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SIXTH AND SEVENTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, FINANCING ASSURANCES REVIEW, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, EXTENSION OF THE ARRANGEMENT, AND REPHASING OF DISBURSEMENTS—DEBT SUSTAINABILITY ANALYSIS

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- *This Debt Sustainability Analysis (DSA) concludes that Guinea continues to face a moderate risk of debt distress,* [1] *but debt vulnerabilities have deteriorated.*
- *The DSA updates the joint Bank-Fund LIC-DSA that was considered by the Executive Board in February 2015 in the context of the 5th Review under the ECF arrangement.* [2] *Compared to the last DSA, the actual external debt stock at end-2015 was lower than previously projected, while domestic debt was substantially higher, reflecting recourse to sizeable central bank and commercial bank borrowing, and central bank guarantees on private sector loans; in the near term, the DSA includes a sharp fiscal adjustment, resulting in lower financing needs; and, external borrowing is slightly lower, while the share of concessional borrowing is lower in the longer run. The underlying macroeconomic assumptions have been updated to reflect lower world commodity and food prices, a faster depreciation of the GNF vis-a-vis the US dollar, and a 3–4-year delay in the start of iron ore exports from the Simondou mining project.*
- *Under the baseline scenario, there are no breaches of the respective policy – dependent thresholds for any of the debt indicators. However, the stress tests suggest that the vulnerability of the external debt outlook to adverse macroeconomic shocks has deteriorated. After taking into account domestic debt, Guinea's overall risk of debt distress is now heightened.*

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[1] In the LIC-DSA framework Guinea is rated as having weak policy performance with a Country Policy and Institutional Assessment average rating for 2012–14 of 2.99.

[2] The DSA was prepared jointly by the staff of the IMF and Bank, in collaboration with the authorities of Guinea. The 2015 DSA can be found in Country Report No. 15/39, Supp. 2, 01/28/15.

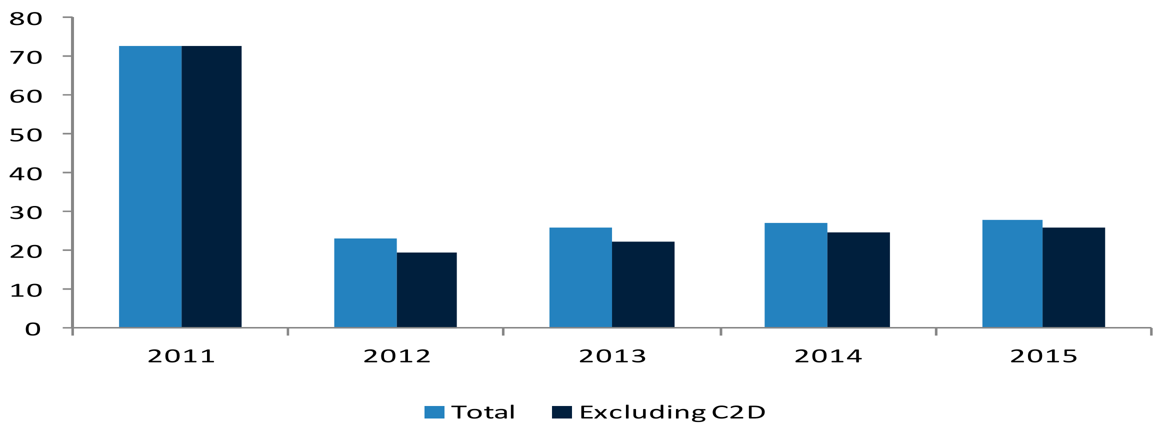
- *Sound macroeconomic policies and prudent debt management will be important to maintain a sustainable external position. It would be important to rely primarily on concessional sources of external financing, support public spending needs for investment primarily through efforts to enhance revenue performance, and sustain the near-term realignment in fiscal spending and revenues over the long-term.*
- *To realize Guinea's growth potential and increase its resilience to exogenous shocks, and promote economic diversification, structural reforms and improvements in the business environment will be important, particularly in the mining and agriculture sectors.*
- *Strengthening debt management would enhance Guinea's capacity to pursue a prudent borrowing policy and manage contingent risks. To this end, the National Public Debt Policy Statement, a manual of operational procedures in the debt department, and a medium-term debt strategy (2015-19) should be completed and rendered operationally effective. This would permit better coordination and management of debt, in particular through the National Committee for Public Debt (CNDP).*

BACKGROUND

1. **Following Guinea's completion point under the enhanced HIPC Initiative in 2012, the external debt position and vulnerability improved.**[3] Since 2012 the government has used the borrowing space created by the HIPC completion point to finance its investment plans, notably in the energy and road sectors; the construction of the Kaleta hydroelectric dam and the extension and rehabilitation of the electricity transmission line from the dam to Conakry account for a large part of the rise in external debt. As a result, outstanding public and publicly guaranteed (PPG) external debt increased from $1.1 billion at end-2012 to 1.7 billion at end-2015 (Figure 1 and Table 1), or in terms of GDP from 19.7 percent at end-2012 to 27.7 percent at end-2015.[4] At end-2015, Guinea had outstanding external debt arrears to non-Paris Club official bilateral creditors and commercial creditors of $148.1 million (8.6 percent of total debt). In 2013, the authorities invited these creditors to hold discussions on debt relief and a normalization of arrears, but thus far most creditors have not responded to the invitation nor have requested payment of the arrears.[5]

Figure 1. Guinea: Stock of External Public Debt, 2011-15

(in percent of GDP)



Sources: Guinean authorities, IMF Staff calculations.

[3] In this DSA external debt excludes French claims under C2D debt-for-development swaps, which were cancelled in the context of providing beyond HIPC debt relief. Under the C2D mechanism, debt service due on these claims is returned in the form of grants to the government to finance development projects. In the staff report, the flows associated with the C2D process are included in the external and fiscal accounts so as to capture the gross cash-flows (debt service and grants). See Country Report No. 15/39, Supp. 2, 01/28/15 for a detailed discussion.

[4] Beginning in 2014, the data for PPG external and domestic debt include guarantees issued by the central bank (BCRG) (see Box 1).

[5] The status of these arrears under the IMF's policy concerning lending into arrears and arrears to official creditors has not changed since the (last) 5th review under the ECF arrangement.

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

	end-2015	end-2015	end-2015
	US Dollars (millions)	Percent of Total	Percent of GDP
Total	**1,723.6**	**100.0**	**27.7**
Total, incl. C2D	1,862.5	108.1	29.9
Multilateral Creditors	**684.0**	**39.7**	**11.0**
IMF	197.9	11.5	3.2
World Bank	161.1	9.3	2.6
AfDB Group	111.2	6.5	1.8
IsDB	113.0	6.6	1.8
EU	0.0	0.0	0.0
Other Multilateral Creditors	100.8	5.8	1.6
Official Bilateral Creditors	**980.0**	**56.9**	**15.7**
Paris Club (excl. C2D)	53.5	3.1	0.9
Non-Paris Club	795.5	46.2	12.8
Arab Funds	131.0	7.6	2.1
Commercial Creditors	**59.6**	**3.5**	**1.0**
Memo			
Arrears 1/	148.1	8.6	2.4

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

2. **Public domestic debt has increased considerably since 2013**. From end-2013 to end-2015 outstanding public domestic debt rose by almost 65 percent (from 20.3 percent[6] to 28.2 percent) as a share of GDP), primarily because of the revenue shortfalls and spending pressures linked to the fight against the Ebola epidemic. The increase in public debt was due to the issuance of guarantees by the central bank in 2014-15 on loans by local banks which were pre-financing public projects, and in 2015 to a large run-up in central bank advances to the government, the issuance of medium-term bonds to commercial banks, and net issuance of short-term treasury bills to commercial banks (equivalent to just over 1½ percent of GDP). As of end-2015, the domestic debt liabilities comprised: "dette conventionnée" owed to the central bank[7] (44.3 percent of domestic debt); treasury bills held by domestic banks (20.1 percent); central bank loan guarantees to local banks (14.7 percent); central bank advances (12.8 percent), and securitized debt to enterprises.

[6] The figure for domestic debt at end-2013 differs from that in the last DSA (13.0 percent of GDP), reflecting revisions to the data for domestic debt which was previously based on estimates as well as in nominal GDP.

[7] This debt comprises consolidated past advances to the government which are to be repaid over 40 years with amortization payments beginning in 2023.

Box 1. Guinea: Central Bank Guarantees of Public Investment Projects

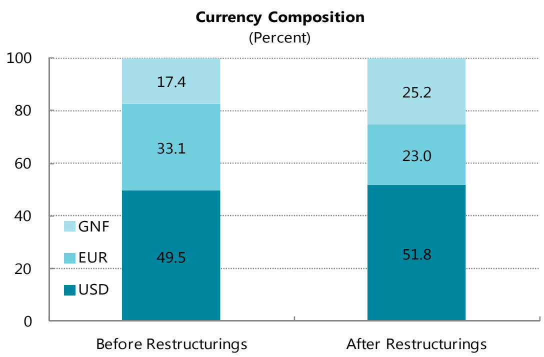
At the request of the Ministry of Finance, the central bank (BCRG) issued guarantees during 2014 and 2015 to local and foreign banks on behalf of 12 local and foreign private companies executing public works contracts to help them secure commercial bank loans. The total value of the public works contracts is equivalent to 15.2 percent of GDP ($1,017 million), of which 85 percent benefited from central bank guarantees, most of which are in foreign exchange (Text Table).[1] The guarantees add about USD72 million dollars to the stock of public and public-guaranteed external debt.

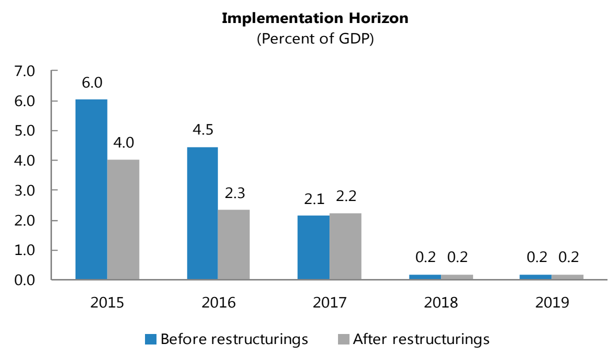
Text Table. Guarantees of Public Works Contracts

Sector	USD Million		Percent of GDP	
	Before Restructurings	After Restructurings	Before Restructurings	After Restructurings
Roads	366.2	233.1	5.5	3.5
Electricity services	443.0	308.9	6.6	4.6
Water services	22.5	22.5	0.3	0.3
Other	39.1	36.5	0.6	0.5
Total	**870.8**	**601.0**	**13.0**	**9.0**

Source: Guinean authorities, IMF staff estimates.

Debt service covered by the guarantees fall due in 2015–19, and for 2015 the budget included appropriations for payment of the debt service; budgets in subsequent years will also. In the event, in 2015 due to a shortfall in budgetary revenue and less than expected external budget support, the guarantees were called on the central bank. The central bank in turn charged the payment against the government's account at the central bank, triggering large central bank financing of the government.





To protect international reserves and contain the run-up in central bank financing in 2015 the authorities engaged the banks benefiting from the guarantees in discussions on restructuring the guarantees. As a result, with creditors' agreement, planned investments (and corresponding guarantees) were either cancelled or guarantee payments were rescheduled. The DSA consolidates the guarantees as part of public sector debt and uses the restructured amounts and payment profile.

Sources: Guinean authorities, IMF staff estimates.

[1] Despite the inclusion in the 2015 budget of appropriations of about 3 percent of GDP for payments, the guarantees were called on the central bank.

3. **In 2014-15, the central bank issued a large amount of guarantees that had not been foreseen in the last DSA (Box 1).** The central bank guarantees initially amounted to 13 percent of GDP, of which 3 percent was to foreign banks, and guaranteed debt service payments falling due in 2015 were called. However, they were restructured in 2015 to contain the impact on international reserves and the level of central bank advances to the government. As a result, the total amount of guarantees was reduced by about one-third to 9 percent of GDP, of which 1 percent of GDP to foreign banks; guarantees falling due in 2016, and associated spending have been reduced by 2.2 percent of GDP, to 2.3 percent of GDP. The DSA includes the guarantees as part of public debt using the restructured amounts and payment profile.

4. The public debt position at end-2015 differs considerably from that projected in the last DSA. The projected debt position in the last DSA (which used a base year of 2013), envisaged a higher external debt stock and a lower domestic debt stock. In the event, the outcome was reversed, reflecting primarily two factors, and total public debt was higher in value and in terms of GDP, 55.7 percent compared with a projected 46.0 percent in the last DSA. The lower-than-projected external debt stock at end-2015, including in terms of GDP, was primarily due to a significantly lower amount of external borrowing during 2014-15. In addition, while projected external debt relief including cancellation (about $60 million) in 2015 did not materialize,[8] this was more than offset by unforeseen debt relief which included debt cancellation from France (about $40 million) and from the IMF's Catastrophe and Containment Trust (about $30 million) to help Guinea cope with the Ebola outbreak.[9] With respect to GDP, although real growth was stronger than previously foreseen, in dollar terms, GDP was lower than projected in 2015 because of a more depreciated GNF/USD exchange rate. The higher-than-projected domestic debt stock in end-2015 was due to *(i)* central bank guarantees on bank loans to public works contractors (Box 1); *(ii)* a sharp increase in central bank advances to the government because of a shortfall in budget revenues; and *(iii)* the securitization of the public utility's debt to the private sector.

UNDERLYING ASSUMPTIONS

5. Key changes in the baseline macroeconomic assumptions in relation to the 2015 LIC-DSA are as follows:

- **The start-up of production from the large-scale Simandou iron ore mining project** is projected to be delayed by three years to late 2023–24. The construction phase of the project and related infrastructure is also delayed.
- **Real GDP growth** is projected to be somewhat lower during 2016–20, reflecting a more muted rebound which owes in part to a the impact of lower commodity prices. Over the long run the growth rate is slightly higher, primarily reflecting the addition of new bauxite production during 2015–17, adding one third to previously projected levels. Nominal GDP in US dollar terms is lower due to the more depreciated national currency (in 2015, the base year, the GNF/USD exchange rate was more depreciated than assumed in the last DSA by 7 percent on average and 13 percent at end-year).
- **The primary fiscal deficit** is lower, particularly in the medium term because of the sharp fiscal realignment in the near term (Box 1) and, over the long run, is lower on average than in the last DSA primarily because of a stronger assumed revenue effort, which reflects in part revenue

[8] Under the last DSA it was assumed that arrears to non-Paris official and commercial creditors would be restructured, in part through cancellation, in 2015; in the event, this did not occur. On the other hand, arrears to France related to public utilities were partially cancelled, and existing debt service payments rescheduled.

[9] The large negative residuals in the debt accounting for 2014-15 reflect large errors and omissions and short-term private capital inflows. These are likely due to under-reporting of sizeable donor financing for Ebola related imports of goods and service term (see Office of United Nations Special Envoy on Ebola, Resources for Results V, October 2015 for data on the size and distribution of aid flows). In addition, in 2015 the residual reflects a sharp rundown in reserves.

measures in the approved 2016 budget, notwithstanding a higher level of capital expenditures. The revenue measures in the 2016 budget are projected to yield additional revenue of just over 2 percent of GDP and include an increase in the VAT rate from 18 percent to 20 percent; these measures are expected to be sustained over the medium- and long-term. In addition, projected current spending reflects lower subsidies and transfers which offset the medium-term impact of the 2015–16 increase in civil servant salaries. The decline in budget subsidies is due to lower transfers to the public electric utility thanks to lower fuel prices, a planned tariff increase, and cost savings from improved governance stemming from implementation of a private sector management contract. Grants are also projected be higher in 2016 reflected already committed multilateral budget support; over the medium-term the level of grants is sustained as donors are projected to provide support for Guinea's post-Ebola recovery responses.

- **External current account and foreign direct investment:** Imports reflect lower projected import prices than in the last DSA for oil, other commodity, and food prices. In the near-term, the external current account is projected to improve on the back of lower oil and food import prices. The decline in world iron ore and bauxite prices has virtually no impact because no production of iron ore is projected until the Simandou project comes on stream, and for the bulk of bauxite prices have been set in long-term contracts that pre-date the recent decline. In the medium term, imports for the mining sector and foreign direct investment also reflect the delay in the construction phase for the Simandou project. Exports are slightly lower, on average, over the long term than in the last DSA, reflecting the delayed onset of iron ore exports as well as the impact of lower food prices, which is partly offset by higher bauxite exports, with sizeable new production coming on stream 2015–17, than in the last DSA because of new mining capacity coming on stream over the medium term.

- **Debt and debt service:** Domestic debt is higher over the medium term than in the last DSA, reflecting the higher 2015 debt stock (see preceding paragraph) and debt service is also higher because of the repayment over 6 years of the advances to the government by the central bank in 2015, the payments on the government-securitized liabilities of EDG, and the payments on the guarantees falling due through to 2019. The actual terms (interest rate of 12 percent and amortization over 5years), and the amount (GNF 550 billion, GNF 150 billion higher than in the last DSA) of the 2015 medium-term bond issue are also included. The external debt projections assume that arrears are cleared one year in 2016 (2015 previously) and incorporate debt relief (rescheduling and partial cancellation (50 percent)) from France on loans to two public utilities.

- **New external borrowing** is slightly lower, on average, reflecting lower overall fiscal deficits. The projections assume that the share of new borrowing from concessional multilateral financing falls progressively from 60 percent to 10 percent (60–30 percent in the last DSA).

Box 2. Guinea: Macroeconomic Assumptions for 2015–36

Medium- and long-term macroeconomic assumptions are influenced heavily by the lasting effects of the Ebola outbreak, assume a large mining project starts production in 2023, and that sound macroeconomic policies are implemented.

Real GDP growth: In 2014, the Ebola outbreak imposed a heavy toll on the economy with only 0.6 growth projected on average during 2014–15 as activity in agriculture and services was significantly affected by the epidemic. With the eradication of Ebola at end-2015 and a return to more normal levels of economic activity as well as the start of foreign investment activities in the mining sector, growth is expected to rebound to an average of 5.7 percent during 2016–22. After the post-Ebola rebound, growth (including the Simandou iron ore project) is projected at 6.2 percent during 2023–28 as production from the Simandou project begins and ramps up. Once mining production reaches full capacity, growth tails off and is projected at an average of 4.3 percent per year after 2029. Other drivers of growth, the non-mining sector, are projected to contribute a growth impulse of about 5 percent per year over the long run. The reform programs and actions currently undertaken would unlock growth potentials, including support to the agriculture sector; an expansion of electricity supply that is already underway with the start of production from the new Kaleta hydroelectric dam; improvements in f the business environment; and the integration of the mining activities to the local economy.

Inflation: Inflation has gradually declined from 21 percent in December 2010 to about 7 percent in December 2015 and is projected to fall to 5 percent by 2019. In the long run, as measured by the GDP deflator in US dollar terms, inflation is projected to be around 4½ percent, close to CPI inflation projections in Guinea.

Fiscal policy: Following the deterioration of the macroeconomic outlook after the Ebola epidemic, the overall fiscal deficit (excluding grants) is expected to deteriorate to 10.6 percent of GDP in 2015, reflecting mainly the costs of guaranteed investments, additional transfers to EDG, and other current spending, including the establishment of new institutions mandated under the Constitution, and the impact of a 40 percent increase in base salaries. From 2016 onwards, the overall deficit is expected to decline to just between 5 and 6 percent in the final years of the current decade and to roughly 2 percent of GDP in the outer years of the projection period. The initial sharp drop in the deficit reflects strong revenue measures and a sharp realignment of expenditures with available financing, including regarding domestically-financed capital expenditures. No central bank financing or exceptional mining revenues are projected after 2015. Increased revenues from the mining sector beginning in the mid-2020s are assumed to allow for a further increase of domestically-financed investment and total investment expenditures would rise gradually to just over 12 percent of GDP in the long run. Current spending would gradually decline as a share of GDP and be just over 15 percent of GDP on average after 2030.

External current account balance (excluding official transfers): The recent significant fall in world oil price, as well as declines in other commodity and rice prices will have a positive impact on the external accounts over the medium term. The current account deficit is expected to expand beginning in 2017 and peaking at almost 51 percent of GDP by 2024, as imports and services for the mega mining Simandou project ramp up during its preparatory and construction phases. Subsequently, the current account is projected to move into surplus in 2025 as mining sector investment (imports) declines and mining exports come on stream. With the increase in output capacity at the Simandou project, mining exports rise through 2029 and then stabilize. However, as non-mining GDP continues to expand, fueling import growth together with the onset of distribution of large profits from the mining sector, the external current account moves back into deficit in 2029 and beyond. After falling to 2.3 of months of imports at end-2015, the international reserve position is expected to recover steadily and over the long run to reach just over 6 months of imports.

External financing: Official grants are expected to pick up in 2016 and amount to around 4 percent of GDP and loans are expected to amount to 3–4 percent of GDP over the medium term. Over the remainder of the projection horizon, grants financing would gradually declines. Loans would also decline as growing domestically-financed investment financed on the back of the rise in mining sector revenues would substitute for externally financed investment, but then would increase somewhat towards the end of the projection period. Over time, the share of concessional loans is expected to decline, from 60 percent during 2016–18, to 40 percent during 2019–23, 30 percent during 2024–27, and then gradually decline thereafter to 10 percent by 2034.

Foreign direct investment: Net FDI is expected to surge during 2017–23, peaking at around 40 percent of GDP in 2019–20, owing to the rapid buildup in mining related activities. Subsequently, net FDI falls turning negative during 2025–28 as profits from the mining sector are repatriated, before turning positive again on the back of broad based FDI inflows.

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

	Previous DSA					Current DSA 2/			
	2014	2015	2020	2025	2034	2015	2020	2025	2036
Nominal GDP ($ Million)	6,638	7,155	12,174	19,997	33,084	6,696.2	8,744.4	15,292.6	32,027.2
Real GDP (Percentage change)	0.4	-0.3	8.2	5.0	4.5	0.1	6.3	6.0	4.6
Nominal GDP, excl. megaprojects ($ Million)	6,637.5	7,154.9	11,130.7	15,357.6	27,487.3	6,696.2	8,744.4	12,692.2	27,006.1
Real GDP, excl. megaprojects (Percentage change)	0.4	-0.3	5.1	4.4	4.8	0.1	6.3	4.4	4.9
Fiscal Accounts									
Revenue and grants [2]	25.3	25.7	23.5	25.2	24.9	19.3	25.9	27.6	27.4
Primary Expenditure	28.9	32.5	23.9	25.5	25.3	27.4	26.9	27.5	28.2
Of which: Capital expenditure and net lending	11.9	13.0	8.7	10.1	10.5	10.0	12.9	13.1	13.3
Primary Fiscal Balance	-3.6	-6.7	-0.5	-0.3	-0.3	-8.1	-1.1	0.1	-0.7
New external borrowing [3]	5.3	7.5	2.2	1.8	1.6	…	3.1	1.8	2.0
Grant element of new external borrowing (%)	37.93	40.84	41.99	41.99	35.16	…	44.00	41.82	32.72
Balance of Payments									
Exports of goods and services	23.4	23.1	34.4	76.9	48.7	21.0	22.1	67.0	49.8
Imports of goods and services	-40.3	-37.0	-75.5	-60.5	-46.8	-40.6	-70.2	-58.7	-45.5
Current account (including transfers) [2]	-18.1	-14.0	-41.2	8.9	-7.8	-22.4	-47.3	7.2	-6.1
Foreign direct investment	0.9	1.0	43.7	5.9	4.4	1.3	44.5	4.2	4.4

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

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

[2] The figures in this Table differ from the fiscal and balance of payments tables in the Staff Report as it excludes C2D related grants from fiscal revenue and grants and balance of payments grants.

[3] Includes publicly guaranteed external borrowing.

DEBT SUSTAINABILITY ANALYSIS

A. External Debt

6. **The results of the external DSA confirm that Guinea's debt dynamics are sustainable (Figure 2; Tables 3a and 3b).**[10] They also confirm that Guinea's risk of debt distress has not changed and remains at a moderate level.

7. **The baseline debt indicators have improved compared to the previous DSA, and remain below the policy-dependent thresholds.** Under the baseline, the improvement in the debt indicators in the medium term reflects primarily the sharp fiscal adjustment in 2015 and realignment of fiscal spending to available financing. At the same time, the addition of bauxite production by 1/3 during 2015–17 together with prices set under long-term contracts that pre-date the recent fall in world ore prices, has contributed to the improvement in the debt indicators with respect to exports. Over the long term the debt indicators are slightly improved because of lower borrowing and despite a lower grant element of new borrowing than in the last DSA. The relatively large external debt dynamic residuals in some years (Table 3), after taking into account exceptional financing (debt relief and non-FDI financial account

[10] In the LIC-DSA framework Guinea is rated a having weak policy performance with a Country Policy and Institutional Assessment (CPIA) average rating for 2012–14 of 2.99.

non-debt creating inflows), reflect weaknesses in the coverage of balance of payments data. This also implies that the results and conclusions should be interpreted with a measure of caution.[11] The rise in the debt-service-to-exports indicator in the early 2020s is due to onset of repayments to the IMF and of amortization payments on projected new debt. The subsequent decline owes to the end of repayments to the IMF and the onset of iron ore exports.

8. **The indicators of debt vulnerabilities under the alternative scenarios and bound test have deteriorated.** Under the alternative scenarios the debt indicators breach their thresholds only under the historical average test. The sustained breach is similar in pattern to that in the last DSA but is somewhat worse and is humped in the early 2020s. The worsening reflects the 2-year shift in the 10-year period used to calculate the average current account deficit, which is 16.2 percent of GDP compared to 10.2 percent in the last DSA; an early surplus year drops out and a large deficit. The sharp improvement in the debt-service-to-exports indicator in the early 2020s is due to the start up of iron ore exports. The improvement is subsequently steadily eroded as debt steadily accumulates to finance the large current account deficits. Under the bounds tests, breaches occur only for the debt stock indicators; the breaches are under the GDP, exports and non-debt creating inflows shocks and in the combination shock (the most extreme shock for all the debt indicators). The breaches range from 2 to 6 years.[12] Under the most extreme shock, the debt vulnerability indicators are worse than in the last DSA. The breaches of the debt-to GDP and debt-to-exports indicator thresholds are larger and of longer duration, though as noted above in part this is due to the shift in the historical period used to calibrate the shocks;[13] in the previous DSA the extreme shock was an export growth shock rather than a combination shock. In addition, the threshold for the debt-to-revenue indicator is breached which was not the case in the last DSA

9. **The government of Guinea intends to build a major 550 MW hydroelectric dam (Souapati), and its cost is such that Guinea's external debt sustainability will be affected by the modalities of the government's participation in its financing.** Although not yet finalized, the cost of the dam is reportedly in the range of USD1.2-1.6 billion (around 20 percent of GDP and greater than external debt at end-2015). As a first step in 2015 the government signed with a private stakeholder a protocol for the creation of a joint venture under a PPP structure. The protocol envisages several options for the financing of the dam, including a mix of equity and debt. The protocol also envisages the creation of a PPP for the operation of the Kaleta dam, and that the government's participation in the equity/debt financing of the Souapati debt could be met by the sale of part of its equity in the Kaleta dam.[14] Pending the completion of

[11] The residual is in part accounted for by short-term private sector capital inflows (typically bank loans to fund operations), which are sizeable in 2016, and project capital grants which are not captured in the decomposition of debt dynamics.

[12] Under the real growth shock the debt-to-GDP indicator is breached for 2018–22; for the export growth shock the debt-to-exports indicator is breached in 2017–23; for the non-debt creating inflows (FDI) shock the three debt stock indicators are breached for varying lengths between 2018 and 2015; under the combination shock the debt-to-GDP, debt-to-exports, and debt-to revenue indicators are breached for 2018–27, 2017–23, 2018–21 respectively.

[13] The shift in the period used to calculate the standard deviation with which the shocks are calibrated resulted in an increase from 13.5 in the previous DSA to 20.5 in the standard deviation of exports in this DSA.

[14] The Kaleta dam cost about USD250–300 million and was largely financed with external debt. Its current value has not yet been evaluated.

necessary studies no decisions have yet been taken on the size of the government's equity stake and participation in the debt financing, either through direct borrowing or guarantees. A sizeable participation by the government in any financing of the project could have a major effect on fiscal and external debt sustainability, especially if the financing is done on commercial terms. Under the assumptions of this DSA, sizeable debt financing by the government under non-concessional terms in the next few years would risk breaching one or more threshold for a moderate risk of debt distress as well as a significant rise in debt service costs, and would crowd out capacity to take on other debt to finance other priority projects. Bank and Fund staff stand ready to work closely with the authorities to ensure that any agreement on the project is transparent, has a high a level of concessionality as possible, does not jeopardize debt sustainability, and has a high rate of economic return.

10. Construction of the Souapati dam would have a major impact on Guinea's capacity to supply energy (more than doubling existing capacity) and could translate into higher growth and support the expansion of the mining sector. At the same time it could boost government revenues to, including through the impact of higher growth on revenues, which could finance priority spending needs, and in the longer term strengthen fiscal and debt sustainability. In addition, the dam could have significant regional economic benefits through its contribution to a major regional electricity project (the OMVG Energy Project, Gambia River Basin Development Organization) under which Guinea would export its surplus electricity capacity/production to neighboring countries, reducing their dependence on oil imports and supporting their growth potential.

11. While the use of PPPs to finance the government's participation in large-scale projects is a useful strategy to maintain external debt sustainability, they can also involve the risk of contingent liabilities. Given the magnitude of these projects it will be important that the government strengthen its capacity to ensure that any financing agreement does not include contingent liabilities, and second that projections of revenues are well-based and sufficient to cover financing costs of the PPP and thus avoid the possibility of assuming contingent liabilities to prevent the collapse of a project that could entail widespread damaging economic and social impacts. The assumption of any liability could lead to deterioration in debt burden indicators and in particular in the debt service burden.

B. Total Public Debt

12. Under the baseline, adding domestic public debt in the analysis leads to a near-term deterioration of Guinea's debt position. Under the baseline scenario, the PV of total public debt-GDP indicator is only marginally below the threshold in 2016 (37.7 percent compared to the threshold of 38 percent), which is because of the large run up in domestic debt and debt guarantees in 2015 when the indicator was above the public debt benchmark threshold at 45.6 percent. With public debt close to or above the benchmark, the overall risk of debt distress is now heightened. However, the indicator declines rapidly during 2016–17 when the bulk of the debt guarantees are extinguished. In the longer term the indicator improves steadily as the remaining new domestic debt accumulated in 2015 is repaid and amortization payments on the "dette conventionée" owed to the central commence in 2023.

CONCLUSION

13. Guinea remains at a moderate risk of debt distress, but debt vulnerabilities have deteriorated. The risk rating is unchanged from the previous DSA in February 2015. In the baseline scenario, all debt indicators remain below their respective policy-dependent thresholds. However, stress tests suggest that Guinea's external debt outlook has become more vulnerable to macroeconomic shocks, in particular to growth, exports, foreign direct investment flows and fiscal performance. The inclusion of domestic debt leads to a temporary deterioration in debt indicators because of the sizeable one-off net issuance of domestic debt and bank loan guarantees in 2015, but does not significantly change the conclusions of the external DSA, in particular as regards vulnerabilities to the public debt outlook. However, given the sharp rise in total public debt in 2015 the debt service burden in the short term has increased significantly and the overall risk of debt distress is heightened. As a consequence, it will be important to carefully monitor and contain the accumulation of new debt to avoid a rapid increase in the burden of debt service given limited budget flexibility (resulting from the sharp fiscal adjustment in 2015 and the burden of the bank loan guarantees[15]) and the need to preserve priority spending.

14. Sound macroeconomic policies and prudent debt management will be important to maintain a sustainable fiscal and external position and reduce external vulnerabilities. A strong structural reform effort and improvements in the business environment will also be needed to realize Guinea's growth potential, particularly in the mining and agriculture sectors, and improved fiscal and export revenue performance. It would continue to be important to rely primarily on concessional sources of external financing, to support public spending needs for investment without excessive recourse to borrowing and through efforts to enhance revenue performance, and sustain the challenging near-term realignment in fiscal spending and revenues over the long-term.. As regards debt management, several measures to strengthen debt management are nearing completion, including a National Public Debt Policy Statement, a manual of operational procedures in the debt department, and a medium-term debt strategy (2015–19). In addition, the government has requested further technical assistance to carry forward these reforms and render them effective. They have also requested TA from AFRITAC to improve the programming of domestic debt issuance. It will be important for these reforms to be fully effective so that they can ensure a better coordination and management of debt, in particular through the National Committee for Public Debt (CNDP), to ensure all new government and central bank borrowing and guaranteed borrowing is in line with the statement on national public policy and fully monitored to ensure it is sustainable. In this context the central bank will revise its statutes to ban the issuance of guarantees for private sector loans. While the government intends to use PPPs to encourage private financing of needed investment to avoid excessive public borrowing to finance projects it will be important to pay close attention to any direct or contingent liabilities they entail to avoid that they compromise fiscal and dent sustainability.

15. The authorities concurred with the analysis and conclusions of this DSA.

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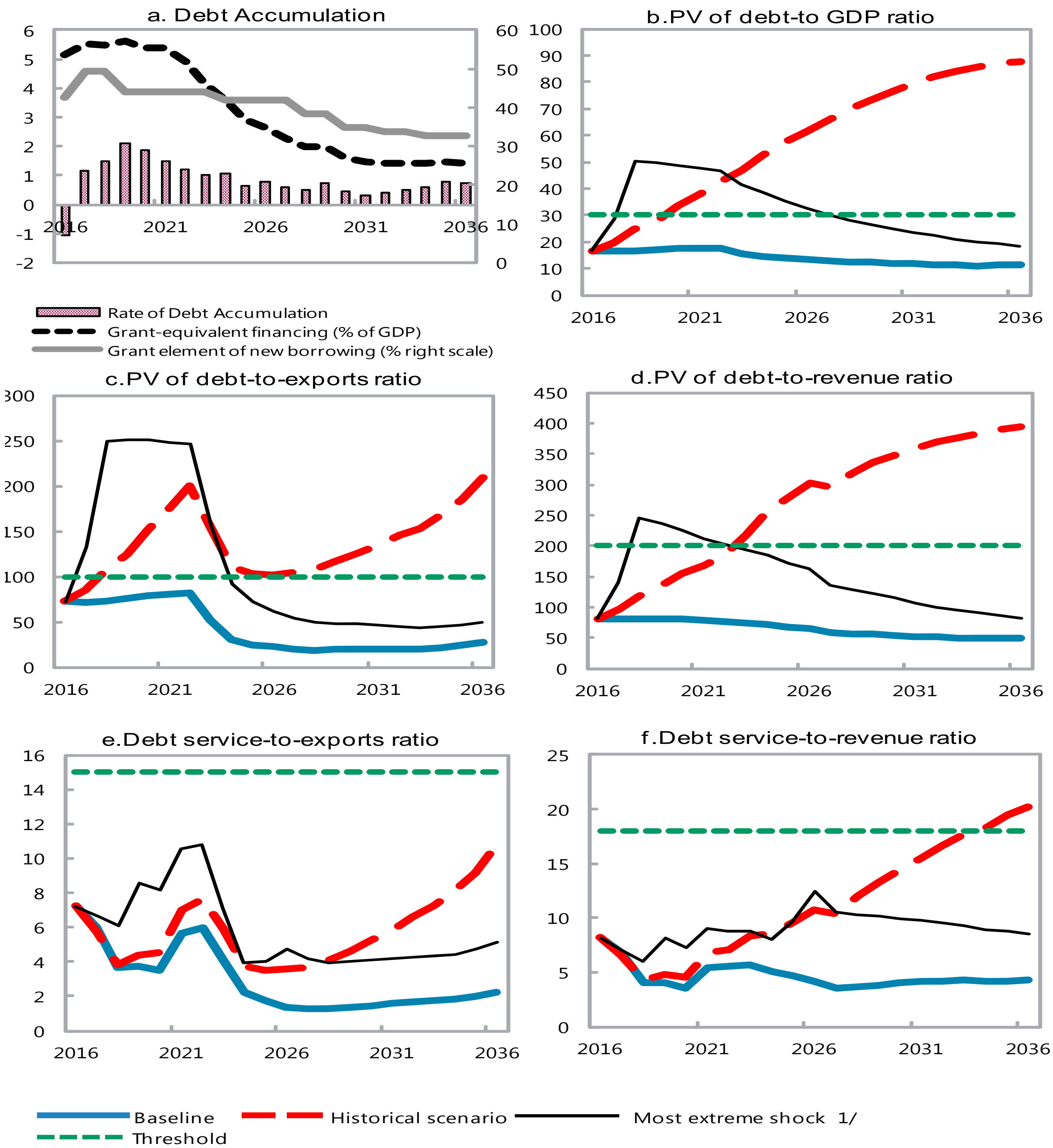
[15] In the budget, payments related to the guarantees which helped pre-finance project spending are recorded under investment budget as project expenditures.

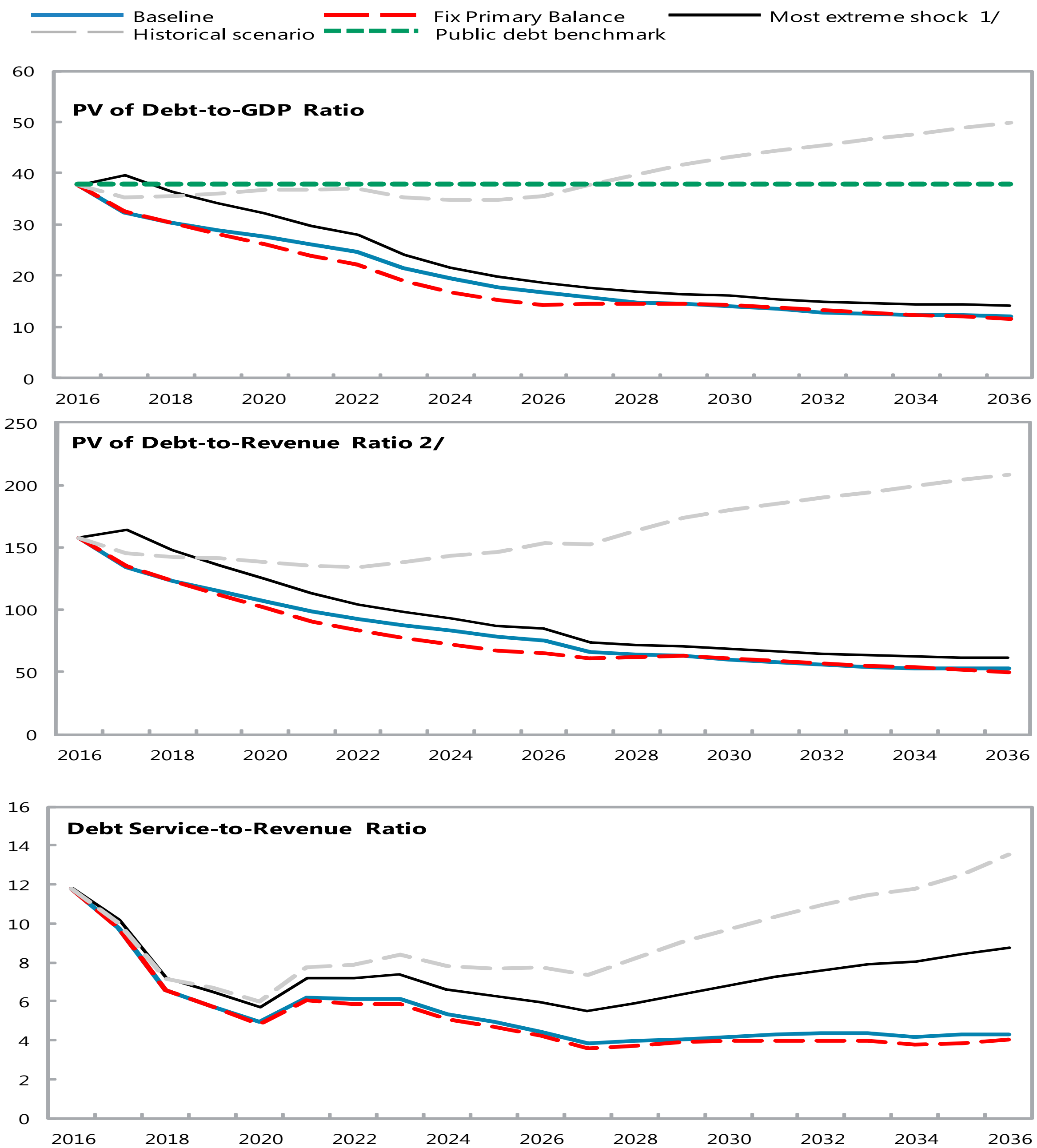
Figure 2. Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016–36[1]/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. 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 3. Guinea: Indicators of Public Debt Under Alternative Scenarios, 2016–36 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Table 3a. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2013–36 1/

(Percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	**22.5**	**26.6**	**27.5**			**28.3**	**28.2**	**28.6**	**29.4**	**29.6**	**29.7**		**22.1**	**17.3**	
of which: public and publicly guaranteed (PPG)	22.5	26.6	27.5			28.3	28.2	28.6	29.4	29.6	29.7		22.1	17.3	
Change in external debt	3.0	4.2	0.9			0.8	-0.1	0.4	0.8	0.3	0.0		-1.0	0.0	
Identified net debt-creating flows	23.3	23.1	21.1			7.3	4.9	2.0	5.0	1.4	2.6		0.0	0.7	
Non-interest current account deficit	**26.9**	**25.9**	**22.1**	**16.2**	**9.5**	**12.9**	**24.9**	**30.2**	**48.2**	**47.3**	**44.4**		**-8.2**	**4.9**	2.7
Deficit in balance of goods and services	24.0	23.7	19.6			14.2	25.7	32.0	50.3	48.2	46.5		-12.3	-3.6	
Exports	22.9	21.9	21.0			22.9	23.0	22.9	22.5	22.1	21.7		60.3	42.0	
Imports	46.9	45.7	40.6			37.1	48.7	54.9	72.9	70.2	68.2		48.0	38.4	
Net current transfers (negative = inflow)	-4.1	-2.0	-1.2	-5.4	2.6	-3.6	-3.6	-3.9	-3.7	-3.9	-4.1		-2.6	-1.3	-2.4
of which: official	-0.2	-1.4	-0.3			-1.1	-1.0	-1.1	-1.1	-1.1	-1.3		-0.9	-0.2	
Other current account flows (negative = net inflow)	7.0	4.1	3.7			2.3	2.8	2.1	1.6	3.1	2.0		6.7	9.8	
Net FDI (negative = inflow)	**-2.1**	**-1.0**	**-1.3**	**-4.5**	**3.5**	**-5.1**	**-18.8**	**-26.9**	**-41.7**	**-44.5**	**-40.5**		**9.1**	**-3.7**	-2.3
Endogenous debt dynamics 2/	**-1.5**	**-1.7**	**0.2**			**-0.5**	**-1.2**	**-1.3**	**-1.4**	**-1.4**	**-1.3**		**-0.9**	**-0.5**	
Contribution from nominal interest rate	0.2	0.2	0.2			0.6	0.3	0.3	0.3	0.3	0.3		0.3	0.3	
Contribution from real GDP growth	-0.4	-0.2	0.0			-1.1	-1.4	-1.5	-1.7	-1.7	-1.6		-1.1	-0.7	
Contribution from price and exchange rate changes	-1.3	-1.7	0.0			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-20.3**	**-19.0**	**-20.2**			**-6.5**	**-4.9**	**-1.6**	**-4.3**	**-1.1**	**-2.5**		**-1.0**	**-0.8**	
of which: exceptional financing	0.0	-0.1	-0.6			-1.4	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	17.4			16.6	16.3	16.5	17.1	17.5	17.5		13.3	11.2	
In percent of exports	...	...	83.0			72.4	70.9	72.2	76.0	79.2	80.7		22.0	26.6	
PV of PPG external debt	**...**	**...**	**17.4**			**16.6**	**16.3**	**16.5**	**17.1**	**17.5**	**17.5**		**13.3**	**11.2**	
In percent of exports	**...**	**...**	**83.0**			**72.4**	**70.9**	**72.2**	**76.0**	**79.2**	**80.7**		**22.0**	**26.6**	
In percent of government revenues	**...**	**...**	**97.3**			**81.7**	**80.2**	**80.1**	**81.6**	**80.2**	**77.9**		**65.7**	**50.2**	
Debt service-to-exports ratio (in percent)	**3.1**	**3.1**	**3.9**			**7.2**	**6.0**	**3.7**	**3.7**	**3.5**	**5.6**		**1.4**	**2.3**	
PPG debt service-to-exports ratio (in percent)	**3.1**	**3.1**	**3.9**			**7.2**	**6.0**	**3.7**	**3.7**	**3.5**	**5.6**		**1.4**	**2.3**	
PPG debt service-to-revenue ratio (in percent)	**3.8**	**3.7**	**4.6**			**8.2**	**6.8**	**4.1**	**4.0**	**3.6**	**5.4**		**4.1**	**4.3**	
Total gross financing need (Billions of U.S. dollars)	1.6	1.7	1.4			0.6	0.5	0.3	0.6	0.3	0.5		0.3	0.7	
Non-interest current account deficit that stabilizes debt ratio	23.9	21.7	21.2			12.1	24.9	29.8	47.4	47.0	44.3		-7.3	5.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.3	1.1	0.1	2.2	1.7	4.0	5.4	5.9	6.6	6.3	6.0	5.7	5.5	4.6	5.2
GDP deflator in US dollar terms (change in percent)	6.9	8.1	-0.2	7.1	14.6	-5.6	-0.2	1.1	1.8	2.4	2.5	0.3	3.9	1.8	3.1
Effective interest rate (percent) 5/	0.9	1.0	0.8	1.2	0.4	2.1	1.0	1.1	1.1	1.1	1.2	1.3	1.3	1.6	1.4
Growth of exports of G&S (US dollar terms, in percent)	-32.2	4.8	-4.2	5.3	20.5	7.2	5.4	6.6	6.8	6.6	6.7	6.6	18.7	-4.9	15.4
Growth of imports of G&S (US dollar terms, in percent)	-11.5	6.4	-11.1	12.1	21.4	-10.2	37.9	20.8	44.1	4.9	5.5	17.2	7.9	1.4	4.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	42.6	49.4	49.4	44.1	44.1	44.1	45.6	41.8	32.7	37.9
Government revenues (excluding grants, in percent of GDP)	18.7	18.2	17.9			20.3	20.3	20.7	21.0	21.8	22.5		20.2	22.3	21.8
Aid flows (in Billions of US dollars) 7/	0.1	0.2	0.1			0.4	0.5	0.5	0.5	0.5	0.6		0.5	0.6	
of which: Grants	0.1	0.2	0.1			0.2	0.3	0.3	0.3	0.4	0.4		0.3	0.3	
of which: Concessional loans	0.0	0.0	0.0			0.1	0.2	0.2	0.2	0.2	0.2		0.2	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.2	5.5	5.5	5.6	5.4	5.4		2.7	1.4	2.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			71.2	76.2	78.3	73.4	75.8	74.7		74.0	55.3	68.4
Memorandum items:															
Nominal GDP (Billions of US dollars)	6.1	6.7	6.7			6.6	6.9	7.4	8.0	8.7	9.5		16.8	32.0	
Nominal dollar GDP growth	9.4	9.3	0.0			-1.8	5.2	7.1	8.5	8.8	8.6	6.1	9.6	6.5	8.5
PV of PPG external debt (in Billions of US dollars)			1.1			1.0	1.1	1.2	1.4	1.5	1.6		2.2	3.5	
(PVt-PVt-1)/GDPt-1 (in percent)						-1.1	1.1	1.5	2.1	1.9	1.5	1.2	0.8	0.8	0.7
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	17.4			16.6	16.3	16.5	17.1	17.5	17.5		13.3	11.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	83.0			72.4	70.9	72.2	76.0	79.2	80.7		22.0	26.6	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	3.9			7.2	6.0	3.7	3.7	3.5	5.6		1.4	2.3	

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 3b. Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36

(Percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	17	16	17	17	17	18	**13**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	17	19	25	28	34	38	**61**	88
A2. New public sector loans on less favorable terms in 2016-2036 2	17	17	18	20	21	21	**18**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	17	17	18	19	19	19	**14**	12
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	17	19	24	25	25	24	**18**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	17	17	19	20	20	20	**15**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	17	28	45	44	43	42	**29**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	17	28	50	50	49	48	**33**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	17	23	23	24	25	25	**19**	16
PV of debt-to-exports ratio								
Baseline	72	71	72	76	79	81	**22**	27
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	72	84	107	124	152	174	**101**	209
A2. New public sector loans on less favorable terms in 2016-2036 2	72	73	79	87	93	98	**30**	44
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	72	69	71	75	78	79	**22**	26
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	72	101	165	170	174	175	**46**	47
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	72	69	71	75	78	79	**22**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	72	120	196	197	197	195	**48**	39
B5. Combination of B1-B4 using one-half standard deviation shocks	72	132	249	250	250	248	**61**	49
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	72	69	71	75	78	79	**22**	26
PV of debt-to-revenue ratio								
Baseline	82	80	80	82	80	78	**66**	50
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	82	95	119	133	154	168	**303**	393
A2. New public sector loans on less favorable terms in 2016-2036 2	82	83	87	93	94	95	**90**	83
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	82	82	87	89	87	85	**71**	54
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	82	92	117	117	113	108	**87**	56
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	82	84	93	95	93	90	**76**	58
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	82	136	217	211	199	189	**144**	74
B5. Combination of B1-B4 using one-half standard deviation shocks	82	140	244	237	224	212	**162**	82
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	82	112	112	115	113	110	**92**	71

Table 3b. Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36 (concluded)

(Percent)

Debt service-to-exports ratio								
Baseline	7	6	4	4	4	6	**1**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	7	6	4	4	5	7	**4**	11
A2. New public sector loans on less favorable terms in 2016-2036 2	7	6	4	4	4	6	**2**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	7	6	4	4	4	6	**1**	2
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	7	7	6	7	7	10	**3**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	7	6	4	4	4	6	**1**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	7	6	5	7	6	8	**4**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	6	9	8	11	**5**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	7	6	4	4	4	6	**1**	2
Debt service-to-revenue ratio								
Baseline	8	7	4	4	4	5	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	8	7	4	5	5	7	**11**	20
A2. New public sector loans on less favorable terms in 2016-2036 2	8	7	4	4	4	6	**6**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	8	7	5	4	4	6	**5**	5
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	8	7	4	5	4	6	**6**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	8	7	5	5	4	6	**5**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	8	7	5	7	7	8	**11**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	8	7	6	8	7	9	**12**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	8	10	6	6	5	8	**6**	6
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	37	37	37	37	37	37	**37**	37

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 4a. Guinea: Public Sector Sustainability Framework, Baseline Scenario, 2013–36

(Percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	42.8	47.1	55.7			49.4	44.3	42.4	41.1	39.8	38.2		25.6	18.3	
of which: foreign-currency denominated	22.5	29.1	29.7			29.9	28.2	28.6	29.4	29.6	29.7		22.1	17.3	
Change in public sector debt	18.5	4.3	8.6			-6.3	-5.1	-1.9	-1.3	-1.3	-1.5		-1.5	-0.2	
Identified debt-creating flows	4.1	1.0	7.9			-0.6	-4.3	-2.4	-1.7	-1.8	-1.6		-1.9	-0.2	
Primary deficit	4.4	3.4	8.1	2.6	5.1	0.0	-0.4	0.3	1.3	1.1	1.1	0.6	0.2	0.6	0.0
Revenue and grants	19.9	21.9	19.3			23.9	24.1	24.7	25.0	25.9	26.4		22.2	23.1	
of which: grants	1.3	3.7	1.3			3.6	3.8	4.0	4.0	4.0	3.9		2.0	0.9	
Primary (noninterest) expenditure	24.3	25.2	27.4			23.9	23.8	25.0	26.3	26.9	27.5		22.3	23.7	
Automatic debt dynamics	-0.3	-2.3	1.1			-0.6	-3.9	-2.8	-3.0	-2.9	-2.7		-2.0	-0.9	
Contribution from interest rate/growth differential	-0.4	-3.0	-1.9			-4.5	-5.4	-3.8	-3.8	-3.6	-3.5		-2.7	-1.3	
of which: contribution from average real interest rate	0.1	-2.5	-1.8			-2.4	-2.9	-1.4	-1.2	-1.2	-1.2		-1.3	-0.5	
of which: contribution from real GDP growth	-0.5	-0.5	-0.1			-2.1	-2.5	-2.5	-2.6	-2.4	-2.3		-1.4	-0.8	
Contribution from real exchange rate depreciation	0.1	0.6	3.0			3.9	1.5	1.0	0.8	0.8	0.8		...	...	
Other identified debt-creating flows	0.0	-0.1	-1.3			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	-0.1	-1.3			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	14.4	3.3	0.7			-5.7	-0.8	0.5	0.4	0.5	0.0		0.4	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	45.6			37.7	32.4	30.3	28.8	27.6	26.1		16.8	12.2	
of which: foreign-currency denominated	...	...	19.7			18.2	16.3	16.5	17.1	17.5	17.5		13.3	11.2	
of which: external	...	...	17.4			16.6	16.3	16.5	17.1	17.5	17.5		13.3	11.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.1	5.1	9.8			2.8	2.0	2.0	2.7	2.3	2.7		1.1	1.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	236.6			157.6	134.0	122.8	115.2	106.7	98.6		75.6	52.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	254.4			185.6	159.3	146.5	137.2	126.5	115.9		83.0	54.6	
of which: external 3/	...	...	97.3			81.7	80.2	80.1	81.6	80.2	77.9		65.7	50.2	
Debt service-to-revenue and grants ratio (in percent) 4/	8.6	8.0	8.7			11.8	9.8	6.6	5.8	4.9	6.2		4.5	4.3	
Debt service-to-revenue ratio (in percent) 4/	9.2	9.6	9.4			13.9	11.6	7.9	6.9	5.8	7.3		4.9	4.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-14.1	-0.9	-0.5			6.3	4.8	2.3	2.6	2.4	2.6		1.7	0.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.3	1.1	0.1	2.2	1.7	4.0	5.4	5.9	6.6	6.3	6.0	5.7	5.5	4.6	5.2
Average nominal interest rate on forex debt (in percent)	0.9	1.0	0.8	1.2	0.4	1.9	1.0	1.1	1.1	1.1	1.2	1.2	1.3	1.6	1.4
Average real interest rate on domestic debt (in percent)	16.7	-3.6	-1.3	-2.4	8.9	-2.9	-3.5	-0.6	-0.5	-0.7	-0.8	-1.5	-2.5	0.0	-1.5
Real exchange rate depreciation (in percent, + indicates depreciation	0.5	3.2	10.7	7.1	16.3	14.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.6	9.8	6.6	14.5	9.5	8.2	9.6	6.1	5.4	5.4	5.4	6.7	7.0	4.8	6.2
Growth of real primary spending (deflated by GDP deflator, in percer	1.8	4.9	8.9	1.7	3.0	-9.2	4.8	11.2	12.3	8.7	8.5	6.0	3.1	4.5	4.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	42.6	49.4	49.4	44.1	44.1	44.1	45.6	41.8	32.7	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 4b. Guinea: Sensitivity Analysis for Key Indicators of Public Debt 2016-36
(Percent)

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	38	32	30	29	28	26	17	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	38	35	36	36	37	37	35	50
A2. Primary balance is unchanged from 2016	38	33	30	28	26	24	14	12
A3. Permanently lower GDP growth 1/	38	33	31	29	28	27	19	22
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	38	35	35	35	35	34	28	33
B2. Primary balance is at historical average minus one standard deviations in 2017-201	38	37	40	38	36	34	22	16
B3. Combination of B1-B2 using one half standard deviation shocks	38	37	39	38	38	37	29	31
B4. One-time 30 percent real depreciation in 2017	38	40	36	34	32	30	19	14
B5. 10 percent of GDP increase in other debt-creating flows in 2017	38	38	36	34	33	31	20	14
PV of Debt-to-Revenue Ratio 2/								
Baseline	158	134	123	115	107	99	76	53
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	158	145	143	141	139	135	154	209
A2. Primary balance is unchanged from 2016	158	135	123	112	101	91	65	50
A3. Permanently lower GDP growth 1/	158	135	124	117	110	103	87	93
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	158	142	141	138	133	128	127	143
B2. Primary balance is at historical average minus one standard deviations in 2017-201	158	154	160	151	139	129	101	68
B3. Combination of B1-B2 using one half standard deviation shocks	158	152	157	152	145	139	131	135
B4. One-time 30 percent real depreciation in 2017	158	164	148	136	124	113	84	61
B5. 10 percent of GDP increase in other debt-creating flows in 2017	158	159	147	138	128	118	92	62
Debt Service-to-Revenue Ratio 2/								
Baseline	12	10	7	6	5	6	4	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	10	7	7	6	8	8	14
A2. Primary balance is unchanged from 2016	12	10	7	6	5	6	4	4
A3. Permanently lower GDP growth 1/	12	10	7	6	5	6	5	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	12	10	7	6	6	7	6	9
B2. Primary balance is at historical average minus one standard deviations in 2017-201	12	10	7	7	6	7	6	6
B3. Combination of B1-B2 using one half standard deviation shocks	12	10	7	7	6	7	6	9
B4. One-time 30 percent real depreciation in 2017	12	11	8	7	6	8	6	7
B5. 10 percent of GDP increase in other debt-creating flows in 2017	12	10	7	7	5	7	6	5

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.