké-Quebo Road which is part of the ECOWAS Regional Transport Programme. Because of its integrative role, construction of this highway is in line with the New Partnership for Africa's Development (NEPAD) Short-Term Action Plan, one of whose core objectives is to have interstate roads without any impediment to the free movement of goods and persons. The completion of the Boké–Quebo missing link should provide a year-round paved road link between Conakry and Bissau.

5. **Non-Lending Operations**: To deepen the analysis and understanding of the country's main challenges and fuel strategic reflexion, the Bank has already initiated economic and sector works in collaboration with the UNDP, under the first FSF programme, on the

[19] This programme was approved by the Bank's Board in May 2011. The first tranche (UA 15 million) was disbursed in September 2011 while the second (UA 5 million) is expected to be disbursed no later than end 2011.

following themes: (i) private sector profile; (ii) Guinea's Vision 2035; (iii) study on financial sector reforms; (iv) study on the feasibility of the PPP framework; and (v) study on Economic Partnership Agreements (EPA). Within this framework, the FSF is providing support to: (i) build the PRSP III (2012–15) steering capacity; (ii) good governance monitoring and promotion; and (iii) build aid mobilization and coordination capacity. That component also includes support to the organization of the Guinea Partnership Conference scheduled for early 2012 and aimed at mobilizing international community aid around the following six themes: (i) rural development and food security; (ii) infrastructure; (iii) education; (iv) social development; (v) mining, energy, water, environment and industry; and (vi) macroeconomic framework and institutional development.

6. Furthermore, a second FSF programme will support the National Statistics Development Strategy (NSDS) and the conduct of the Third General Population and Housing Census (RGPH-III). The Bank also intends to support mining sector governance through its private sector window and legal support facility. This will entail: (i) support for Guinea's accession to the EITI, already initiated under PARCGEF; (ii) support to Mining Code Reform, which includes a 15 percent State participation in all mining concessions, the strengthening of transparency and introduction of penalties for non-compliance with the legislation; (iii) support for the revision of mining agreements; (iv) involvement in the operational audit of mining companies; and (v) the conduct of economic and financial studies on mining contracts (their value, production costs and transfer prices, etc.).

7. **Trust Funds**: In addition to the ADF and FSF allocations, the Bank could mobilize supplementary Trust Fund resources to finance complementary operations in the sectors covered by the 2012–16 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 are also available: the Partial Risk Guarantee Instrument; the Global Environment Fund; and Africa Carbon Facility and Green Fund.

8. **African Development Bank and Fund staffs 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 (2011–13) and FSF Operations Programming (UA million)

Lending Operations					
	Year	**ADF 12**	**FSF (Pillar III)**	**Regional Funds**	**Total**
Pillar I – Support Good Economic and Financial Governance					
Budget Support	2011	20.00			20.00
Targeted Support	2011		2.50		
Sub-Total		**20.00**	**2.50**		**22.50**
Pillar II – Support Energy and Transport Infrastructure					
CLSG Interconnection	2012	12.00		24.00	36.00
Boké-Quebo Road	2013	3.67		7.34	11.01
OMVG	2013	12.00		24.00	36.00
Sub-Total		27.67		55.34	83.01
Total		**47.67**	**2.50**	**55.34**	**105.51**
Economic and Sector Work					
Private Sector Profile	**2012**		**x**		
Guinea Vision 2035	**2013**		**x**		
Study on Financial Sector Reforms,	**2013**		**x**		
PPP Framework Feasibility Study	**2013**		**x**		
Study on Economic Partnership Agreements (EPA).	**2012**		**x**		

IV. Guinea: Millennium Development Goals

	1990	1995	2000	2005	2009 Sub-Africa	2009	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger							halve
Income share held by lowest 20%	..	..	..	*7.0*	..	*6*	
Malnutrition prevalence, weight for age (% of children under 5)	26.8	..	32.7	..	29.6	*21*	13.4
Poverty gap at $1 a day (PPP) (%)	..	..	..	..	..	…	…
Poverty headcount ratio at $1 a day (PPP) (%)	..	..	..	..	41.1	…	…
Poverty headcount ratio at national poverty line (%)	..	*40.0*	..	..	..	*53.0*	…
Prevalence of undernourishment (%)	*39*	*31*	..	*24*	*30*	…	19.5
Incidence of poverty			*49.2*	*53.6*		…	…
Goal 2: Achieve universal primary education							100
Literacy rate, youth total (% of people ages 15–24)	44	..	..	*47*	*73*	61	100
Persistence to grade 5, total (% of cohort)	*59*	..	..	*76*	..	*69*	100
Primary completion rate, total (% of relevant age group)	19	20	33	55	58	62	100
School enrollment, primary (% net)	*27*	..	47	67	66	73	100
share of current expenditures on education in State equity resources	…	…	…	*14.2*	…		…
Goal 3: Promote gender equality and empower women							100
Proportion of seats held by women in national parliament (%)	..	*7*	*19/114*	*22/114*	*19*	19	100
Ratio of girls to boys in primary and secondary education (%)	*45*	..	63	74	86	77	100
Ratio of young literate females to males (% ages 15–24)	43	..	..	*57*	*88*	79	
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	30.3	..	..	..	..	…	
Goal 4: Reduce child mortality							>75% reduction
Immunization, measles (% of children ages 12–23 months)	35	61	42	71	68	51	
Mortality rate, infant (per 1,000 live births)	139	124	110	91	81	88	
Mortality rate, under 5 (per 1,000)	234	209	183	163	130	142	78
Goal 5: Improve maternal health							
Births attended by skilled health staff (% of total)	*31*	..	*35*	*38*	44	*46*	
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	740	980	*645*	*680*	> 75% reduction
Goal 6: Combat HIV/AIDS, malaria, and other diseases							halt/reverse
Contraceptive prevalence (% of women ages 15–49)	*2*	..	*6*	*7*	21	…	
Incidence of tuberculosis (per 100,000 people)	130	158	193	236	342	318.0	halt/reverse
Prevalence of HIV, female (% ages 15–24)	..	..	..	1.4	3.8	0.9	halt/reverse
Prevalence of HIV, pregnant womenl (% of population ages 15–49)	..	..	*2.8*	..	…	…	halt/reverse
Tuberculosis cases directly observed (%)	..	43	54	56	49	…	halt/reverse
Goal 7: Ensure environmental sustainability							
CO2 emissions (metric tons per capita)	0.2	0.2	0.2	*0.1*	*0.9*	0.1	
Forest area (% of land area)	30	..	28	27	28	27	
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..	*3.2*	…	
Improved sanitation facilities (% of population with access)	14	..	..	*18*	*31*	*19*	57
Improved water source (% of population with access)	44	..	..	*50*	*60*	*71*	72
Nationally protected areas (% of total land area)	..	..	..	*6.4*	11.7	6.8	
Proportion of population with access to a beter sanitation system (urban/rural)	..	..	..	*70.1*	…	…	
Goal 8: Develop a global partnership for development							
Aid per capita (current US$)	47	55	18	19	44	25	to increase
Debt service (PPG and IMF only, % of exports, excl. workers' remittances)	19.6	24.3	14.2	11.3	3.1	11.2	
Fixed line and mobile phone subscribers (per 1,000 people)	2	2	8	*20*	*142*	*22*	
Internet users (per 1,000 people)	0	0	1	1	1	1	
Personal computers (per 1,000 people)	..	1	3	*5*	*15*	..	
Total debt service (% of exports of goods, services, and income)	20.0	25.0	20.4	*19.9*	*8.8*	*10*	
Unemployment, youth female (% of female labor force, ages 15–24)	..	..	..	..	..	..	
Unemployment, youth male (% of male labor force ages 15–24)	..	..	..	..	..	..	
Unemployment, youth total (% of total labor force ages 15–24)	..	..	..	..	..	..	
Other goals and indicators							
Fertility rate, total (births per woman)	6.5	6.3	5.6	5.6	5.0	5.3	
GNI per capita, Atlas method (current US$)	430	490	400	420	1,134	370	
GNI, Atlas method (current US$ billions)	2.6	3.7	3.4	3.9	952.6	3.8	
Gross capital formation (% of GDP)	17.5	16.6	22.0	12.0	20.8	21.6	
Life expectancy at birth, total (years)	47	51	53	54	53	58	
Literacy rate, adult total (% of people ages 15 and above)	27	..	..	*29*	*61*	39	
Population, total (millions)	6.2	7.5	8.4	9.4	840.3	10.1	
Trade (% of GDP)	61.5	45.3	52.3	55.7	63.3	86.2	

Sources: World Development Indicators database, June 2011; and Guinean authorities, Second Poverty Reduction Strategy Paper, August 2007.
1/ Figures in italics refer to periods other than those specified.

V. Guinea: Statistical Issues

I. Assessment of Data Adequacy for Surveillance	
General: Guinea's data provision has some shortcomings, but is broadly adequate for surveillance. Official data provision was suspended during 2009–10 when the ability of the government agencies in charge of statistics to collect data on government operations and private sector activities was seriously hindered. Following the return to a normal functioning of the Guinean administration, the mechanism of data collection is being gradually restored and the authorities are making efforts to resume data provision to allow Fund staff to restart surveillance.	
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 production of annual input-output matrices, was interrupted in 2009. The regional technical assistance center (West AFRITAC) has sent several missions to Conakry to work with the authorities on methodologies and provisional estimates of national accounts for 2009–10.	
Price statistics: The monthly consumer price index (CPI) is being published in a timely manner.	
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. 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, albeit still with some delays. AFR also receives the treasury plan and is now requesting the document on a monthly basis. 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. Efforts are now underway to include those satellite accounts, including autonomous government agencies, into the budget and the government finance statistics. The transparency of the government financial operations is expected to improve significantly following the adoption of the Treasury Single Account law in 2011.	
Monetary 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 (PNT). 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, leading to a system to reduce discrepancies between monetary and fiscal data.	
Balance of payments: The presentation of the balance of payments statement follows the methodology of the fifth edition of the *Balance of Payments Manual* (*BPM5)*. The issues on source data and compilation techniques, as well as the conversion of the balance of payments statistics to the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* methodology will be reviewed during an external sector statistics mission that has been scheduled for March 2012. The Technical Committee on Balance of Payments Harmonization has reportedly been reactivated. Results of the weekly foreign exchange auctions are reported regularly on line and in the main newspapers in Guinea. Exchange rates are published daily	
II. Data Standards and Quality	
Guinea participates in the General Data Dissemination System since 2003.	No data ROSC is available.

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INTERNATIONAL MONETARY FUND
INTERNATIONAL DEVELOPMENT ASSOCIATION

GUINEA

Joint Debt Sustainability Analysis Under the Debt Sustainability Framework for Low-Income Countries[1]

Prepared by the Staffs of the World Bank and the International Monetary Fund

Approved by Sean Nolan and Jan Kees Martijn (IMF)
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February 17, 2012

Guinea has been in debt distress since 2007, as evidenced by the accumulation of external debt service arrears. With approval of the proposed ECF arrangement and accompanying bilateral debt relief, the risk of debt distress would shift to high risk. Under scenarios that assume full delivery of relief on external debt under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) at the Completion Point and of "beyond-HIPC" debt relief after the Completion Point, the debt burden would imply a moderate risk of debt distress. The public sector debt sustainability analysis (DSA) indicates that Guinea's domestic debt is significant but is expected to decrease over the longer run and does not alter the assessment. As the initial debt level is high, the debt position of the country remains vulnerable to macroeconomic shocks, indicating the need for prudent fiscal policies and debt management.

I. Background

1. **This DSA updates the analysis of the external and public debt of Guinea that was considered by the Board in December 2007**.[2] The 2007 DSA found that Guinea was in debt distress, as evidenced by the accumulation of external debt service arrears. Since then, Guinea has continued to accumulate arrears. In the baseline scenario, it is assumed that these arrears and debt service obligations falling due are rescheduled and debt service payments resume. In this case, the risk of debt distress would be high, although debt dynamics would improve over the medium and long terms.[3] Staffs' projections now include a new large

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[1] The DSA was prepared jointly by the staffs of the International Monetary Fund and the World Bank, in collaboration with the authorities of Guinea. The fiscal year in Guinea is January 1 to December 30.

[2] See Appendix IV of IMF Country Report No. 08/33, January 2008, which can be found at: http://www.imf.org/external/pubs/ft/scr/2008/cr0833.pdf

[3] The DSAs presented in this document are based on the low-income countries (LIC) DSA framework. Under the Country Policy and Institutional Assessment (CPIA), Guinea is rated as a weak performer, with an average rating of 2.86 in 2008–10; the DSA uses the indicative threshold indicators for countries in this category. See

(continued…)

mining project, which is expected to generate a significant increase in output growth and fiscal revenues. In addition, the projections assume Guinea will reach a new Paris Club agreement, following the approval of the proposed new ECF arrangement with the Fund.

2. **Guinea reached the decision point under the Enhanced HIPC Initiative in December 2000**, **qualifying for US$545 million (in NPV terms) in debt relief**. Since then interim debt relief has been provided intermittently by most major creditors, reflecting performance under the 2001 and 2007 ECF arrangements. Following the approval of the ECF arrangement in December 2007, Guinea concluded an agreement with Paris Club creditors in January 2008, and interim debt relief resumed. However, by 2008 the African Development Bank (AfDB) had exhausted resources allocated for interim debt relief, and in May 2008 interim relief from IDA stopped after the statutory limit was reached. Moreover, interim relief from Paris Club creditors was not activated during 2009–10, and was suspended by the IMF and other creditors following the military coup in December 2008.

3. **At end-2010**, **Guinea's public and publicly guaranteed external debt was US$3,144 million**, **or 64 percent of 2010 GDP**. The level of debt in nominal terms has been broadly stable in recent years, reflecting a low level of new loans and debt service paid, but with arrears accounting for a growing share (amounting to 10 percent of end-2010 debt outstanding) Multilateral creditors accounted for 66 percent of the total, with the AfDB group and IDA accounting for almost four-fifths of the multilaterals' share. Paris Club creditors accounted for 25 percent of total, while official bilateral non-Paris Club and commercial creditors made up the rest.[4]

4. **External debt service arrears reached US$315 million at end-2010**. Paris Club creditors accounted for 33 percent of the arrears and multilateral financial institutions for a further 30 percent, including 19 percent for IDA (there were no overdue obligations to the IMF). Arrears to the Paris Club members accrued on both pre-cut-off and post-cut-off debts; the cut-off date is January 1, 1986. HIPC interim assistance was discontinued by a majority of creditors in 2009–10. During 2011, the government cleared its arrears with all multilateral creditors, except the European Investment Bank, and resumed debt service payments to them.[5]

"Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/020304.htm and IDA/SECM2004/0035, 2/3/04) and "Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework, Policy Implications" http://www.imf.org/external/np/pdr/sustain/2004/091004.htm and IDA/SECM2004/0629, 9/10/04) and "A Review of Some Aspects of the Low-Income Country Debt Sustainability Framework" (http://www.imf.org/external/np/pp/eng/2009/080509a.pdf) and "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries" (http://www.imf.org/external/np/pp/eng/2010/012210.pdf).

[4] Guinea has no debt service obligations falling due to commercial creditors, and arrears account for the full amount of debt outstanding.

[5] Arrears to the European Investment Bank (EIB) were partially cleared, and Guinea obtained financing assurances from the European Commission regarding remaining arrears on European Development Fund lending managed by the EIB, which provides for their clearance when the completion point is reached.

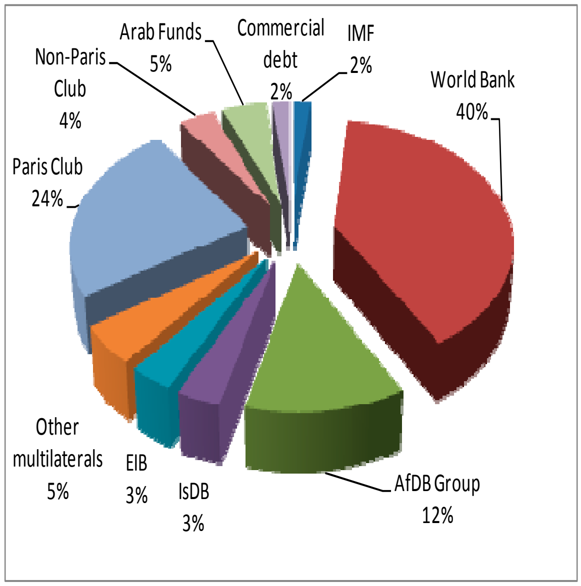
Guinea: Structure of External Public Debt (end-2010, nominal)

Text Table 1

	US$ million	percent of GDP
Total	**3,144**	**63.80**
Multilaterals	**2,072**	**42.03**
IMF	57	1.16
World Bank	1,254	25.44
AfDB Group	388	7.88
IsDB	109	2.21
EIB	106	2.15
Other multilaterals	158	3.20
Official bilaterals	**1,019**	**20.67**
Paris Club	756	15.35
Non-Paris Club	117	2.37
Arab Funds	145	2.95
Commercial debt	**54**	**1.10**

Sources: Guinea authorities, and AfDB, World Bank and IMF staff estimates.

Text Figure 1



5. **Public domestic debt increased considerably in 2009–10, mainly reflecting advances by the central bank to the government**. During the military regime, soaring expenditures were financed by borrowing from the domestic banking system. The liabilities of the government to the domestic banking system increased sharply from 13 percent of GDP in 2008, to 19 percent in 2009, and 30 percent in 2010. Some three-quarters of domestic debt were owed to the central bank, and the remainder in short-term treasury bills to domestic banks.

II. Baseline Assumptions

6. **The baseline macroeconomic framework assumes a sizeable expansion in economic activity, reflecting the impact of the start of large mining investments (Box 1)**. The baseline assumes political stability, sound macroeconomic management, prudent borrowing policies, and advancement in structural reforms over the medium term. It also assumes a substantial rise in public investment, especially in long-neglected infrastructure and the energy sector, as well as government support to develop agriculture and improve the business climate. These policies would provide a foundation for an increase in private investment, and would contribute to diversification of the economy and unlocking Guinea's long-run economic growth potential. Risks with regard to the macroeconomic projections include renewed political instability, especially in the run-up to parliamentary elections expected in 2012, developments in the global economic outlook and mineral prices, and the possibility of projected mining production and revenues not materializing.

Box 1. Macroeconomic Assumptions for 2011–31

Real GDP growth: Reflecting the political crisis, real GDP growth stagnated during 2009–10 before rebounding to 3.6 percent in 2011. Real output growth is projected to increase to almost 5 percent on average during 2012–14, reflecting investor confidence and the start-up of construction-phase activities in the mining sector. Growth is projected to jump to 18 percent on average during 2015–17, as production from a major mining project begins and ramps up. Once mining production reaches full capacity, growth tails off and after 2020 is expected to return to about 3 percent per year.

Mineral prices: For bauxite and gold, projections for 2012–17 are based on the Fund's World Economic Outlook (WEO), and for the long-run an average annual price increase is assumed of 1 percent for bauxite and 2 percent for gold. The iron ore price projections are based on industry estimates, beginning 2015 when the SIMFER mine comes on stream (Text Figure 2). While WEO historical data for iron ore prices show a steady upward trend to 2009 and a very sharp increase in 2011, they are projected to subsequently decline by about 40 percent by 2015.

Inflation: As measured by the GDP deflator in U.S. dollar terms, inflation is projected to be around 3 percent in the long term, close to CPI inflation projections in Guinea and in neighboring countries.

Fiscal policy: Following a large deterioration in the primary balance in 2009–10, reaching 12 percent of GDP in 2010, a sharp policy-induced correction reduced it to 1.3 percent in 2011. Thereafter the primary deficit steadily declines and moves into surplus in 2023, leveling off at around 1.5 percent. Total revenues (excluding grants) are projected to rise from 15.3 percent of GDP in 2010 to 19.8 percent in 2014; thereafter revenues from the mining sector rise sharply as new production comes on line, although given the mining-related increase in GDP, revenues in terms of GDP rise only slightly. Following a sharp contraction, from 27.7 percent of GDP in 2010 to 22.4 percent in 2011, total primary expenditure rises to around 25.2 percent by 2016, reflecting a rapid pick up in capital expenditures, and then gradually falls to around 19 percent of GDP as capital expenditure level off and current spending as a share of GDP declines slightly.

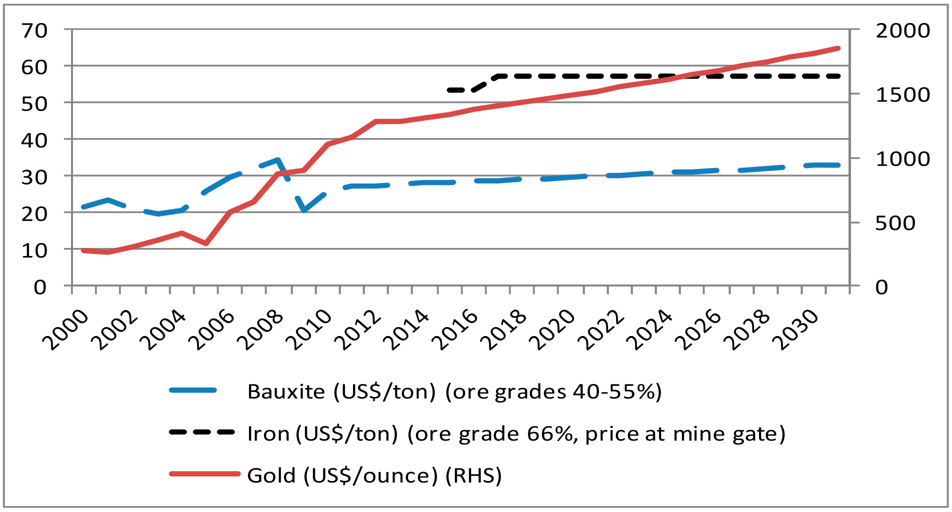
External current account balance (excluding official transfers): The current account deficit is expected to expand sharply to 32.7 percent of GDP on average during 2012–15, as imports for the mega mining project ramp up during its construction phase. Subsequently, the current account swings into a small surplus by 2017 as mining sector investment declines and exports come on stream. In 2023 the balance moves back into deficit, rising gradually to about 3 percent by 2031 as mining exports and imports stabilize, while other imports continue to rise gradually.

External financing: After the suspension of virtually all official financing in 2009–10, loan and grant disbursements resumed in 2011 and are projected to reach 5 percent of GDP in 2012, of which half takes the form of grants. Although a scaling up is not foreseen, official financing is expected to continue at a relatively high level in the medium term, averaging 5 percent of GDP per year, and is assumed to provide financing for investment projects. Over time, the share of concessional loans is expected to decline, from 80 percent during 2011–15 to 60 percent during 2023–31.

Foreign direct investment: Net FDI is expected to surge temporarily to 32.8 percent of GDP per year on average during 2012–15, owing to the rapid buildup in mining related activities. Subsequently net FDI falls and over the long-run shifts between small net inflows and outflows. At the same time, net outflows on the income account increase, as the repatriation and distribution of profits from the mining sector rises.

7. **The baseline scenario assumes interim HIPC assistance from Paris Club creditors and the IMF**. The debt burden would be reduced with attainment of a new Paris Club agreement, covering the period 2012–14, on terms similar to those in the 2008 agreement;[6] debt relief on comparable terms is assumed for other bilateral non-Paris Club creditors, including on arrears.

Text Figure 2: Guinea: Mineral Prices Development and Projections



Sources: Guinean authorities and IMF staff estimates and projections.

8. **An important element underpinning the baseline macroeconomic framework and the surge in growth and mining exports is the SIMFER mining and infrastructure project**. The development of the SIMFER iron ore mine[7] also includes the construction of a railway and port to ship the iron ore. The ownership of the mining project and of the infrastructure project involves two separate consortia, both including the government, that are responsible for financing the total cost, estimated at about $13 billion (one-third mining and two-thirds for infrastructure) in proportion to each shareholder's equity stake. The mine is projected to come on stream in 2015 and attain a maximum production capacity of 95 million tons by 2018. The government will receive a 15 percent stake in the mine at no cost. It also has options to hold an additional 20 percent fully- contributing stake in the mine and up to 51 percent in the infrastructure project. As of now the government has not exercised either of the options for fully-contributing stakes. In the baseline and the first alternative scenarios it is assumed that the government does not exercise these options, and/or that it arranges financing through a PPP operation in which investment cost is born by the private partner, with no contingent liabilities for the government. As a result, both

[6] In 2008 Paris Club creditors agreed to provide debt relief on exceptional terms. Under the agreement pre-cutoff-date arrears were either cancelled or rescheduled, while repayment of short-term and post-cut-off date areas was deferred until after 2010, as was part of debt service falling due in 2008–10.

[7] The mine is located at the southern end of the Simandou Range located in the eastern part of Guinea.

projects would not generate a financing need and additional borrowing, which is unlikely to be available in the amounts needed (up to a maximum of about $4.6 billion) on concessional terms.

III. External Debt Sustainability under the Baseline Scenario

9. **Under the baseline scenario**, **which assumes no HIPC completion point**, **Guinea is at high risk of debt distress** (Table 1a, Figure 1a). At end-2011, the debt burden indicators related to PV of external debt are estimated to be above the policy thresholds. More precisely, the PV of external debt-to-GDP ratio is 41.3 percent (threshold: 30 percent); the PV of debt-to-exports ratio is 137 percent (threshold: 100 percent); and the PV of debt-to-revenue ratio is 234 percent (threshold: 200 percent). The indicators relating to debt service were just below the policy thresholds. In the baseline scenario, the PV of external debt-to-GDP and PV of external debt-to-exports ratios are projected to remain above the threshold for four years. Liquidity indicators embodying debt service fall, reflecting a strengthening of revenue collection and debt relief from the assumed Paris Club agreement, although the fall levels off as payments rise at the end of the consolidation period, and then decline rapidly to 2020 as deferred post-cut-off date arrears and debt service is repaid rapidly.

10. **Stress tests show that the external debt burden indicators are vulnerable to adverse shocks (Figure 1a)**. If the main economic variables remain at their historical level, and policy improvements and the expected growth dividend assumed under the baseline do not materialize, the PV of debt-to-GDP ratio would remain above the policy threshold until 2027, and thereafter follow a declining trend. The other debt burden indicators also deteriorate early in the projection period, exceeding their respective thresholds, before declining below their respective policy thresholds over the longer run. The indicators are also highly sensitive to exogenous shocks. Under most of the shocks considered in this analysis the debt burden indicators would deteriorate significantly,[8] the shocks on exports and on non-debt creating flows (such as net foreign direct investment) are particularly important. This reflects the fact that the improvement in macroeconomic prospects depends heavily on the projected large inflow of foreign direct investments in the mining sector and related jump in mining exports.

IV. Public Sector Debt Sustainability

11. **The inclusion of domestic debt in the debt sustainability analysis worsens the debt burden indicators**, **although the domestic debt burden is expected to decrease over time**. Following the large increase in borrowing from the domestic banking system in 2009–10, the authorities virtually eliminated new borrowing in 2011, and in 2012 there is no bank financing planned for the budget. In addition, net repayments of domestic debt are expected

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[8] Simulations included shocks on GDP growth, export growth, inflation, non-debt creating flows, and exchange rate depreciation.

to continue in the future.[9] As a result, the PV of public debt-to-GDP ratio (estimated at 51 percent at end-2011) is projected to decline in the medium term (Table 2a and Figure 1b).

12. **The public debt position is vulnerable to shocks, particularly to policy reversals** (Table 2b and Figure 1b). Under the fixed primary balance and the most extreme shock scenarios, the public debt burden indicators would be at least twice as high compared to the trajectories under the baseline scenario in the long term.

V. External Debt Sustainability Under Alternative Scenarios With Further Debt Relief

13. **Staff has examined two alternative scenarios: first, HIPC and MDRI relief; and second, HIPC/MDRI debt relief and a higher level of government borrowing to finance the SIMFER mine and infrastructure project (Figures 2a--2b)**. The assumptions and macroeconomic framework under the first scenario corresponds to that envisaged in the proposed ECF arrangement. Guinea is projected to reach the HIPC Completion Point in the third quarter of 2012, assuming the country maintains a good macroeconomic track record under an ECF-supported program in place in early 2012, and the structural reform program remains on track.

14. **Guinea's external debt position would improve significantly under HIPC and MDRI debt relief**.[10] Debt stock and debt service ratios would immediately fall and remain below their policy thresholds. The sharp drop reflects in particular the impact of HIPC and MDRI relief from multilaterals, especially the World Bank, which holds the largest share (61 percent at end-2010). If HIPC and MDRI debt relief is implemented from the fourth quarter of 2012, Guinea's outstanding external debt (in net present value terms) is estimated to be cut from 41.3 percent of GDP to 20.3 percent at end-2012. [11]

15. **The first alternative scenario assumes a similar level of public spending but a lower financing gap, and the same composition of new borrowing as under the baseline**. This scenario assumes that the fiscal saving created by the reduction in debt service from HIPC and MDRI debt relief would be used to lower the amount of foreign borrowing while

[9] Under an agreement between the Ministry of Economy and Finance and the central bank, the government will repay its advances over a period of 40 years, starting in 2020.

[10] This scenario assumes participation by official bilateral creditors and commercial creditors. The staff estimates for HIPC completion point and MDRI debt relief are based on authorities' data and subject to loan data verification and confirmation in the detailed pre-completion point debt analysis (HIPC DSA).

[11] Staff also examined a scenario that included HIPC and MDRI relief and additional bilateral relief beyond HIPC/MDRI provided by official bilateral creditors; the projected relief is based on treatments provided in other HIPC Completion Point cases. With the additional debt relief, the net present value of external debt to GDP at end-2012 is projected to be 13.4 percent compared with 20.3 percent under the HIPC/MDRI scenario, and the trajectories of debt burden indicators would be somewhat lower, particularly during the first five years.

maintaining the same level of public spending as under the baseline scenario; the shares of concessional and nonconcessional borrowing in external loans are assumed to be the same as in the baseline. Consistent with this the growth projections are identical in the two scenarios, and the lower financing need contributes to the improvement in debt dynamics.

16. **Under the second alternative scenario**, **it is assumed that the government incurs new borrowing of $2.5 billion during 2013–15 to contribute to the financing of the SIMFER mining and infrastructure project**. Under this scenario, it is assumed that the government purchases an additional amount of equity as compared with the baseline. It is unlikely that such sizeable new borrowing would be available on concessional terms, and the scenario assumes that 60 percent would be secured from official bilateral and 40 percent from commercial creditors during 2013–15 ($1 billion in each of 2013 and 2014, and $0.5 billion in 2015). The scenario does not, however, incorporate a rate of return (income) accruing to the government from the equity stake/investment in the project, which would mitigate the impact of the additional borrowing on the debt burden. Borrowing of this magnitude, equivalent to 51 percent of 2010 GDP (45 percent of projected 2012 GDP), would sharply raise debt burden indicators. The PV of external debt-to-GDP ratio would breach by a sizeable margin the threshold level during 2013–17, while the PV of external debt-to-exports and to-revenues ratios would do so during 2013–15. Liquidity indicators embodying debt service also rise substantially. The debt burden indicators would deteriorate further if the government is assumed to participate in other possible projects involving borrowing on similar terms. If, in addition, it is assumed that the government earns a return on its participation, which would partly offset the burden of servicing the new borrowing, the debt service ratios would remain at elevated levels, given the short grace periods (1–7 years) and maturities (6–23 years) of the borrowing. The sizeable increase in debt service, especially over the medium term, would put pressure on budgetary cash management and crowd out other spending

VI. Conclusions

17. **Under the baseline scenario**, **the risk of debt distress would be high**. Under the external debt sustainability analysis (DSA) baseline scenario, the PV of debt-to-GDP, the PV of debt-to-exports, and the PV of debt-to-revenue are projected to stay above their indicative thresholds over the next few years before falling below these thresholds over the projection period. Stress tests indicate vulnerabilities in the external debt position, involving persistent breaching of the thresholds for some indicators. However, debt service indicators are below their indicative thresholds under the baseline. The inclusion of domestic debt does not alter the assessment, even though it raises debt burden indicators moderately.

18. **A sustainable external debt position can be achieved with the delivery of HIPC and MDRI debt relief backed by sound macroeconomic policies**. With the assumption of debt relief under the HIPC Initiative and MDRI, external debt would decline to a sustainable level, although the debt burden indicators would remain vulnerable to adverse shocks and policy reversals, leading to a breaching of the policy thresholds for a few indicators. The risk of debt distress would shift to moderate. The stress tests highlight the importance of

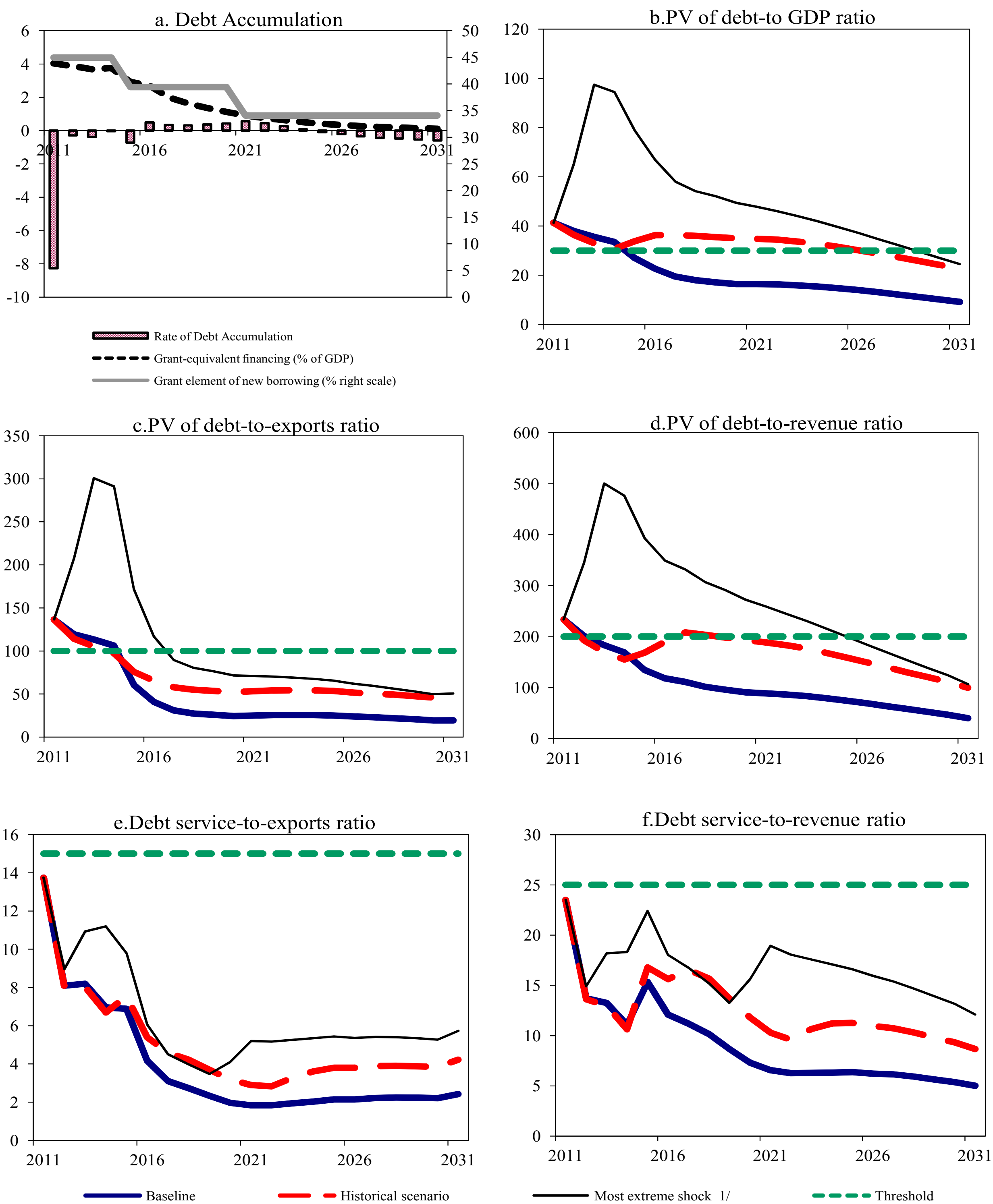
developments in the mining sector for the sustainability of Guinea's external debt; the expansion of activity in this sector is key to boosting growth, exports, and revenues.

19. **Additional large-scale borrowing by the government on non-concessional terms to finance SIMFER mining and infrastructure would result in a significant deterioration in Guinea's external debt position**. In particular, three of the debt burden indicators would breach the policy thresholds, even after HIPC and MDRI debt relief. Furthermore, the impact of the stress tests in increasing the debt burden indicators would be exacerbated, especially for the debt-service ratios, which rise close to or breach the policy thresholds.

20. **This LIC DSA underscores the importance of sustained implementation of sound macroeconomic policies**, **and prudent debt management**, **especially with respect to new large nonconcessional borrowing**. Without such policies, the expected growth dividend may not be realized and projected post-HIPC completion point sustainability would not be assured. This highlights the importance of ensuring that the modalities of the government's participation in the SIMFER mining project (and other potential large-scale mining or hydroelectricity projects) should avoid significant borrowing on nonconcessional terms.

21. **The Guinean authorities broadly concurred with the assumptions and conclusions of the DSA**.

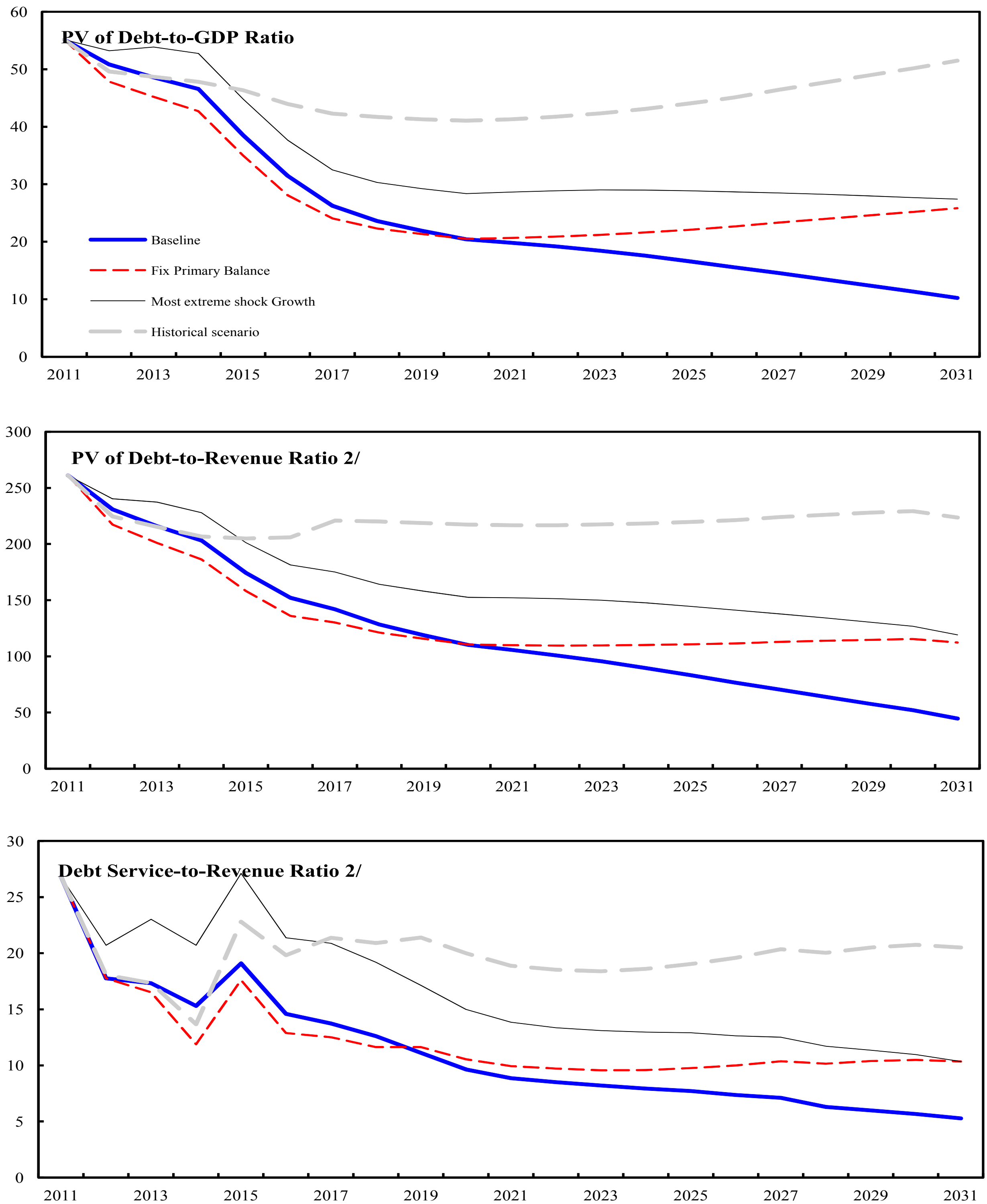
Figure 1a. Guinea: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

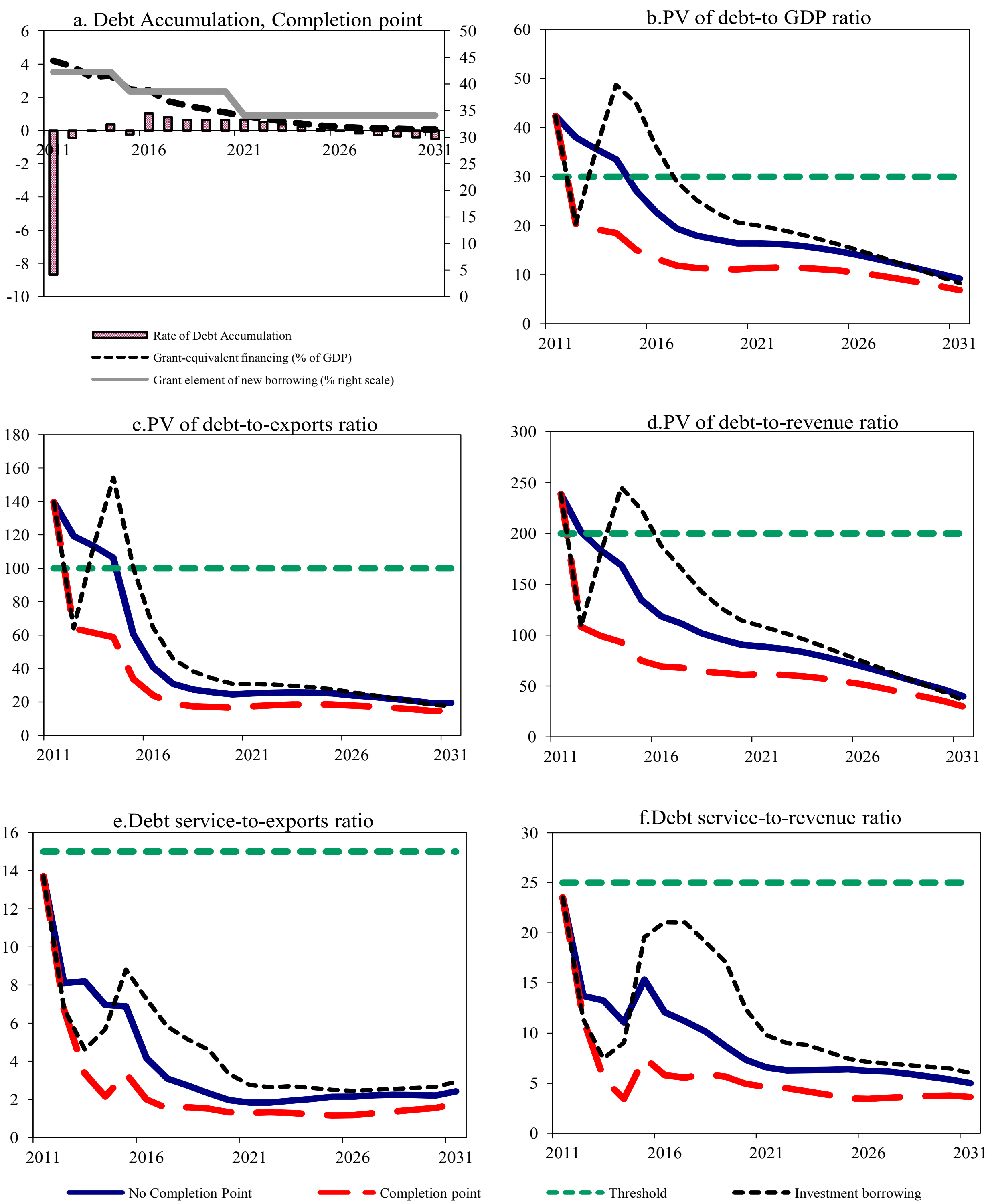
1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

Figure 1b.Guinea: Indicators of Public Debt Under Alternative Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2021.
2/ Revenues are defined inclusive of grants.

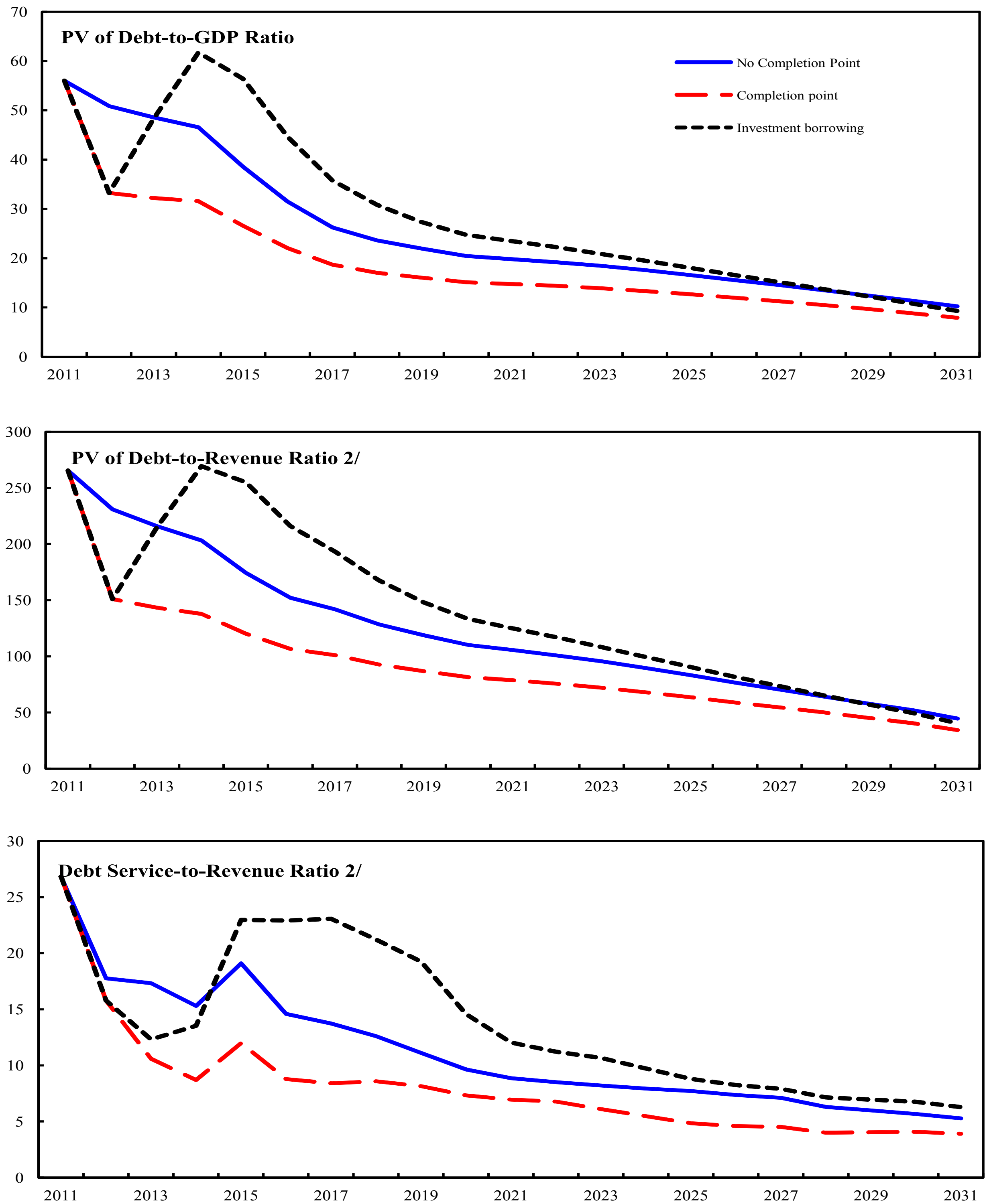
Figure 2a. Guinea: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. 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 2b.Guinea: Indicators of Public Debt Under Alternative Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2021.
2/ Revenues are defined inclusive of grants.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2008-2031 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2031	2017-2031 Average
External debt (nominal) 1/	**77.5**	**71.5**	**70.5**			**55.8**	**51.2**	**47.9**	**44.9**	**36.9**	**31.6**		**24.3**	**14.6**	
o/w public and publicly guaranteed (PPG)	77.5	71.5	70.5			55.8	51.2	47.9	44.9	36.9	31.6		24.3	14.6	
Change in external debt	-0.4	-6.0	-1.0			-14.7	-4.6	-3.2	-3.0	-8.1	-5.2		0.0	-1.3	
Identified net debt-creating flows	-1.6	4.9	5.7			-16.0	-1.0	0.6	-0.2	-14.0	-10.4		-0.3	-0.1	
Non-interest current account deficit	**9.0**	**9.2**	**11.6**	**4.6**	**4.9**	**5.8**	**34.3**	**38.3**	**37.4**	**18.5**	**1.3**		**-0.8**	**3.2**	-0.1
Deficit in balance of goods and services	5.1	4.3	8.2			9.2	31.1	34.8	33.9	16.1	-0.8		-14.5	-7.0	
Exports	34.9	26.5	28.4			30.3	31.9	31.5	31.5	44.7	55.5		65.3	47.1	
Imports	40.1	30.8	36.5			39.5	62.9	66.3	65.4	60.7	54.7		50.8	40.1	
Net current transfers (negative = inflow)	-6.4	-5.3	-5.1	-5.5	2.6	-9.5	-4.8	-4.5	-4.3	-4.1	-3.5		-2.4	-1.9	-2.3
o/w official	-0.4	0.0	0.0			-2.3	-0.1	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	10.3	10.3	8.6			6.0	8.1	8.0	7.8	6.5	5.6		16.1	12.2	
Net FDI (negative = inflow)	**-5.7**	**-3.0**	**-2.4**	**-3.4**	**2.7**	**-20.3**	**-33.5**	**-35.9**	**-35.9**	**-25.7**	**-6.2**		**0.7**	**-3.1**	0.0
Endogenous debt dynamics 2/	**-4.9**	**-1.3**	**-3.5**			**-1.5**	**-1.8**	**-1.8**	**-1.8**	**-6.8**	**-5.6**		**-0.3**	**-0.2**	
Contribution from nominal interest rate	1.3	0.7	0.7			0.9	0.6	0.6	0.5	0.6	0.5		0.3	0.2	
Contribution from real GDP growth	-3.5	0.2	-1.3			-2.4	-2.5	-2.4	-2.3	-7.4	-6.1		-0.6	-0.5	
Contribution from price and exchange rate changes	-2.7	-2.2	-3.0			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**1.2**	**-10.9**	**-6.7**			**1.3**	**-3.7**	**-3.8**	**-2.8**	**6.0**	**5.2**		**0.4**	**-1.2**	
o/w exceptional financing	-1.4	-0.9	-1.8			-0.1	-2.0	-2.6	-2.7	-1.5	-1.1		0.0	0.0	
PV of external debt 4/	...	...	54.4			41.3	38.0	35.7	33.5	27.0	22.7		16.4	9.2	
In percent of exports	...	...	192.0			136.6	119.3	113.4	106.2	60.5	40.9		25.1	19.5	
PV of PPG external debt	**...**	**...**	**54.4**			**41.3**	**38.0**	**35.7**	**33.5**	**27.0**	**22.7**		**16.4**	**9.2**	
In percent of exports	**...**	**...**	**192.0**			**136.6**	**119.3**	**113.4**	**106.2**	**60.5**	**40.9**		**25.1**	**19.5**	
In percent of government revenues	**...**	**...**	**355.2**			**233.7**	**201.7**	**183.2**	**168.8**	**134.6**	**118.4**		**88.9**	**39.9**	
Debt service-to-exports ratio (in percent)	**3.8**	**2.3**	**2.5**			**13.7**	**8.1**	**8.2**	**7.0**	**6.9**	**4.2**		**1.8**	**2.4**	
PPG debt service-to-exports ratio (in percent)	**3.8**	**2.3**	**2.5**			**13.7**	**8.1**	**8.2**	**7.0**	**6.9**	**4.2**		**1.8**	**2.4**	
PPG debt service-to-revenue ratio (in percent)	**8.5**	**3.8**	**4.6**			**23.5**	**13.7**	**13.2**	**11.1**	**15.3**	**12.1**		**6.5**	**5.0**	
Total gross financing need (Billions of U.S. dollars)	0.2	0.3	0.5			-0.5	0.2	0.3	0.2	-0.3	-0.2		0.2	0.3	
Non-interest current account deficit that stabilizes debt ratio	9.4	15.2	12.7			20.5	39.0	41.5	40.5	26.6	6.5		-0.8	4.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.9	-0.3	1.9	2.6	1.7	3.6	4.7	4.8	5.0	19.8	19.9	9.6	2.5	3.0	4.4
GDP deflator in US dollar terms (change in percent)	3.6	2.9	4.3	3.5	16.4	2.1	0.8	-0.1	0.0	1.0	1.1	0.8	0.9	1.4	1.3
Effective interest rate (percent) 5/	1.9	0.9	1.1	1.4	0.3	1.3	1.2	1.1	1.1	1.6	1.6	1.3	1.4	1.4	1.4
Growth of exports of G&S (US dollar terms, in percent)	32.0	-22.1	13.6	7.6	14.4	12.9	11.1	3.4	5.3	71.3	50.6	25.8	0.9	-6.7	4.9
Growth of imports of G&S (US dollar terms, in percent)	19.6	-21.2	26.2	8.5	14.4	14.3	68.1	10.3	3.7	12.3	9.1	19.6	1.5	-4.5	3.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	45.0	45.0	45.0	45.0	39.4	39.4	43.1	34.1	34.1	35.5
Government revenues (excluding grants, in percent of GDP)	15.6	16.2	15.3			17.7	18.8	19.5	19.8	20.1	19.2		18.5	23.0	19.7
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.2	0.3	0.3	0.3	0.3	0.3		0.2	0.0	
o/w Grants	0.0	0.0	0.0			0.2	0.2	0.2	0.2	0.1	0.1		0.0	0.0	
o/w Concessional loans	...	...	...			0.1	0.1	0.1	0.1	0.1	0.2		0.1	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.0	3.9	3.7	3.8	2.9	2.7		0.9	0.1	0.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			84.2	82.1	81.7	81.7	67.8	59.5		44.5	38.9	44.5
Memorandum items:															
Nominal GDP (Billions of US dollars)	4.5	4.6	4.9			5.2	5.5	5.8	6.0	7.3	8.9		13.7	20.3	
Nominal dollar GDP growth	8.7	2.6	6.3			5.7	5.5	4.7	5.0	21.0	21.2	10.5	3.5	4.5	5.7
PV of PPG external debt (in Billions of US dollars)			2.4			2.0	2.0	2.0	2.0	1.9	2.0		2.2	1.8	
(PVt-PVt-1)/GDPt-1 (in percent)						-8.3	-0.3	-0.4	0.0	-0.7	0.5	-1.5	0.6	-0.6	0.0
Gross workers' remittances (Billions of US dollars)	…	…	…			…	…	…	…	…	…		…	…	
PV of PPG external debt (in percent of GDP + remittances)	...	...	54.4			41.3	38.0	35.7	33.5	27.0	22.7		16.4	9.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	192.0			136.6	119.3	113.4	106.2	60.5	40.9		25.1	19.5	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.5			13.7	8.1	8.2	7.0	6.9	4.2		1.8	2.4	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = 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 1b.Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2031
(In percent)

							Projections										
	2011	2012	2013	2014	2015	2016	**2021**	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
							PV of debt-to GDP ratio										
Baseline	41	38	36	34	27	23	**16**	16	16	15	15	14	13	12	11	10	9
A. Alternative Scenarios																	
A1. Key variables at their historical averages in 2011-2031 1/	41	36	33	31	34	36	**35**	35	34	33	32	30	29	27	26	24	23
A2. New public sector loans on less favorable terms in 2011-2031 2	41	37	35	34	28	25	**21**	21	21	21	20	20	19	18	17	17	16
B. Bound Tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	41	38	37	35	28	24	**17**	17	17	16	16	15	14	13	12	11	10
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	41	40	43	41	33	28	**20**	20	19	19	18	17	16	15	13	12	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	41	42	46	43	35	29	**21**	21	21	20	19	18	17	16	14	13	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	41	59	81	79	66	56	**40**	38	37	35	33	31	29	27	25	23	20
B5. Combination of B1-B4 using one-half standard deviation shocks	41	65	97	95	79	67	**48**	46	44	42	40	37	35	32	30	27	25
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	41	52	49	47	38	32	**23**	23	22	21	21	19	18	17	16	14	13
							PV of debt-to-exports ratio										
Baseline	137	119	113	106	61	41	**25**	26	26	26	25	24	23	22	21	19	19
A. Alternative Scenarios																	
A1. Key variables at their historical averages in 2011-2031 1/	137	114	105	98	76	65	**53**	54	54	54	54	52	51	49	48	46	49
A2. New public sector loans on less favorable terms in 2011-2031 2	137	116	112	108	63	44	**32**	33	34	35	35	34	34	33	32	31	33
B. Bound Tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	137	114	109	104	59	40	**25**	25	25	25	25	23	23	21	20	19	19
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	137	149	180	171	99	67	**41**	41	41	41	40	38	37	35	33	31	31
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	137	114	109	104	59	40	**25**	25	25	25	25	23	23	21	20	19	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	137	186	258	250	147	100	**61**	60	59	58	56	53	51	48	46	43	43
B5. Combination of B1-B4 using one-half standard deviation shocks	137	208	301	291	172	117	**71**	70	69	68	66	62	59	56	53	50	51
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	137	114	109	104	59	40	**25**	25	25	25	25	23	23	21	20	19	19
							PV of debt-to-revenue ratio										
Baseline	234	202	183	169	135	118	**89**	87	83	79	74	69	64	58	52	47	40
A. Alternative Scenarios																	
A1. Key variables at their historical averages in 2011-2031 1/	234	193	170	155	168	190	**189**	183	177	168	159	149	140	130	121	111	100
A2. New public sector loans on less favorable terms in 2011-2031 2	234	196	182	172	141	129	**112**	112	110	107	103	98	93	87	81	76	68
B. Bound Tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	234	200	190	177	142	125	**94**	91	88	83	78	73	67	61	55	49	42
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	234	211	220	206	166	147	**110**	106	101	96	90	83	76	69	63	56	48
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	234	224	234	219	174	154	**115**	112	108	103	96	90	82	75	68	60	52
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	234	315	417	397	327	291	**215**	204	192	179	166	153	140	128	115	103	89
B5. Combination of B1-B4 using one-half standard deviation shocks	234	345	500	476	393	349	**259**	245	231	216	200	184	169	153	138	124	107
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	234	275	252	235	187	165	**124**	121	116	110	104	96	88	81	73	65	55

Table 1b.Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2031 (continued)
(In percent)

							Debt service-to-exports ratio										
Baseline	14	8	8	7	7	4	**1.8495**	1.8481	1.9416	2.0394	2.1466	2.1546	2.2284	2.2501	2.2346	2.2165	2.4367
A. Alternative Scenarios																	
A1. Key variables at their historical averages in 2011-2031 1/	14	8	8	7	8	5	**3**	3	3	4	4	4	4	4	4	4	4
A2. New public sector loans on less favorable terms in 2011-2031 2	14	8	8	7	7	4	**2**	2	2	3	3	3	3	3	3	3	3
B. Bound Tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	14	8	8	7	7	4	**2**	2	2	2	2	2	2	2	2	2	2
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	14	10	11	10	9	6	**3**	3	3	3	3	3	4	4	4	3	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	14	8	8	7	7	4	**2**	2	2	2	2	2	2	2	2	2	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	14	8	10	10	9	5	**4**	4	5	5	5	5	5	5	5	5	5
B5. Combination of B1-B4 using one-half standard deviation shocks	14	9	11	11	10	6	**5**	5	5	5	5	5	5	5	5	5	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	14	8	8	7	7	4	**2**	2	2	2	2	2	2	2	2	2	2
							Debt service-to-revenue ratio										
Baseline	24	14	13	11	15	12	**7**	6	6	6	6	6	6	6	6	5	5
A. Alternative Scenarios																	
A1. Key variables at their historical averages in 2011-2031 1/	24	14	13	11	17	16	**10**	10	11	11	11	11	11	10	10	9	9
A2. New public sector loans on less favorable terms in 2011-2031 2	24	14	13	11	16	12	**8**	8	8	8	8	8	8	8	8	7	7
B. Bound Tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	24	14	14	12	16	13	**7**	7	7	7	7	7	7	6	6	6	5
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	24	14	14	12	16	13	**8**	8	8	8	8	7	7	7	7	6	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	24	16	18	15	20	16	**9**	8	8	8	8	8	8	8	7	7	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	24	14	15	15	19	15	**16**	15	15	14	14	13	13	12	12	11	10
B5. Combination of B1-B4 using one-half standard deviation shocks	24	15	18	18	22	18	**19**	18	18	17	17	16	15	15	14	13	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	24	20	19	16	22	17	**9**	9	9	9	9	9	9	8	8	8	7
Memorandum item:																	
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	34	34	34	34	34	34	**34**	34	34	34	34	34	34	34	34	34	34

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 2a.Guinea: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008-2031
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2008	2009	2010	Average [5/]	Standard Deviation [5/]	2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 1/	90.9	90.3	99.9			69.6	64.0	60.9	58.0	48.4	40.4		27.7	15.6	
o/w foreign-currency denominated	77.5	71.5	70.5			55.8	51.2	47.9	44.9	36.9	31.6		24.3	14.6	
Change in public sector debt	1.0	-0.7	9.7			-30.3	-5.6	-3.2	-2.9	-9.6	-8.0		-0.6	-1.4	
Identified debt-creating flows	1.8	-1.7	11.1			-9.0	0.5	-0.7	-0.5	-7.5	-6.2		-0.4	-2.1	
Primary deficit	-1.3	5.0	12.0	2.4	4.3	1.3	5.2	2.0	2.3	1.7	1.8	2.4	0.2	-1.6	-0.6
Revenue and grants	16.1	16.5	15.7			21.1	22.0	22.5	22.9	22.1	20.7		18.8	23.0	
of which: grants	0.5	0.4	0.4			3.4	3.2	3.0	3.1	2.0	1.5		0.3	0.0	
Primary (noninterest) expenditure	14.8	21.6	27.7			22.4	27.2	24.5	25.2	23.8	22.5		19.0	21.4	
Automatic debt dynamics	3.5	-6.8	-0.8			-10.3	-4.7	-2.7	-2.8	-9.2	-8.0		-0.6	-0.5	
Contribution from interest rate/growth differential	-12.3	-3.4	-14.7			-18.5	-9.0	-6.0	-4.8	-10.7	-9.2		-1.5	-1.1	
of which: contribution from average real interest rate	-8.1	-3.7	-12.9			-15.1	-5.9	-3.1	-1.8	-1.2	-1.2		-0.8	-0.6	
of which: contribution from real GDP growth	-4.2	0.3	-1.7			-3.4	-3.1	-2.9	-2.9	-9.6	-8.0		-0.7	-0.5	
Contribution from real exchange rate depreciation	15.8	-3.4	13.8			8.2	4.2	3.3	2.0	1.5	1.2		...	...	
Other identified debt-creating flows	-0.3	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.3	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)	0.0	0.0	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	-0.8	1.1	-1.5			-21.3	-6.1	-2.5	-2.4	-2.1	-1.8		-0.2	0.7	
Other Sustainability Indicators															
PV of public sector debt	...	...	83.8			55.1	50.8	48.6	46.6	38.5	31.5		19.8	10.2	
o/w foreign-currency denominated	...	...	54.4			41.3	38.0	35.7	33.5	27.0	22.7		16.4	9.2	
o/w external	...	...	54.4			41.3	38.0	35.7	33.5	27.0	22.7		16.4	9.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	1.3	7.1	14.0			6.9	9.1	5.9	5.8	5.9	4.8		1.9	-0.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	534.1			261.1	230.9	216.1	203.2	174.3	152.3		105.5	44.5	
PV of public sector debt-to-revenue ratio (in percent)	…	…	547.3			311.5	269.9	249.5	234.7	191.9	164.2		107.4	44.5	
o/w external 3/	…	…	355.2			233.7	201.7	183.2	168.8	134.6	118.4		88.9	39.9	
Debt service-to-revenue and grants ratio (in percent) 4/	16.4	12.6	12.8			26.8	17.8	17.3	15.3	19.1	14.6		8.9	5.3	
Debt service-to-revenue ratio (in percent) 4/	16.9	12.9	13.2			32.0	20.8	20.0	17.7	21.0	15.7		9.0	5.3	
Primary deficit that stabilizes the debt-to-GDP ratio	-2.4	5.7	2.3			31.6	10.8	5.2	5.1	11.3	9.8		0.8	-0.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.9	-0.3	1.9	2.6	1.7	3.6	4.7	4.8	5.0	19.8	19.9	9.6	2.5	3.0	4.4
Average nominal interest rate on forex debt (in percent)	1.9	0.9	1.1	1.4	0.3	1.3	1.2	1.1	1.1	1.6	1.6	1.3	1.4	1.4	1.4
Average real interest rate on domestic debt (in percent)	-0.8	4.6	-9.7	-1.2	7.6	-14.2	-4.3	-0.2	1.6	1.9	-1.1	-2.7	-0.2	1.0	0.1
Real exchange rate depreciation (in percent, + indicates depreciation)	23.8	-4.6	23.5	15.2	27.5	14.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	14.1	6.8	20.2	15.4	11.3	21.0	12.3	7.9	5.8	5.4	5.2	9.6	4.8	5.3	5.2
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	0.5	0.3	0.1	0.2	-0.2	0.3	-0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	45.0	45.0	45.0	45.0	39.4	39.4	43.1	34.1	34.1	...

Sources: Country authorities; and staff estimates and projections.
1/ Public sector refers to general government. This analysis uses net.
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 2b.Guinea: Sensitivity Analysis for Key Indicators of Public Debt 2011-2031

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	55	51	49	47	39	31	20	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	55	50	49	48	46	44	41	51
A2. Primary balance is unchanged from 2011	55	48	45	43	35	28	21	26
A3. Permanently lower GDP growth 1/	55	51	49	47	40	33	23	20
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	55	53	54	53	45	38	29	27
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	55	52	53	51	42	34	22	12
B3. Combination of B1-B2 using one half standard deviation shocks	55	52	53	51	43	36	27	23
B4. One-time 30 percent real depreciation in 2012	55	70	67	64	52	43	27	18
B5. 10 percent of GDP increase in other debt-creating flows in 2012	55	58	56	53	44	36	23	13
PV of Debt-to-Revenue Ratio 2/								
Baseline	261	231	216	203	174	152	106	44
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	261	225	215	207	205	206	217	224
A2. Primary balance is unchanged from 2011	261	217	201	186	158	136	110	112
A3. Permanently lower GDP growth 1/	261	232	218	206	178	158	120	88
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	261	240	237	228	201	181	152	119
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	261	236	236	222	190	166	117	52
B3. Combination of B1-B2 using one half standard deviation shocks	261	233	232	222	195	174	141	102
B4. One-time 30 percent real depreciation in 2012	261	317	296	278	237	206	142	76
B5. 10 percent of GDP increase in other debt-creating flows in 2012	261	265	248	232	199	174	124	57
Debt Service-to-Revenue Ratio 2/								
Baseline	27	18	17	15	19	15	9	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	27	18	17	14	23	20	19	21
A2. Primary balance is unchanged from 2011	27	18	17	12	18	13	10	10
A3. Permanently lower GDP growth 1/	27	18	17	16	19	15	10	9
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	27	18	19	17	22	17	12	11
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	27	18	18	17	23	16	9	6
B3. Combination of B1-B2 using one half standard deviation shocks	27	18	18	16	22	17	12	10
B4. One-time 30 percent real depreciation in 2012	27	21	23	21	27	21	14	10
B5. 10 percent of GDP increase in other debt-creating flows in 2012	27	18	19	24	21	16	10	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.

Statement by the IMF Staff Representative
February 24, 2012

1. This statement provides information that has become available since the issuance of the staff report on February 13, 2012. The new information does not alter the thrust of the staff appraisal.

2. Updated preliminary information indicates that all quantitative indicative targets under the authorities' staff-monitored program for end-December were met (Table 1). Compared to the estimates for the end-December outturn included in the staff report, lower fiscal revenue was more than offset by somewhat less current spending but especially by a shortfall in capital spending. The latter reflected delays in spending on a large contract in the electricity sector, which also contributed to higher net international reserves than estimated for the end of the year. Inflation declined to 18.5 percent year-on-year in January 2012.

3. The Guinean authorities have provided information confirming that they have observed the continuous structural reform measures under the 2011 staff-monitored program through end-December, 2011(Appendix I, Attachment I, Table 2 of the staff report). In addition, all prior actions for the program to be supported under the Extended Credit Facility have been completed.

4. On February 17, 2012, Paris Club creditors provided financing assurances for the medium-term economic program for which the Guinean authorities are requesting an arrangement under the Extended Credit Facility. Negotiations for a rescheduling of Guinea's outstanding external debt to Paris Club creditors are expected to be held in April 2012.

Table 1. Guinea: Indicative Targets for 2011 Under the SMP 1/

(Billions of Guinean francs unless otherwise indicated)

	2010	2011									
	end Dec.2/	end Mar.	end-Jun.			end-Sep.			end-Dec.		
	Actual	Actual	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Est.	Status
Quantitative targets											
Basic fiscal balance (floor) 3/	-3,424	-59	-330	616	Met	-429	183	Met	-663	-213	Met
Net domestic assets of the central bank (ceiling)	6,741	6,741	1,760	-12	Met	2,045	1,495	Met	2,488	2,053	Met
Domestic bank financing of the government (ceiling) 3/	4,037	-77	-4,682	-5,558	Met	-4,397	-4,964	Met	-3,943	-4,217	Met
Net international reserves of the central bank (floor); US$ millions 3, 4, 5/	22	103	802	1,026	Met	774	927	Met	669	746	Met
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 6/	n.a.	0	0	0	Met	0	0	Met	0	0	Met
Stock of outstanding short-term external debt due or guaranteed by the government or the central bank (ceiling); US$ millions	n.a.	0	0	0	Met	0	0	Met	0	0	Met
Memorandum items:											
Reserve money	6,982	6,979	6,984	7,167		6,998	6,863		7,101	6,556	

Sources: Guinean authorities and IMF staff.

1/ Definitions are included in the technical memorandum of understanding (TMU).

2/ Flow over 2010 for fiscal criteria and stock for end-December 2010 for monetary and external debt criteria.

3/ Cumulative change from end-December 2010.

4/ Calculated using the program exchange rates.

5/ End-2010 figure excludes 2009 SDR allocation.

6/ 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.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No.12/23
FOR IMMEDIATE RELEASE
March 12, 2012

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2011 Article IV Consultation with Guinea

On February 24, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the 2011 Article IV consultation with Guinea.[1]

Background

Guinea is emerging from a prolonged period of social unrest, and from military rule during 2009–10. Following presidential elections in December 2010, the new government adopted an economic stabilization program for 2011 that was monitored by Fund staff. The government implemented structural reforms aimed at creating an environment conducive to development of the country's abundant natural resources. It adopted a new mining code aimed at attracting foreign investment, and launched a reform of the justice sector and of the security services. Guinea also began normalizing financial relations with its development partners, by clearing arrears to multilateral financial institutions, leading to a resumption of budgetary assistance. The government extended the 2007–10 Poverty Reduction Strategy Paper (PRSP) to 2011–12, which provides the policy framework for growth and poverty reduction.

Reflecting the improved political situation and an increase in agricultural production, growth picked up in 2011 to 3.6 percent, after a near-stagnation during 2009–10. The basic fiscal deficit is estimated to have been reduced from 12.6 percent of gross

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

domestic product (GDP) in 2010 to 2.5 percent in 2011. Central bank financing of the government was stopped, and monetary policy tightened. As a result, inflation stabilized, with a slight decline by year-end. Following a sizeable depreciation early in the year, the exchange rate stabilized and the gap between the official and market exchange rate narrowed substantially. Following a large inflow of exceptional mining revenue, the external position consolidated, and gross available international reserves increased to the equivalent of 4.5 months of imports at end-2011, from less than one month of imports a year earlier.

The authorities' medium-term priorities are to reduce inflation and develop Guinea's abundant natural resources as the main source of growth, employment, and poverty reduction. In addition to ensuring fiscal and debt sustainability, the main areas of focus are improving the business and investment climate, strengthening public financial management, including the cost-effective and sustainable management of exceptional mining revenue. These objectives are in line with the PRSP, which the government intends to update during 2012, and form the basis of the program supported by a new three-year Extended Credit Facility (ECF) arrangement approved by the IMF Executive Board at its February 24, 2012 meeting (see Press Release 12/57 http://www.imf.org/external/np/sec/pr/2012/pr1257.htm. The ECF-supported program will also help the authorities advance toward the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. A key challenge for the authorities is to prepare for the expected rapid growth in investment and production in the mining sector over the coming years.

Executive Board Assessment

Executive Directors commended the Guinean authorities for the good performance under their staff-monitored program, in particular their decisive actions to bring the fiscal situation under control. Growth has accelerated, inflation has been contained, and international reserves have increased. The outlook remains favorable, underpinned by prospective large investments in the mining sector and the improving political and governance environment. Important challenges nevertheless remain. Policies going forward should focus on consolidating the progress thus far, preparing the economy for the expected increase in mining activity and revenues, and ensuring that the natural resource wealth translates into sustained and inclusive growth and poverty reduction.

Directors saw continued efforts to reduce still high inflation as a near-term priority. Close coordination of monetary and fiscal policies should help to improve liquidity management, and monetary policy should remain sufficiently tight by containing bank financing of the budget. Directors underscored the importance of a market-determined exchange rate and eliminating the multiple currency practice. They encouraged the central bank to further enhance its supervisory capacity and to strengthen its governance and safeguards framework. Over the medium term, development of a strong financial sector will contribute significantly to diversified economic growth.

Directors underscored that fiscal policy should continue to aim at containing the budget deficit, to support the reduction in inflation and ensure debt sustainability, while generating fiscal space for priority investments and social spending. Key measures should include improved tax policy and tax administration, stronger public financial management, and streamlined expenditures, particularly eliminating subsidies.

Directors stressed the need to ensure that windfall mining revenues are used in a cost-effective and sustainable manner. They welcomed the establishment of a special investment fund to strengthen oversight over large investment projects, while noting the need for an effective institutional structure to support strong project appraisal and implementation.

Directors commended the authorities for the progress with structural reforms. Removing existing bottlenecks to the development of non-mining activities, through investment in basic infrastructure, efficient and financially sustainable public utilities, and an improved business environment, will play an important role in fostering broad-based growth and poverty reduction.

Directors supported the steps taken by the authorities to reach the completion point under the HIPC Initiative as soon as possible. They noted that Guinea would remain vulnerable even after debt relief, and urged the authorities to avoid non-concessional borrowing and give high priority to strengthening debt management capacity. They cautioned that direct state participation in large new mining and related infrastructure projects would create large financing needs, and called for close consultation with the Fund and the World Bank in this area.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Guinea: Selected Economic Indicators, 2008–12

	2008	2009	2010	2011 Est.	2012 Proj.
	(Annual percentage change, unless otherwise indicated)				
National accounts and prices					
GDP at constant prices	4.9	-0.3	1.9	3.6	4.7
Consumer prices					
End of Period	13.5	7.9	20.8	19.0	12.0
External sector					
Exports, f.o.b. (in US$ terms)	28.2	-21.3	15.3	11.7	11.4
Imports, f.o.b. (in US$ terms)	12.2	-19.8	28.2	18.3	72.3
Money and credit					
Net claims on government [1/]	20.8	28.7	67.9	-30.1	5.4
Reserve money	13.8	81.7	73.0	4.4	-7.5
Broad money (M2)	39.0	25.9	74.4	15.5	6.1
Interest rate (short term T-bill)	21.5	15.0	13.0	13.0	...
	(Percent of GDP)				
Central government finances					
Total revenue and grants	16.1	16.5	15.7	21.1	22.0
Revenue	15.6	16.2	15.3	17.7	18.8
Total expenditure and net lending	17.5	23.7	29.7	24.1	28.7
Current expenditure	13.4	16.5	20.5	16.0	16.8
Capital expenditure and net lending	4.0	7.2	9.1	8.1	11.9
Overall budget balance [2/]					
Including grants (commitment)	-1.3	-7.1	-14.0	-2.9	-6.7
Basic fiscal balance	1.6	-5.6	-12.6	-2.5	-3.8
Current account balance					
Including official transfers	-10.3	-9.9	-12.4	-6.6	-34.9
Overall balance of payments	-0.9	5.3	-3.6	9.5	-5.9
Memorandum Items:					
Gross available reserves (months of imports) [3/]	0.6	0.8	0.8	4.5	3.3
External debt stock (percent of GNFS exports)	197.6	261.2	225.0	200.1	169.8
Nominal GDP (GNF billions)	20,780	22,133	27,118	33,973	39,944

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

1/ In percent of the broad money stock at the beginning of the period.

2/ One-off mining revenue received in 2011 (US$ 700 million) is included under non-bank financing.

3/ In months of imports excluding imports for large foreign-financed mining projects.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 12/57
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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Approves Three-Year, US$198.9 Million Extended Credit Facility Arrangement and Additional Interim HIPC Assistance for Guinea

The Executive Board of the International Monetary Fund (IMF) today approved a new arrangement for Guinea under the Extended Credit Facility (ECF) in an amount equivalent to SDR 128.52 million (about US$198.9 million). The Board's decision will enable an immediate disbursement equivalent to SDR 18.36 million (about US$28.41 million).

The authorities' program is aimed at supporting higher growth, reducing poverty and reaching quickly the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The Board also approved an amount equivalent to SDR 1.2852 million (about US$ 1.99 million) in interim assistance for Guinea under the enhanced HIPC Initiative. The Executive Board also completed the 2011 Article IV Consultation with Guinea. A Public Information Notice will be published in due course.

Following the Board's discussion of Guinea, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair issued the following statement:

"Performance under the authorities' 2011 program, monitored by the IMF's staff, has been strong. GDP growth picked up to an estimated 3.6 percent; the surge in inflation during 2010 was contained; and the exchange rate has been broadly stable. The fiscal deficit was cut sharply; government recourse to bank financing was halted, and monetary policy was tightened. Progress was made with administrative and policy reforms, while improved relations with the international community led to the resumption of budget support and project assistance.

"The government's medium-term program, which is supported by an arrangement under the Extended Credit Facility, aims to consolidate macroeconomic stability and lay the foundations for sustained and broad-based growth and poverty reduction. Immediate policy priorities include reducing the high inflation rate; strengthening public financial management, including of windfall mining revenues, and increasing public investment and social sector spending.

"A key medium-term challenge is to create a policy and infrastructure environment that will ensure that sharp growth in mining activity translates into inclusive growth and poverty reduction. The government's structural reform agenda aims at developing hydroelectricity and agriculture, while improving government services, including utilities, infrastructure, and the business climate.

"Fiscal policy aims at containing the budget deficit to support the monetary tightening needed to reduce inflation while preserving debt sustainability. Key measures include reform of the tax system to boost non-mining revenues and reorientation of spending to priority areas—specifically, public investment and social sector spending. The authorities are working to enhance efficiency and transparency of the foreign exchange market.

"Reaching the completion point as soon as possible would pave the way for permanent debt relief under the HIPC initiative and MDRI. Guinea's external debt position would then become sustainable, subject to prudent public external borrowing policies," added Mr. Shinohara.

Recent economic developments

Guinea is emerging from a prolonged period of social unrest and from military rule. Following presidential elections completed in December 2010, the new government adopted an economic stabilization program for 2011, monitored by Fund staff. Performance under the Staff Monitored Program (SMP) has been good. Real GDP growth rebounded on the back of the improved political situation and a sharp increase in agricultural production. Strong adjustment and prudent use of the windfall revenue resulted in a sharp decline in the 2011 fiscal basic balance. The authorities made good progress with structural reforms, notably the adoption of a new mining code compatible with international standards in September 2011.

The medium-term macroeconomic outlook is driven by large investments in the mining sector. Foreign direct investment (FDI) in the mining sector, which could be as high as 40 percent of GDP or more per year during 2012–14, will raise output, imports, and the external current account deficit, and should boost employment with the construction of infrastructure such as railroads and ports. However, this outlook is subject to downside risks, mainly renewed political instability. Social unrest would affect both short- and long-term growth and complicate the implementation of the reform agenda.

Program objectives

The government's medium-term program (January 2012–December 2014), supported by the ECF arrangement, seeks to address Guinea's development challenges. Building on the progress made under the SMP in 2011, it aims at real GDP growth in the range of 4–5 percent per year during 2012–14; a drop in inflation to the single digits; and maintenance of gross official reserves at a level at least equivalent to 2.5 months of imports (excluding imports for large mining projects). International reserves, which were boosted by the 2011 windfall revenue, will be negatively affected by the subsequent use of these resources over the program period, which will be partly offset by the support under the ECF arrangement.

Fiscal policy will be guided by the need to maintain expenditure within the constraints of the objective for net domestic financing and limited availability of external financing while ensuring (post-HIPC) debt sustainability. Strengthening public financial management remains a high priority. In this regard, the authorities intend to implement a comprehensive reform and capacity building strategy in close coordination with external partners, including the Fund and AFRITAC West. The main objective of the central bank's (BCRG) monetary policy is to reduce inflation through an orderly unwinding of the economy's remaining excess liquidity.

On the structural front, the reform agenda, which is in line with the extended PRSP, the authorities focus on the implementation of the new mining code. The authorities will review and may renegotiate the existing mining concessions, while pursuing Guinea's reintegration into the Extractive Industries Transparency Initiative process. In the electricity sector, the authorities' first priority is to reduce the severe shortages by adding generating capacity and strengthening the electricity company (EDG). The government expects to adopt a comprehensive plan for the sector, which will also focus on developing Guinea's abundant hydroelectric potential, including by reforming the institutional and legal framework by upgrading the law on public-private partnerships to international best practices. Reform in the agricultural sector will be based on a National Plan for Agricultural Investment and Food Security (PNIASA). This plan is expected to be approved by government early in 2012 and aims at ensuring food security by 2014 and becoming a food exporter thereafter.

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Statement by Kossi Assimaidou, Executive Director for Guinea
Friday, February 24, 2012

Introduction

1. On behalf of my Guinean authorities, I would like to express their deep appreciation to management and staff for their support and constructive policy dialogue in the implementation of the staff-monitored program, and the development of a medium-term program of economic and financial adjustment.

2. In December 2010, following open and free Presidential elections, a new Government was formed. In order to address the difficult situation experienced in 2009-10 while meeting the urgent needs of the population, the authorities embarked in early 2011 on a program of fiscal and monetary adjustment monitored by staff. In implementing their SMP, my authorities also aimed at paving the way for a three-year program supported by an arrangement under the Extended Credit Facility and for reaching as soon as possible the completion point under the HIPC initiative.

3. In addition to their macroeconomic stabilization efforts, my Guinean authorities have also undertaken efforts to improve the political environment and reform the security sector. In this regard, they have initiated a political dialogue involving all main stakeholders with a view to hold free and fair legislative elections scheduled to take place in May 2012.

Recent Economic Developments and Performance under the SMP

4. In 2011, my Guinean authorities implemented with success an ambitious SMP, which included unprecedented economic, financial and structural measures. All the quantitative and structural benchmarks for end-June and end-September under this program were met. In addition, provisional data for end-December indicate that program targets remain on track.

5. In the real sector, improved performance in the agricultural and mining areas led the real GDP to grow at 4.0 percent against 1.9 percent a year earlier. In addition, significant public investments were initiated with the support of development partners that led to increased electricity and water supply and improved infrastructure.

6. On the fiscal front, the authorities implemented a rigorous fiscal policy that enabled the basic fiscal balance to be reduced from 12.6 percent of GDP in 2010 to less than 1 percent of GDP in 2011. This remarkable achievement was possible through the elimination of ad hoc exemptions from customs tariff, intensification of efforts to collect back taxes and the

strengthening of control of contributions from autonomous revenue-collecting agencies. The authorities also established the Treasury Single Account to all public entities. On the spending side, a stringent cash-based expenditure management system was put in place, Government contracts totaling 40 percent of GDP and signed in violation of the procurement code were frozen following external audits. Moreover, the procedure of competitive selection as the normal process for awarding government contracts and strict controls of expenditure were enforced. Following the elimination of the central bank financing, the Treasury net borrowing from the banking system was also reduced in line with the staff-monitored program.

7. In their efforts to improve transparency in the mining sector and increase the government revenue, the authorities signed in April 2011 an agreement with a multinational mining company concerning the iron ore of Simandou south concession. Under this agreement, the company paid US $ 700 million to the Treasury, which was deposited in an account with the central bank. In addition, the authorities increased, in October, fuel prices by 27 percent, which helped to reduce the losses in tax revenue, and paved the way for smooth implementation of the pass through adjustment mechanism. Efforts to normalize the financial relations with foreign creditors were also intensified with the clearance of arrears due notably to development partners.

8. Progress was made in implementing prudent monetary and exchange policies. In this respect, the central bank's policy rate was raised from 16.75 to 22 percent in March 2011 and the reserve requirement rate was increased in March and October to stand at 22 percent. These measures helped reduce inflation and stabilize the exchange rate. Moreover, regulations to improve the functioning of exchange bureaus were streamlined and the authorities set up an interbank foreign exchange market. With Fund's technical assistance, the central bank strengthened its capacities in the banking supervision.

9. In the area of structural reforms, my Guinean authorities established a framework for public-private sector dialogue, set up a private investment agency and implemented a one-stop window for creating enterprises. The authorities launched the reform program to restructure the justice and security services. With the support of the World Bank and the *Agence Française du Développement* (AFD), the institutional audit of the energy sector was completed and submitted to stakeholders in September 2011. This step led to the round-table held in January 2012 with a view to restructure the electricity company and enhance its capacities.

10. My authorities have also taken steps to improve the exploitation of Guinea's mineral resources that should contribute to increase government revenue and improve the management of the sector. To this end, they promulgated in September 2011 a new mining code that is in line with international standards. They also resumed Guinea's participation in

the Extractive Industries Transparency Initiative (EITI). Based on Guinea's sizeable potential in the agricultural sector and the need to attain over the medium-term sustained food self-sufficiency while increasing agricultural exports, the authorities initiated a broad agricultural recovery program. In this context, needed structures for agricultural training and extension services were launched throughout the country.

Macroeconomic Policies and Structural Reforms under the ECF-Program

11. My Guinean authorities are strongly committed to continue and strengthen the ambitious reform efforts already started. In this regard, they have put in place a comprehensive and far-reaching program of economic, financial and structural reforms, which they intend to implement under an ECF-supported program. They view this program as an appropriate vehicle to sustain macroeconomic stability, resume with a higher growth, fight poverty and improve the business climate. To ensure a good implementation of the program, they have established an institutional mechanism of coordination and monitoring consisting of a Reform Coordination Committee at the ministerial level, assisted by a Technical Support Committee as well as a Program Monitoring Technical Unit created as a unit of the Ministry of Economy and Finance.

12. Under the program, the authorities aim at substantially reducing inflation and building solid foundations for a sustained and diversified economic growth. In particular, they aim at achieving a real growth of 4.7 percent in 2012 and an average rate of 4-5 percent in 2013-14; reducing inflation gradually to single digits by 2014; and maintaining the exchange reserves at above 2.5 months of imports.

Fiscal Policy

13. Building on progress made in implementing the SMP, my authorities will pursue their efforts focused on mobilizing government revenue and strengthening public expenditure management. In this context, their fiscal policy will continue to play a key role in the strategy to reduce inflation and ensure debt sustainability before and after reaching the completion point.

14. On the revenue side, they intend to raise the tax ratio to 20 percent of GDP in 2014 from 17.5 percent in 2011 thus meeting the ECOWAS convergence criterion. In this regard, measures and reforms to improve tax policy and tax administration will be pursued. In particular, the mechanism to regularly adjust fuel prices to changes in world prices and exchange rate will be reinstituted as of July 1, 2012. Regulatory and contractual exemptions will be reviewed by end-June 2012 to eliminate exemptions that no longer respond to their

purposes. It is also envisaged to conduct an institutional and regulatory audit of all revenue-generating services and complete the tax audits initiated in 2011.

15. As regards expenditure, the authorities' efforts will continue to further control public outlays, improve the quality of expenditure and channel spending towards priority social and economic sectors. The wage bill will be stabilized around 5.3 percent of GDP. Further measures to rationalize subsidies with reforms in electricity and agricultural sectors will be implemented as will the reform of the security sector. The authorities, with assistance from development partners, will develop well-designed safety nets targeting poverty reduction and human capital development.

16. In a context of declining budgetary assistance, the financing of these actions will be met with increased domestic resources mobilization and external debt relief. As for infrastructure financing, the authorities have created a Special Investment Fund (SIF) with the windfall revenue received in May 2011 from the mining sector. Based on this policy, the overall deficit will decline to 3.4 percent of GDP in 2013 and remain at that level over the medium-term.

Monetary and Exchange Policies

17. The priority of my authorities' monetary policy will be to substantially reduce inflation by regularly mopping up excess liquidity in the economy. To this end, the growth of base money will be limited to the inflation reduction target by revitalizing the use of market instruments and interventions on the foreign exchange market. Efforts to improve the determination of rates by market forces will be pursued with IMF technical assistance in order to unify the official and parallel markets.

18. The authorities will intensify their efforts to further strengthen the banking supervision by the central bank including the modernization of, and increased transparency in, the conduct of its operations. My authorities welcome the recommendations made by the IMF mission to update the 2007 safeguards assessment that will be implemented in 2012.

Structural Reforms and Competitiveness

19. My Guinean authorities will continue implementing far reaching structural reforms to create an environment conducive to diversified and sustained economic growth. They intend in particular to ensure that the population will benefit from the exploitation of the country's natural resources and promote synergies with the rest of the economy. Further efforts will be focused on improving the business climate, encouraging investments in the mining and energy sectors as well as promoting the development of agriculture.

20. To improve the business climate, ongoing efforts to promote competition and public-private partnerships, enhance the credibility and authority of the judiciary system and, strengthen the National Governance and Anti-Corruption Agency will be continued. A strategy to withdraw the government from business will be adopted by end-December 2012 and a list of enterprises to be privatized will be established by end-June 2012.

21. The authorities' efforts to reform the energy sector will rehabilitate the state-owned electricity company (EDG) and develop Guinea's hydroelectric potential. Given the urgent need for a regular supply of electricity to increase economic growth and improve on living conditions in Guinea, the authorities attach a high priority to reforms and new investments in the energy sector. Following the round-table on the electricity in January 2012, the authorities will adopt a comprehensive reform plan for the sector by end-March 2012. This plan will include a tariff adjustment to limit the budgetary support to EDG within the budget law. In the same vein, an institutional audit of the water sector will be conducted in 2012 and a round-table of partners will be held thereafter.

22. As regards the mining sector, the authorities' policy embedded in the new mining code adopted in September 2011 is based on the concept of mines and sustainable integrated development. They will pursue their efforts focused on finalizing the adoption of its implementing texts, auditing and revising the existing contracts to comply with the new mining code, and rehabilitating the mining cadastre. The authorities will also strive to fully implement the principles of EITI and the Kimberly Process to increase transparency and build credibility in the management of mining revenue.

Debt Sustainability and HIPC Completion Point

23. My Guinean authorities are determined to reach the completion point under the HIPC initiative without delay in order to ensure the sustainability of public finances, normalize Guinea's relations with its creditors and refocus budget priorities on poverty reduction and infrastructure spending. In this regard, they have made good progress in achieving the remaining completion point triggers notably the implementation of the PRSP extended for 2011-12, the audit of large public procurement, and update of poverty database. In the same vein, they are also strongly committed to a satisfactory implementation of the ECF-supported program.

24. My authorities are cognizant of the need to achieve and maintain debt sustainability. They intend to seek a debt rescheduling from Paris Club creditors and have initiated discussions with other external official bilateral and commercial creditors. They are also committed to prudent debt management by mobilizing only grants and concessional loans.

25. In view of the tremendous development challenges facing the country notably the fight against poverty, the need to develop natural resources and boost economic growth, my authorities are of the view that reaching the completion point by end-June 2012 will help them to alleviate the unsustainable debt burden and direct available resources towards investments in education, health and infrastructure sectors.

Conclusion

26. My Guinean authorities are confident that their strong commitment to sound policies and structural reforms will be sustained under the implementation of the ECF-supported program. They are determined to achieve, with the assistance of the international community and the Fund, the program's objectives in particular sustaining fiscal and debt stability, enhancing resource mobilization, increasing the economy's competitiveness and growth to fight poverty and unemployment. Based on their good track record under the SMP and their commitment to pursue needed reforms, I would appreciate Directors' support to my Guinean authorities' request for a three-year program under the Extended Credit Facility and for quick additional interim assistance under the HIPC initiative.